



## Overview & Investment Thesis:

- Hutchison Whampoa is a multinational conglomerate with interest in 5 core businesses including: retail, telecommunication, ports & related services, property & hotels and infrastructure & energy. It also has a 35% stake in Husky Energy of Canada.
- Hutchison Whampoa Limited is among the largest companies listed on the main board of the Hong Kong Stock Exchange. Its flagship companies include Hutchison Port Holdings, Hutchison Whampoa Properties, A S Watson, Cheung Kong Infrastructure and Hutchison Telecom.

### Retail:

- The largest health & beauty retailer in the world with Watsons Your Personal Store, DC, Drogas, Kruidvat, Rossmann, Savers, Superdrug, Trekleister, Spektr, Marionnaud, ICI PARIS XL and The Perfume Shop.
- One of Asia's largest retailers through the Watsons Your Personal Store, PARKnSHOP supermarket, TASTE food gallery, GOURMET boutique style fine food hall, GREAT Food Hall, Fortress electrical appliances store, Watson's Wine Cellar and Nuance-Watson airport duty free operator.
- A.S. Watson & Co. Limited has a network of over 8,900 retail stores in 31 countries and a workforce of 87,000.

### Telecommunications:

- An international telecommunications operator through Hutchison Telecommunications International Limited (HTIL) which provides mobile phone networks and data services in four dynamic markets in Asia, serving some 28 million customers.
- A pioneer of mobile multimedia communications with the launch of third-generation (3G) mobile phones and networks under the "3" brand, includes over 5 million broadband access customers.

### Ports & Related Services:

- Hutchison is the world's leading port investor, developer and operator with 308 berths in 51 ports across Europe, the Americas, Asia-Pacific, the Middle East and Africa. It operates in 6 of the 10 busiest container ports in the world. Hong Kong International Terminals is the world's busiest independently owned container terminal operator; and the Port of Felixstowe is the U.K.'s busiest port.

### Property & Hotels:

- The group's property interests comprise of Hong Kong and Whampoa Dock Company Limited, Hutchison Properties Ltd and Cavendish International Holdings Ltd. This embraces significant property development, investment and hotel management investments across Hong Kong, mainland China and selective overseas markets, including the Caribbean.
- The group has a rental portfolio of approximately 14.9 million square feet of office, commercial, industrial and residential premises.

### Infrastructure & Energy:

- The group's infrastructure business comprises an 84.6% stake in Cheong Kong Infrastructure (CKI), a 39% stake in Hong Kong Electric Holdings Ltd and a 35% stake in Husky Energy of Canada. The group also has involvement in a number of power generation and toll roads and bridges projects in mainland China as well as power and gas distribution businesses and global water interests in Australia, New Zealand and the U.K. through CKI.
- CKI is one of the U.K.'s biggest utilities, owning Cambridge Water, part of Northern Gas networks and in August 2010 announced it is to pay £ 5.8 bn for EDF's U.K. electricity networks which has 28% of the market's consumers including long term contracts such as London Underground, Heathrow and Gatwick airports and the Channel Tunnel.

## Business Description:

Hutchison Whampoa Limited (HWL) is a leading international corporation committed to innovation and technology with businesses spanning the globe. Its diverse array of holdings range from some of the world's biggest port operators and retailers to property development and infrastructure to the most technologically-advanced and marketing-savvy telecommunications operators. HWL reports turnover of approximately HKD301 billion (USD39 billion) for the year ended 31 December 2009. With operations in 54 countries and approximately 220,000 employees worldwide.

## Industry Growth Drivers/Trends:

- With over 50% of its asset values in cyclical industries (property, energy, ports and retail) we believe this group will benefit from a global recovery.
- Husky earnings contribution should strengthen on unrelenting demand for oil.
- The pace of losses from the group's 3G businesses are rapidly slowing and expected to stabilize/be profitable in the next 12 - 24 months removing a drag on earnings performance. A sale of its 3G/mobile phone operation would, we believe, be deemed positively.
- Mainland China business now represents a significant contribution to group profits with its dealflow now increasingly emanating from recurrent business.
- Asian gross domestic product (GDP) growth expected to continue to outpace the rest of the world, so favoring much of the group's current franchise strengths, not least Asian retail consumer demand.

## Competitive Advantages:

- Strong cost controls and astute acquisitions results in the group's overall return on assets being about double the Asian diversified industrials average - a competitive strength and source of pricing power.
- In Hong Kong, this group and its parent Cheung Kong Holdings, are traditionally the 'go-to' property specialists - having amassed enormous knowledge and purchasing power over many years - and so typically now deliver on first-mover advantage. Cultivating Chinese relations now places this Asian-centric conglomerate into Chinese deal-flow ahead of most western-based competitors.
- A long established track record of successful deal execution now spawns global opportunities.

## Competitors:

- The group competes across all 5 core businesses but is a clearly dominant competitor in Hong Kong markets. Its retail scale across Asia is impressive but its retail stores compete head to head with local and global franchises - re health & benefits products.
- Its ports business competes at each port as a quasi monopoly, particularly its larger container ports.
- Its energy business competes against all the major national and global integrated energy companies - very much a scale business with oil and gas prices and production volumes the key variables.

## Barriers to Entry:

- Capital intensive.
- Track record, geographical and cultural factors all help to differentiate and are very hard to duplicate.
- Patience, balance sheet strength and long term focussed investor mentality - again very hard to replicate among publicly traded entities.

## Customers:

- Given the breadth and depth of the group's diversified portfolios of businesses, there is no significant exposure to any single customer at a group level.



## Officers and Directors:

**Leadership team:** Executive Director & Chairman of the Board, Li Ka-shing; Exec Director & Deputy Chairman, Victor Li Tzar Kuoi; Executive Director & Group Managing Director, Fok Kin-ning, Deputy Group MD, Mrs. Chow Woo Mo Fong (56), Group Finance Director, Mr. Frank John Sixt (58), Executive Directors Dominic Lai Kai Ming (56) and Kam Hing Lam (63).

Li Ka-shing (81) is the Chairman and a substantial shareholder. He owns over 39% of Cheung Kong Holdings which owns 40% of the group. He also has a direct stake of about 8%. Including discretionary trusts he controls 51.7% of the group.

Victor Li Tzar Kuoi (45) the Chairman's son and heir apparent has been Executive Director and Deputy Chairman since 1995 and 1999 respectively.

Fok Kin-ning (58) has been Executive Director and Group Managing Director since 1984 and 1993 respectively and owns 0.1% of the group.

Kam Hing Lam (63) has been an Executive Director since 1993 and is deputy M.D. of Cheung Kong. He is the brother in law of the chairman and owns 2.5% of the group.

## Board of Directors/Governance:

- **13 member board:** of which 3 are non executive and 4 are independent directors.
- The Board's Audit Committee is comprised of independent directors including the Audit Committee (Chairman, Wong Chung Hin)
- Remuneration Committee Chairman is Li Ka-shing
- Hutchison's executives and staff are a multicultural mix as diverse as the reach of the corporation's operations.
- Sir Michael Kadoorie (68) is an independent non-executive director since 1995 and owns 0.37% of the group. He is chairman of the Hong Kong and Shanghai hotels.
- The group does not issue stock options and so shareholder base has remained unchanged for several years.

## Ownership:

Cheung Kong Holding 39.8%, Li Ka-shing 7.8%, Kam Loy Investment 2.5%, Mayspin Management 1.7%, Franklin Resources 1.0%, Blackrock Fund 1.0%, Vanguard Group Inc .4%, Fidelity Management .4%, Kadoorie Michael David .4%, Invesco Ltd .3%, Kin-ning Fok .1%

## Capital Allocation/Uses:

- Hutchison Whampoa has five core businesses - ports and related services; property and hotels; retail; energy; infrastructure; finance and investments; telecommunications and others.
- The group has historically been an astute acquirer/investor, thereafter nurturing and adding value before profitably divesting - as evidenced by the strong contribution to group earnings typically Asian property deals (reference "Earnings by Geography" - and note in 2010 such profits are to be totally skewed in 2nd half). Ordinarily, these profits are shared via special dividends to all shareholders, as occurred after the sale of its Indian telecommunications business to Vodafone 2 years ago.
- The group also successfully sold, in August 2009, its 51% stake in Israel's Partner Communications (which controls 1/3rd of Israel's mobile market) for \$1.4 bn but retained the profits to stem losses in its 3G telecommunications business. Since 2002 when the group entered the third-generation (3G) mobile telephone business it has suffered greatly by overpaying for the technology and failing to gain sufficient scale (top 4) in its chosen markets. Telecom losses have been substantial and represent a serious misallocation of capital. However, it has now disposed of 4 operating units and is quickly stemming the losses in its remaining units in Indonesia, Sri Lanka, Thailand and Vietnam.
- All other business lines generate strong free cash flow and with earnings momentum now expected to accelerate we expect a return to a long awaited progressive dividend policy.

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## Business Segments: (HK MM, years ended December 31)

Revenue by Sector	2006	2007	2008	2009	1H-2010
Retail	45%	44%	41%	48%	47%
Telecommunications	8%	8%	9%	8%	4%
Ports and Related Services	15%	15%	14%	14%	14%
Property and Hotels	5%	4%	4%	6%	6%
Infrastructure	7%	7%	7%	6%	6%
Finance and Investments	6%	6%	1%	1%	1%
Husky Energy	14%	16%	22%	15%	19%
Others	-	-	2%	2%	3%

Revenue by Geography	2006	2007	2008	2009	1H-2010
Hong Kong	17%	16%	15%	17%	18%
Mainland China	9%	9%	10%	11%	11%
Asia & Australia	14%	14%	13%	15%	14%
Europe	45%	44%	40%	43%	39%
Americas & Others	15%	17%	22%	14%	18%

Earnings by Sector	2006	2007	2008	2009	1H-2010
Retail	6%	7%	8%	15%	16%
Telecommunications	6%	6%	6%	1%	-2%
Ports and Related Services	26%	23%	24%	27%	34%
Property and Hotels	13%	7%	15%	17%	19%
Infrastructure	14%	13%	13%	18%	19%
Finance and Investments	16%	25%	11%	11%	5%
Husky Energy	19%	19%	24%	11%	10%
Others	-	-	-1%	-	-1%

Earnings by Geography	2006	2007	2008	2009	1H-2010
Hong Kong	20%	29%	25%	22%	36%
Mainland China	16%	13%	29%	23%	25%
Asia & Australia	12%	8%	10%	13%	17%
Europe	-26%	-18%	-18%	-5%	5%
Americas & Others	25%	27%	38%	14%	12%
Changes fair value/investment prop.	7%	3%	2%	4%	5%
Profit on disposables of investments	46%	38%	14%	29%	-

## Financial Statement Summary: (HK MM, years ended December 31)

Income Statement	\$2006	2007	2008	2009	1H-2010
Total Revenue	267,664	308,775	348,382	300,549	152,932
Earnings before interest & taxes	70,883	82,198	62,768	52,005	17,991
Losses of the '3' Group	(19,996)	(17,938)	(15,792)	(8,922)	(998)
Total EBIT	50,887	64,260	46,976	43,083	16,993
Profit attributable to shareholders	20,030	30,600	12,681	14,168	6,450
EPS	4.70	7.18	2.97	3.32	1.51
Dividend per share	1.73	1.73	1.73	1.73	.51

Balance Sheet	2006	2007	2008	2009	1H-2010
Net Debt	152,638	129,842	165,863	143,355	144,185
Total Shareholder's Equity	273,794	310,014	260,319	283,531	272,987
Net Debt: Equity	0.56x	0.42x	0.64x	0.51x	0.53x

## Key Profitability Ratios and Figures:

Y/E	2006	2007	2008	2009	1H-2010
Shares outstanding (millions)	4,263	4,263	4,263	4,263	4,263
Net Asset value per share	\$64.2	\$72.7	\$61.1	\$66.5	\$64.0
Interest coverage	7.9x	9.8x	7.5x	11.6x	12.9x
Return on Equity	7.3%	9.9%	4.9%	5.0%	4.7%*
S&P Credit Rating	A-	A-	A-	A-	A-

\*annualized

Sourced from Thomson Reuters and 2007 - 2010 company filings.