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Foreign and Commonwealth Office

London SW1A 2AH

31 October 1980

R/F 4.xi.80

Dear Caroline,

Sir Y K Pao

Thank you for your letter of 3 October requesting briefing for Sir Y K Pao's call on the Prime Minister on 5 November. This is enclosed; it includes contributions by the Department of Industry and the Department of Trade. The brief on shipbuilding is for background information only as there are no points which the Prime Minister need raise on this. Sir Y K Pao may also mention a recent visit to Peking during which he saw the Chinese Premier, Zhao Zi-yang. We have seen no report of this.

A biographical note on Sir Y K Pao is also attached, along with a copy of a recent article on him which appeared in the 'Economist' of 18 October. Lord Carrington is seeing him on 7 November.

I am copying this letter to Peter Stredder, DOI, and Nicholas McInnes, DOT.

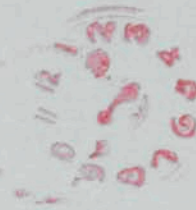
yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

Miss C Stephens
10 Downing Street
London

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31 OCT 1980



Keswicks not to sell off holding in Jardine

By Bryan Appleyard

The Keswick family, a big shareholder in Jardine Matheson, the Hongkong trading company, is not interested in selling its stake.

Sources close to the family said yesterday that the Keswicks would not sell their shares, thought to represent at least 15 per cent of the equity.

Rumours that a bid, probably for around 50 per cent of the company, were circulating in Hongkong and London last week. The likely bidders were Mr Li Ka-Shing through his Cheong Kong Holdings company, in partnership with Sir Yue-Kong Pao, the shipping magnate.

The suggested value of the bid—between HK\$40-45 a share—would put a price on the company of £1,000m.

Mr David Newbigging, chairman of Jardine, is in London this week and Sir Yue-Kong and Mr Li were also expected to arrive as part of a Chamber of Trade delegation. All three are directors of the Hongkong and Shanghai Bank.

Jardine is the most powerful and influential of the "Hongs"—the British merchant traders. But the steady growth of the Chinese companies has always been seen as a threat to their position in the colony.

Earlier this year the threat became reality when Sir Yue-Kong snatched a 49 per cent stake in Hongkong and Kowloon Wharf from rival bidder Hongkong Land, an ally of Jardine.

The Keswicks have been connected with Jardine since 1856. Both Sir John Keswick and Mr Henry Keswick, the proprietor



Sir Yue-Kong Pao: possible partner in £1,000m bid.

of the *Spectator* magazine, are on the board.

It is understood that the Keswicks believe Jardine to be very firmly protected by friendly holdings which could block even a partial bid. It is also understood that the rest of the Jardine board believes its recent capital restructuring, which have greatly increased the number of shares in issue, have effectively rendered the company bid-proof.

One source commented: "The Keswick family and the Jardine board are both convinced there will be no change of control of the company."

Shareholders friendly to the board point out that even Jardine's present share price of 275p in London is cheap by Hongkong standards. They point out that Sir Yue-Kong paid 50 times annual earnings for his 49 per cent stake in Wharf.

At that level, Jardine would cost HK\$79.50 (650p) a share and would be capitalized at £1,700m.

But in spite of the Keswicks' confidence, it is thought that the Chinese may have built up a stake of as much as 15 per cent of Jardine during the frantic activity in the markets last week.

The puzzle—will these men bid a billion to run Hong Kong?

by Richard Milner and Nick Gilbert

TWO OF THE world's richest men, Hong Kong multimillionaires Sir Yue-Kong Pao and Mr Li Ka-Shing, are believed to be about to launch a massive share assault on that bastion of British power in the colony, Jardine Matheson. Established in 1834 Jardines has interests ranging from property to insurance.

A full bid would cost the two men close to £1,000m—possibly the biggest takeover bid ever and a move that would mark a major shift in Hong Kong power away from British interests to ethnic Chinese who have amassed mighty fortunes in shipping and property in the past 20 years. It used to be said that the Colony was run by the Hongkong & Shanghai Bank, Jardines and the Jockey Club.

As speculation mounted last week in the City of London, Jardine shares shot to a fresh peak of 295p at one time on Friday. And in Hong Kong Jardines added more than HK\$6 to over HK\$36—a 20% gain—valuing the group at some £800m.

Adding spice to the rumours is the presence in London of Sir Y. K. Pao—head of World International, and the world's largest private shipowner. Li Ka-Shing—who started life as a toy salesman and whose Cheung Kong Holdings empire is valued at over £700m—also arrives here today as part of a high-powered Hong Kong General

Chamber of Commerce delegation which ironically includes David Newbigging, chairman of potential bid victim Jardine Matheson.

The Pao-Ka-Shing consortium is reckoned to have quietly built up a key stake in Jardines. And though it may not launch a full bid it is believed that the two men want control of the group and of property empire Hong Kong Land which has close links with Jardines.

Sources close to the big Hong Kong delegation say: "If they are determined the two men have quite enough financial muscle to mount an attack on both the companies despite their enormous size."

And though Newbigging shrugged off bid rumours earlier this year, only last week Jardines sold 25m new shares to Hong Kong Land—a move widely thought to be a last-ditch defensive manoeuvre.

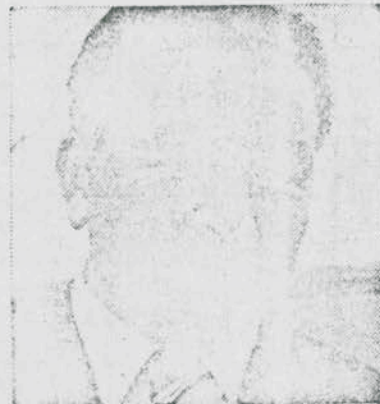
Jardines and Sir Y. J. Pao have already engaged in a bitter takeover struggle when Pao out-bid Jardines's protégé Hong Kong Land for control of Hong Kong and Kowloon Wharf.

Li Ka-Shing, who has close links with the Peoples' Republic last year snapped up a 22% stake in trading group Hutchison Whampoa. His financial muscle is such that he coolly paid out £100m for a mere 79,000-square-foot site in Kowloon, thus establishing a record

even for the hugely expensive Hong Kong property market.

The current betting is that Pao and Ka-Shing will want to take their stake in Jardines, which last year made profits of £50m on sales of nearly £500m, to around 50%. And they are reckoned to be prepared to pay up to HK\$45 per share.

Jardines's Newbigging and Ka-Shing—along with Pao they are directors of the influential Hongkong & Shanghai Bank—should have plenty to chat about tomorrow. For the Hong Kong delegation has a formal dinner chaired by Newbigging at London's Berkeley Hotel tomorrow. There will be much talk about the Colony's trading links with the UK. But the dinner could also feature an informal power shift on the top table.



Hong Kong: one day all this will be mine . . . ?

. . . and mine? Y. K. Pao.

PRIME MINISTER'S MEETING WITH SIR Y K PAO: 5 NOVEMBER 1980

JOINT VENTURES

POINTS TO MAKE

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1. Would be interested to hear about Sir Y K's joint venture with China in shipping.
2. What are Sir Y K's views on prospects for joint ventures between foreign companies and the Chinese?
3. UK companies interested in principle of joint ventures but would like to see outcome of Chinese legislation.



JOINT VENTURES: ESSENTIAL FACTS

1. Sir Y K Pao's World-Wide Shipping Group, backed by Hongkong and Shanghai Bank and Industrial Bank of Japan, reached agreement with Chinese in March for establishment of US\$50 million joint venture company called International United Shipping and Investment Corporation.
2. Business of Corporation to build, buy, sell, charter and manage ships for international market. Will initially confine itself to bulk carriers. Currently negotiating purchase of ships from China.
3. Two features noteworthy about Sir Y K's agreement:
 - (a) Chinese control only 45% of venture, as opposed to usual 51%;
 - (b) Sir Y K himself Chairman of Corporation. Chinese regulations stipulate that they appoint Chairmen of joint ventures. Sir Y K's appointment an indication of important role of Hong Kong Chinese in development of China's trade.
4. Few joint ventures so far approved by China's Foreign Investment Control Commission. Western companies showing cautious attitude. Chinese joint venture law of July 1979 vague on legal conditions for foreign partners. Subsequent law established tax rate at a basic 33%. But legislation still awaited on issues such as patent protection.

PRIME MINISTER'S MEETING WITH SIR Y K PAO: 5 NOVEMBER 1980

UNCTAD COMMITTEE ON SHIPPING

POINTS TO MAKE (Defensive)

1. Outcome of Committee on Shipping best we could have hoped for.
2. At Special Session next year will continue to resist any attempt to phase out open registers. Shall however support any measure to eradicate identified abuses.
3. Trust that study group on bulk trades will demonstrate that present arrangements serve best interests of consumers and producers as well as those of shippers and shipowners.



UNCTAD COMMITTEE ON SHIPPING: ESSENTIAL FACTS

1. In September, Sir Y K Pao sent the Prime Minister an advance copy of his statement, made as Chairman of Intertanko (Association of Independent Tanker Owners), to that month's meeting of UNCTAD Committee on Shipping. Sir Y K operates his bulk vessels mainly under Liberian flag of convenience and therefore takes close personal interest in UNCTAD-inspired schemes to phase out open registers and impose a bilaterialist cargo-sharing regime on hitherto freely competitive bulk trades.
2. Committee meeting deferred question of open registers to a Special Session in May/June 1981. Agreed however to form study group to investigate allegations by developing countries of barriers to their participation in bulk trades. Group will meet twice in 1981 and report to Committee in May 1982.
3. OECD members have consistently denied existence of barriers to developing countries' participation and contend that bulk trades represent one of few remaining free markets. Any attempt to introduce a structure into bulk trades on which a bilateralist regime could be imposed would result in loss of flexibility to detriment of consumers and producers worldwide.

Hong Kong and General Department, FCO



PRIME MINISTERS MEETING WITH SIR Y K PAO: 5 NOVEMBER 1980

BACKGROUND NOTE: SHIPBUILDING

In 1973 and 1974 Sir Y K Pao's company, World-Wide (Shipping) Ltd, took delivery of four ships from UK shipyards - two 26,000 ton bulk carriers from Govan Shipbuilders Ltd and two very large crude carriers (VLCCs) from Swan Hunter Ltd and Harland & Wolff Ltd. Since then Sir Y K Pao has ordered no ships from the UK. From the early 1960s World-Wide has obtained the great majority of its new vessels from Japanese shipyards, although more recently some contracts have been placed in other countries such as Poland and the People's Republic of China.

There are two main reasons for World-Wide's close relationship with Japan. First, the yards in that country have been able to offer prices and deliveries which many other countries, including the UK, have been unable to match. Second, World-Wide's normal policy has been to order ships only against specific long-term charter commitments by third parties, and Japanese companies have been more prepared than most others to enter into this type of arrangement. These long-term charter deals have also enabled World-Wide to weather the shipping recession better than many competitors.

Last year Sir Y K Pao indicated that he would like to arrange similar charter deals in the UK, with, for example, the British Steel Corporation and British Petroleum, against which World-Wide would order ships from UK yards. Although discussions have taken place British Shipbuilders have been unable to attract sufficient interest in this charter concept.

During the past week or so World-Wide have, however, approached British Shipbuilders direct about two possible requirements. Austin & Pickersgill Ltd, Sunderland, have been invited by World-Wide's London Office to quote for one of the yard's standard design SD14's (15,000 ton general cargo ship), and British Shipbuilder's Hong Kong Office were asked to submit quotations for two Austin & Pickersgill B26's (26,000 ton bulk carriers). British Shipbuilders will be responding to both these enquiries and the aim is for their Chairman, Mr Robert Atkinson, to take firm proposals to



World-Wide (Shipping) Ltd when he visits Hong Kong for the Expo Ship Exhibition about the middle of November. At the same time he hopes to have an opportunity to discuss the matter further with the Hong Kong principals.

Price and delivery will continue to be important factors in World-Wide's consideration of ordering new vessels in the UK. Although HMG would in principle be prepared to make available Intervention Fund grants to help shipyards quote more competitive prices, the question of delivery is a matter for the shipbuilders themselves.

Shipbuilding Policy Division
Department of Industry
28 October 1980.



SIR YUE-KONG PAO, CBE LLD JP

Chairman, World-Wide Shipping Group.

Born Zhejiang (Chekiang) Province, China, 10.11.18. Educated Shanghai. A banker there until 1949, when he moved to Hong Kong. Engaged in import/export trade until 1955, when he formed World-Wide Shipping Group. Received CBE 1976. Knighted 1978. Married with four daughters.

Made news last June when he outbid Jardine Matheson's subsidiary, Hong Kong Land, in take-over of Hong Kong and Kowloon Wharf and Godown Company. Seen as indicative of shift in industrial and commercial power in Hong Kong to Chinese-owned companies.

Other Business Interests:

Chairman, World International (Holdings) Ltd.

Chairman, Eastern Asia Navigation Co Ltd.

Chairman, Hong Kong and Kowloon Wharf and Godown Co. Ltd.

Chairman, World Finance International Ltd.

Chairman, Industrial Bank of Japan Finance (Hong Kong) Ltd.

Deputy Chairman, Hongkong and Shanghai Banking Corporation

Director, Hang Seng Bank

Director, Mass Transit Railway Corporation

Director, Hong Kong Electric Co. Ltd.

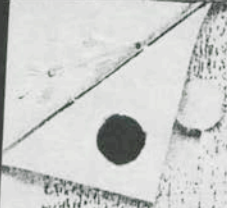
Director, Inchcape Far East Ltd.

Director, South China Morning Post Ltd.

Adviser, Industrial Bank of Japan

Member, International Advisory Board, Chase Manhattan Bank

Chairman, International Association of Independent Tanker Owners
(Intertanko)



Sir Yue-Kong Pao

Poker-faced

HONGKONG

Hongkong Chinese shipping magnate Sir Yue-Kong Pao has shuffled his corporate deck and dealt himself a straight flush. Already the world's largest private shipowner, he has now drawn together the publicly-quoted corner of his shipping business, World International (Holdings) with the property empire he has been building up in Hongkong.

Under the wing of World International, he has created a public company

FINANCE



no's world is international

similar in size to his rival Jardine, Matheson, the (still) British-run trading conglomerate that is one of the largest concerns in south-east Asia and on which many think Sir Yue-Kong casts a covetous eye. They crossed swords recently when he outbid Jardine's protégé, Hongkong Land for control of Hongkong and Kowloon Wharf and Godown.

At the beginning of this year, World International was a relatively obscure (though publicly-quoted) part of the Pao empire. In April, Sir Yue-Kong pumped in six ships and his 30% holding in Hongkong and Kowloon Wharf and, in July, followed this with the transfer of his 45% stake in Eastern Asia Navigation, moves which tripled the company's assets.

Now he is selling a further 15% personal stake in the Wharf company to World International, increasing its stake to 45%. The terms (an 86-for-5 share exchange) value each Wharf share at roughly the same price (HK\$105) as Sir Yue-Kong paid when he bought 20m during the fight with Hongkong Land for control. Altogether, Pao interests control 49% of Wharf, of which Sir Yue-Kong recently became chairman.

The Securities Commission's takeovers panel, which reprimanded Sir Yue-Kong and censured his financial advisers, Wardley, part of the Hongkong and Shanghai Banking Corporation, for their conduct during the battle for Wharf, has approved the latest transactions. It ruled that they do not change control because Pao interests already control both Wharf and World International.

World International is also making a general offer to acquire the 55% it does

not own of his other quoted vehicle, Eastern Asia Navigation. Here the terms are a seven-for-five paper offer, valuing the shares at HK\$8.54—about HK\$2 above the recent market price. (There is also a swiftly expiring cash alternative of HK\$7.50.) The reorganisation will dilute World International's earnings, but the

low return it is getting from Wharf will be offset by high earnings from Eastern Asia, although the world outlook for the shipping market, especially large tankers, may dull prospects.

There is much speculation in Hongkong about Sir Yue-Kong's intentions. Some see the latest shuffle as simply a tidying-up operation, giving him a breather to sort out his rapidly-grown empire. More sophisticated analysts, however, suspect he may use World International as a vehicle, perhaps in conjunction with the property tycoon Mr Li Ka Shing, for building up a big enough stake in Jardine or one of its satellites to get board representation. It is a tactic local Chinese have used before.

European Options Exchange

Golden lads... ?

AMSTERDAM

Amsterdam's European Options Exchange (EOE) wants to start the world's first public market in traded gold options next spring. It hopes desperately for a better volume of trading than in the disappointing share option market. Formal government approval for gold options is still required, but consent has been given in principle.

Frenetic engineering

NEW YORK

Genentech, Wall Street's hottest new public issue for years, created instant profits and great wealth for its lucky shareholders this week. The mystique of genetic engineering, to create insulin, interferon and other medical wonders, built demand for Genentech shares to an overwhelming level. Frustrated investors chased the 1m shares of Genentech sold at \$35 on the way up to a peak of \$89. It closed the first trading session at \$71.25. More than half of those who were allocated shares at \$35 (the favourite customers of the brokerage syndicate) offered for a fast killing.

The noisy action in Genentech shares will whet appetites for other glamorous snare offerings expected soon, like Apple Computer. It will also trigger the decision to go public and raise money by other private companies with a foothold in genetic engineering and similar frontier areas of science.

Mr John Whitehead, managing partner of Goldman, Sachs, which participated in the underwriting, cautioned that "when new issues have that kind of extreme demand, it is a danger signal we all ought to be alert to. The danger is that Genentech's success will attract of-

ferings of other issues of lesser quality and an attempt will be made to create the same aura of demand for them".

At the end of the first day's trading, Genentech, with assets of \$14.2m, and profits of only \$51,000, was capitalised at \$532m. Mr Robert Swanson, president, and Mr Herbert Boyer, vice-president, were worth over \$70m on paper. Labrizol Corporation of Cleveland, an early venture capital investor in the company, had an asset worth \$110.8m, almost eight times what it had paid for it. Mr Robert Scheller, a 26-year-old biology research fellow at the California Institute of Technology was a millionaire for work completed four years ago.

New issues have increased the number of stocks traded in the over-the-counter market in the past three years. But they are only the tip of the iceberg of the burgeoning volume of business and the bull market operating there. Last week, for the first time, the volume of shares traded over-the-counter (36m), was larger than the one-day volume on the New York Stock Exchange. Over-the-counter volume is 65% up on 1979 and is almost four times that on the American Stock Exchange.