

# JARDINE STRATEGIC HOLDINGS

The Fund's largest holding is Jardine Strategic Holdings (JSH). This has been the case since December 2004. We invest in JSH because it has excellent business operations throughout Asia. These are primarily involved in the consumer and property sectors in Asia. We consider them to be well managed and they are currently performing strongly.

Furthermore, the current share price of JSH affords a discounted entry into these underlying operations.



The Jardine Group is in its 175<sup>th</sup> year of operation. JSH has a 53% stake in its parent, Jardine Matheson Group (JM), and for purposes of valuation the shares (and the corresponding market value) associated with this cross holding are cancelled. On this basis JSH is currently trading at a steep discount to the market value of its underlying operations.

## Hongkong Land (46% holding)



This company owns and manages some five million square feet of prime office and retail space. It is currently benefiting from both higher rentals in its core central portfolio and from the revitalization of the retail component, following refurbishment and promotion of the 'Central' brand. In addition, the company has now progressed well down the track in creating another quality commercial and retail hub in the centre of Singapore. Hongkong Land has also substantially pre-sold (at good margins) large developments in both Macau and Singapore.

## Mandarin Oriental Hotel Group (74%)

Mandarin Oriental's flagship property in Hong Kong opened in 1963. The group now operates 20 deluxe and first class hotels across 21 countries world-wide, and has a further 16 under development.

Management has executed well against its strategy, transforming 'Mandarin' into a strong global (rather than just an Asian) brand in the luxury hotel segment, and moving towards a more 'asset light' business model.

## Dairy Farm (78%)



Dairy Farm (retail / supermarkets) is well positioned in Hong Kong, Southern China, and S.E. Asia. For 2006, the group had sales of US\$6 billion, operating out of 3,500 outlets, across nine countries in Asia. Return on equity for the year was 64%.

Dairy Farm is systematically driving its business both for efficiency and growth (geographic and organic). It now has 100 stores in India and has recently obtained government permission (as the only foreign retailer) to acquire six fledgling stores in Vietnam. Whilst these small

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'entry' positions are currently making small losses, they are expected to provide significant growth opportunities over the long term.

## Jardine Cycle and Carriage (64%)



This Group's main asset is a 50% holding in Astra International. Astra is an Indonesian based conglomerate that has joint ventures with excellent partners like Toyota (motor vehicles), Honda (motorcycles), General Electric (finance) and Standard Chartered Bank as well as investments in plantations, contract mining and earth moving equipment.

The Indonesian economy is showing encouraging signs of recovery, and Astra is considered well positioned to participate in the longer term growth in this country.

## Southern China

The group has excellent opportunities to expand its range of businesses in China, from the current small base. For example, it recently acquired 110 7-Eleven convenience stores in Guangzhou through Dairy Farm. Additionally, the Jardine Motor Group now has 14 Mercedes joint venture distributorships in southern China – a clear indication that consumerism is flourishing in that country.

Since the Asian crisis, Jardine has executed a clear and consistent strategy. It has increased its interest in core businesses and disposed of smaller non-core operations. Whilst Jardine Strategic has US\$600 million in corporate debt, Jardine Matheson has a similar amount of net cash. In addition, whilst the Hongkong Land and Mandarin businesses have debt, none of this is guaranteed by the parent entities.

We believe the group is extremely well positioned to grow its core businesses in its

existing markets and in new markets like India and Southern China.

We understand that a discount to underlying value is required in a cross holding conglomerate structure like JSH. However it does afford longer term investors the opportunity to participate at a discount in the economics of the underlying operations over time. This argument applies even more so when the discount happens to be much greater than what we would regard as appropriate in the circumstances.

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