VICTOR ATIYEH
GOVERNOR
1979-1987

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January 23, 1987

Sir Kenneth Fung
Chairman
Fung Ping Fan & Co., Ltd.
GPO Box 2175
HONG KONG

Dear Ken:

Recently I have been thinking of you a great deal, especially as I have read articles about the stress facing you and your family. When problems face good friends one wants to rush to assist but not knowing where or how, and I am in that position.

At the same time I feel a bit presumptuous, knowing the many truly influential and financially able associates you have in Hong Kong and around the world. In spite of that, however, you should know that I care about you and in some small way there may possibly be something I could do.

My background is a small family business started by my father and uncle in 1900 and carried forward by my two brothers and myself. Now the business is totally turned over to the next generation. You can see, then, that in a way I can at least sense the turmoil of the period you are going through.

I have left my position of Governor on January 12th, having served my constitutionally restricted two terms. My intent is to open my own business, but my influence throughout the United States and in some quarters around the world will continue. There may be some small thing I could do for you and I would be honored to try.

As I said at the beginning, this letter may be presumptuous; but, if for no other reason, I want you to know that you have a concerned friend in this part of the world.

My warmest and most sincere best wishes to you, Mrs. Fung and your family.

Sincerely,

Victor Atiyeh

DEAR KEN —

RECENTLY I HAVE BEEN THINKING OF YOU A GREAT DEAL, ESPECIALLY AS I HAVE READ ARTICLES ABOUT THE STRESS FACING YOU AND YOUR FAMILY. WHEN PROBLEMS FACE GOOD FRIENDS ONE WANTS TO RUSH TO ASSIST BUT NOT KNOWING WHERE OR HOW, AND I AM IN THAT POSITION.

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AS I SAID AT THE BEGINNING, THIS LETTER MAY BE PRESUMPTUOUS; BUT, IF FOR NO OTHER REASON, I WANT YOU TO KNOW THAT YOU HAVE A CONCERNED FRIEND IN THIS PART OF THE WORLD.

MY WARMEST AND MOST SINCERE BEST WISHES TO YOU, MRS FUNG AND YOUR FAMILY.

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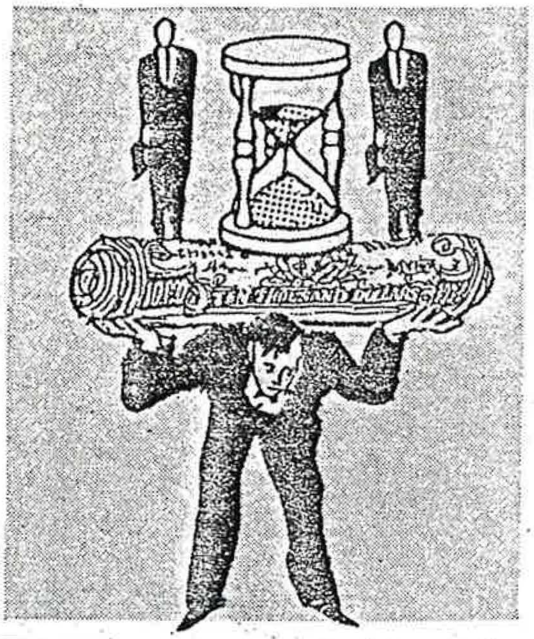

An 'Old Money' Family In Hong Kong Battles To Salvage Its Empire

* * *

By Adi Ignatius

HONG KONG—Kenneth Fung watches while a departing employee of his father's troubled business group packs up files and personal possessions. As overstuffed boxes accumulate, Mr. Fung offers his sympathy. "My whole house looks like that," he says.

Deep financial problems are taking their toll on the Fung family and its business empire. More than 400 employees have been laid off; about three dozen family-owned companies are being liquidated. The Fungs' flagship holding concern, Fung Ping Fan & Co., has abandoned its spacious waterfront office and moved into more modest quarters a couple of blocks away.

The Fungs themselves, one of Hong Kong's most prominent families, are learning to do without. Kenneth, 49 years old, gave up his expensive, rented home in Hong Kong's exclusive Peak area and moved in with his 75-year-old father, Sir Kenneth Ping-fan Fung. In desperation, the Fungs are making the rounds—approaching old friends in Hong Kong and new ones in China—asking for financial help.

"The whole thing is very sad," says an executive of Banque Nationale de Paris, one of the Fung Ping Fan Group's creditors. "Sir Kenneth deserved better at the end of his life."

'Morning Prayer Session'

The Fungs aren't giving up. They are battling to salvage what they can—to keep some of their myriad businesses going and, above all, to regain face. Each work day at 9:30 a.m., the family patriarch meets with two of his sons, Kenneth and Cyril, along with financial advisers to review progress in reorganizing the group and coping with the family's crippling 300 million Hong Kong

U.S. Assails Japan For Policy Linking Foreign Aid, Trade

Japanese Exporters Are Gaining Unfair Advantage, Critics Say; Making Charity More Costly

By Karl Schoenberger

TOKYO—Japan's foreign-aid program, a source of global prestige for Asia's economic giant, has been taking some hard knocks this year.

First, allegations surfaced last April that Japanese aid money had lined pockets in the government of deposed Philippine President Ferdinand Marcos. No formal action was taken by either government after the initial uproar.

Then there was the embarrassing revelation that Japanese aid fell substantially in 1985, despite promises to increase the level of funding. Japan consequently dropped to No. 3 from No. 2 among donor countries, trailing the U.S. and France.

In August, a corruption scandal tainted the Japan International Cooperation Agency, which oversees Japan's overseas technology transfers and other forms of non-financial aid. Two officials were arrested on bribery charges.

Now, the U.S. is criticizing Japan for using foreign aid for "predatory commercial purposes" by linking low-interest loans to purchases of goods and services from Japan, a practice called "tied aid."

Trade Friction

The practice isn't unique to Japan. But it is widely denounced because it tends to boost the exports of an aid-donor country, often at the expense of countries that might compete on contracts. The problem is especially acute in Asian markets, U.S. officials say, and it is exacerbating trade friction between Japan and other industrialized nations.

"The use of tied aid is increasing at a time when Japan's current-account surplus is already substantial and is expected to widen," a U.S. government official in Tokyo says. (The current account measures trade in goods and services, plus certain unilateral transfers of funds.)

The controversy is coming to a head in a proposal to revise the way official development-assistance loans are defined and calculated by the Paris-based Organization for Economic Cooperation and Development, of which Japan is a member. The outcome could radically change the structure of Japan's aid program by making its charity more expensive.

Negotiations are scheduled to resume in Paris Dec. 15 after breaking off last Octo-

An 'Old Money' Family in Battles to Salvage Its Crum

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dollar ($38.5 million) debt. "It's our morning prayer session," says Cyril Fung, 47.

The Fungs' debt problems, which surfaced in early September, have sent shock waves through Hong Kong's business community. The family is a rare example of "old money" in a colony where fortunes often are won or lost in a generation. And in a city where image means everything, Sir Kenneth has long been one of Hong Kong's most highly respected citizens.

"It's as if the Kennedys had to go begging in the U.S.," says a longtime associate of the Fung family.

Sir Kenneth's social credentials are exceptional: knighted by the Queen, a member of the ultra-exclusive Bohemian Club in California, an honorary steward of the prestigious Royal Hong Kong Jockey Club, a former member of both the colony's legislature and its de facto cabinet, director of dozens of companies, active in high-profile charitable organizations.

Cyril Fung

Sons' Failures

But as he gained prominence in Hong Kong society over the years, Sir Kenneth neglected his business affairs. He permitted sons Kenneth and Cyril to jointly manage the family's main companies. And he stood by as they used the family name to attract investment partners for countless new ventures, ranging from audio-speaker manufacturing to video-game arcades. Most of the sons' projects failed, draining the family's resources.

"Sir Kenneth trusted his sons too much," says the BNP executive. "He never imagined they would let him down. He lost control of his business."

The Fungs' decline highlights the kinds of problems faced by many of Hong Kong's prominent family businesses. By making the right connections and attending the proper schools, the Fungs had access to the elite in both the Chinese and Western cultures that make up this colony. But in business arrangements, they spread their resources too thin. By pursuing nearly every promising deal that came their way, without imposing adequate financial controls, the Fungs—in particular Kenneth and Cyril—have almost brought ruin to a healthy, long-established business empire.

Restructuring Effort

Whether the family's business can survive will depend on the patience of creditors and on the family's ability to attract new funding. Arthur Young & Co., an accounting firm, is devising a plan to reorganize Sir Kenneth's Fung Ping Fan Group and to reduce its debts. Sir Kenneth and companies controlled by him owe creditors about HK$200 million. Enterprises controlled by his sons owe banks an additional HK$100 million.

However, the restructuring effort has run into snags. Several creditors have filed lawsuits, seeking a total of more than HK$200 million from Fung-family companies, their directors and loan guarantors. But Sir Kenneth's stature in Hong Kong makes it likely that creditors, and perhaps new investors, will agree on some kind of plan that at least begins to repair the patriarch's business and his reputation.

"I don't think the sons can remain with the group," says an executive of one of the family's biggest creditors. "But everyone has sympathy for the father. For him, everyone wants this to succeed."

Until recently, few would have imagined that the family's business would ever be in danger of collapse. For decades the Fungs competed successfully in the Chinese business world, one that is characterized by cozy trading and banking relationships with associates, friends and relatives.

Tung Shareholders Approve Res

HONG KONG—Holders of shares and warrants in the public arm of the C.H. Tung shipowning group approved proposals for a sweeping restructuring of the troubled conglomerate.

About 50 shareholders of Orient Overseas (Holdings) Ltd. voted by hand without dissent in favor of resolutions that will permit a complete overhaul of the group, slashing its $2.6 billion debt and effectively reducing the value of their holdings 95%. Many of the company's approximately 4,000 other shareholders and warrant-

handful have agreed to the restructuring in the month since a formal signing ceremony was held in Hong Kong, and most of the hold-outs have indicated that they will support the plan.

Not so Toyo Menka, one of Japan's big trading houses. The company is owed about 2% of the Tung Group's total debt, making it one of the group's biggest single creditors. Its exposure to the C.H. Tung Group carries export insurance underwritten by agencies of the Japanese government that would lead to a greater recovery

Hong Kong bling Empire

Moreover, the family enjoyed a widespread reputation for honesty. But a pattern of steady expansion, including international diversification, created a need for sophisticated management, which the Fungs never adequately developed.

"When you do business," Sir Kenneth concedes, "sometimes you make the wrong decisions."

The Fung family's story isn't the often-heard rags-to-riches tale of Hong Kong enterprise. Sir Kenneth was born into wealth and privilege and married into more of the same. For 39 years, he has served as a director of Bank of East Asia, which was founded by his father, his wife's father and other associates in 1918. Sir Kenneth was the bank's chief manager for seven years. He and a younger brother also ran a modest, successful business importing dried mushrooms and herbs from China—through connections passed on to him by his father.

Kenneth Fung

"Sir Kenneth was spoon-fed from birth," an associate says. "Until now, he's had an easy life."

He kept his father's business going, and—with the help of his eldest son, Lawrence—expanded into several successful new ventures. Through the family's main trading company, A. Dransfield & Co., Sir Kenneth and Lawrence became adept middlemen. A. Dransfield holds lucrative agency contracts for, among other things, Aiwa Co. electronics goods and for Tempo tissues and other paper products manufactured by West Germany's Vereinigte Papierwerke Schickendanz & Co.

Protective of the private nature of the family-owned business, the Fungs avoided the urge to "go public" that has lured many other closely held Hong Kong companies in recent decades. The Fungs' style was distinctly conservative.

Expanding the Empire

In the early 1970s, however, the family's cautious approach to business began to crumble. Kenneth and Cyril returned from studies in the U.S. with plans to expand the family's empire into promising new areas. Kenneth brought back with him a degree in architecture, Cyril a Harvard M.B.A. They persuaded their father to support them, and they pushed Lawrence out of the business. Lawrence, 52, now concentrates on local political affairs through his seat on the Urban Council, Hong Kong's main municipal body.

When the two younger sons took over as joint managing directors of Fung Ping Fan & Co. and A. Dransfield in 1973, the complexion of the family business changed. Splashy deals were formed, inspired mainly by Cyril, the brashest of the brothers. New ventures were pursued overseas. Investment partners and lenders for projects outside the core Fung Ping Fan Group were recruited—largely on the strength of the family name.

Some Successes

The more aggressive outlook produced some notable successes. Cyril was instrumental, for example, in bringing McDonald's Corp. to Hong Kong in 1974. The Fung family has only a small, indirect stake in the local operation, but Sir Kenneth is its chairman and Cyril a director. And Kenneth arranged a successful importing and distribution venture with International Distillers & Vintners Ltd., a subsidiary of British conglomerate Grand Metropolitan PLC.

But for the most part, the projects that Kenneth and Cyril started—some of which their father backed financially—lost money. The intergenerational marriage of traditional Chinese business practices and Western business-school training didn't deliver. "Nearly everything the sons touched went bad," a creditor says. An accountant who is close to the Fungs says, "They lost sight of their bread-and-butter businesses."

Patient Creditors

Despite the family's recent record of mismanagement, most creditors seem willing to consider debt-restructuring proposals that would save Sir Kenneth's business. But any such plan also threatens to drive a wedge between members of the family. Horace Yao, the Arthur Young partner directing the restructuring effort, says that Cyril won't be part of the revamped Fung Ping Fan Group. However, Kenneth, who associates say shares equal responsibility for the group's fatal diversification, will stay on.

Mr. Yao explains: "Kenneth had a particular role in the main trading companies. Cyril wasn't involved."

Several associates believe that Cyril is being singled out unfairly for his role in the group's troubles. Even certain projects in which Sir Kenneth played a dominant part, they note, were big money-losers, including Todco International Ltd., which produced Barbie dolls in Hong Kong and China for Mattel Inc. of the U.S., and Lido Development Ltd., a Hong Kong restaurant and club complex.

'Cyril the Dreamer'

"The problem is that Cyril was the dreamer—and the one with the entrepreneurial flair," a colleague says. "That just isn't the image the company needs to project now. It's back to basics."

Amid all of the public scrutiny, the past few months have been extremely difficult for the family. For the most part, the Fungs have put on a brave face. But privately, they are crushed. "I've lost 10 pounds just seeing my old man suffer," Lawrence says.

Sir Kenneth is determined to fight on, associates say, if for nothing else than to restore his family's reputation before he dies. But it hasn't been easy. "So far I'm down," he says. "But I'm not disgraced."