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STREET SMART

S P H E R E

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Cover: Illustration by Miranda Yiu

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Hutchison Whampoa Limited



News

CORPORATE

Roll of Honour

Reflecting the Group's ranking as one of the world's leading companies, **Hutchison Whampoa Limited (HWL)** has again notched up an impressive haul of regional and international titles and awards during the past six months.

The company was rated for its size and performance in a variety of categories through surveys conducted by leading financial magazines.

The annual "*BusinessWeek* Global 1000" (July 14 issue) ranked HWL No.140 globally and No.1 in Hong Kong.

Forbes magazine (July 21) rated HWL No.127 overall in the "The Global 500."

Euromoney (Sept. issue) named the Group No.1 for "Best Corporate Governance:

Hong Kong & China" and No.5 for "Best Corporate Governance: Emerging Markets." "*The Asset* Annual Benchmark Survey" (Sept. issue) named HWL No.1 in the category "Best Credits in Asia — Weighted by Assets" and No.1 "Best Credits in

Hong Kong — Weighted by Assets." *IFR Asia* (Sept. 20) rated HWL No.1 in the "Top 50 Asian Issuers" category for the period 31/8/02 – 31/8/03.

Asian Legal Business (Sept. 25) selected HWL as winner of the "In-House Team of the Year" award, a tribute to the Group's dynamic team of legal

advisors, headed by Edith Shih. Based in Hong Kong but working globally, the Group's legal team undertakes a range of complex M&A, financing, IP/IT and regulatory work.

Asia Risk magazine (Oct. issue) named Hutchison's Group Treasurer K.S. Chan "Corporate Risk Manager of the Year," an accolade widely seen as a positive vote of recognition of the company's prudent risk management strategy.

HWL featured prominently in a long list of rankings in the Chinese magazine *Yazhou Zhoukan* (Oct. 12). It ranked No.1 in the category "Top 500 Chinese Companies in the World"; No.1 "Top 20 Companies in HK"; No.1 "Top 10 Chinese Companies in HK" and; No.1 "Top 20 EBIT Chinese Companies."

Global Finance (Nov. issue) ranked HWL "Best Company in Asia — Conglomerates." *The Banker* magazine, the monthly finance title of the *Financial Times*, named Hutchison "Hong Kong Company of the Year, 2003" in its inaugural awards, citing the Group's

investment quality, fiscal results, corporate governance and creditworthiness.

Finally, HWL was highly commended for "Best Crisis Management" at the *IR Magazine* Asia Awards 2003.



The Right Medicine

China Beijing Tongrentang (Group) Co. Ltd. (Tongrentang) and **Hutchison Chinese Medicine Investment Ltd.** (HCMIL), a wholly owned subsidiary of **Hutchison Whampoa (China) Ltd.**, on Dec. 12 signed a contract to form a joint venture in Beijing to develop and invest in traditional Chinese medicine (TCM) business.

The JV company, to be named **Beijing Tongrentang Hutchison Pharmaceutical Investment Co. Ltd.**, will engage in TCM investment and health-related projects and enterprises. Total investment of the JV company will be approximately US\$239 million, with Tongrentang and HCMIL each taking a 49% shareholding. The remaining 2% will be taken up by a third-party enterprise to be named by Tongrentang.

HWL Sets Bond Financing Record

In its sixth visit to the market in 2003, **Hutchison** completed the largest-ever corporate bond financing in Asia ex Japan on Nov. 20 with a US\$5 billion three-tranche issue via **Citigroup, Goldman Sachs, HSBC** and **Merrill Lynch** as main book runners.

Deutsche Bank, JP Morgan and **Morgan Stanley** served as separate joint book runners in the three different tranches.

£2m Donation Stokes UK Scholarships Scheme

HWL Chairman Li Ka-shing has pledged to donate through HWL a total of £2 million over three years to support Mainland and Hong Kong scholars in their doctoral studies in the UK. The sum will be matched by the **UK Government** under its **Dorothy Hodgkin Postgraduate Awards** scheme.

The Hutchison scholarships will support up to 53 students and form a major part of a new scheme, announced by British PM Tony Blair on Nov. 17, to bring outstanding overseas PhD students to top UK universities.

Mr Blair applauded HWL for recognising the importance of scientific knowledge and highly skilled people.

Starting in 2004, students will study science, engineering, medicine, social sciences and technology.

Mr Li's donation is the latest move to support Mainland and Hong Kong scholars to study in the UK.

In October 2002, the Group donated £2.02 million to expand the **British Chevening Scholarships** scheme to include 63 extra postgraduate scholarships each year over a four-year period.

HUTCHISON WHAMPOA LIMITED



Hutchison Whampoa Limited (HWL), one of the largest companies listed on the main board of the Hong Kong Stock Exchange, is the holding company of the Hutchison Whampoa Group of companies. As one of the earliest big "hongs", or trading companies, in Hong Kong, Hutchison's history dates back to the 1800s. Today, HWL is a multi-national conglomerate with businesses spanning 39 countries. With around 167,000 employees worldwide, Hutchison operates and invests in five core businesses: ports and related services; telecommunications; property and hotels; retail and manufacturing; and energy and infrastructure.

Its flagship companies include Hutchison Port Holdings, Hutchison Telecom, Hutchison Whampoa Properties, A. S. Watson, and Cheung Kong Infrastructure.

In 2002, HWL's consolidated revenue was HK\$111,129 million (US\$14,247million).



PROPERTY & HOTELS

Reaching for the Stars

Just two weeks after his historic trip into orbit on Oct. 15, China's space hero, astronaut Colonel Yang Liwei, and a delegation of Chinese space experts chose **Harbour Plaza Hong Kong** as their base while on a flying



six-day visit to the territory. By all accounts Colonel Yang was "over the moon" about the service and accommodation.

General Manager Jonathan Wilson presented Colonel Yang with a 2.5kg hand-made chocolate named "Shenzhou V" after the spacecraft. The delicacy was specially designed by the hotel's award-winning pastry chef Roger Luk.

Earlier, on Oct. 24-26, 20 contestants of the first **Ms Shanghai Beauty Pageant** visited Hong Kong – and where better for them to stay than at the elegant Harbour Plaza Hong Kong?

A welcome cocktail party was held at the 4,000-sq.-ft. luxury Presidential Suite, with a



live piano performance and panoramic views of Victoria Harbour adding to the evening's ambience. Meanwhile, the 2003 **Miss Chinese Universe Pageant**, organised by **Phoenix Satellite Television**, was held at **The Patio at Harbour Plaza Metropolis** with more than 50 entrants participating.

E - COMMERCE

TOM Reports Q3 Profit

The **TOM Group** reported its second consecutive quarter of profit attributable to shareholders in the third quarter. Net profit rose 81% to HK\$18.5 million (approximately US\$2.3 million) quarter on quarter while EBITDA rose 25% from Q2 to HK\$82 million. Revenue for the nine months ended Sept. 30, 2003 amounted to HK\$1.3 billion, 17% up on the corresponding period in 2002. Operating profit was HK\$26 million compared to an operating loss of HK\$75 million for the same period in 2002.

JV Fuels China Growth

The **TOM Group** has set up its first Sino-foreign JV with state-owned publisher **Sanlian**. TOM has a 49% stake in the venture, called **Beijing Sanlian Shiji Wenhua Chuanbo**.



It will be involved in the print media business, including advertising sales and distribution of Sanlian's four magazines, which have a combined circulation of 3.8 million. TOM will invest 24.5 million yuan (approximately US\$3 million) with Salian contributing 15.5 million yuan in cash and 10 million yuan in assets.

applause

Hong Kong Internet portal **ESDlife** has won four awards for its achievements in e-government, e-commerce, and social responsibility.

On the international scene, the website came out on top in Asia's "e-government" category of the **United Nations' "World Summit Award (WSA) 2003"** organised by the UN World Summit on the Information Society.

ESDlife also won the award for "Best e-Commerce Company" in the fourth annual "Outstanding Information Technology and Financial Enterprise Awards" organised by *Capital Magazine* to recognise outstanding performance and achievement of Hong Kong enterprises. For the second year running, **ESDlife** was named "Caring Company 2003/04" by the **Hong Kong Council of Social Service** in recognition of its efforts in caring for the community and commitment to corporate citizenship.

Finally, **ESDlife** received a "Distinguished Employers" award from the **Hong Kong Employment Development Service** in recognition of its support in providing employment opportunities to the vulnerable.

Anyone for Tennis?

TOM has formed a JV with popular newspaper *Beijing Youth Daily* to market and promote the **China Open**, to be held in Beijing in September 2004. Through its sports marketing subsidiary **Media Serv**, TOM has secured the rights from the **Association of Tennis Professionals (ATP)** to organise the first-ever ATP tennis tournament in Beijing. The JV, **China Open Sports Marketing Co. Ltd.**, will combine the strong local advertising and client network strength of *Beijing Youth Daily* with the sports marketing expertise of TOM.



PRICELESS: Miss Hong Kong (above left) visited the **Priceline** booth during the opening ceremony at New Town Plaza of the "E-Commerce Adoption Campaign Roadshows — e-Commerce in Real Life" led by the **Hong Kong General Chamber of Commerce** and funded by the government.

Newsbites

ENERGY & INFRASTRUCTURE

Husky Reports 40% YOY Earnings Rise

Husky Energy Inc. reported third quarter net earnings of C\$243 million (approximately US\$144 million) and C\$1.1 billion for the first nine months of 2003. Net earnings rose 40% year on year or C\$0.54 per share (diluted) in Q3 compared with C\$173 million or C\$0.38 per share (diluted) in Q3 2002. Cash flow from operations in Q3 was C\$604 million or C\$1.42 per share (diluted), up from C\$590 million or C\$1.39 per share (diluted) in the comparable period the year before.

Production averaged 300,200 barrels of oil equivalent (boe) per day, compared with 305,100 boe per day in Q3 2002, a decrease of 2%, mainly due to divestitures, turnarounds at producing facilities and natural reservoir declines. Husky's net earnings for the first nine months of 2003 were C\$1.1 billion or C\$2.60 per share (diluted) compared with C\$562 million or C\$1.31 per share (diluted) in the first nine months of 2002, an increase of 91%. Husky's debt meanwhile decreased by C\$834 million.



As at Sept. 30, 2003, net debt stood at C\$1.2 billion, down 40% from C\$2.1 billion on Dec. 31, 2002.

FPSO is Ready to Set Sail

The *Sea Rose*, **Husky Energy's** Floating Production Storage and Offloading (FPSO) facility, was launched in Korea in July. Preparations continue for its deployment at the White Rose oil field in St. John's, Newfoundland and Labrador, scheduled to begin production in 2005/06. The vessel will sail from Korea to Newfoundland in January 2004 where the topside production facilities will be installed before deployment to the field.



Acquisition Lifts Capacity

Husky Energy has acquired all of the issued and outstanding shares of **Marathon Canada Ltd.** and the Western Canadian assets of **Marathon International Petroleum Canada** for a total purchase price of US\$588 million. Production from Marathon Canada is approximately 27,000 gross barrels of oil equivalent per day (boe/d). The effective date of the transaction was Oct. 1, 2003. In a separate transaction, Husky agreed to sell certain of the Marathon Canada oil and gas properties with gross production of approximately 7,500 boe/d to a third party for US\$320 million. The acquisition will add approximately 19,500 boe/d to Husky's production.

China Sea Exploration

Husky Energy has signed a petroleum contract with **China National Offshore Oil Corp.** (CNOOC) for the 04/35 exploration block in the East China Sea. The block is located 350km east of Shanghai. This is the first exploration contract signed by Husky with CNOOC in the region and is Husky's sixth offshore contract with CNOOC. Husky currently holds four exploration blocks comprising more than 15,000 sq. km in the South China Sea and has a 40% interest, in partnership with CNOOC, in the Wenchang 13-1/2 offshore oil fields.



RETAIL & MANUFACTURING

Hands Free

Hutchison is introducing an accessory to the UK market that allows mobile-phone users to make and receive mobile calls without the need to hold their handsets and without troublesome wire attachments. The *Bluetooth Clip Headset*, manufactured by **i.Tech Dynamic**, a division of **Hutchison Harbour Ring (HHR)**, deploys Bluetooth wireless technology that enables electronic devices to communicate with each other. Thus, when the phone rings it can be conveniently left in a pocket or handbag while providing a perfect signal to a light and compact "earphone". The launch leverages on upcoming legislation on the use of mobile phones when driving. The product will also be introduced in other markets.



applause

Two **ASW** store managers have won the **Hong Kong Retail Management Association** "2003 Service & Courtesy Award." They are Clement Yip Ming-chi of Fanling **PARKnSHOP** and Jennifer Tse of Hing Wai Building **Watson's Wine Cellar**. Other winners included **Watsons** Health and Fitness Advisor Wing Tsui in the category "Supermarkets / Convenience Stores Frontline Level," and Assistant Store Manager Susan Wan of **Nuance-Watson** in the "Department Store Supervisory Level" category.

Tree-mendous

The "Watsons Water Tree" (right) turned heads at the **Lifestyle Asia Design Fair 2003** held in December. The exhibit, created from 800 **Watsons Water** bottles, marked the completion of the company's centennial campaign – "Year of Hong Kong Creativity."



PORTS

Felixstowe Expands

Port of Felixstowe has officially opened the first phase of its **Trinity Terminal** expansion, incorporating 6ha of back-up land behind the existing Trinity Terminal and increasing the port's storage capacity by 6,500 TEU. A further section of storage area is expected to open early in 2004 and the quay will be fully operational by July 2004. In another development, **Freightliner** has launched a new service providing one inbound and one outbound train daily between Port of Felixstowe and Daventry, with a further destination planned. There are now 22 inbound and 21 outbound trains per day from Port of Felixstowe's North and South Rail terminals. The port also handles two forestry-product trains per day at its dedicated paper-handling rail terminal.

First Call

On Oct. 16, the **Cosco** container vessel *Lausanne* became the first ship to berth at the Phase III Project at **Yantian International Container Terminals (YICT)** in China. The "Next-Generation System" (nGen) terminal operation control system, jointly developed by YICT and **HIT**, has been put on pilot at the new berth and will gradually replace the existing system.



Phase III covers 90ha with total investment of HK\$6.6 billion (approximately US\$846 million) and includes four 100,000-ton-plus container berths.

The second berth and a container yard of 200,000 sq.m is set for completion by the end of 2003, with the whole project due for completion by the end of 2005. YICT has meanwhile been recognised as one of the "Hundred Outstanding Overseas Chinese Enterprises in China." The award was made in September at the People's Great Hall in Beijing.

Smart Moves

The first batch of "smart and secure" containers entered **YICT** on Oct. 31, marking the successful completion of testing at YICT of *Smart and Secure Tradelanes (SST)*, an industry-driven supply chain security initiative.

Hutchison Port Holdings (HPH) has been a proactive participant in developing security measures for the marine transport of containers since the US Government implemented the *Container Security Initiative (CSI)*.

applause

Hongkong International Terminals (HIT) won a "Productivity Award" and a "Certificate of Merit for Environmental Performance" at the "2003 Hong Kong Awards for Industry," coordinated by the **Hong Kong Productivity Council**.

SCT Marks Milestone

Shanghai Container Terminals (SCT) celebrated its 10th anniversary on Aug. 12. Annual throughput has risen to over 3 million TEU, three times the volume recorded in its first year of operations.

TELECOMS

Easy on the Eyes

HONG KONG **Hutchison Global Communications**

(HGC) has launched a useful new service called *Vfone*. Utilising broadband based "VoIP" technology the system allows users to make unlimited video and voice calls between *Vfones* for a flat rate of just HK\$48 per month (approximately US\$6.15). For HK\$68, subscribers can make unlimited voice calls to all Hong Kong fixed-line and mobile networks as well as to overseas *Vfone* users. The *Vfone* plugs into a broadband Internet connection and is compatible with TV and 3G devices. It can also be connected to digital camcorders and other appliances so that calls can be recorded and archived. What's more, with the *Auto-Answer* feature, users can see what's going on when they are away from home.



Location, Location

INDIA **Hutchison Essar** has

launched two new location-based services. *BuddyService* lets subscribers know if their friends are in the vicinity while *Vehicle Tracking Solution* keeps tabs on commercial vehicles.

Library Contract

HONG KONG **HGC** has won a contract to deploy its *MetroNET*

Gigabit Ethernet Wide Area Network (WAN) solution to extend the Hong Kong Public Libraries' Multimedia Information Systems (MMIS) from the Central Library to 26 libraries across the territory. Meanwhile, HGC is collaborating with Internet **Thailand Public Co. Ltd.** (INET) and **HiNet**, Taiwan, to target market opportunities in IP-related services. HGC has established business links in more than 10 overseas markets in the past 12 months.

Hot Services

THAILAND **Hutchison CAT**

Wireless MultiMedia (Hutch) launched three new services at **ICT Expo 2003** in Bangkok in August.

HutchReal provides instant online multimedia service, *HutchPlay* offers a variety of downloadable games applications based on **Qualcomm's BREW** platform and *HutchSay* delivers crystal-clear voice, SMS and data services.

A key highlight of the new technologies featured was a demonstration of Location Based Services (LBS), the first for the Thai market. Hutch also showcased the powerful data-handling capability of the **CDMA2000 1X** service along with several new CDMA terminals.

In December, Hutch launched its *M-sites* programme, designed to create a local community of content developers supported by Hutch's multi-media contents portal.



Newsbites

TELECOMS

3 Heralds Era of Video Mobile Communications in Hong Kong

HONG KONG Hutchison has marked the start of the 3G era in Hong Kong with the unveiling of its 3 services. At a media event on Dec. 15, HWL Group Managing Director Canning Fok hailed the move as a breakthrough for the telecommunications industry in Hong Kong which will enable people to easily gather and share information while on the move. When 3 goes live, it will deliver to customers an integrated information, communication and entertainment service via its new generation of mobile phones, which also offer video calling and video messaging. "What we are going to offer has not been seen here before, but it will become a part of your everyday life," Mr Fok said. "3 will put Hong Kong at the forefront of mobile communications globally." He demonstrated person-to-person video calling by linking up with Kevin Russell, CEO of 3 Australia, in Sydney. Mr Fok also showed off some of 3's other features, including *Home Watch*, a remote surveillance service, and *3 Daily Express*, which allows customers to receive a host of information and entertainment services

delivered automatically throughout the day, just like SMS. The services Mr Fok demonstrated included news, business information, weather details and traffic updates. The launch of the Hong Kong service is a vital link in 3's global network. Using the world's most sophisticated mobile telephony,

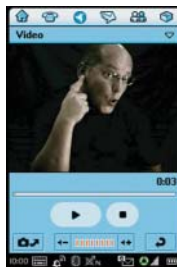


it links the people of Hong Kong with friends, relatives and business colleagues across the world. Customers will be able to make video calls to Australia, Austria, Denmark, Italy, Japan, Sweden and the UK, and the network of such countries is expanding rapidly. Hutchison and NEC also launched the latest NEC 616 video mobile phone. "NEC is our supplier for both video mobile phones and the 3G infrastructure, and also a shareholder in our 3 Hong Kong operations," Mr Fok said.

"Together with our JV partner NTT DoCoMo, we are very pleased to announce this important handset launch and, most importantly, to know that we share NEC's full support for the future." NEC Corp. President Mr Akinobu Kanasugi said one million NEC 616s would be delivered by year end and another 1.5 million by the end of Q1 2004. Agnes Nardi, Managing Director of 3 Hong Kong, said: "We are fortunate we can leverage the resources of the global Hutchison 3G Group to bring these new services to market faster than our competitors. These services have only just become available in Europe and Australia through our sister companies." The NEC 616 video mobile phones will be sold at HK\$4,380 (approximately US\$561) each in Hong Kong, or HK\$3,980 for customers purchasing two or more units. Tariffs are simple and flexible with three basic plans. The monthly charges vary from HK\$263 to HK\$533. All tariff plans, which include video and voice minutes plus MMS and content, are designed to enable users to enjoy the entire range of 3 services.

New Videophones Enter the Market

The second generation of 3G video mobile phones handsets has arrived, spearheaded by three new models that offer high-resolution videocalls and videomessages of striking quality, along



with a basket of powerful applications. The Motorola A920 (212g), launched in early Autumn, is a tri-band GSM/GPRS/UMTS "communicator" with integrated GPS, camera, audio/video player, video calling and full messaging support. It is a particularly powerful business tool. The Motorola A835 (168g)

offers the latest in multi-media entertainment with advanced messaging, video phone, Bluetooth wireless technology, full browsing and a large display capable of supporting up to 64,000 colours.

The NEC 616 (131g), released in December, features a slim, cutting edge style, and is loaded with video and audio streaming, Global Positioning Satellite technology for enhanced location services, Bluetooth connectivity, memory card support, dual display and camera light.



Numbers Gain

Hutchison's global 3 network on Dec. 15 reported it had a total of 660,000 subscribers in Australia, Austria, Denmark, Italy, Sweden and the UK, up from 520,000 announced on Aug. 21, 2003. The subscriber numbers were: 340,000 in Italy, 210,000 in the UK and a combined 110,000 in Australia, Austria, Sweden and Denmark.



Kicking In

IRELAND H3G Ireland and Vodafone Ireland have jointly secured the FA Premier League mobile rights in a three-season deal starting with the 2004/05 season. Customers of 3 in Ireland will have access, via their mobiles, to all 380 FA Premier League matches and related information. H3G UK already has mobile broadcasting rights for the League.



TELECOMS

See with 3

AUSTRALIA

A new TV commercial launched by **H3G**

Australia in September taps into the visual nature of video calling in a very emotional way, illustrating the benefit of being able to see rather than just hear. The commercial opens on a father working in his office. He receives a video call from his daughter who is at school. We quickly establish she is hearing-impaired. She uses sign language to communicate with her father about what time he will pick her up from school. This simple communication is only possible through video calling and it supports **3's** proposition of making an everyday moment better with **3**.



The campaign was developed after general public feedback on how useful **3** would be to the deaf community. During the campaign, **3** worked with the **Royal Institute for Deaf and Blind Children** to develop scripts and ensure sign language was easily understood over a **3** mobile. The clip has researched as one of **3's** most recalled TV commercials with wide appeal across all ages.

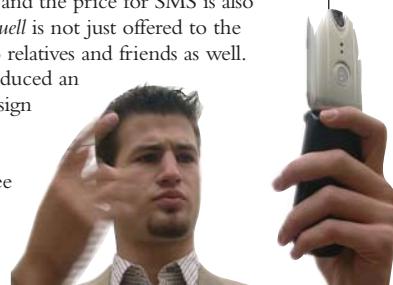
Sign of the Times

AUSTRIA

H3G Austria launched a special package called

3Visuell in October that enables more than 15,000 deaf people and their sign language-fluent relatives to communicate inexpensively via a video mobile phone.

The special price is 50% lower than for similar **3** offerings and the price for SMS is also lower. **3Visuell** is not just offered to the deaf, but to relatives and friends as well. **3** also introduced an interactive sign language dictionary available free on the Austrian **3Zone**.



Tua Good for Words

ITALY

H3G Italy launched *Tua* in September, the first

prepaid offer that includes free use of a video mobile phone. For a "one time only" sign-up fee of €99, customers are given a videophone, which **3** will replace

periodically with a new model, cost free. Monthly tariff plans start at €30.



Customers were also offered a *VideoChristmas* promotion in which the first minute of every Videocall to any **3** number was free. The company meanwhile launched **3 for Business Open**, a partnership programme in which **3** offers instruments and platforms to the software houses who are invited to bring business applications into mobility.

Seniors Synergy

ITALY

Italian weekly *Venerdì di Repubblica* carried an article

in October that focused on seniors as a unexplored market for new technology, specifically 3G mobile video phones. The piece made reference to the TV campaign of **3's** Australian counterparts, in which a grandmother in Italy is able to see and speak to her family in Australia.

Continuing on the theme of the seniors market, **H3G Italy** is launching an educational course for the elderly that teaches them about the uses of the new technology.



Fashion on the Move

AUSTRIA

To celebrate the October launch of its *Fashion & Lifestyle* channel, **H3G Austria** sponsored

"A la Mode" — a fashion show in Vienna featuring top international designers presenting the looks of their spring and summer collections 2004. As the models strutted the catwalks, subscribers of **3** could enjoy the event via near-live coverage to their handsets. They were also able to view background information and exclusive interviews with the designers, who included Anne Klein, Escada, Zegna, Exté, GF Ferré, Just Cavalli, Versus by Versace, Tommy Hilfiger and Hugo Boss.

3 also delivered pictures and videos of the after-show parties.



Tantalising TV

ITALY

3's "teaser" TV campaign featuring

beautiful celebrities Malika El Hazzazi, Luana Spagnolo and Alexandra Merino was aired in Italy from Sept. 21, followed by the release of three new commercials on Sept. 28.

MTV on 3

EUROPE

In a move that will see music fans dancing

in the streets in Europe, **3** has signed a deal with **MTV** to distribute music videos on its networks.

Customers can access music videos, live performance footage and music news reports. Tailored clips from MTV's own programming, such as *Jackass* and *Dirty*

Sanchez, will also be available.

MTV will provide localised content in four categories. *Daily News* features showbiz news and gossip; *What's Hot* includes reviews of live performances and videos; *Best of MTV* uses clips from MTV's own programming and *MTV Live Lounge* provides archived live performance footage.

Newsbites

TELECOMS

E-mail, Banking and Dating on the Move

SWEDEN

Customers of **3** in Sweden have gained access to several innovative services via their **3** video mobile phones.

3 announced in October that it had developed two solutions for companies that enable their employees to read e-mail on their mobile handsets. One solution resembles a web-mail service (users are able to access a WAP page with e-mail, calendar and contacts) while the other solution synchronises e-mail, calendar and contacts in the company network with information on mobile handsets. **3** also teamed up with **SEB** to launch mobile banking services for private subscribers, enabling users to make transactions and payments, trade shares, and access quotations and financial

news. The services are included free in **3's** basic service package. Customers can also receive streamed video news presented by **Tidningarnas Telegrambyrå** (TT).

On a lighter note, subscribers of **3** can follow **Channel 5's** popular TV "docusoap" called **Masterplan**, allowing fans to enjoy the opportunity to constantly see what the participants are doing. **3** has also joined hands with **Lovesearch** to co-operate on a simple video-dating service whereby users can download short video clips on to the Lovesearch members' site. The goal, according to Beatrice Ståhle, creative director at Lovesearch, is that users will be able to see all potential dates within a 100m radius of their mobile phone.



3 and Me

Stockholm-based Robert Bauer is one of a growing number of subscribers who is finding that life can be a lot simpler and more productive with **3**.

Robert runs a small business in the electrical industry and was one of the first customers in Sweden to sign up for the **3** services.

Robert mainly uses his mobile at work. His staff all have a **3** video mobile phone and this has been a major advantage as it lets them show each other various technical connections from a distance.

Before he got his **3** video mobile phone, Robert would sometimes have to travel all the way across Stockholm — a journey of 50km — to solve a very simple problem. Now he can solve problems from the office.

"The mobile immediately paid for itself," he says.

When he is on the move, Robert particularly appreciates the Positioning Service which shows his location via an on-screen map.

"As an electrician, you sometimes get quite dangerous jobs. If someone falls off a ladder, it's a good thing for the others of us to know where he is," Robert explains. Although Robert chiefly uses his **3** video mobile phone in a work context, he also enjoys its benefits privately.

"It's great fun to sit in the pub and have a video conversation with your mates," he says. "I've shown the mobile to a lot of pals, and they're all interested."

He also uses his **3** video mobile phone to watch finance news and weather reports.

"It's like a microwave oven," he adds. "You don't know that you need one, but once you've gone out and got one it's difficult to see how you managed without it."



News on Stream

DENMARK / SWEDEN

Since Oct. 29, subscribers to **3** in Denmark and Sweden have had access to streamed video news via their mobiles, allowing them to view video directly instead of clips first being downloaded and then played. The news service is presented by **TV2**.

Pre-Booking

DENMARK

Following a national advertising campaign by **H3G Denmark**, customers started pre-booking video mobile phones on Oct. 13 via **3's** homepage (www.3.dk) and through the new **3Stores** in Copenhagen and Lyngby. Customers could also pre-book at selected distributors. Deliveries began in October.

Tempting Tariffs

H3G has been luring customers to its **3** networks with a selection of tariff plans.

Hi3G Access AB in Sweden launched two options, named **3Fri** (**3Free**). For as little as SEK149 per month (approximately US\$19.50) **3Fri** offers 60 or 300 free minutes of talk time and the same rates to all other networks in Sweden. **3** also launched a value package called **3Fri Kväll & Helg** (**3Free Evenings & Weekends**).

H3G Austria meanwhile has been offering special deals to businesses that provide wireless mobile Internet access. The **3Business 800+** package includes 800 minutes of voice and 30MB of data for €69 per month with savings of up to €100 on the **Motorola A920**. **3** also launched a student package that offers a €50 discount on the **A920**.

H3G UK has unveiled two new monthly

tariff plans. **VideoTalk 100** includes 100 voice minutes for £15 and **Football 500** is a £30 plan that combines 500 voice minutes with unlimited football content. **3** also introduced a wide range of content add-ons for as little as £5. **Video for Voice** is a promotion under which customers can make video calls for the same price as voice calls for the first three months of a 12-month contract. **3** celebrated the festive season with free videocalls for all between Dec. 22 and Jan. 2 inclusive.

"Down under," **H3G Australia** offered great savings on the **Motorola A835** when customers pre-ordered and connected to **3 for All** on a 24-month service plan. With **3 for All**, which replaces the **First on 3** introductory offer, connection fees and the price for **Videotalk** calls have been cut in half while customers can pay as little as 10c per SMS to any mobile.

Roaming Liaison

DENMARK

Hi3G Denmark in August signed an agreement of collaboration with telecom company **TDC** which will ensure that customers of the **3** service have roaming access to the national network for mobile telephony and SMS in areas outside the company's own mobile broadband network.



ALL TOGETHER

A group of HWL volunteers shows that great things can come from small beginnings.

By Sophia Wong



It all started almost by accident about two years ago. Unbeknown to each other, many Hutchison Whampoa Group (HWL) staff members were quietly giving up their spare time to join various volunteer organisations helping less privileged members of the Hong Kong community.

On weekends and holidays the volunteers would go out and assist an elderly person or offer comfort and friendship to a lonely hospital patient. Their only reward was the knowledge that they had played a small part

in brightening someone's day.

Then, in 2001, HWL's Group Human Resources Department took the initiative to introduce these like-minded "Good Samaritans" to each other.

It was an appropriate time as the United Nations, recognising the tremendous contribution that volunteer work makes to health worldwide, had declared 2001 the "International Year of Volunteers".

Noting that many members of the Group's extended family were involved in





a variety of volunteer programmes, the Group HR Department reasoned that it, too, could be of service. Since there is strength in numbers and great value in sharing knowledge, not only would the volunteers be able to work more effectively as a cohesive team, but the Company might be able to offer them meaningful encouragement and support.

Franco Ning, Project and Administration Manager at YICT, was among the first to join the HWL Volunteer Team. The 36-year-old was already a seasoned participant, having started as a YMCA volunteer when he was still at school.

“Staff from different business units of HWL who had been volunteers or wanted to become volunteers were all brought together,” he recalls. “We were all excited and delighted to see we were not alone in our efforts.”

They came from the far corners of the Company and were able to meet each other and compare notes. Before long, the volunteers got organised and went into action.

Instead of working alone and in a vacuum, they have been able to work in unison, bringing a little bit of comfort to those who need and appreciate it the most.

Since its informal establishment two years ago the HWL Volunteer Team has dedicated hundreds of hours to helping those in need.

The volunteers identify people – or groups of people – in need of friendship or assistance; then they do what they can to help.

Target groups have included children of new immigrants, the elderly, terminally ill patients and their families, children with cancer or other life-threatening illnesses, rehabilitating patients, long-stay elderly patients, home-alone elderly and physically handicapped children.

The volunteers have also organised various group activities, including sports events, birthday parties, carnivals and outings.

WIN WIN

Although Franco Ning has a young family and is kept very busy in his job, he nevertheless treasures the time he spends doing volunteer work.

“I have learned so much,” he says. “My perspective has become more positive and I value what I have. It helps you realise that happiness is not a matter of course; there are no guarantees.”

Angela Chiu, an Estate Manager at Hutchison Whampoa Properties, is another “pioneer” volunteer. The mother of a five-

year-old daughter, she joined up in 2001. Like Franco, she believes that her work as a volunteer has had an extremely positive effect on her own life.

“What I gain is far more than I give,” she says. “I feel my life is more meaningful and my vision has been broadened. I cannot forget the time I visited a sick woman in hospital who was about 90 years old. I found her concern was only for her children instead of herself, even though she was very sick. She forgot her pain when she talked about her family. I learned to value my happiness after that and I want to bring happiness to others.”

Angela’s enthusiasm inspired some of her colleagues to also join the HWL Volunteer Team, which has grown to over 300 members.

“As a result, I found that we can coordinate and communicate better than before as we have built up closer relationships beyond our routine jobs,” she says. “I understand my colleagues better and our team spirit has improved.”

As pioneers, Angela and Franco have seen significant changes over the past two years. With strong support from the



Company, the team has grown bigger and is better organised, thanks to the active assistance of some of the best professional business managers in Hong Kong.

The HWL Volunteer Team has now come of age, enjoying full support and recognition at the highest level.

Thanking the volunteers for their care and enthusiasm and expressing the appreciation of top management, HWL Chairman Li Ka-shing endorsed the formal establishment of the Volunteer Team on November 16 during the Group's annual Sports and Family Day.

Mr Li himself has set a good example for his staff. He is the "biggest" volunteer and has given staunch support to various charitable causes.

Having experienced the turmoil of war in his youth, Mr Li migrated from Mainland China to Hong Kong and entered the workforce at an early age.

Those early struggles left him with an abiding conviction that the strength of a nation depends on the quality of its education and healthcare, and that nothing is more meaningful than helping the needy.

As Li Ka-shing's businesses have prospered, he has devoted more and more time and resources to charitable projects, particularly those that benefit education and healthcare in Hong Kong and the Mainland. In 1980, he set up the Li Ka Shing Foundation in order to distribute funds more systematically. Since then, over HK\$5 billion (more than US\$641 million) has been donated to charitable causes.

To further develop and encourage the Volunteer Team, certificates of service are issued to recognise their effort and commitment. They have also been outfitted with comfortable "uniforms" – further consolidating team spirit.

FOOD FOR THOUGHT

To celebrate the formal establishment of the HWL Volunteer Team, an ambitious new initiative called "Build a Healthier Generation" was launched in November. The project is a joint effort between A.S. Watson (ASW) and HWL "Health Ambassadors" and its primary aim is to teach young children and educate their parents about the importance of healthy eating habits.

In the first stage, ASW pharmacists give training workshops to volunteers and health talks to kindergarten teachers and parents. While the main focus is on the importance of a balanced diet for maintaining good mental and physical health, other topics include common children's ailments



and handling of children's medicine.

"To teach children good and balanced eating habits can help build a healthier generation, which is our target," says Sindy Mok, a Watsons pharmacist who is closely involved in the project.

"It is best to foster good eating habits in childhood. A balanced diet is important for growth. It provides energy and nutrition that improves learning ability, maintains good weight and prevents illness."

Ms Mok conducted two training sessions for about 55 volunteer Health Ambassadors in November. In turn, these ambassadors go to selected kindergartens to teach the children and their parents about food health.

"Healthy children must eat well, play well, sleep well and exercise well," Ms Mok adds. "We use a food pyramid to illustrate what kind of meals should be eaten and the Health Ambassadors use interactive games based on the food pyramid to teach the children."

The game teaches children to distinguish the four categories of the food pyramid.

To their amusement and delight, the children act as different kinds of food in


the games. In the process, they learn what is good and what is bad for their health.

Grains such as rice and wheat are placed at the bottom and can be eaten the most. Fruit and vegetables come next. Milk, meat and protein are vital, but in smaller quantities, and the smallest category, which includes oils, salts and sugars, should be eaten the least.

"When the game is over, the Health Ambassadors help parents to assess whether their children are getting a balanced diet," Ms Mok explains. "The height and weight of the children is also measured to make sure they are healthy."

Thanks to the support of HWL, the Team has been able to organise and manage the kindergarten initiative with useful access to resources and expertise – something that could not have been achieved by only one or two individuals.

The initiative is expected to go a long way towards helping achieve the grand ambition to build a healthier generation.

And there's another very healthy side effect: "This programme really appeals to the volunteers," notes Franco Ning. "They really love playing with the kids." 

TALK TANK

ITU Telecom World is among the most important events on the telecommunications calendar and this year Hutchison helped set the agenda.

By Mark Caldwell



REGULATORS, GOVERNMENT MINISTERS AND CEOS GATHERED IN GENEVA IN October for the ITU Telecom World 2003 conference. Held every three years, the event provides an important platform for strategic debate and business networking.

This year, approximately 850 exhibitors and more than 115,000 people attended. As a major global telecoms player and a leader in 3G deployment, Hutchison made a significant impact. Not only was the Group represented by several key delegates, but Hutchison 3G (H3G) sponsored the Youth Forum, with Agnes Nardi, MD of Hutchison Telecom (HK) and H3G HK, addressing the young delegates. Further exemplifying H3G's position as a pioneer, Vincenzo Novari, CEO of H3G Italy, delivered the keynote speech for the Main Forum session entitled "Towards a Next Generation of Mobile Services."

ROADMAP FOR THE NEW FRONTIER

A hot topic of debate at the ITU World Telecom 2003 conference revolved around the future direction of the telecoms industry.

Appropriately, Vincenzo Novari, CEO of H3G Italy, delivered the keynote speech for the session entitled "Towards a Next Generation of Mobile Services."

While most telecoms CEOs are still contemplating the future, Novari, in a sense, has already arrived. The Italian operation, which Novari heads, has been setting a blistering pace in pioneering 3G technology and services under the 3 brand.

No surprise then that he chose to talk about the present to throw light on what is yet to come.

Sharing his vision of 3G as the new mobile communications frontier, Novari admitted: "I have not travelled to the future, I can only tell you what I have under my own eyes."

Summing up the current position of the mobile telecoms arena, Novari said there



Agnes Nardi, MD of Hutchison Telecom Hong Kong and H3G HK, delivers a speech at the start of the ITU Youth Forum, which was sponsored by Hutchison.

were three things on which everybody more or less agreed.

"First, the mobile phone is the most widespread technology in recent years. Its penetration goes beyond geographic and social limits; it is personal and personalisable, it is in the pocket of each one of us. Second, the phone is evolving. It has been enriched with new functions and services, which in just a short time will be considered a necessity. Third, incumbent operators are searching to keep pace with this evolution."

THE BIG QUESTION

The "mother of all questions" mobile companies now face is how to significantly increase their value, Novari said.

While operators are focusing on the search for a "killer application" they are in fact "still on the crest of the wave of the killer application called 'mobility'".

The "shocking success" of mobile phones had far outstripped the estimations of industry analysts in the late 1980s, he said.



Approximately 300 student delegates from 189 member states took part in the ITU Youth Forum held on the sidelines of ITU Telecom World 2003 in Geneva.

WHAT IS THE ITU?

The International Telecommunications Union (ITU) is a United Nations organisation that enables governments and the private sector to coordinate global telecom networks and services to formulate international telecommunications policy.

The ITU is dedicated to accelerating the delivery of digital opportunities to the world through promoting expansion of “infocommunications” networks, organising strategic planning workshops and symposiums, conducting country case studies, tracking policy trends and organising forums. It does this by maintaining good relations with industry, research institutions, the media and the public.

Having successfully staged ITU Telecom Asia in 2000 and 2002, Hong Kong has

bid to host ITU Telecom World 2006, underlining its position as both an international telecommunications and Internet hub and as an exhibition and conference centre. If the bid is successful, the 2006 event will attract 100,000 visitors.

In support of Hong Kong’s bid, a government spokesman said: “With China opening its information and communication technology (ICT) market to Hong Kong companies under the Closer Economic Partnership Arrangement (CEPA) and to the world under the World Trade Organisation (WTO), Hong Kong will be the ideal venue for bringing together leading industry executives to further explore their market opportunities in China.”

Analysts had underestimated their deeper meaning and appeal. “A telephone is mobile because we are mobile. It’s personal, it’s mine, and it’s always with me. I can’t say the same about a computer, even if portable,” Novari said.

The trend among consumers has been to progressively migrate towards richer forms of communication, such as colour in magazines and television and the increasing interactivity brought by the Internet.

Adding to the mix, lack of time is one of the “new poverties” in today’s world. In Italy, for example, 52% of the population consider time to be a problem, yet only 44% lament their income level. That means an increasing demand for time-saving assets, services and solutions.

“The market of time is where mobile communication is competing against other industries, like transportation or media,” Novari said.

Turning to 3G, he stressed that UMTS is only an enabler but has far greater poten-



ITU Telecom World 2003 created a melting pot in which industry leaders, academics, students and government representatives debated the future of the industry.

tial than earlier technologies to enhance the mobile experience.

“Just as the technology that allows me to fly (a pair of wings) is different to technology that allows me to run (a pair of tennis shoes), UMTS has the capacity to accommodate customers in a network incomparably superior to those existing, at a cost decisively more contained.”

VESTED INTERESTS

Today’s dominant telecom incumbents have an interest in dictating the timing for innovation and determining when and if the market is ready for something new, Novari told the delegates.

In his opinion, the market is ready right now but some operators are lagging behind. “People want mobile communication with the capacity to include more interesting, more useful and more effective services.” And they want it today, not in the future.

Because they have the technological means, pure 3G operators have a distinct competitive edge:

- They can respond to the desires of the market with the freedom that other operators who based their fortune on 2G don’t have.
- They can keep the promise that the limits of the previous technology wouldn’t allow, enabling companies to go mobile with comparable performances of fixed line.
- They can design new services, putting to

use the characteristics of a technology created for the transmission of data, with a greater magnitude than those before.

The current challenge is to find ways to increase the proportion of revenue coming from value-added mobile services, Novari said. Operators now need to conquer space – “not in the cosmic sense, but that space which makes up the few square centimetres in the videophone. A space on which our eyes rest naturally a growing number of times each day.”

Pure 3G operators have a distinct competitive edge

THE NEXT GAME

For operators, the ability to transform the activity of looking at a handset screen into a billing opportunity is “the next game”, which makes a “billing application” more important than a “killer application”.

Apart from the obvious advantages brought about by the superior technology, it is essential to also ensure ease of use for the customer, Novari believes.

“The quality of the user interface and the accessibility to services are an obsession with us. One must be able to do new things with the same ease as those that you do already. The critical factor for competing is not only content but how you make the content available.”

With the 3 service, making a videomessage is already easier than typing an SMS, Novari noted. Being able to activate the video camera with only one key, the “take and send approach,” is a crucial factor for accelerating penetration of the service.

The entry of 3 (*Tre*) into the Italian market has been a remarkable success, he said.

“After only 150 days, 25% of the messages sent on our network were videomessages.”

Of the more than 300,000 customers who signed up in the first six months, 75% make at least one video call per week and in September alone customers downloaded 200,000 video goals.

Were it not for a handset shortage the figures would have been even higher, according to Novari. He noted ruefully that the flagship 3Store retail outlets had been out of stock for a while due to high demand but were still full of people wanting to know when the new handsets would arrive.

“A greater availability of handsets would allow us to exceed our objective of one million customers for Italy within the first year of operations,” he said.

In conclusion, Novari noted how, historically, “some things that at first have seemed small and irrelevant have changed the world by growing in an exponential way. The tendency in interpreting these phenomena has been to underestimate the important groundwork established in the initial start-up phase and to over-emphasise the phase of slow growth as the product reaches maturity,” he said.


To illustrate the point, Novari offered a quote from a leading newspaper:

A large part of the enthusiasm towards this new technology seems to be spent, and the launch of the service, originally planned for the autumn, is continually slipping ... the economy has fallen into a deep recession, the plans for the number of users has decreased and the need for massive investment has frightened many initial investors.

Surprisingly, this excerpt is not about the current 3G landscape but was published in the *Financial Times* in 1992, referring to the launch of GSM, or 2G, which today

has 1.3 billion users.

Novari believes that 3G is in the initial phase with potential for exponential growth while GSM has entered the slow-growth maturity phase.

“We can think of the future as something for which you wait or as something which you move towards. Those who invest with determination in 3G believe that the future is something that you move towards. I believe that in five years the winning companies will have doubled their value.” 

COLLECT CALL

Demonstrating its commitment to nurturing talent in the Telecoms industry, H3G was the lead sponsor of the Youth Forum at ITU Telecom World 2003, contributing 500,000 Swiss francs (approximately US\$380,000) to enable more than 300 university students from 189 member states to participate.

The Youth Forum focused on three main themes: Information and Communication Technologies (ICT) as an enabler of economic and social development; the policy and regulatory aspects of ICTs, and; strategies for investment and financing. The Youth Fellows also took part in a workshop on designing a business plan.

Speaking at the opening session, Agnes Nardi, MD of Hutchison Telecom (HK) and H3G HK, told delegates 3 is commit-

ted to educating the public, particularly young people, on the immense potential of ICTs.

“The young generation represents a critically important pool of human capital to the ICT sector,” she said. “They will shape the future of the industry.”

The massive adoption of ICTs into every aspect of daily life and the economy had connected people around the world, linked businesses at all times with their customers, employees, partners and suppliers, and supercharged the world’s trading activities.

*Hutchison
donated
US\$380,000
towards the
Youth Forum*

“In the public domain, ICTs also greatly improve access to health care, education, and public administration, fostering social and political progress,” she added. “We are fortunate to live in the era of an Information Economy with the free flow of an unprecedented amount of new knowledge and information.”

Ms Nardi said it was essential to tap into the energy, creativity and trend-setting vision of the younger generation.



“We are particularly enthusiastic about nurturing a pool of global talent who will advance the mobile frontier and contribute to our efforts to build a better, united and harmonised world through continuous innovation in the exciting world of information and communication technology.”

Following up on their experience, the Youth Fellows drafted a declaration of their vision of the information society for consideration at the first phase of the World Summit on the Information Society (WSIS) held in Geneva on 10-12 December 2003. The declaration calls for a Youth Action Plan to address key areas such as education, access to infrastructure, local action, regulation, and finance and investment.



Watsons
YOUR PERSONAL STORE



STREET



SMART

Leveraging on its extensive experience in Asia, the A.S. Watson Group has embarked on a major expansion drive into Europe.

By Gwyneth Roberts



“When you have only two pennies left in the world, buy a loaf of bread with one, and a lily with the other.”

The Chinese proverb encapsulates an age-old truth about the human condition: The desire to be healthy and beautiful is as fundamental as our need for food and drink, something A.S. Watson has known since its predecessor, the Canton Dispensary, first began distributing medicine to the rural poor in Canton (Guangzhou), China, in 1828.

In those days, the primary motivation was to improve and maintain people's health. But, as everybody knows, good health is the bedrock of physical beauty — each embodies the other's essence. Since the doors of the Canton Dispensary opened 175 years ago, the twin pillars of health and beauty have merged in the minds of consumers, and the retail world has responded accordingly. Many of today's health & beauty chains have grown out of traditional dispensaries and pharmacies.

It is still a relatively new mix, less evident as a concept around the world than food retailing, for example, but it is catching on fast.

According to Euromonitor International, a market-intelligence company, health & beauty market revenues worldwide totalled US\$180 billion in 2002, having grown steadily at a rate of approximately 1.6% per annum over the past five years.

Today, the Health & Beauty Division of A.S. Watson (ASW), Hutchison Whampoa's retail group, extends across 15 countries and regions on two continents, operating more than 3,200 retail stores in 910 cities under eight distinct brand concepts. It is the largest health & beauty retailer by store numbers outside the United States.

What's more, the company is on an aggressive expansion trail, seeking to expand geographically and in existing markets both by new acquisitions and internal growth.

“Wherever opportunity presents itself we aim to grow the business,” says ASW Group Managing Director Ian Wade. A 40-year veteran of the business, the last 22 in his current position, Wade has been a key architect of the Retail Division's growth strategy, and he maintains a gimlet-eyed focus on the unfolding future.

“Our expansion is in keeping with the wide growth that has been taking place within the Hutchison Group as a whole,” he

says. “From ports and property to energy and telecoms — they have all been expanding.”

EARLY BIRD

ASW's expansion drive began in earnest back in 1963 when Hutchison acquired a controlling stake in the company, paving the way for sustained growth of Watsons The Chemist into Southeast Asian markets. The chain moved into Taiwan, Macau and Singapore in 1988, Malaysia in 1994, Thailand in 1996, China in 1998 and the Philippines last year, following a tie-up with the ShoeMart Group.

With this background, ASW is among the most experienced health & beauty retailers in the world.

The Group made its first foray into Europe in 2000, acquiring the Savers health & beauty chain in the UK.

“We wanted to spread our portfolio out of Asia,” Ian Wade recalls. “The 1997 recession taught us that you don't want all your eggs in the Asian basket.”

Savers' retail style was a perfect fit, with a “mega-discount” format accentuated by simple store design, focusing on fast-moving toiletry products, and backed up by strong logistics and low operating costs. Under ASW, Savers embarked on a rapid expansion of its own, growing from 165 stores at acquisition to 300 by early 2003.

ASW was propelled into the global headlines last year with its bold





€1.36 billion acquisition of the Kruidvat Group, the undisputed leader in health & beauty retail in Europe.

The deal, at a favourable 7.2 times EBIT, was just another step along ASW's acquisition road — albeit a giant one that tripled the division's point-of-sale portfolio at the stroke of a pen.

The Kruidvat acquisition, ASW's biggest to date, had all the hallmarks of the company's inimitable acquisition style — very personal,

*Health & beauty
revenues worldwide
totalled US\$180 billion
in 2002*

based on a strong relationship, and with minimal involvement of outside interests.

After 74 years as a family-run retail chain, the owners of Kruidvat had decided the time had come to sell and were looking for a suitor.

Having identified ASW as the most appropriate buyer, discussions took place with Ian Wade over the dinner table. The two businesses seemed a good fit. Wade took the details back to the Hutchison Whampoa board, including Chairman Li Ka-shing, and in a relatively short time the deal was done.

more than 3,200 stores ...



Watsons Your Personal Store, Asia's leading health & beauty chain, began as a dispensary in Canton, China in 1828. Expansion has been rapid since the 1980s and the chain now operates in Hong Kong, Mainland China, Taiwan, Macau, Singapore, Malaysia, Thailand and the Philippines. Over 25,000 products are offered in more than 700 stores, from cosmetics and toiletries to confectionery and toys. It is also Asia's leading pharmacy chain with around 400 stores.

The acquisition took place in an atmosphere of great friendship and cooperation between shareholders and management on both sides. The Kruidvat management remained in place and the business operations didn't miss a beat.

"We do all deals ourselves with virtually no outside help from merchant bankers and the like," says Wade. "For us, it is a personal thing, which is unusual. In a deal of this size, 'emotionally detached middlemen' are normally involved. Forming relationships is about two things — money and the relationship you create with the other party. If you don't have the right relationship, then the money becomes a bit of a bind."

BIG AND BEAUTIFUL

With more than 1,900 outlets and a strong reputation in its home markets, Kruidvat represented a giant leap forward for an Asian health & beauty retailer looking to expand.

The Dutch company had built an impressive family of five brands under its management. Besides Kruidvat, these included leading UK retailer Superdrug with 700 stores, former competitor Trekpleister, the Rossmann chain in Poland, Hungary and the Czech Republic and the ICI PARIS XL chain of perfumeries in Belgium and the Netherlands.

With one prudent acquisition, ASW had expanded into tried and tested markets via strong existing brands, positioning the Group as the biggest health & beauty retailer outside the US.

Mr Wade concedes that when the managers from the various countries get together these days it's a bit like a meeting of the United Nations.



8 high-street chains ...



Kruidvat was founded as a grocery company in 1928 and today is the undisputed market leader in the health & beauty sector in The Netherlands and a leading player in Belgium. It was acquired by A.S. Watson in 2002. Kruidvat employs around 8,000 people in more than 700 outlets catering to over two million customers per week. It also retails fast-moving non-cosmetic items such as low-priced CDs, toys, household items and photo services.

SHOPPING FOR THE SHOPPERS

Imagine having to fill the shelves of more than 3,200 retail stores in 15 different countries from a selection of more than 170,000 products.

Before the goods can be delivered they must first be sourced from all over the world. And shelves must constantly be restocked after products have been sold. What's more, the tastes and buying habits of customers differ from store to store and vary widely according to the season. Finally, records of each transaction must be fed back into the system to keep stock flowing smoothly.

It's enough to boggle the sharpest of minds, yet it is a feat that is pulled off on a daily basis by A.S. Watson (ASW).

Sourcing, distribution, logistics, computer systems — these are the back-office operations that can make or break any retail business. ASW has been able to improve on all these functions as it grows in size and scope, resulting in better service and product variety at lower prices.

A worldwide sourcing operation based in Hong Kong directs the buying activities of the different divisions around the world, with products from the Americas, Europe, China and Australasia.

"Sourcing is the lifeblood of the business," says Group Managing Director Ian Wade. "Without effective buying you don't exist. You need value, variety and point of difference with your competitors."

Goods are shipped to distribution centres throughout Asia and Europe, with sophisticated computer systems keeping track of product flow. Logistics and IT are integrated so that crucial commercial information is easily accessible at the click of a mouse.

"Logistics is vital within a health & beauty chain," says Gert Vos, Director of International Systems. "Just imagine that the products do not reach the stores, or arrive late. Just imagine that the costs of bringing the products to the stores are not the lowest possible.

"It is impossible to keep good track of the product flow without sophisticated computer systems," Mr Vos adds. "The commercial people want information on the sales per product, the margin per product and the effects of price promotions, etc. In a modern retail organisation this type of information is crucial. It is our task to deliver that information in a way that people want. Most information is generated by the products coming in and out of the distribution centre, flow to the stores and from the stores to the consumer. So logistics and IT cannot be separated, but are fully integrated."

Since the Kruidvat acquisition, more containers from Asia are reaching European shores, with pressure on centres increasing due to rising sales across all business units.

ASW is able to use experience gained in more mature economies and apply it to the quickly adapting Central European markets where it has opened three ultra-modern distribution centres in the past two years, most recently in the Polish city of Lodz.

Impressive expansion targets in the coming years mean the logistics and IT departments will have to anticipate change at every turn, and extensions and improvements are a way of life.

ASW is rolling out a sophisticated computing system across its European operations, starting in the UK. The new Windows XP-based point-of-sale platform, called StoreLine, is Web-enabled, allowing for inventory tracking across all stores as well as corporate training and operation, further enhancing operating efficiency and customer service.

Despite ASW's global reach, it retains a local, personalised approach. Products and packaging change from country to country to suit local needs and tastes. In the Philippines, for example, goods are marketed in smaller packages than in other countries, reflecting local shopping habits. Similarly, sun protection products may be relevant in certain stores in the summer season, while Vitamin C might be a big mover during the "influenza season".

Then, of course, there is Christmas, Easter, Chinese New Year, "back to school" and even "Sinterklaas" in the Netherlands — all requiring season-specific inventories — not to mention innovative and sustained promotional campaigns for a variety of products, ranging from toys to TVs.

With 170,000 product lines, the range and volumes indeed seem endless, but the overriding impression for customers is that the product they choose is one in a million.





“Fortunately, almost everybody speaks English,” he says.

“With management, you need an effective team, and effective delegation. Hutchison is a financial holding company but has had the ability to put together a team of international talent. That is why this company has done so well. Hutchison is the only Hong Kong company ever to target the rest of the world effectively.”

With its expanded multinational family of businesses, ASW

There is still enormous opportunity for expansion, particularly in former communist-bloc countries

has chosen to operate eight existing health & beauty brand identities under its corporate umbrella, setting it apart from other global chains, which typically homogenise after an acquisition.

“If there is value in the local brand, you have to get behind the local brand,” says Wade. “It is a point of difference in our operations. I can’t think of another retail business that operates different chains.”

The result is that the company operates on many levels, often within one market.

In the Netherlands, for example, Kruidvat trades side by side

910 cities ...



Founded in 1966, **Superdrug** is a leading health & beauty retailer in the UK with more than 700 stores nationwide. Known for offering good value, the chain carries over 6,000 products. It also launches hundreds of new own-brand products each year, working with suppliers to identify new trends and turn them into affordable high-street reality. All stores offer photographic services and around 25% have in-store pharmacies and/or in-store perfumeries.

with its former competitor Trekpleister, which was acquired in 1998.

Kruidvat is the market leader with branches not only in the bustling cities but also in the smallest villages while Trekpleister is rapidly emerging as the No.2 thanks to its compelling brew of a wide product range sold at low prices in a customer-friendly atmosphere.

Similarly, Savers and Superdrug in the UK run as parallel chains occupying different niches. Superdrug is positioned as a variety retail chain with spacious stores situated in prime spaces on the high street, whereas Savers is discount-oriented and operates out of smaller outlets.

A mature market in the UK, with strong competition in the health & beauty sector and the internal challenge of operating two brands side by side, creates a unique set of circumstances for doing business there.

“Our competition comes from some of the best and most sophisticated retailers in the world,” says Philip Ingham, CEO of Health & Beauty UK. “There are several other major players but at the other end of the spectrum there is also a growing band of small aggressive discount competition.”

Mindful of its particular market characteristics, the UK division aims to grow the profitability and size of both Superdrug and Savers by continuing to offer a wide range of products at good value while at the same time dazzling customers with innovative stores and exciting promotional themes.

LOCAL CHARM

The characteristics of each country’s market environment natural-



ly shape the nature of the stores that operate within it. Regulations in Continental Europe have meant that brands now owned by ASW have developed as cut-price health & beauty retailers rather than as chemists, whereas health & beauty operations in Asia and the UK typically evolved out of businesses geared towards dispensing pharmaceuticals.

Kruidvat started life as a grocery company in 1928, opening its first health & beauty outlet in 1978. These stores have a broader focus than pure health & beauty, targeting young families with

15 countries ...



Savers began in the UK in 1988 and was acquired by A.S.Watson in 2000. The chain operates more than 300 stores in England, Scotland and Wales. Savers’ mega-discount format, accentuated by simple store design, strong logistics and low operating costs, matched the values of A.S.Watson from the outset, and the company is rapidly expanding. It offers fast-moving health & beauty products, high-quality brand names, fragrances and photo services.

LABELS OF LOVE

The A.S. Watson Group has a highly successful manufacturing division specialising in bottled water and beverages, but the company has no plans to manufacture products for the health & beauty market.

“My experience is that any businesses that are captive to each other tend to develop inefficiencies,” says Group Managing Director Ian Wade.

Instead, A.S. Watson (ASW) sources its products from far and wide, choosing to buy the highest quality at the best prices from a huge range of manufacturers.

When a new product is developed, the company will make its selection based on quality, price and what the customer wants. If such a product does not exist, ASW will initiate production, using established manufacturers.

The packaging and marketing strategy is also crucial. For example, “Own Label” products have become a market leader, with the Watsons China operation serving as a telling example.

In the past two years, high-quality Own Label products have struck a chord with Chinese consumers, particularly young women aged 18 to 35, accounting for more than 21% of sales in the personal care category.

The benefits of high quality and low price (20-40% cheaper than comparative branded products) are further reinforced by modern design and packaging.

“One of the essential factors behind the great success of Own Label brands in China is the total confidence staff have in the products,” notes Jurgen Schreiber, Director of International Buying.

“All Own Label products are first tested by our employees. In this way, we know that we have quality products and guaranteed staff endorsement, which helps create effective selling and word-of-

mouth awareness.”

Schreiber points out that the Watsons Own Label range is ranked close to the market leaders for comparative products.

“Own Label products provide a unique proposition in stores,” says Schreiber. “Customers now visit Watsons to buy both branded products and Own Label brands. In the long term, the growth of Own Label products will help balance and grow the company’s margins and counter the present retail trend of suppliers pressurising retailers more and more on price.”

A key to achieving success is through constantly updating the product portfolio.

The first step in new product development is market research. Watsons analyses sales trends in stores and consumer preferences.

“We have a ‘model shop’ set up in the warehouse, where sales in every product sub-category and stock keeping unit are analysed,” says Schreiber. “Based on the data on how well a product is selling, customer appeal and market research, a road map is set up which covers the brand plan for the next 1-2 years, including identifying which categories and products to pursue.”

Once product areas have been identified, the profit margins for Own Label production are examined. Should these margins prove positive, Watsons competitively selects manufacturers to create the product, based on stringent internal quality guidelines. Development usually takes anywhere from two to six months to complete.

The finished merchandise is delivered to stores where it is prominently displayed in Watsons Own Label corner. When consumers find that Own Label products represent great quality and outstanding value, they come back for more.

170,000 products lines ...



Trekpleister was acquired by its former competitor Kruidvat Group (now part of A.S. Watson) in 1998. The chain operates more than 200 stores and is on its way to becoming the No.2 health & beauty retailer in the Dutch market. Trekpleister’s private label was re-introduced in 1999-2000 and is a popular choice among its low-priced health & beauty offerings and growing range of general merchandise. It has ambitious growth plans.



a wide assortment of baby products as well as electronics and gifts. Kruidvat is also the market leader in digital photo services.

“Our most important strength is the consistent concept of all our stores,” says Dick Siebrand, CEO of Health & Beauty Continental Europe. “Because they are as much alike as they possibly can be, we are able to control the operations (and the costs) in a most efficient way, giving our organisation the strength to beat the competition.”

There is still enormous opportunity for expansion, particularly in former communist-bloc countries such as Poland, Hungary and the Czech Republic, where ASW operates under the Rossmann brand. The Continental Europe division is aiming to keep up its growth of 15-20% per year.

The Asia region also offers significant growth potential for ASW, with China and India — potentially the two biggest markets in the world — on its doorstep. It operates in-store pharmacies in Hong

Kong, Taiwan and the Philippines, in line with its historical development in the region, as well as pure health & beauty outlets.

Andrew Miles, CEO of Health & Beauty Asia, believes the “fun” aspect of the Watsons shopping experience sets it apart from other retailers. Watsons Your Personal Store offers an unprecedented mix of products and promotional activities — with the added angle of “fun” built around its core health & beauty products and encapsulated in the slogan: “Look Good, Feel Great and Have Fun.”

“The region is a mix of mature and immature markets, from Hong Kong and Singapore to Indonesia and Vietnam, with every country having its own culture and customer preferences,” says Mr Miles.

“Every time you visit a store you see a hundred opportunities,”



more than **55,000** staff ...



The **ICI PARIS XL** chain of perfumeries is the market leader in its sector in Belgium and enjoys a high profile in the Dutch market. It began operations in Belgium in the 1970s, expanding into The Netherlands in 1997. The Kruidvat Group acquired the chain in 1996, joining A.S. Watson in 2002. ICI PARIS XL operates more than 150 outlets offering a wide range of branded fragrances.

he adds. “Things move at speed here and its amazing how quickly you can make things happen — from sourcing a product to building a store.”


Without question, ASW’s growth into a global health & beauty powerhouse brings economies of scale, the benefits of a global sourcing operation, a bigger, more experienced management team and pooled industry knowledge from around the world. With each division in tune with its unique set of challenges, the company’s ambitious growth targets are inching into view.

“There is no reason why our organisation in all three parts of the world (Asia, the UK, Continental Europe) should not grow spectacularly in the coming years,” says Continental Europe’s Mr Siebrand.

He stresses the need for a flexible management style to cope with the growth consequences as well as extra effort all round to train good people.

ASW plans to open about 160 new stores in 2004. It is also scanning the horizon for suitable acquisitions and looking at markets ranging from Australia and Indonesia to Vietnam and India, and eventually as far afield as Africa.

“The health & beauty category still has considerable mileage,” Mr Wade believes. “There is lots of room for growth in the categories that fill our stores. People want to look good. The only danger in getting too big is if you can’t manage it.”

For now, the health & beauty business is no beast for ASW. As it moves towards becoming the world’s biggest retailer in the category, the company is enjoying healthy growth — and managing beautifully. 



10 million customers per week ...



Rossmann Central Europe operates more than 240 stores in Poland, Hungary and the Czech Republic. It is a 50:50 joint venture between A.S. Watson and the German health & beauty chain Rossmann. The chain has seen impressive growth since beginning operations after the borders between East and West Europe were opened a decade ago. The blend of Rossmann entrepreneurship and Kruidvat store concept has proved a winning formula.

MORE THAN SKIN DEEP

“Retail business is a people business.” This is the mantra upon which the A.S. Watson shopping experience is built.

And one of the primary challenges for a multinational company with ambitious growth plans is to have key management and staff in position with the flexibility to handle every new twist and turn.

“Of course, our retail concept is extremely important, but we would be lost without qualified, motivated people in the stores, in the distribution centres and in the offices,” says Dick Siebrand, CEO of Health & Beauty Continental Europe.

The company employs more than 55,000 people around the world, from shop-front staff to logistics and IT experts, pharmacists and druggists as well as top-class managers (many of whom have worked their way up from the shop floor).

Staff training is an important investment, whether it be at store level — from ordering and shelf filling to product knowledge and customer advice — or in the area of head office support in roles such as accounting, tax, marketing and advertising.

ASW plays an important education role within communities where it operates, keeping its customers informed about public health, beauty and related matters.

When customers walk into an ASW store, they get much more than a great range of products at competitive prices; they also

receive exceptional service from staff who know what they are talking about.

The recently launched A.S. Watson School in Continental Europe gives specialised training at three locations in the Netherlands and one in Belgium. Candidate sales employees and store managers are instructed on day-to-day store practices with the aim that many of them will become the store managers of the future.

Within stores, customers can not only purchase products but also receive advice and information on health & beauty.

At ICI PARIS XL perfume stores in Belgium, staff undergo extensive training on skin care, fragrances and colours.

In countries where legislation permits the operation of in-store pharmacies — chiefly in Asia, the UK and the Netherlands — certified druggists are on hand to advise consumers

on over-the-counter medicines.

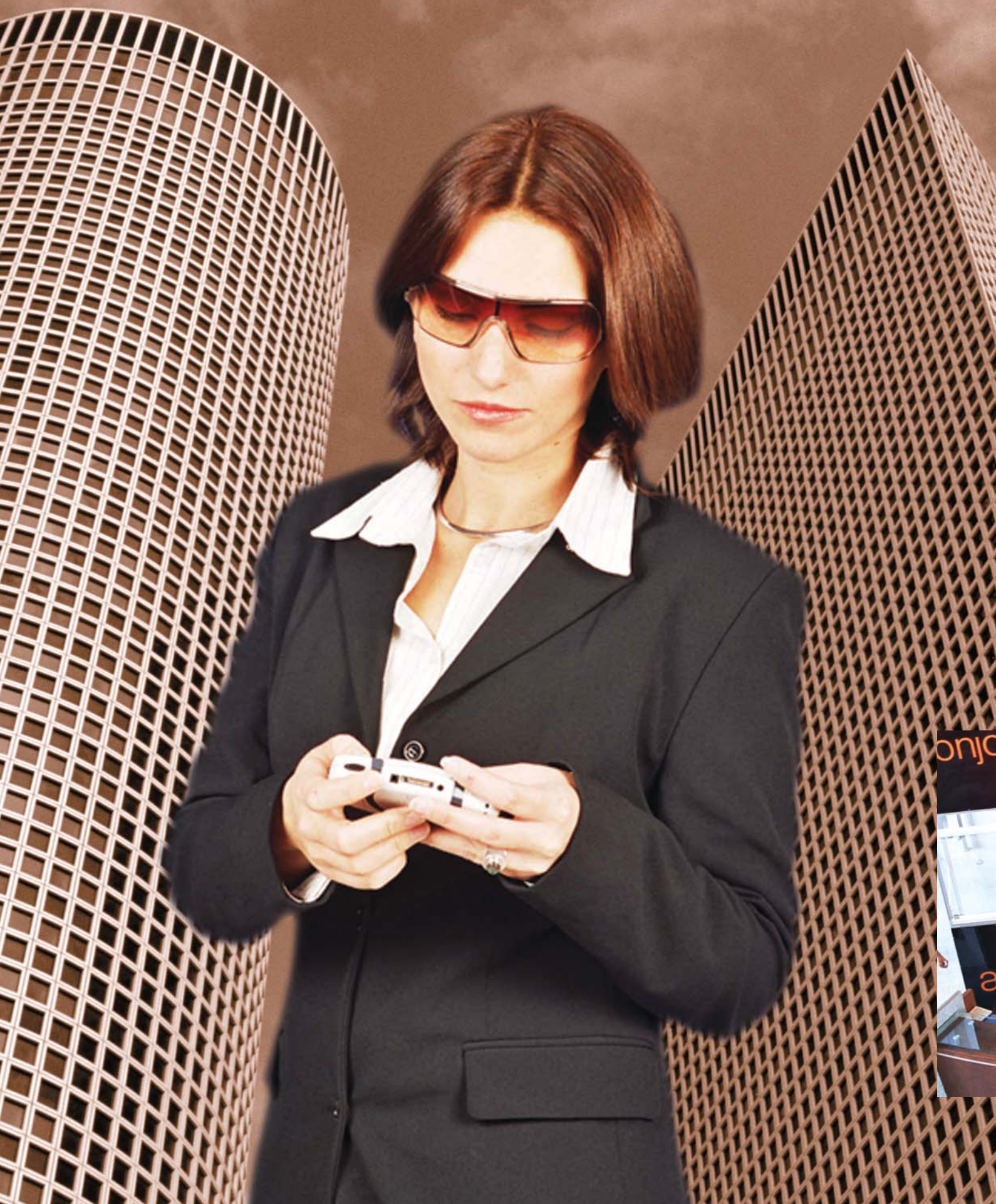
In Hong Kong, Watsons Your Personal Store has always actively promoted public health education. It participates in many in-store initiatives, distributing information designed to teach the community about nutrition, exercise and the benefits of healthy living. In that sense, ASW positions itself not only as a retail specialist but as a partner in improving the health of society at large, offering personalised advice on everything from beauty counselling to baby care.



US\$8 billion turnover in 2002 ...



Airport retail specialist **Nuance-Watson** is a joint venture between A.S. Watson and Swiss company The Nuance Group. Its branded stores offer cosmetics, label products, electronics and general merchandise to travellers passing through Hong Kong and Singapore international airports. Beginning in Hong Kong in 1998 and expanding to Singapore in 2001, the chain opened its 45th store at Singapore's Terminal 2 in October 2003.



A WARM RECEPTION

Analysts were cautious when the Israeli government auctioned a new mobile licence five years ago, but Hutchison sprang into action to take advantage of the opportunity.

By Frank Lee



When Partner Communications paid US\$400 million in 1998 for a licence to establish the first GSM mobile telephone network in Israel, many observers saw it as folly. Marking the commercial launch in January 1999, local newspapers said the Israeli cellular market was already saturated, dominated by two of the nation's strongest corporations. The money had been wasted, they said.

But Hutchison saw something different.

In Partner's 1999 annual report, Canning Fok, HWL Group Managing Director and Chairman of Partner, noted: "The convergence of wirefree services and the Internet is opening up a new and exciting era for cellular, in which operators will increasingly differentiate themselves based on the range of services and applications they offer. As the sole GSM operator in a world-leading high-tech centre such as Israel, Partner is well positioned to leverage these resources."

Five years since its inception, the strate-

gy has paid off and the Hutchison-backed mobile telecommunications company has become an unmitigated success.

Not only has Partner defied the critics but it has done so at the speed of sound, exceeding almost every expectation. From a standing start, Partner has become a leading operator with more than two million customers and revenues that continue to be upwardly mobile.

At ground level, Israel is an exciting cellular market and its people are enthusiastic users.



It is rare to find an Israeli who does not own a mobile phone and carry it everywhere. For many Partner customers the cellular handset has become an essential personal communication device, providing voice and data services at the office, at home, while on the move in Israel, or abroad.

Previously a traditional economy based mainly on agriculture, light industry and labour-intensive production, Israel has become a knowledge-based economy with internationally competitive telecommunications, IT, electronics and life sciences industries. The country's GDP in 2002 was approximately US\$100 billion, or US\$15,782 per capita.

There are now four cellular players offering services to some six million customers. Partner was the first cellular operator in this developed market to offer GSM technology and to launch a GPRS network. From a technological point of view the Israeli market is unique, offering the widest range of technologies available in any one country, including NAMPS (analogue technology) CDMA, CDMA-1XRTT, TDMA, iDEN, and the GSM/GPRS technology, now offered by two operators.

Partner's cellular offering is distinguished by excellent voice quality, superb customer service, nationwide coverage, and a range of services specifically designed to provide communication and content solutions for residential and business customers alike.

PARTNER FOR THE PEOPLE

Partner's strategy has always been to satisfy the needs of society by understanding the particular needs of every segment.

Israeli society has been built by immigrants who have poured in from 70 countries around the globe, creating an unusual and exciting cultural diversity.

Partner provides coverage to 97% of the population using more than 2,100 cell sites, and leads the market with groundbreaking and user-friendly applications. Attractive demographics (more than 40% of the population is under 25), high technology literacy, and a keenness to use advanced services and applications create an Israeli cellular market that is ready and willing to absorb a range of innovative services.

Since many Israelis have strong ties with family members and colleagues worldwide, international services are particularly important to Partner's sub-



scribers. The company's advanced roaming capabilities – helped by the fact that virtually the whole of Europe uses the GSM standard – enable its customers to use more than 280 network partners worldwide in 125 destinations. Innovative

*Partner's customer
service is
rated No.1 in
the country*

roaming agreements with satellite providers enable seamless roaming in more than 40 additional countries and territories. Visitors to the country can also enjoy extensive roaming cellular services provided by Partner.

Close to home, Partner provides a vital mobile lifeline for Palestinians when they are in Israel, even during periods of heightened political tension. The company has a good working relationship with mobile operator Al-Jawwal, owned by Palestine Telecommunications Co (PAL-TEL) and is the only Israeli network to provide such a service.

Partner has been adept at responding to market needs, introducing a wide selection of useful and entertaining applications, along with customer-friendly tariff plans.

Using the *obox* services, customers can enjoy a rich selection of content, including timely updates on the latest news, stock markets, sports, weather reports and daily horoscopes – wherever they are.

One recently introduced capability, the innovative *omail* service, provides live updates of mail messages and attachments. Another, the *oklik* service, enables customers to take and send pictures from wherever they are.



TALKING POINT

Partner has brought new terminology and new thinking to the cellular market through its unique marketing and packaging strategies.

In recognition of its extraordinary flair in creating brand awareness and customer loyalty, the company has received numerous awards, medals, certificates and trophies.

When Partner launched its “one call one rate” offer, the rate plan revolutionised the Israeli market because the price of the call included all interconnect charges – a first in Israel. Another innovative concept introduced upon launch was the “talk more pay less” programme in which the customer received a lower per minute rate if he or she used the network more.

With *orange 2 go*, Partner was the first company in Israel to offer a “no commit-

ment” plan to its monthly paying subscribers. Partner knew that the best guarantee for a satisfied customer is to ensure that the customer chooses his cellular provider every day anew. Its “no obligation” rate plan emphasises the subscriber’s freedom of choice while retaining loyalty through superb customer service and network quality. Today, most of Partner’s private customers are *orange 2 go* subscribers.

Partner is always thinking of new offerings. One new idea for the youth segment is *Mix & Match*. Customers of youth brand BU can choose three out of six benefits available, adjusting their rate plan according to their individual usage patterns. Benefits include calling five family members at a discounted rate, reduced SMS rates, lower data and content rates, discounts on calling

selected friends and family, or reduced night-time and weekend rates. Each customer is free to choose the best mix.

Partner also offers unique solutions to a wide range of business customers, helping them improve service delivery to their clients.

One example is Tambur, a leading Israeli paint manufacturer and distributor. Partner’s location-based vehicle fleet management system enables Tambur’s main office to know exactly where each of its dozens of vehicles is and what merchandise is on board, allowing the company to respond to its customers needs quickly and efficiently.

“Tambur examined a few systems and chose Partner’s solution as it is the best, most efficient and quickest to implement,” said Omer Shoshani, VP Sales at Tambur.



CELEBRATING DIVERSITY

Right from the start, Partner Communications has played an important role in all aspects of Israeli society. In a country familiar with conflict and separation yet defined by a hard-working and fun-loving approach to life, Partner's multi-faceted services help bring people together – no matter what their language, religion or location.

The company's Customer Service Centre is designed to assist more than two million subscribers in four languages: Hebrew, Arabic, Russian and English.

Partner has also developed unique price plans to answer a variety of needs. For example, foreign workers are offered sophisticated rate plans for pre-paid overseas calls.

Another innovative programme called *orange Shabat* is aimed at the orthodox Jewish community and recognises particular usage patterns and needs. Subscribers who do not use their phones on the Jewish Sabbath can enjoy 60 free minutes on weeknights. But *orange Shabat* is much more than a rate plan. Partner has created a unique world of content for this segment in which observant subscribers are offered content specific to them, such as icons, ring tones, prayers, Chassidic songs and seasonal features such as holiday themes, trivia and games.

Unique services have also been developed for other individual communities, including Russian speakers and the business sector.

As an unbiased employer, the company offers job empowerment to all.

"Partner offers a unique opportunity for employment in the Arab sector, with many families relying on the company for their sole income," says Ebtihal Sheety, Team Leader in Partner's Customer Service Centre in Haifa. "Around 50% of all Arab



employees in Partner are female, with very few employment options otherwise."

Within society, Partner actively participates in many community-related activities, believing that the business sector's involvement can help improve the quality of life for many Israelis.

The company has chosen to focus its efforts on the advancement of education through the use of technology. In the past five years, Partner has built 22 computer rooms all over Israel.

"These computer rooms serve a vast population that otherwise would not have been exposed to computers and the Internet," says Amnon Gideon, Vice-president Human Resources at Partner.

"Our commitment to improving the community is such that when we recruited our two-millionth customer, we decided to forego the special activities and parties planned for our employees, and use the funds to build ten more computer rooms nationwide."

These activities are very much appreciated in Israel.

"We thank Partner for building computer rooms in our neighbourhoods," says Meir Nizan, mayor of Rishon Le'Ziyon, just outside Tel Aviv. "The computers will serve underprivileged children and adults alike who can not afford a computer."

Innovation has always been the rule at Partner. As part of its appeal to the youth, the company has operated a radio station since 1999, under the "BU" youth brand. In a few short months, BU99 FM has become the most popular radio station amongst the youth segment. Listeners can choose music by sending an SMS to the station, pick favourite artists and win prizes in hourly contests. Regular parties are organised for young listeners, who also receive discount coupons via their mobile phones.

As part of Partner's emphasis on community education, BU99 FM organises forums and seminars in schools, teaching children about the progress in communication from the Stone Age right through to 3G technology today. These activities are aimed at bringing the young population closer to the unique communications experience that Partner offers.



GOOD COMMUNICATOR

From Day One, Partner's marketing strategy has been characterised by innovation and creativity. The orange™ brand, originally developed by Hutchison in the UK, has gained major prominence in the Israeli market, and was recently recognised by *Globes*, the leading Israeli business daily, as the country's most valuable telecoms brand and second only to Coca-Cola in the general consumer market.

Underscored by a constant buzz around its award-winning advertising campaigns, Partner's rate plans, attractive family programmes and innovative marketing tools (including a radio station) have all helped establish its leading market position.

Partner's state-of-the-art call centre, located in the heart of Israel at Rosh Ha'ayin, employs enthusiastic, highly educated and well-trained personnel who are

available to answer queries seven days a week, 24 hours a day. Equipped with the latest technology, the centre can handle

*Partner brings
people together –
no matter
what their
language, religion
or location*

hundreds of calls simultaneously. Aided by friendly instruction manuals developed specifically for Partner's customers, an

advanced interactive response system and an appealing, interactive Internet site, users can always find answers to their questions. It is no wonder that the most prestigious Israeli management centre, the MIL, has awarded Partner's customer service the No.1 position in the country.

Partner's distribution channels are extensive, with close to 300 points of sale throughout the country, many of which are open seven days a week. The network offers diverse communications products exclusive to Partner and reaches all segments of society.

WIDENING THE GENERATION GAP

Having already established itself as a technology leader, Partner is committed to seizing the opportunity to lead the market in third generation (3G) mobile communications.



LOCAL DYNAMISM, GLOBAL BACKING

Back in April 1998 it was clear that newly formed Partner Communications had a mountain to climb.

Not only was the upstart entrant squaring off against two established mobile telecoms incumbents in an already developed market but the company had precisely six months to build the management team, hire all employees, arrange the financing and complete a nationwide network rollout in time for the soft launch of services in October that same year.

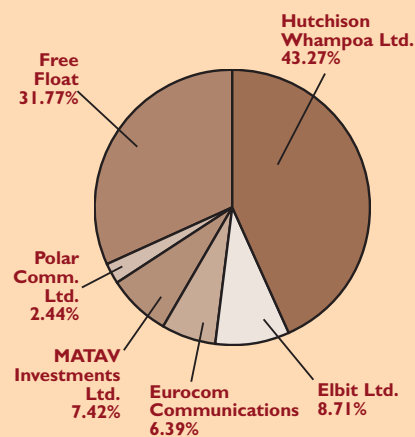
The challenge was indeed enormous, but Partner had several aces up its sleeve. The consortium combined the heft of a multinational big hitter, the savvy of key local investors and the dexterity of skilful management, led by CEO Amikam Cohen.

As Partner's majority shareholder (43.27%), Hutchison has been a defining and critical influence in the company's development, bringing it advantages unavailable to its competitors.

"We were fortunate to have strong shareholder backing," Mr Cohen recalls, "which enabled us to benefit from global telecom and local commercial expertise."

Hutchison was a proven player in the global telecoms arena and had been active-

ly seeking opportunities to expand. The company owned a highly successful telecoms operation in its home base of Hong Kong and, most notably, was in the process



Traded on NASDAQ (PTNR);
LSE (PCCD); TASE (PTNR)

of building Orange, the fastest-growing brand in Europe, which ultimately netted a jaw-dropping US\$14.6 billion profit for Hutchison when it was sold in 2000.

Fuelled by the enthusiasm of its local management while leveraging on

Hutchison's international marketing and technology expertise, the young company hit the ground running.

In August 1998, only three months after receiving the licence, Partner finalised a long-term credit facility to support its network and business rollout.

By October the initial rollout was completed, with approximately 77% coverage of the Israeli population. Full commercial operations were launched in January 1999, with 88% population coverage and supported by a nationwide distribution network.

Within 12 months of the launch, the company had cornered a remarkable 13% share of the market. The start-up was well on its way to becoming not only a leading telecoms business in Israel but one of the country's top-ten companies overall.

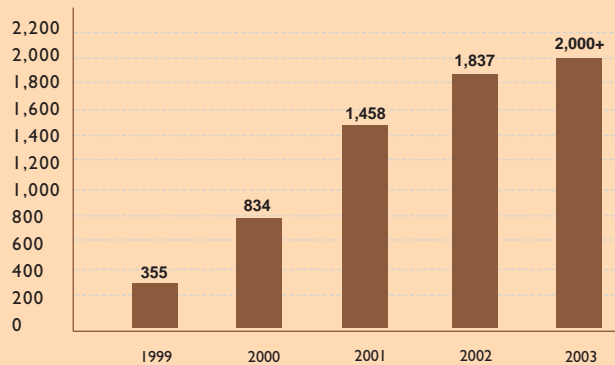
Listed on three stock exchanges, Partner enjoys support from investors across the globe.

Partner completed the largest ever IPO by an Israeli company when it listed on the NASDAQ and the London Stock Exchange in October 1999. A Tel Aviv Stock Market listing followed in 2000.

The excellent reception was seen as a vote of confidence in Partner's potential to



SUBSCRIBER BASE AT YEAR END (IN THOUSANDS)



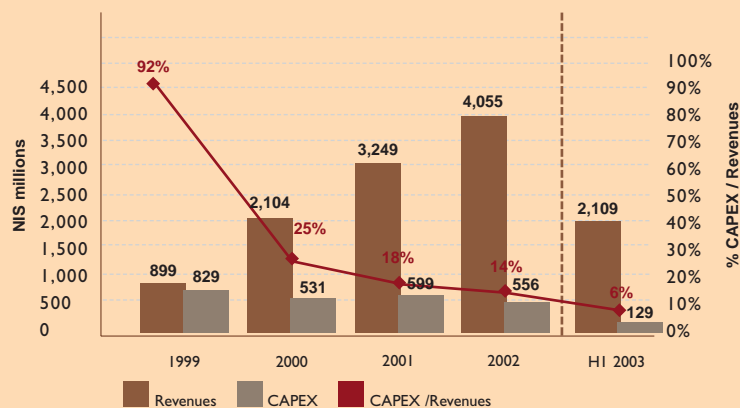
increase shareholder value. When the dust had settled, the company had raised US\$525 million and was valued at US\$2.4 billion.

Today, Partner has indeed emerged as a leader in Israel's cellular market. With approximately 31% of market share to date, it has had the highest growth rate in the industry in Israel, taking the lion's share of new revenues and subscribers while meeting all its ambitious financial and operating targets. Partner reported operating profit of US\$60.1 million in Q3 2003 – a 64% leap compared to the same period the year before and up from US\$50.6 million in the previous quarter.

"We successfully demonstrated our ability to sustain healthy margins and grow our revenues while reducing our overall debt levels," said Chief Financial Officer Alan Gelman.

Marking Partner's fifth anniversary, Hutchison Group MD Canning Fok was ebullient: "With involvement in a large number of companies on five continents, we at Hutchison have found Partner's management truly outstanding," he said. "With its clear strategic focus, great dedication and strong leadership, Partner has replaced the word 'impossible' with 'it can be done'."

CAPEX / REVENUES



Leveraging on the 3G licence it was awarded in a tender in 2001, Partner will start rolling out the network early in 2004, with commercial service expected later in the year.

Relatively low capital expenditure requirements for both network rollout and licence payments and the ability to save significantly on 2G maintenance expenditure by using a 3G network make the business case for Partner's 3G operations – already fully financed – even more attractive.

Partner's relationship with Hutchison puts it in a particularly enviable position in the development of products and services for its 3G businesses.

As a global leader in the deployment and development of 3G mobile networks,

*Partner's relationship
with Hutchison
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its 3G business*

products and services, Hutchison can share with Partner the combined expertise and synergies gained within the Group to the benefit of Israeli consumers. Customers of the company's future 3 services will enjoy powerful mobile multi-media communications, commerce opportunities, and data-rich content, with an infinite capacity to entertain, educate, and inform.

"These are going to be very exciting years for Partner," says Dr Dan Eldar, Partner's Vice President. "We now see a more mature company, operating in a more mature market with penetration levels that are higher. We have seen Partner leading this market with the strongest cumulative growth rate, both in terms of subscribers and in terms of revenues, and we intend to continue this trend. In the coming years Partner has a very significant growth opportunity in Israel and the primary source for this growth is 3G."

