

Operations Review

Retail and Manufacturing



PARKnSHOP spares no efforts to ensure the quality and safety of all its fresh food supplies. It has set up three laboratories to test for bacteria, banned drugs, additives and pesticides before the fresh produce is sent to the stores.





The retail and manufacturing division consists of the A S Watson group, Hutchison Whampoa (China) and listed subsidiary Hutchison Harbour Ring. The A S Watson group is one of the world's largest and most diversified retailers, operating six retail chains in Europe and three major retail chains in Asia, with more than 3,400 stores worldwide that provide high quality personal care, health and beauty products, food, wine and general merchandise, and consumer electronic and electrical appliances.

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|---------------------|---------------------|----------------------|
| 1 ■ The Philippines | 7 ■ Malaysia | 13 ■ The Netherlands |
| 2 ■ Taiwan | 8 ■ Thailand | 14 ■ Switzerland |
| 3 ■ Hong Kong | 9 ■ Hungary | 15 ■ Belgium |
| 4 ■ Macau | 10 ■ Poland | 16 ■ UK |
| 5 ■ Mainland China | 11 ■ Czech Republic | |
| 6 ■ Singapore | 12 ■ Luxembourg | |

■ **A S Watson also manufactures and distributes various water and other beverage products in Hong Kong and the Mainland. Hutchison Whampoa (China) invests in various ventures in the Mainland. Hutchison Harbour Ring is a leading manufacturer of toys and also engages in the design and manufacture of high quality consumer electronic products and accessories. Turnover for the retail and manufacturing division totalled HK\$63,086 million, an increase of HK\$23,615 million, or 60%, compared to last year, mainly due to the inclusion of a full year of turnover contributed by the Kruidvat health and beauty retail group, including Superdrug in the UK, which was acquired in October 2002. EBIT of HK\$2,305 million was 124% above last year (35% above last year on an annualised basis), mainly due to profits contributed by the Kruidvat group, consisting of Kruidvat, Trekpleister, ICI Paris XL, Rossmann and Superdrug, and also improved results from the Group's joint venture with Procter & Gamble in the Mainland and other existing operations in Asia and Savers in the UK.**



■ The first third-generation store of Watsons Your Personal Store in Admiralty, Hong Kong showcases Watsons' advancements in retail space utilisation and design.

A S Watson

The health and beauty businesses in the UK and Continental Europe reported combined sales 282% above and EBIT 178% above last year (33% above last year on an annualised basis), mainly due to a full year contribution of the Kruidvat group including Superdrug in the UK, which was acquired in October 2002, and improved results from Savers in the UK. The division continued to expand its presence in the UK and Continental Europe with new store openings and at the year end, the store portfolio totalled over 2,300 with outlets in the UK, the Netherlands, Belgium, Luxembourg, the Czech Republic, Poland and Hungary.

In Asia, Watsons personal care, health and beauty business is a leading retail chain with strong brand name recognition in Hong Kong, Taiwan, Mainland China and four other countries in Southeast Asia. These operations reported combined sales 15% above and EBIT 34% above last year. Watsons continued to expand in Asia by adding 79 outlets during the year and currently operates more than 740 stores. In Hong Kong and the Mainland, which was adversely affected by SARS, Watsons reported both higher sales and EBIT,



reflecting store expansion and economies of scale. In Taiwan, Watsons reported sales growth and an increased EBIT, as this rebuilt business significantly improved its performance and added 10 stores. In Southeast Asia, the Watsons operations in Singapore, Malaysia, Thailand and the Philippines reported increased sales and EBIT, mainly due to expansion with new store openings.

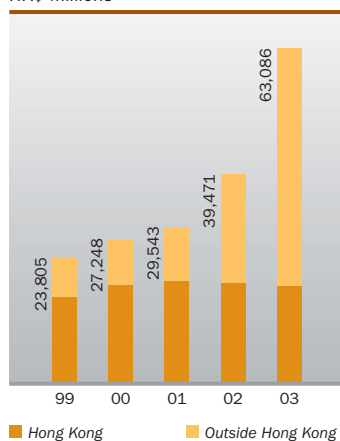
The PARKnSHOP supermarket chain in Hong Kong continued to be affected by the deflationary economy and also SARS. Although it maintained its leading market share and continued to expand in new areas, its sales and EBIT were adversely affected. PARKnSHOP's operations in the Mainland continued to expand and performed well, reporting increased sales and EBIT. Three additional large format stores were opened during the year and more are planned for this year.



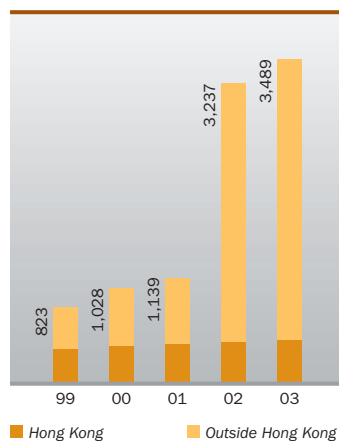
■ PARKnSHOP's megastore concept combines variety, value, convenience and shopping comfort for Hong Kong consumers.

Retail and Manufacturing Turnover

HK\$ Millions



Number of Retail Outlets



Operations Review Retail and Manufacturing



■ *Fortress has rolled out a brand transformation to the New Fortress concept, which encompasses a range of changes from store design, store formats, product offers and customer service, giving consumers a completely new experience.*

Fortress, the consumer electronic and electrical appliance retail chain in Hong Kong, was also adversely affected by SARS and reported results below last year. The new management team re-launched this business during the second half of the year with strong rebranding and as a result improved its second half performance.

Nuance-Watson, a 50% joint venture with Nuance International Holdings, holds retail concessions at the Hong Kong International Airport and at the Singapore Changi Airport. Combined sales decreased whilst EBIT declined marginally due to the decrease in passenger numbers and spending in the first half of 2003 as a result of SARS.



■ *Located in the East Hall of Hong Kong International Airport, The Plaza is the largest store under Nuance-Watson (HK)'s shop portfolio.*



The manufacturing division's operations comprise well-known brands of water, soft drinks and fruit juices that are manufactured and distributed in Hong Kong and the Mainland. Sales and EBIT of this division were below last year, mainly due to strong price competition and the generally slow economy in Hong Kong and SARS.

Hutchison Whampoa (China)

Hutchison Whampoa (China) ("HWC") currently has investments in a number of successful consumer products, aviation services and healthcare projects.

HWC's principal investment is a 20% interest in Procter & Gamble-Hutchison, which manufactures and distributes a range of hair-care, skin-care, soap, detergent, dental hygiene and paper products throughout the Mainland. The Group's share of EBIT from this joint venture increased substantially compared to last year, mainly reflecting improved results. HWC is continuing to develop its health care manufacturing and distribution joint ventures with joint venture partners in the Mainland.

Hutchison Harbour Ring

Hutchison Harbour Ring ("HHR"), a 61.97% owned subsidiary, is listed on the SEHK and is a leading toy manufacturer as well as a supplier and manufacturer of consumer electronic products. The company also holds a number of investment properties in the Mainland. HHR announced turnover including its share of associated companies turnover, of HK\$2,208 million and profit attributable to shareholders of HK\$128 million, an increase of 18% and 30% respectively, mainly due to increased sales of consumer electronics products, such as mobile handset accessories.



Wireless handheld terminals are widely used by Kruidvat staff to keep track of stock flow.



The ICI PARIS XL chain of perfumeries is the market leader in Belgium and also enjoys a high profile in the Dutch market. Each store is characterised by stylish, contemporary design while carrying a full range of luxury fragrances.



An HHR quality check staff member tests the final assembly of digital cameras to ensure the accurate focusing calibration.