

With the launch of the new PARK1SHOP image, the chain has successfully created a bright and dynamic new look.



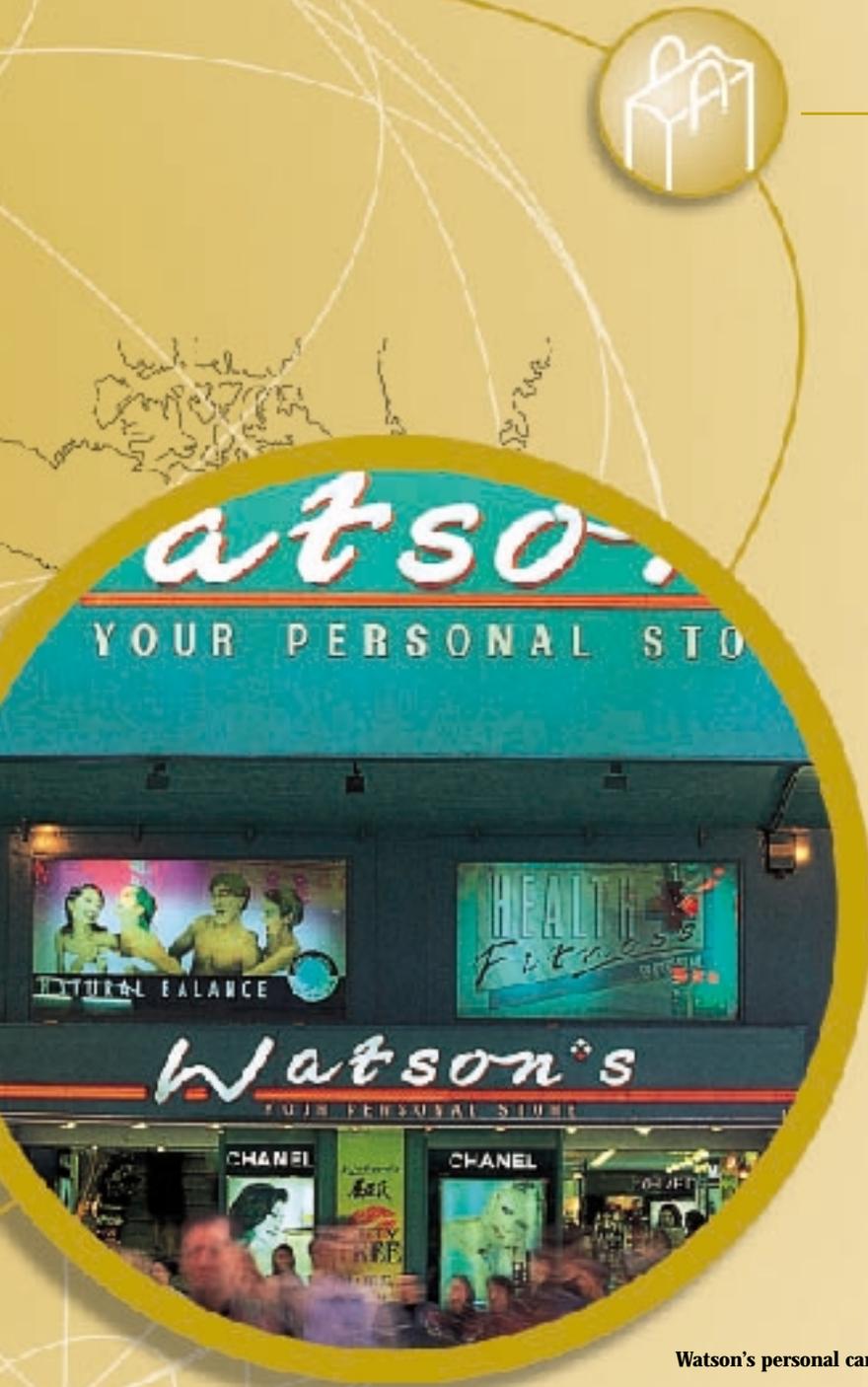
New Horizons operates a variety of shops at the Hong Kong International Airport.

Mr Juicy dominates the chilled juice market in Hong Kong and is produced in a variety of sizes and flavours.



Retail, manufacturing and other services

The Group's A S Watson division is one of Asia's largest retailers, operating three major retail chains with more than 780 stores in the region which provide high quality personal care products, food and household items and electrical consumer goods. The division also manufactures and distributes food and beverage products in Hong Kong and in the Mainland as well as mineral and spring water products in the United Kingdom.



Watson's personal care stores in Hong Kong are strategically located along the main streets and throughout shopping malls to provide the best service to customers.



Earnings before interest and tax from the retail, manufacturing and other services division totaled HK\$845 million (1997 – HK\$1,336 million), excluding exceptional profits on the sale of a portion of the Group’s interests in Procter & Gamble–Hutchison of HK\$3,332 million (1997 – HK\$1,430 million).

A S WATSON & COMPANY

Despite weak consumer demand in the Asian region throughout 1998, the Group’s wholly owned subsidiary, A S Watson & Company, performed better than the industry average due to the division’s focus on essential consumer goods which are less subject to the cyclical volatility of the overall economy and successful promotion campaigns.

The 180 store PARKNSHOP supermarket chain in Hong Kong reported increased sales and earnings before interest and tax slightly ahead of last year. PARKNSHOP continued to expand its successful “wet market” concept for fresh foods and larger format superstores during the year and increased its trading area 20% to 1,343,000 sq ft. During the year, the division introduced the first Watson’s Wine Cellar to Hong Kong

Fortress and Watson’s personal care stores have become popular retail names in Taiwan.





Watson's Wine Cellar set up its first outlet in June 1998 in Central District to take advantage of Hong Kong people's growing appreciation of wines. A second store was opened later in the year in Festival Walk.



offering exclusive and competitively priced wines.

PARKNSHOP's 70 store operation in the Mainland was adversely affected by a slowing economy and competition from local and international supermarkets. Expansion plans have been temporarily curtailed while attention is focused on providing a more competitive product range and store format to enhance performance.

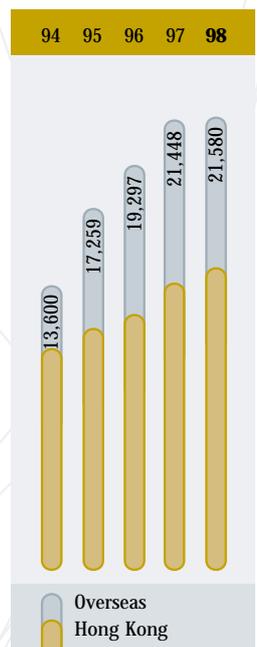
Watson's The Chemist is a leading retail chain of personal care products with strong brand name recognition in Hong Kong, Taiwan and other countries in Southeast Asia. Although earnings declined marginally in 1998 due to the effects from the regional economic situation and the decline in Asian currency values, the chain out performed the market and successfully expanded to a total of 435 outlets in the region at the end of the year.



The 49 store Fortress electrical consumer goods chain in Hong Kong generated another year of increased sales and earnings. During the year, Fortress tested its concept in three stores in Taiwan and the results are encouraging for more expansion.

A S Watson, together with its 50% joint venture partner Nuance International Holdings, commenced operations of its concessions for the sale of perfume, cosmetics and general merchandise at the new Hong Kong International Airport when it opened in July 1998. The joint venture had a disappointing start up due to the unexpected reduction of tourist arrivals in the second half of 1998.

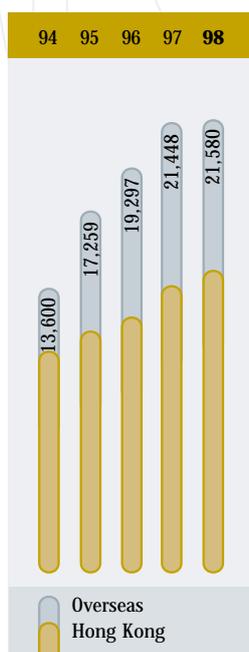
Retail, manufacturing and other services turnover
HK\$ Millions





Quality assurance technicians ensure that all products sold at PARKSHOP is fresh and of the best quality.

Number of retail outlets



The Group's manufacturing division's products include well known brands of distilled water, soft drinks, fruit juices and ice cream, which are manufactured and distributed in Hong Kong and in the Mainland. Earnings declined marginally in 1998, affected by cooler and more rainy weather than average and also by lower priced imports from other Asian countries. In October 1998, the Group expanded and diversified its manufacturing operations with the acquisition of two water companies in the United Kingdom which, combined, currently have an approximate 17% market share of the home and office water delivery market.

The manufacturing division strengthened its product lines by acquiring two UK water companies – Braebourne Spring Water and Crystal Natural Mineral Water.

HUTCHISON WHAMPOA (CHINA)

Hutchison Whampoa (China) Limited participates, through joint ventures, in the manufacture and distribution of personal care products and the provision of aircraft maintenance and engineering services.

The Group exercised its option in early 1998 to sell a portion of its interest in Procter & Gamble–Hutchison Limited and realised an exceptional profit of HK\$3,332 million. The remaining 20% interest may be sold to Procter & Gamble through exercisable call and put options from 2007 through 2017. This joint venture manufactures and distributes throughout the Mainland Procter & Gamble's wide range of hair care, skin care, soap, detergent, dental hygiene and paper products. The joint venture performed well in 1998 in the face of





increased competition and reported earnings in line with the previous year after taking into consideration the Group's reduced shareholding.

The Guangzhou Aircraft Maintenance Engineering Company ("GAMECO") in which the Group has a 25% interest, reported increased earnings in 1998 and China Aircraft Services Limited, a joint venture with China National Aviation Company, British Airways and United Airlines in which the Group has a 20% interest, commenced operations of an aircraft line maintenance facility at the new Hong Kong International Airport in July 1998.

During the year, the Group entered into a joint venture (50% interest) with Tibbett & Britten Limited to provide logistic services for the distribution of goods for multinational companies



operating in the Mainland. The Group also established a joint venture (81% interest) to develop and operate an approximately 14,700 hectare rice farm in Heilongjiang Province and the first crop harvest from phase one of the development is expected this year.

GAMECO serves both China and international airlines from its maintenance facility at Guangzhou's Baiyun International Airport.

