



## Cutting-edge quality

At 12:45 hr in Hong Kong, Wong Kwai Hung, a machine operator at A S Watsons water bottling plant, is performing a routine check on the robotic arm that is programmed to lift and pack about 3,000 bottles per hour. This sophisticated plant can process and bottle 330,000 gallons of distilled and mineral water each day for sale to offices and homes in Hong Kong.



1245hr

United Kingdom Denmark  
 France Netherlands  
 Switzerland Germany  
 Portugal Italy

Mainland China  
**Hong Kong**

Macau Taiwan  
 Thailand  
 Malaysia  
 Singapore

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 22:00

The Group's A S Watson division is one of Asia's largest retailers, operating three major retail chains in Asia and one chain in the UK, with more than 1,100 stores worldwide that provide food and household items, high quality personal care, health and beauty products and consumer electrical goods. The division manufactures and distributes various water and other beverage products in Hong Kong and the Mainland as well as mineral and spring water products in Europe to the office and home markets. The Hutchison Whampoa (China) ("HWC") division invests in various ventures in the Mainland. Hutchison Harbour Ring ("HHR"), a company listed on the Stock Exchange of Hong Kong ("SEHK"), became a 50.5% owned subsidiary in July 2001 and is refocusing its business to concentrate on its traditional activities of manufacturing and trading toys and also property investments.

Turnover for the retail and manufacturing division for 2001 totalled HK\$29,543 million, an increase of HK\$2,295 million, or 8%, compared to 2000, due to continued growth in and expansion of these businesses in Hong Kong, the Mainland and overseas. Reported EBIT of HK\$537 million was 19% below last year mainly as a result of one time restructuring charges for HWC's Mainland joint ventures with Procter & Gamble and other ventures, and also reduced retail profit margins, particularly in the Taiwan operations.

PARKNSHOP maintains its leadership in the market and its fresh food concept creates further differentiation.





Watsons Your Personal Store has maintained its position as the most recognised health and beauty retailer in Asia.

## A S WATSON

2001 was another difficult year in the retail sector due to weak economies and increased competition. The supermarket operations in Hong Kong performed well in a deflationary economy with the continued expansion of its large format stores. The retail non-food businesses benefited from geographic diversity with strong growth from the Savers retail chain in the UK partially offsetting the reduced results from the businesses in Taiwan and Hong Kong. The manufacturing businesses in Hong Kong and the Mainland were adversely affected by price competition while in Europe the water operations continued to expand and integrate the acquisitions made over the last few years.

PARKNSHOP's supermarket operations in Hong Kong and Southern China reported an 11% growth in sales and an improvement in EBIT, a result of successful store expansion in both regions. In Hong Kong, PARKNSHOP continued to expand its larger format superstores with more fresh food offers and a "one-stop-shop" concept. Total trading area increased to 2.2 million sq ft at the end of the year. Despite deflation in food prices and strong competition, the operations performed well in 2001, maintaining its leading market share. In Southern China, PARKNSHOP opened two additional large format stores in Guangdong province, modelled on its successful large format store in Guangzhou, which was opened in November 2000. More new stores in Southern China are planned for this year.

The non-food retail businesses include Watson's, a leading retail chain of personal care products with strong brand name recognition in Hong Kong, Taiwan, the Mainland and other countries in Southeast Asia, and Savers, a health and beauty products retail chain in the UK. These operations reported combined sales 14% above and EBIT in line with the previous year. Watson's continued to expand its chain in Asia with the addition of 28 outlets, and now has over 560 stores in the region. In Hong Kong, sales increased marginally and EBIT was lower than the previous year due to the weak economy. In the Mainland, Watson's reported sales growth of 15% and a positive result. In Taiwan, the slow economy, weaker New Taiwan dollar, and difficult trading conditions adversely affected sales, which declined 15% and significantly reduced EBIT. A new management team is addressing the trading issues to rebuild the business and to improve its performance. In Southeast Asia, Watson's operations in Singapore, Malaysia and Thailand reported a 3% sales increase and EBIT above the previous year. In the UK, Savers, which was acquired in September last year, aggressively expanded its outlets to over 230 at the end of the year. The successful expansion programme and strong comparable store sales growth contributed to impressive results for the year. The performance of Savers has been better than expected and further aggressive expansion of the business is underway.

PARKNSHOP has successfully introduced the megastore concept in Southern China.



The 67 store Fortress consumer electrical goods store chain in Hong Kong was severely affected by poor economic sentiment and reduced consumer spending in the more discretionary consumer electrical goods market. Sales declined 6% and EBIT was greatly reduced.

Nuance-Watson, a 50% joint venture with Nuance International Holdings, holds concessions for the sale of perfume, cosmetics and general merchandise at the Hong Kong International Airport. This operation reported a marginal decline in sales and reduced EBIT due to reduced passenger spending. In July 2001, Nuance-Watson won a three year concession for the sale of perfume and cosmetics in Terminal 2 of Singapore International Changi Airport and in February this year, won another three year perfume and cosmetics concession in Terminal 1.

The manufacturing division's operations are comprised of well known brands of water, soft drinks and fruit juices, which are manufactured and distributed in Hong Kong and

the Mainland, and mineral and spring water, which is manufactured and distributed to the office and home markets in Europe. During the year, the European water business further expanded with acquisitions in Italy and France and now has operations in seven European countries. This division's sales increased 7% mainly due to expansion in Europe. However, combined EBIT declined 43% compared to 2000 due to price competition in all markets, the weak economy in Hong Kong and expansion costs in Europe.

HUTCHISON WHAMPOA (CHINA)

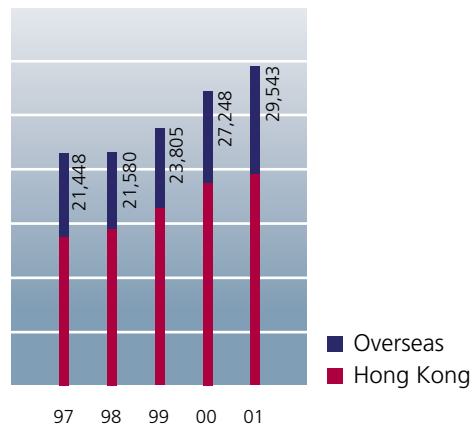
Hutchison Whampoa (China) Limited currently has investments in a number of successful consumer products and aviation projects. During the year, a number of new joint ventures were entered into to research, manufacture, develop and distribute new and traditional Chinese medicines ("TCM").

The Group'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



Savers health and beauty chain continues to grow swiftly in the UK, providing great value and convenience to consumers.

Retail and Manufacturing Turnover  
HK\$ millions





The Group's Powwow brand became the UK's largest water cooler company in just two and a half years in the business.

Mainland. The Group's share of EBIT from this joint venture declined compared to last year, due to one time restructuring charges and competition from international and domestic companies to gain market share.

The Group has entered into three start up joint ventures to develop health care businesses. Tong Ren Tang Hutchison, a 50% owned joint venture in Hong Kong, provides distribution service for TCM products. Hutchison Healthcare Limited, an 80% owned joint venture in Guangzhou,



Traditional Chinese medicine formulas are produced to the highest international manufacturing standards.

manufactures and distributes health products in the Mainland. Shanghai Hutchison Pharmaceuticals Limited, a 50% owned joint venture in Shanghai, manufactures and distributes TCM products in the Mainland. The Group is currently planning to test market TCM products under the "Sen" brand name in the UK.

## HUTCHISON HARBOUR RING

Hutchison Harbour Ring (formerly ICG Asia Limited) is listed on the SEHK and became a 50.5% subsidiary of the Group in July 2001. In the second half of the year, HHR fundamentally restructured and refocused its business strategy. HHR reassessed the financial performance and business prospects of its Internet B2B activities and began to gradually exit from these business interests through a programme of rationalising its various investment positions and making prudent provisions. HHR plans to retain only small strategic holdings in its Internet B2B investments and focus on its traditional activities of manufacturing and trading of toys and property investments. For the period from July to the end of 2001, the Group has consolidated HHR's results. The Group's 50.5% share of HHR's profit attributable to shareholders, after consolidation adjustments, amounted to HK\$23 million.

## Number of Retail Outlets

