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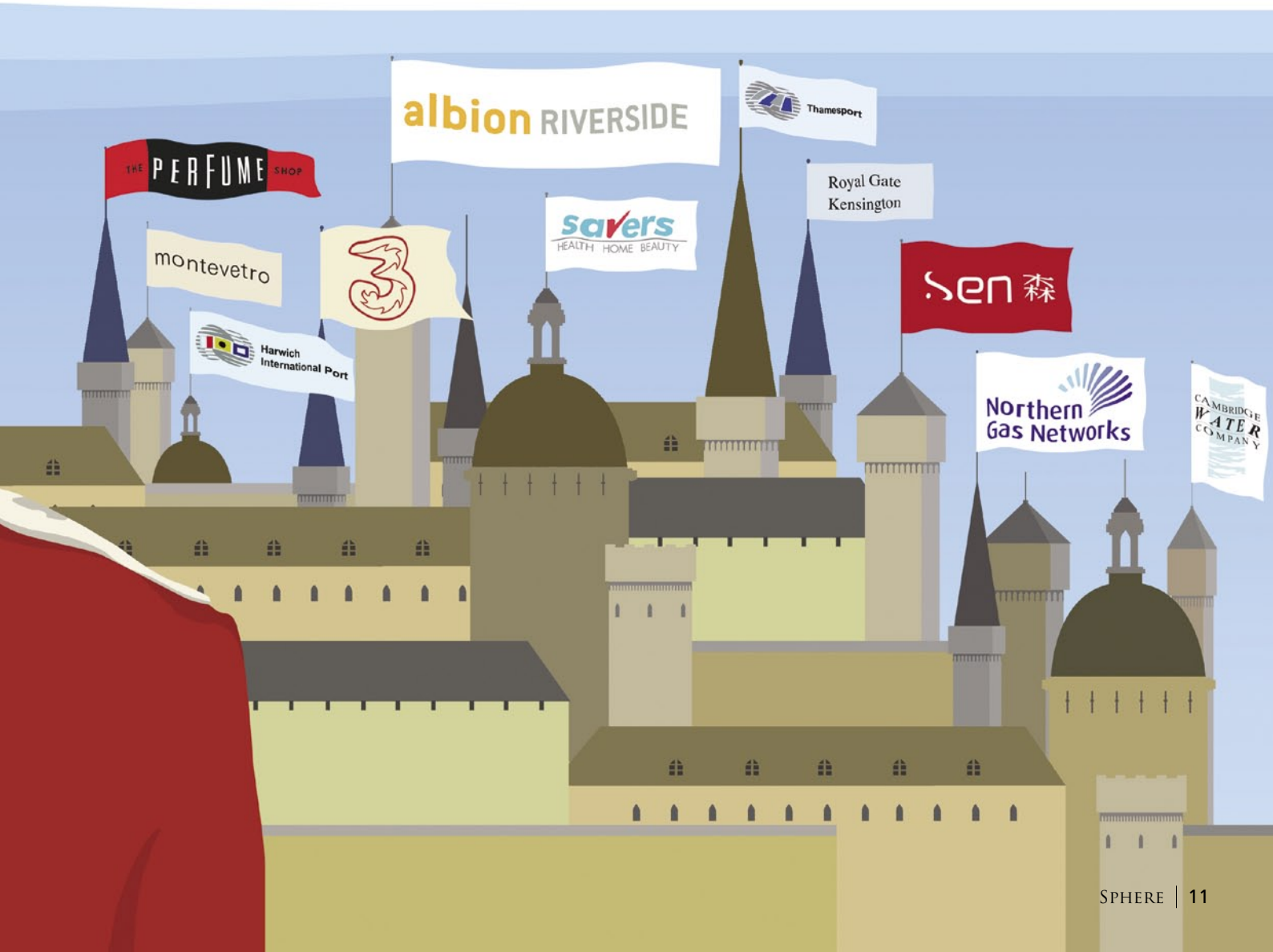
HWL mirrors its home-town's success story in Britain

By Clare Maclure



WHEN HUTCHISON WHAMPOA LIMITED (HWL) opened its first office in London back in 1985 it was virtually unknown in UK financial and political circles. It spent six years making contacts and researching opportunities before making its first investment. Today, the company controls businesses in the UK worth a staggering GBP14.5 billion (about HKD224 billion). HWL is now one of the largest Asian investors in Britain and a significant force in the UK business world.

Mirroring the five strands of its business in Hong Kong, the Group has now built a portfolio of businesses in the UK in the ports, property, retail, utilities and telecommunications sectors. HWL oper-



While HPUK rules the waves, HWL's highest profile UK brand is 3

ates in 56 countries worldwide but the UK is the only country in which it has built a presence in all of its five core sector interests.

In the 1980s HWL had little meaningful investment in any country outside Hong Kong except Canada and decided it would be wise to diversify geographically. The UK was chosen as the best prospect for overseas expansion for two main reasons. Firstly, as Hong Kong was then a British colony, HWL's senior managers were familiar with British law and business practices and the English language. Secondly, the UK during this period was judged to be less protectionist than some other European countries and the US. The UK government actively welcomed foreign direct investment and was liberalising a number of industries and reforming the labour market.

HWL first opened an office in London in 1985 to find opportunities in industries in which it had expertise and where there was scope for investing management and business prowess as well as money.



Hutchison continued to lay the groundwork and wait for opportunities to establish a foothold. It has been seen as being pretty aggressive and the Group is now operating in all the five business areas that it focuses on. The UK business community now regards HWL as a significant player in the country and the Group has far more suggestions for investment put to it than it could possibly contemplate.

The Hutchison name is now well known in the financial community. But unlike in its home-town Hong Kong, UK consumers remain largely unaware of the many ways HWL touches their lives.

One arm of HWL can safely claim to have an impact on all UK consumers because it sits at the heart of UK trade. Hutchison Ports (UK), the UK subsidiary of the Hong Kong-based Hutchison Port Holdings Group, the world's largest port developer and operator, runs three nationally important UK ports - Port of Felixstowe, Thamesport (London) and Harwich International Port. Port of Felixstowe, Hutchison's first UK investment back in 1991, is the country's largest container port handling over 40 per cent of all UK trade.

In 2006, HPUK was given the go-ahead by the UK Government to embark on huge redevelopment projects at Felixstowe and Harwich. This investment will help tackle the current shortage of deep-sea container capacity in the country and secure the competitiveness of HPUK's ports in the international shipping industry (see box on page 16).



From sea to air

While HPUK rules the waves, HWL's highest profile UK brand is 3, which has led the market in 3G mobile technology since it burst on the scene in 2003. HWL acquired a 3G licence in the UK in 2000, marking the Group's first foray into the 3G business.

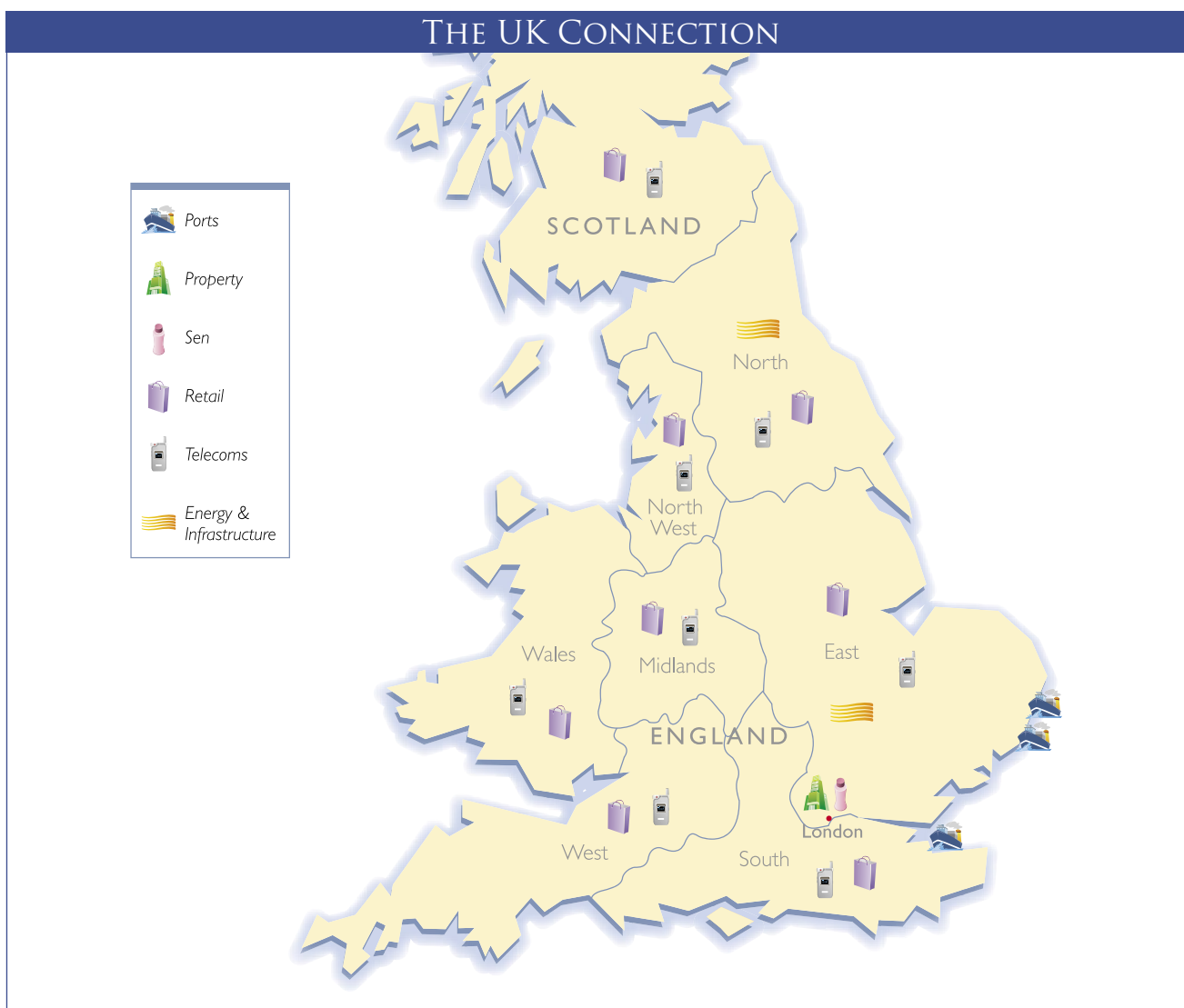
Building a strong brand in a country with a population of 60 million is not easy. Hutchison succeeded by using experience and expertise gained from an earlier telecom venture, Orange, a successful brand and mobile business established by HWL in 1994. Some Londoners can still recall the day when their city was turned Orange as part of a massive branding campaign.

In 1999, the sale of Orange helped Hutchison make the biggest profit in its corporate history. Hutchison showed its commitment to the UK by reinvesting part of the proceeds in 3G, which was seen as the future of telecommunications. Today, the Group runs 3G networks in 11 markets and together with Ireland, the

UK is now its second largest market with 3.75 million customers (as at August 2006).

Among the five 3G licencees in the UK, 3 was the first to market with a 3G offering and it has been racking up firsts ever since. In August 2006 it was the first company to offer MSN Messenger on a mobile; 3 was also the first to launch dual download which allows customers who buy music by mobile to download it online to PCs at home, for no extra charge. 3 is also the biggest mobile music retailer with 75 per cent of the market.

In December 2006, 3 UK launched the X-Series in partnership with Skype, Sling Media, Yahoo!, Nokia, Google, eBay, Microsoft, Orb and Sony Ericsson. The X-Series unleashes the true power of broadband Internet over the mobile, enabling people on the move to surf the net, access their PC at home or even use their handset to watch a programme showing on their TV at home.





Beautiful Brits

If 3 is setting the pace in mobile communications, another division of HWL – A.S. Watson (ASW) – is making an impact on the British retail scene. In six years it has built a strong portfolio in the health and beauty sector and now has around 1,350 high street stores.

“ASW started its UK investment in 2000 when it first acquired a local retail chain called Savers,” said ASW Group Managing Director Dominic Lai. “The Group decided to go into Europe because it wanted to diversify its geographical portfolio following the Asian economic downturn. At that time, ASW’s entire businesses were in Asia.”

Two years later, ASW expanded its UK operation with the purchase of Superdrug. This chain has been successfully repositioned as the UK’s leading fashion-led health and beauty retailer (see box below). In a clear vote of confidence in the potential of the UK health and beauty market, ASW has announced a GBP132 million investment in a new distribution centre to

HIGH STREET SUPERSTAR

SUPERDRUG IS MAKING heads turn with a great look and great figures. Positioning itself as Britain’s most fashionable beauty and health retailer, it is performing strongly in a market long dominated by a well-established chain that is now also under pressure from supermarkets.

Superdrug has annual sales of GBP1.2 billion (HKD18.6 billion) in the UK and in 2006 a new store opened practically every week. By the end of the year it had 747 outlets and this number is expected to reach 1,000 by 2009.

The chain was acquired by A.S. Watson in 2002 from Kruidvat Beheer. Since then, Superdrug has become a fashion-led beauty retailer that responds rapidly to the latest market trends. “In the past couple of years the pace of change at Superdrug has really accelerated and there is clearly no lack of imagination and innovation. It is definitely a story we are following with interest,” says Tim Daneher, Editor of *Retail Week*, the UK’s leading specialist magazine for the retail sector.

Superdrug aims to be the first to stock the latest “must-have” products at the best prices. It co-ordinates with the big brands on launches and can have new products in all its stores in just 36 hours. It has also achieved a number of coups by securing exclusive agreements to stock high profile new products such as David Beckham’s fragrance.

“We have successfully differentiated ourselves

from our main competitors. Superdrug is about beauty and fashion, about having the latest cosmetics. It’s vibrant, colourful and funky,” says Euan Sutherland, Chief Executive Officer of A.S. Watson (Health & Beauty) UK.

Historically, Superdrug appealed to teenagers because it was trendy and cheap but these customers abandoned the brand as they grew up. The new strategy means that women who are interested in fashion stay loyal to the brand whatever their age. The marketing focus is not about age, it’s about attitude.

The chain is also building a campaigning reputation. In 2005, it campaigned successfully for a reduction in Value Added Tax (VAT) on condoms. In the summer of 2006, it ran its SAFE campaign to boost awareness about skin cancer and raise funds for research. It is also lobbying the UK government to reduce VAT on children’s sun protection products and has launched the UK’s first high street mole clinics to aid early detection of skin cancers.

In August 2005, Superdrug introduced its True Spirit range of fashion jewellery and in October 2006 launched a new concept store with a pink frontage. If successful, this will be the prototype for the next generation of Superdrug stores. The store employs beauty specialists trained by the London College of Fashion to provide treatments such as manicures.

With so much to offer, Superdrug’s star is clearly in the ascendant.



service both Superdrug and Savers.

In 2005, ASW bought Merchant Retail Group thereby acquiring its third UK chain - specialist fragrance retailer, The Perfume Shop. The chain had 114 stores and at the time its new parent spoke of the potential to add another 100 stores within three to five years. It looks to be on track - the 149th The Perfume Shop opened just before Christmas.

The art of Sen

While ASW's UK operation is playing a significant role in the overall European portfolio, Hutchison China MediTech (Chi-Med) has been busy introducing London consumers to traditional Chinese medicine (TCM) through its Sen lifestyle products and services. With a holistic and natural approach to health and beauty, Chi-Med has six stores in some of London's most upmarket shopping areas, including one in Knightsbridge.

Inside a Sen store, customers can relax in a stress-free environment and enjoy Chinese herbal teas, consult TCM specialists or have a massage or acupuncture treatment. They can also choose from a range of upmarket herbal skin care and herbal body care products. Chi-Med floated on London's Alternative Investment Market last year and plans to open seven more Sen stores in the capital over the coming 18 months.

Going underground

Over the last few years, HWL has also expanded into the UK's utilities sector with the acquisitions of Cambridge Water and Northern Gas Networks (NEG).

Cambridge Water has a fascinating history dating back to 1325 when Franciscan monks first laid a water pipe from a natural spring in Cambridge to their monastery. Fast forwarding nearly 700 years, the company was bought by Cheung Kong Infrastructure Holdings (CKI), part of the HWL Group, in 2004.

Cambridge Water supplies nearly 75 million litres of fresh water daily through a 1,400-mile network of water mains to some 300,000 customers in the historic university town of Cambridge and surrounding area.

In June 2005, a restructuring of the UK gas industry created another opportunity for HWL. National Grid, which owns and operates the high-pressure gas transmission system in Britain, sold four of its eight regional gas distribution networks. The North of England network was subsequently bought by the NEG consortium in which CKI and Hongkong Electric together hold a majority 59.9 per cent stake and the

ASW's UK operation is playing a significant role in the overall European portfolio

Li Ka Shing (Overseas) Foundation has a 15.2 per cent shareholding.

Consisting of 22,370 miles of gas mains that supply 2.5 million households, the network spans a large area from the Scottish border to South Yorkshire and from the Cumbrian coast in the West to the Northumberland coast in the East. It serves some of the UK's largest cities including Newcastle, Sunderland, Leeds, Hull and Bradford.

"Everything has come together well," said NEG Chief Executive Officer Basil Scarsella. "We are on track to achieve our goal of being ranked amongst the top gas networks for safety management, customer service and efficiency."



Home sweet home

While its utilities companies manage huge infrastructure networks underground, the property unit of HWL is creating some striking structures above ground. Since entering the UK market in 1995, HW Property (Europe) has been involved with four prestigious developments, creating landmark buildings and some 600 homes in premier locations in London at a time when real estate prices have reached historic highs.

“There is no question that London’s rising prices have benefited us,” said Raymond Chow, Group Managing Director of Hutchison Whampoa Property in Hong Kong. “The UK, and more importantly the London market, is quite sophisticated and reacts to many factors, including the economy, employment, taxation and interest rates. Fortunately, stability in most of these factors in the last few years has led to a buoyant, confident market.”

Hutchison collaborated with some of the biggest names in British architecture, including Lord Richard Rogers, who designed the Lloyds of London building, and Lord Norman Foster, who designed the HSBC headquarters in Hong Kong.

This year the company will embark on two huge projects that will breathe new life into underused sites on the banks of London’s River Thames. Again big name architects are involved – Sir Terry Farrell, who designed the integrated transportation centre at Incheon International Airport in Seoul, Korea – is behind the Lots Road development in Chelsea (see box overleaf) while the Richard Rogers Partnership has developed the master plan for Convoys Wharf in Deptford, South East London.

The redevelopment of Convoys Wharf, a 40-acre site in a run down part of the capital, will create 3,500 new homes. The scheme also incorporates a business park,

FELIXSTOWE KEEPS UK TRADE MOVING

AS UK CONSUMERS were getting ready to start their Christmas shopping, the world’s largest container ship, the *Emma Maersk*, docked at the Port of Felixstowe. Aboard was a treasure trove of goods from China, including digital cameras, play stations and MP3 players. If all the containers on the ship were lined up end to end they would have stretched for 42 miles.

Felixstowe, on the Suffolk coast, is owned by Hutchison Port Holdings (HPH) and handles over 40 per cent of all UK trade. Of this, 50 per cent comes from Asia, predominantly China. It is the UK’s largest container port and one of the biggest in Europe.

It will begin a GBP240 million (HKD3.7 billion) redevelopment this year to more than double its deep-sea container handling capacity. When fully operational, the Felixstowe South Reconfiguration project will create 621 jobs and a further 860 in associated industries.

These are exciting times for Hutchison Ports (UK) as it

has also received approval for the redevelopment of a site adjacent to its Harwich International Port in Essex. The development of Bathside Bay will provide an additional 0.8 mile of deep-water container handling capacity and create 772 new jobs directly and a further 930 indirectly.

“International trade, and the size of the ships needed to transport it, continues to grow at dizzying levels. The new developments at Felixstowe South and Bathside Bay will allow Hutchison Ports (UK) to meet future demand from its customers and will ensure that Felixstowe and Harwich continue to be the vital arteries connecting the UK with the rest of the world,” says HPUK Chief Executive Officer, Chris Lewis.

Felixstowe is important to the local community, pumping over GBP90 million into the region’s economy each year through wages and pensions alone. The Port also participates in the HPH Group’s Dock Schools Programme, making donations to a number of primary schools and forging links with two secondary schools.



■ Felixstowe began life as the Felixstowe Railway and Pier Company in 1875, welcoming its first ship, a coal carrier, in 1886.

■ Felixstowe has one of Europe’s longest continuous quays – Trinity Terminal is nearly 1.9 miles long.

■ Felixstowe handles around 5,000 ships and 1.75 million containers a year. Up to 50,000 containers can be stored at any one time.

■ It has 29 quay cranes - the largest quay cranes are 260-foot high and weigh a staggering 1,400 tonnes.

■ The port employs nearly 3,000 people and is one of the region’s largest employers.

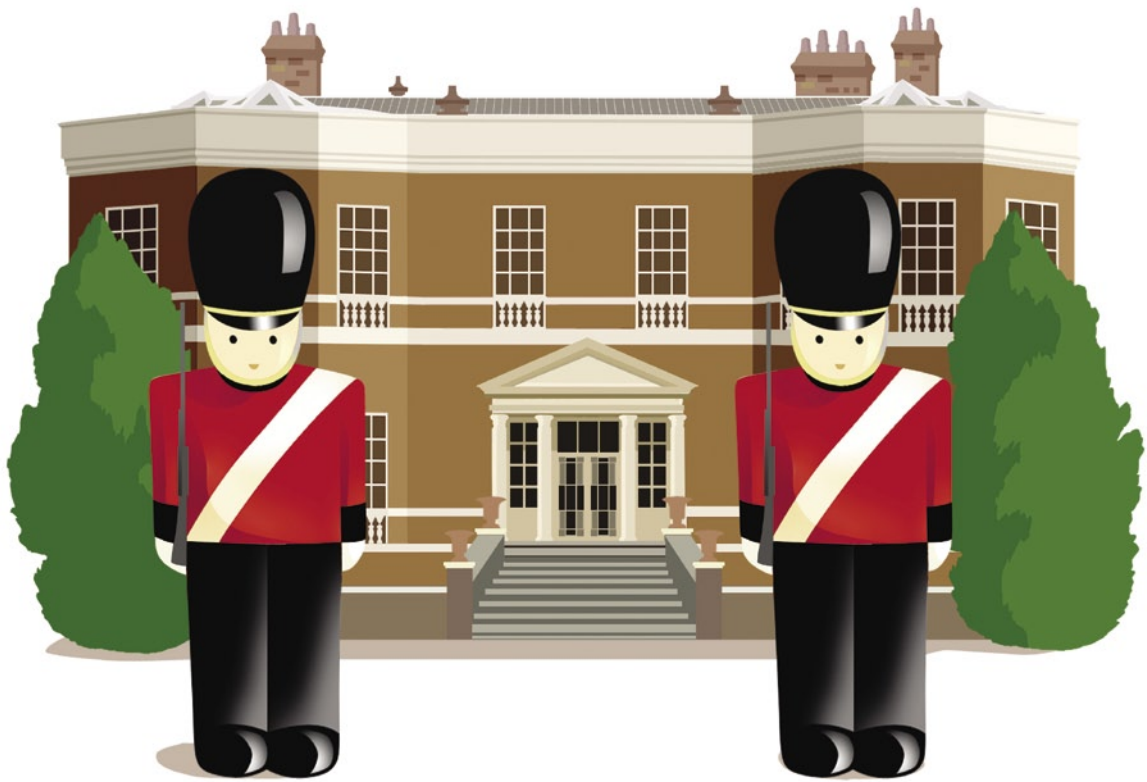
THE ULTIMATE POWER RESIDENCE

THIS YEAR HW PROPERTY (Europe) will embark on a huge development on the north bank of the River Thames. The Lots Road scheme, created by world-renowned architect Sir Terry Farrell, will provide high-end and affordable housing plus commercial space and retail outlets for neighbourhood shops.

At the heart of the 1.5-acre site that straddles Chelsea Creek sits a decommissioned power station. This distinctive piece of London's history, which was built in 1904 to power the London Underground system, will be retained and converted for mixed use by the community. Two new residential tower blocks will be built on either side of the creek providing a mix of apartments and some spectacular penthouses under sloping glass roofs.

"There will be a rich variety of architecture with the two towers and the power station offering spectacularly different kinds of accommodation. It will also make the most of its location on the river - one of London's under-appreciated assets. People love living on the river and enjoy the tranquility it provides," says James Barrett, marketing manager at HW Property (Europe).

Overall the scheme will provide nearly 1.2 million square feet of residential space and 78,000 square feet of commercial space. It is due to be completed in 2013. The intention is to create a new village with one of the largest covered public streets in London. It will open up 650 yards of river bank and creek to public use for the first time in over 100 years, with the creek becoming a new linear park and water garden.



Hutchison collaborated with some of the biggest names in British architecture

cultural facilities, retail outlets, a community centre and extensive public spaces. Within the site stands the Olympia Warehouse, a shipbuilding shed built in the 1840s. This will be preserved and refurbished as it has been designated as a building of architectural interest by English Heritage, a body that advises the government on the UK's historic environment.

While HW Property (Europe) has focused on developing projects in London, it is also considering expanding into other high growth areas in the UK. In the years to come, it is clear that it is not only the property arm that will continue to grow in the UK; all of Hutchison's other businesses in the country are also well positioned to flourish. 