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Power
TO THE PEOPLE

S P H E R E

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Cover: Illustration by Inveig Nodland

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Hutchison Whampoa Limited

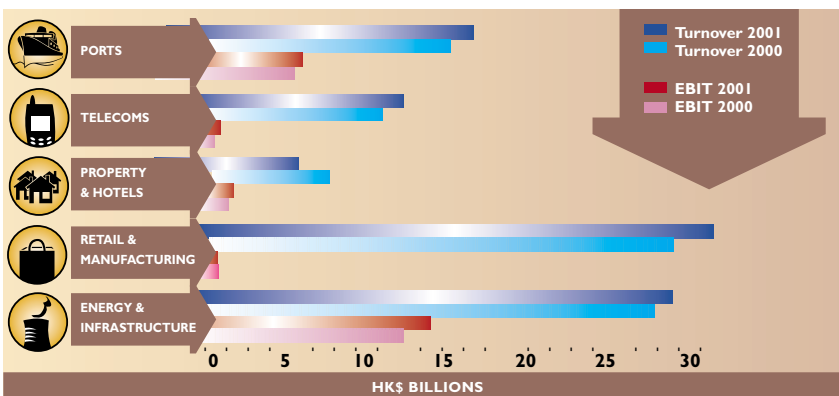


News

C O R P O R A T E

HWL Annual Results

HWL	2001	2000	%
Turnover HK\$	89,038m	84,825m	+5
Profit attributable to shareholders	12,088m	34,118m	-65
Earnings per share	2.84	8.00	-65
Dividends	1.73	1.73	-



Hutchison Whampoa Limited's consolidated net profit for the year ended December 31, 2001 was HK\$12,088 million (approximately US\$1,549 million).

Earnings per share were HK\$2.84 (2000 – HK\$8.00) with a total dividend per share of HK\$1.73, unchanged from the previous year. Excluding profits on disposal of investments less provisions of HK\$3,124 million (2000 – HK\$25,742 million), the Group's profit increased 7% over the previous year.

The results include profit of HK\$30,000 million on disposal of the Group's investment in **VoiceStream**, and profit of HK\$4,393 million from the sale of approximately 695 million shares of **Vodafone Group** and approximately 89 million shares of **Deutsche Telekom** pursuant to forward sales contracts for delivery in 2002.

Provisions for the year totalled HK\$31,269 million, comprising HK\$1,500 million for certain property developments and HK\$29,769 million for diminution in value of its equity investments. Turnover for the Group's core businesses totalled HK\$89,038 million, a 5% increase over 2000. EBIT for the Group totalled HK\$21,846 million, a 12% increase over 2000. The Group's consolidated cash and marketable securities amounted to HK\$145,336 million, approximately equal to the consolidated borrowings of HK\$146,992 million. For full results, see www.hutchison-whampoa.com/eng/investor2.htm

HUTCHISON WHAMPOA LIMITED

HWL Hutchison Whampoa Limited (HWL) is the holding company of the Hutchison Whampoa Group of companies. With origins dating back to the 1800s, it is a Hong Kong-based multinational corporation with a diversified portfolio. It is also part of the Li Ka-shing group of companies, which together represent about 15% of the total market capitalisation of the Hong Kong stock market. In 2001, HWL's consolidated turnover (including associates) was HK\$89,038 million (approximately US\$11,415 million) and net profit was HK\$12,088 million.

With over 120,000 employees worldwide, the Group operates and invests in five core businesses in 36 countries: Ports & Related Services; Telecommunications; Property & Hotels; Retail & Manufacturing; and Energy & Infrastructure.

Cheung Kong Infrastructure HWL stake – 84.6%

	Turnover (HK\$)	Profit attributable to shareholders	Earnings per share	Dividend per share
2001	3,838m	3,323m	1.47	0.63
2000	3,345m	3,228m	1.43	0.60

Hongkong Electric Holdings HWL stake – 38.87%

	Turnover (HK\$)	Profit attributable to shareholders	Earnings per share	Dividend per share
2001	10,867m	6,507m	3.05	1.63
2000	10,634m	5,535m	2.62	1.515

Hutchison Harbour Ring HWL stake – 50.5%

	Turnover (HK\$)	Profit attributable to shareholders	Earnings per share	Dividend per share
2001	70.4m	680.6m	12.16 cents	1.5 cents
2000*	330.6m	(1,037.2m)	(24.42 cents)	-

* Figures are for ICG Asia, which changed name to Hutchison Harbour Ring on Sept. 25, 2001.

TOM.COM HWL stake – 29%

	Turnover (HK\$)	EBITDA	Earnings per share	Dividend per share
2001	626.6m	(192.1m)	(19.78 cents)	-
2000	89.2m	(462.4m)	(43.82 cents)	-

Hutchison Telecommunications (Australia) HWL stake – 58%

	Turnover (A\$)	EBITDA	Net profit after tax	Dividend per share
2001	418.6m	(112.9m)	(137m)	-
2000	404.7m	(85.2m)	(92.5m)	-

Partner Communications HWL stake – 35% (Now 42.7% – see story p.5)

	Turnover (US\$)	EBITDA	Operating profit	Dividend per share
2001	736m	148.6m	23.3m	-
2000	476.4m	(13.3m)	(122.3m)	-

*US\$ figures converted from New Israeli Shekels at Dec. 31, 2001 exchange rate: US\$1.00 equals NIS4.416

Husky Energy HWL stake – 35.1%

	Turnover (C\$)	EBITDA	Basic earnings per share	Dividend per common share
2001*	6,627m	2,042m	1.63 (diluted)	0.36
2000	5,090m	1,499m	1.39	-

* 2001 Figures reflect first full year of combined operations following Husky's merger with Renaissance Energy



CORPORATE

Research Centre Opens

A state-of-the-art cancer research centre at **Cambridge University**, UK was officially opened on May 18 by Hutchison Chairman Mr Li Ka-shing and Lord Sainsbury, Britain's Minister for Science and Innovation. Named the **Hutchison/MRC Research Centre**, the project is a collaboration between the **Medical Research Council (MRC)**, the **University of Cambridge** and **Cancer Research UK**. Construction of the new building was made possible by a £5.3 million donation from **HWL**, to match funding from the MRC.

Scholarship Scheme Expanded



Thanks to a HK\$23 million donation from Mr Li Ka-shing and the **Hutchison Group**, the **Chevening Scholarship Scheme** in April was expanded to include an extra 63 scholarships for Hong Kong and Mainland Chinese postgraduate students each year for the next four years, increasing the existing number of scholarships by one third. Chevening Scholarships are offered annually by the British Government to enable high achievers from around the world to undertake postgraduate study in the UK.

applause

HWL and its subsidiaries have continued to attract attention with several media rankings and titles. Hutchison featured in the top ten of *CFO Asia's* "Best Annual Report in Asia (2000-2001)" [10], while *Euromoney* ranked HWL top in the "Best Asian Companies – Conglomerate" category and placed it in the top five "Best Companies in HK" category [5]. In April, *Finance Asia* named HWL "Best Managed Company in HK" and "Best Financial Management in HK". HWL was also in the top three for "Best Investor Relations in HK" [2], "Strongest Commitment to Enhancing Shareholder Value in HK" [2] and "Companies Most Committed to Corporate Governance in HK" [3]. *The Asset Benchmark Survey*, meanwhile, judged Hutchison "Best in Corporate Governance, Hong Kong."

ENERGY & INFRASTRUCTURE

CKI to Tunnel 'Down Under'

A consortium led by **Cheung Kong Infrastructure Holdings (CKI)** has been chosen as the preferred tenderer for a new A\$800 million (about US\$4.5 million) road tunnel project to carry through-traffic beneath the central business district of Sydney, Australia. CKI has a 50% interest in the consortium, **Cross City Motorway (CCM)** – which also includes **DB Capital Partners (30%)** and construction contractor **Baulderstone Hornibrook (20%)**. The project, a 2km cross-city tollway tunnel linking Sydney's eastern suburbs with the

city's west is expected to carry up to 95,000 vehicles a day by 2006. Work is expected to commence before the end of 2002.



White Rose Given Green Light

Husky Oil Operations (72.5%) and co-venturer **Petro-Canada (27.5%)** in March announced their decision to proceed with the development of the White Rose oil field, located off the east coast of Newfoundland and Labrador, Canada. The White Rose development plan is focused on a purpose-built Floating Production Storage and Offloading (FPSO) vessel with a peak production rate of

approximately 100,000 barrels of oil per day. South Korea's **Samsung Heavy Industries** has been awarded the contract to build the FPSO hull, **Aker Maritime Kiewit Contractors** will build topsides designed to produce oil at a quality suitable for shipment by shuttle tankers to market, and US company **SBM IMODCO** will design and fabricate the turret and mooring system for the FPSO.

PROPERTY & HOTELS

Five-star Status

The **Harbour Plaza Chongqing** has been awarded "five-star hotel certification" in recognition of its high-quality facilities and services. This 390-room luxury hotel boasts a high-tech business centre and top-flight leisure facilities, including an indoor swimming pool, tennis court, cinema complex, bowling alley, shopping mall and ice-skating rink.



Le Parc Phase II in Demand



After greater-than-expected demand for Phase I units of **Le Parc** in the southern Chinese city of Shenzhen, the development continued its success when Phase II apartments came to market in February. Demand was so high that prospective buyers lined up the day before the opening, and 280 units were snapped up in just three days. The development boasts European-themed gardens and consists of approximately 3,200 units as well as shopping facilities, schools and a clubhouse.

Newsbites

TELECOMS

Better Connections

HONG KONG Corporate customers of **Hutchison Telecommunications (Hong Kong)** can enjoy a comprehensive end-to-end

wireless enterprise solution that includes integrated email, phone, SMS, WAP and organiser features following the commercial launch in May of the *BlackBerry* wireless e-mail solution, developed by **Research In Motion (RIM)** of Canada.

BlackBerry operates exclusively on Hutchison Telecom's GSM Dualband and

GPRS network in Hong Kong and Macau. Hutchison intends to further extend RIM's technology to the Group's 3G markets worldwide by working together to develop 3G applications.



TOM Extends Outdoor Network

GREATER CHINA The **TOM Group** acquired controlling stakes in five outdoor media companies in China in the first quarter of 2002. The companies are **Liaoning New Star Prosperity Advertising** (agreement announced in February), **Shenyang Sano Jinxiang Advertising**, **Sichuan Southwest International Advertising**, **Xiamen Bomei Advertising** and **Fujian Seeout Outdoor Advertising** (MOUs announced in March). Including the new acquisitions, the Group's outdoor media network consists of 12 outdoor media companies with over 170,000 sq. m. of advertising space in 22 cities. TOM has also entered China's audio-visual and entertainment industry following an agreement in March to acquire 50% of Guangzhou-based **Hong Xiang**, China's

leading manufacturer and distributor of music, film and TV programmes.

In January, TOM partnered with **CERNET Corp** to establish two JV companies – **CERNET Information Technology Co** and **CERNET Online**. CERNET Corp is the commercial arm of **China Education & Research Network (CERNET)**, China's largest educational Internet provider. The co-operation includes production, distribution and sales of CERNET dial-up ISP access cards, branding and creating CERNET ISP services, and exploring telecom value-added service (VAS) opportunities.



Software Vendors

UK **Hutchison 3G** has recently signed deals with several software vendors to provide key components of the middleware infrastructure of its 3G network. These include:

TTI Telecom International	Manager of Managers (MOM) solution
Starbase	Starbase Collaboration Suite
Autonomy Corp	Intelligent Data Operating Layer (IDOL)
Network365	mzone avatar
Tertio	Provident
Ncorp	ljen
Ascential	DataStage XE
Volantis Systems	Volantis Mariner – Service Delivery Platform
Schlumberger/Entrust	Infrastructure and security services
Vendor	Software Solution

Hi3G Developments

SWEDEN Building on its selection of 3G services and content offerings, **Hi3G** has reached an agreement with **SEB** bank that will allow 3G customers access to a selection of financial services, news and tools. Hi3G has also secured exclusive rights to send ice hockey content to 3G mobiles from **Elitserien**. The agreement with **Svenska Hockeyligan** covers content rights as well as sponsorship of Elitserien. Moving forward with its network rollout,

Hi3G has signed agreements with **Birka Energi** and **Vattenfall** on placement of Hi3G's antennas and other equipment at their power poles and transformer stations. The deal is in line with the policy of providing 3G infrastructure in a cost-effective and environmentally friendly way by utilising current infrastructure. Earlier, Hi3G signed frame agreements with **PNB** and **Prenad** covering project management, design, construction and telecom pre-installations for base stations in the Malmö region.

JV Stakes Acquired

HONG KONG **Hutchison Telecommunications** in April announced that it would acquire **Asia Global Crossing's (AGC)** stake in their respective joint-venture companies in Hong Kong, namely AGC's 50% interest in **Hutchison Global Crossing (HGC)**, its 42.5% interest in **ESD Services** and its 50% interest in **Hutchison GlobalCenter**, for a total consideration of US\$120 million in cash. Under the agreement, HGC and Hutchison GlobalCenter will become wholly owned subsidiaries of Hutchison, while Hutchison will have an indirect 85% stake in ESD Services. Hutchison and AGC have agreed to continue to use each other's services.

Creative Content

UK **Hutchison 3G's** customers will soon have access to the UK's most potent mix of music-oriented brands following the signing in March of a two-year deal with media and entertainment company **Emap**. Under the agreement, the **Emap performance** network will provide content from all its music titles – encompassing **Q**, **Mixmag**, **Smash Hits** and **Kerrang!** – as well as content from lifestyle magazine brands such as **FHM**, **New Woman** and **Empire**.





TELECOMS

Network Providers Selected

AUSTRIA **Nokia** in April signed a contract to supply the core 3G network for **Hutchison 3G Austria** for an undisclosed sum. Earlier, **Siemens** signed a deal worth around €200 million (approximately US\$186 million) to supply Hutchison with 3G radio network technology, including base stations.

One-Stop Shop

HONG KONG Leading online office supplies provider **bigboXX.com** in April launched a corporate premium service. The bigboXX Premium Center provides over 150 products, ranging from desktop items and paper products to printing and floral services, as well as customised services for client's large-scale promotional requirements.

Stake Raised in Partner

ISRAEL **Hutchison Whampoa Limited** has acquired 13,778,668 **Partner Communications** shares from **Matav Cable**. Upon completion of the sale, Hutchison's shareholding in Partner increased to approximately 42.7% and Matav Cable's shareholding decreased to approximately 7.5%.

3G Game Plan

GLOBAL **Hutchison 3G** has formed partnerships with nine companies to develop and supply over 40 games for the 3G format. The companies are: **iFone, It's Alive, Supedo, nGame, Codetoy, Simian Industries, Morpheme, Cheeky Wireless** and **Purple Software**. Under the agreements, a range of new and classic arcade-style games, as well as traditional board and card games, will be available to all Hutchison 3G's operations worldwide.

Agreements Signed

ITALY In the build-up to its Italian launch, **H3G** has signed a roaming agreement with **Telecom Italia Group**. In separate agreements that will also apply in other markets where Hutchison has a presence, **Alcatel** will supply its open services platform to support H3G's multi-media services; **Ectel** will provide *NGN Fraud View*, a real-time fraud prevention and security management solution; and **divine** will supply its *divine Content Server Enterprise Edition* (dCSEE), a platform for managing and distributing content.

A\$600m Rights Issue

AUSTRALIA **Hutchison Telecommunications (Australia)** in April announced a pro rata renounceable rights issue of convertible notes to raise approximately A\$600 million (about US\$323 million) to fund the development and operation of 3G services. The notes will have a five-year term and will pay 5.5% interest per annum. If the conversion right is exercised, each note will entitle the holder to one ordinary share in Hutchison Telecommunications.

PORTS

Streamlined Logistics

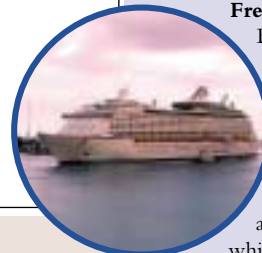
Logistics Information Network Enterprise (LINE) and **Yue Yuen** in April formed a JV company, **SupplyLINE**, to act as Lead Logistics Provider (LLP) for the sports footwear and electronics industries. SupplyLINE also welcomed **Elitegroup Computer Systems** and **Global Brands Manufacture Group** as new shareholders in the venture. As part of the deal, SupplyLINE will co-ordinate and manage its customers' supply chain by providing logistics services that manage the integration of the movement of goods and the flow of information.

In February, LINE and **Reebok** announced the rollout of a global supplier portal, the *Order Visibility Application (OVA)*, which will link all of Reebok's footwear and apparel manufacturers around the world, as well as logistics service providers and other business partners.



Largest Cruise Liner Calls

Freeport Harbour at Grand Bahama Island in May welcomed the world's largest cruise liner, **Royal Caribbean Cruises' Voyager of the Seas**. The ship, which has a capacity rating of 3,840 people, arrived for its annual dry-docking overhaul, which was carried out at **Grand Bahama Shipyard**.



Shuttle Service Launched

Shantou International Container Terminals in April welcomed the 126-TEU vessel *M.V. Tianma*, marking the commencement of a regular shuttle service between Shantou and Xiamen operated by **China Ocean Shipping Agency Xiamen**.

RETAIL & MANUFACTURING

Priceline Launches in Asia

Priceline (www.priceline.com.hk), the new Internet travel service operated by **Hutchison-Priceline (Travel)**, opened for business in Hong Kong in April and in Singapore in May. The service offers a bilingual transactional website in Chinese and English that allows travellers to name their own price for air tickets and hotel rooms. Priceline has 25 Asian and international airline partners and about 8,000 hotels around

the world on its books. Travellers can bid for tickets and rooms in the Asia-Pacific region, the US, Canada, Europe, Mexico, the Caribbean and Central America, with more destinations being added.



Cranes Lift XICT's Capacity

Two post-panamax quay cranes were delivered to **Xiamen International Container Terminals (XICT)** in March. Along with five rubber-tyred gantry cranes delivered in December, the cranes will lift handling capability by 40%. In May, XICT became a port of call in the new PSW-1/AES-1 pendulum express service of **Kawasaki Kisen Kaisha**.

COMMUNITY



A HELPING HAND

“To be able to contribute to society and to help those in need to build a better life, that is the ultimate meaning in life. I would gladly consider this to be my life’s work.” – Li Ka-shing

By Mark Caldwell



Zhang Jing had been looking forward to the start of a new school semester in her hometown of Lanzhou, in Gansu Province.

The little girl imagined herself walking to school along the banks of the Yellow River, breathing the crisp morning air and laughing with her friends. Lanzhou, at China’s geographic centre, is a pleasant environment to grow up in, even though earthquakes frequently shake its stark, mountainous terrain.

A few days before the new school term began, Zhang Jing suffered a personal earthquake of her own; she was hit by a car. At that awful moment, her life changed course.

Zhang Jing was fortunate to survive, but she lost her left leg. When she woke up in hospital, everything she had once looked forward to now seemed out of

reach. Not only was she in physical pain, but she had also lost the opportunity to lead a normal life. Instead of asking: “What will I do next?” Zhang Jing was forced to ask: “What will I do now?” Her future was in ruins.

During the months of recuperation that followed, Zhang Jing began to fear that she might never attend school. In the mornings, she would hop on her right leg to catch a glimpse of the students walking past. Sometimes, tears of disillusionment rolled down her cheeks.

Then, in July 2000, her future began to look more promising.

With help from the Gansu Disabled Persons Rehabilitation Centre, which is sponsored by the Li Ka Shing Foundation, Zhang Jing received an artificial leg at minimal cost.

It wasn’t long before the little girl regained her mobility. Not only was she

able to walk again but was also able to pursue her dream of receiving an education at a local primary school. She studied hard and made new friends. Zhang Jing was smiling again.

The name Li Ka-shing may be well known to businessmen and journalists, but Zhang Jing had not heard it before.

This changed, however, on February 20, 2001 when Mr Li paid a visit to the Gansu Disabled Persons Rehabilitation Centre. On this occasion, in a gesture that caught everyone’s attention, he gave his business card not to government officials or business partners but to two disabled girls. One of them was Zhang Jing. She was able to proudly present her benefactor with a school report – she had scored marks of 97 and 100 respectively in Chinese Language and Arithmetic. To everyone’s surprise, she even demonstrated the success of her





new leg by kicking a feather shuttlecock, a popular game among Chinese children.

“One day when we enjoy more advanced technology, you may even be able to run,” a delighted Mr Li told her.

High school student Tian Nan, who was born with a hearing and speech handicap, also met Mr Li. With sponsorship and help from the Rehabilitation Centre, she had learned to talk and was able to enjoy a normal school life.

“Put the past behind you. The future will be much better,” Mr Li encouraged her.

He urged the girls to contact him if they were in need. It was a meeting all three would cherish. On his return to Hong Kong the next day Li Ka-shing followed up with letters of encouragement.

Mr Li faced his own challenges growing up in provincial China. He was born in Chaozhou in 1928. His father, Li Yunjing, was the head of a primary school and he infused his young son with a love of learning and high aspirations.

In 1940, Japanese troops invaded the country and the Li family fled to Hong Kong. Shortly after their arrival the young Li, aged 12, began his career as an apprentice. At 15, after the death of his father, he took his first job in a watch strap company and began

supporting his family.

Showing extraordinary aptitude, he became a general manager at 19, and the rest, as they say, is history. He rose to become one of the region’s most successful businessmen.

Amidst all his accomplishments, however, Li Ka-shing has never forgot-

...almost 15 million people will benefit from the establishment of service centres for the disabled...

ten his roots. As his business blossomed, he began to make significant contributions to education and medical care projects in Hong Kong and Mainland China and subsequently to other parts of the world. After more than half a century of hard work, he believes the greatest advantage of his success lies in being able

to make a difference to the lives of less fortunate people. The scale of that success is reflected in the thousands of individuals whose lives have been enhanced as a result of his targeted donations.

In July 2000, six months after Zhang Jing received her sponsorship, Mr Li and the China Disabled Persons Federation stepped up their efforts to help the physically challenged with the launch of the Cheung Kong New Milestone Plan. With a five-year implementation programme, its mission is to help disabled people to hold active roles in society by supporting education and health care, promoting working ties between the disabled and the public, and encouraging disabled people to develop self-confidence and self-reliance.

Objectives include the establishment of 200 attachment stations for artificial limbs, employing 400 trained specialists. The goal is to provide 15,000 artificial limbs each year and to benefit 60,000 disabled people within six years. The long-term vision is to provide artificial limbs for all 230,000 disabled people in China by 2015. Since the programme’s implementation, 2,200 disabled people have received artificial limbs at one-tenth of their normal cost.

Another goal is to train 500 teachers for deaf students within six years, and to



STOCK IMAGES (2)

Everyone needs a helping hand at some point in their lives and the Li Ka Shing Foundation goes to great lengths to reach out to less fortunate members of the community.

set up a listening and language recovery technical school.

Twelve provinces in the mid-west regions of China will benefit from schools for the blind. Three thousand teachers will be trained to educate blind children with the aim of raising their school enrolment rate to 80% from the current 40%. More than 25,000 children will be offered financial aid and 35,000 blind people will be trained as masseurs.

In total, almost 15 million people will benefit from the establishment of service centres for the disabled in 664 underdeveloped prefectures.

Individual stories of hope can easily be submerged in statistics, given the scale of the Li Ka Shing Foundation's influence. There are many more like Tian Nan, who has learned to talk, and Zhang Jing, who can walk again. For Mr Li, the greatest satisfaction comes from knowing that behind each figure on the Foundation's spreadsheet is a tale of a life changed for the better.



— With reporting by Tao Siu Tip

PRICELESS DIVIDEND

WHAT COULD YOU DO with HK\$4.5 billion? Few individuals have that sort of spending power, but that's the sum Li Ka-shing has invested over the past 22 years in helping other people.

Better known for his gift of turning a profit, this is how Mr Li chooses to spend much of it.

The money has funded education, medicine, culture and welfare. The benefits have been so widespread and so profound they're more difficult to calculate than the cash itself. It's impossible to quantify the impact on thousands of



individuals who have benefited from a better education, improved health and cultural upliftment.

In March this year, the Foundation launched a website, in Chinese and English, to keep the public abreast of its activities and to increase society's awareness of the importance of helping others.

There is much of interest on this easy-to-navigate site. Visitors can learn more about the Foundation – its mission and objectives, the details of its many projects, and pictures relating to the projects.

The website also gives a glimpse of the man behind the tycoon, offering insights into the forces that shaped a philosophy underpinned by high regard for learning and a relentless drive to help others. Mr Li is shown in casual attitude. Interviews, articles and video clips of a 1998 RTHK documentary tell his life story, beginning with his difficult formative years in rural China and charting the progress of his extraordinary career.

Mr Li himself never had the opportunity to receive a formal education. Being a voracious reader, he is largely self-taught. He considers education to be the single most vital resource of society and he has spared no effort to make education more accessible.

The website offers fascinating footage of an award-winning documentary film that Mr Li helped finance, entitled *Knowledge Changes Fate*, made by renowned Mainland director Gu Chang-wei. Featuring some 40 individuals whose lives improved as a result of the education they received, the film received an overwhelming response, inspiring people throughout Hong Kong and the Mainland to embrace life-long learning.

Browsers can learn more about scores of other interesting and useful projects funded by the Foundation, which has some remarkable success stories of its own. One of the largest and most successful education projects, for example, has been Shantou University, which has received some HK\$2 billion from the Foundation and which has already produced some 20,000 graduates.

The Li Ka Shing Foundation is the only "business interest" of Mr Li's that consistently fails to produce a financial return. But there's a pervading sense that of all Mr Li's investments this is the one he values most.



For details of the many projects supported by the Li Ka Shing Foundation, as well as a personal look at the names and faces behind the numbers, log on to www.lksf.org. Readers are also invited to write to the Foundation via the website.

READY...

ONE, TWO, 3G

The curtain is about to rise on a new world of 3G multimedia communications and one company is pulling out all the stops to make showtime an unforgettable experience.

By Justin Quillinan



A picture is worth a thousand words. That's one of the crucial differences between 3G (third generation) mobile multimedia communications and 2G. Soon, when we communicate via our mobile handsets we will be able to not only talk to each other as we do with 2G but also to *show* each other what we mean.

With the launch planned for the UK in autumn this year, and with Italy, Hong Kong and Sweden on track to follow soon after, 3G is set to make a real difference to people's lives, and Hutchison will be in the vanguard of that change.

In the past two years, telecoms operators have spent billions buying 3G licences in the hope that they could do something spectacular with them. However, when the buying frenzy abated some analysts concluded that prices paid were too high for what amounted to little more than pieces of paper entitling them to a slice of the wireless spectrum.

But not everyone is writing off the value of these licences. "The UMTS spectrum is like real estate," says Jeremy Green, a research director at Ovum in the UK. "It's a limited commodity that will not go out of fashion – and Hutchison knows a thing or two about real estate."

The Group has so far secured eight licences, each within strict budget limits, and walked away from others that didn't make sound economic sense.

Unfettered by 2G legacy networks



MIRANDA YU (4)

and services in Europe, Hutchison has been building out infrastructure and striking high-profile content deals to ensure that spectacular things will happen.

Says Matthew Mo of J.P. Morgan: "In contrast to many European telecom analysts, [Hutchison] believes that a 2G operation is a burden as 2G operators do not have the right organisation to manage, monitor, and generate products for 3G users. We should bear in mind that the negative sentiment surrounding 3G is created by 2G operators, which have good reason to be bearish as their 3G rollout might eat into the profitability of their current 2G operation."

Group Managing Director Canning Fok is unequivocally upbeat about 3G: "The more I get involved, the more I feel confident," he says. "The building blocks are 99% complete and we are now in execution mode."

TRAILBLAZING

The rollout will begin in a few short months, with Hutchison 3G companies launching the new services under a new global brand. Starting in the UK and Italy, followed by Hong Kong, Sweden, Australia, Denmark, Israel and Austria, these companies will blaze a trail into a new world of mobile multimedia that promises to be as different from existing offerings as TV was when it overshadowed radio.

Analysts differ over the timing, but they generally agree 3G will be a key driver into the next technology era.

"In the short term we are being pragmatic about 3G's business prospects," says Declan Lonergan, Research Director, Wireless at Yankee Group Research in the UK, "but in the long term we fundamentally believe 3G will be a success. Hutchison is coming into an exciting market with some interesting ideas."

The ink has already dried on contracts to offer richer content than ever before.

Voice will still be there, of course, but 3G will go far beyond 2G's low data rates to harness the power of multimedia. It will create a wireless environment offering complex colour graphics, quality audio and video, and high-speed file transfer for business use. New services will include entertainment, news, current affairs, sport, and multimedia messaging in a way never seen before.

Those companies that do make a success of 3G stand to reap rich rewards, though opinions differ on

how much revenue will be involved.

The UMTS Forum, the independent body that promotes the uptake of 3G, recently published a study that concludes annual 3G service revenues will reach US\$322 billion in 2010.

Forum Chairman Dr Bernd Eylert says the opportunities ahead aren't just for "techies" and early adopters, but for everyone. He advises operators to "reach out to their customers" and learn from the current 2G boom in text messaging (SMS) where children usually end up teaching their parents what to do. SMS's multi-media alter ego (MMS) should be simple and enjoyable to use, he said.

Such ideas have been on Hutchison's agenda from the word go. The technical nuts and bolts behind the scenes will be crucial, but equally important to 3G's success will be the greatly enhanced customer experience, which Canning Fok describes as "adding eyes to the ears" that everyone is accustomed to in 2G.

Film clips and video postcards will soon become commonplace. Parents will be able to eyeball their children from their offices and not only wish them a good day at school but also tell them to comb their hair before they go! Business partners will video conference and exchange complex data without ever meeting up. In medical emergencies, patients' vital signs will routinely reach hospital staff before the patient arrives, saving many lives.

Curiously, football – a European obsession – could hold the key to open a treasure chest of opportunities for 3G. Whilst Hong Kong fans might favour horse racing and Australians cricket, some of the biggest content deals struck so far have involved football action – 20-second clips of championship match highlights, allowing fans to keep close to the action wherever they are.

Illustrating the power of football to get people talking, mobile phone companies had to put up temporary base stations near the stadium to cope with some 50,000 extra calls made during the Scottish Cup Final played in Glasgow in May this year.

Such deals don't stop on the pitch either. 3G's ability to personalise services to suit customers' interests includes location-based offerings. If you follow a particular team, you might want to know that its star player is doing a book-signing event a few miles from where you happen to be. Your 3G device will not only alert you to the information, but also show you how to get there!



"The building blocks are 99% complete and we are now in execution mode."

Such capabilities have long been the stuff of science fiction, now they will soon be accessible to the general public. 3G has the speed to deliver content and applications in a way that 2G and even 2.5G – General Packet Radio Service (GPRS) – couldn't hope to match.

"Some mobile operators claim that 3G gives the same services as GPRS, only faster. This is absolutely untrue," insists Bob Fuller, joint CEO of H3G Italy.

"3G is an entirely new market that has nothing to do with previous technologies. The network is broadband and 10 times faster than GPRS. As regards services, only 3G can guarantee true multimedia and interactivity in real time, where the quality of the customer's experience feels 'real'."

With the launch a few months away, observers will be watching closely to see what has been achieved so far and what exciting opportunities lie just ahead.

BUILDING BLOCKS

Hutchison 3G UK won Licence-A – the highest bandwidth of five – in the British auction in May 2000. In just 18

months it grew from a handful of staff to 1,500 full-timers and 600 contractors. Employee numbers will rise to around 3,000 over the next couple of years.

Managing Director Colin Tucker confirms that the building blocks of 3G are largely already in place in the UK, namely the 3G devices, the network and the middleware.

Hutchison has no intention of following the example of some GPRS operators who had nothing to sell when they launched. Customised 3G devices, manufactured by Motorola and NEC, will be available from Day One. These handsets will support multimedia capabilities and allow seamless transition between 2G, 2.5G and 3G systems.

Equally important will be the core network infrastructure that will make the devices work.

"We can look at the infrastructure behind the handset in two layers," says Tucker. "There's the radio network which provides the connectivity out to the handset, and then there's the applications platform which ensures that content can be deciphered."

The radio network is the connectivity bit – switches, transmitters, fibre-optics etc. Several vendors have been chosen to help build the networks, including Nokia, Siemens-NEC, 186k, Nortel Networks, Ericsson and Motorola.

"On top of the network is the applications platform," Tucker explains (*see sidebar, p.13*). "As we needed to move fast, we decided to take ready-made large blocks of software – a billing system, the ISP to deliver the content and so on. We modified these, and then tied them all together with the EAI (Enterprise Application Integration) level. The EAI acts as a highway between all of these pieces. All the communications are done across this layer."

In the past, most of the 2G architectures were effectively one piece of software and therefore much harder to upgrade. However Hutchison's approach allows it to quickly build complex functionality by taking significant pieces of ready-made software and plugging them together through this standard interface.

"If we decide to deploy a more sophisticated system, we can remove one piece and replace it with another without replacing all the pieces," says Tucker.

Care has also been taken with the location of base station sites using existing sites where possible to speed things up and reduce environmental impact.

Services will embrace content from

many sources and the technical “translation” work to enable content to be broadcast to 3G devices has been outsourced to the BBC.

“We can save a significant amount when buying equipment and software because we’re buying in bulk,” Tucker adds. “The same goes for content – we get a good deal because we will bring large audiences.”

RINGING THE CHANGES

In contrast with the current mobile market, which is all about a limited number of packages usually based on tariffs, 3G will enable person-to-person

marketing by amassing information on people’s interests, spending patterns and physical whereabouts. Lisa Gernon, Hutchison 3G UK Marketing & Strategy Director, describes 3G as a “category shift” in the mobile industry.

“We’re not a traditional mobile company. 3G is about bringing broadcasting, media and the Internet into one experience,” says Gernon.

“Our services will empower all the senses to give customers a personalised experience that will reflect their lives. People are on the move or at work all day, so it’s about extending their interest throughout the day – everyday stuff

plus everyday exploration.”

Gernon points out that the deals with the UK Football Premiership will be the tip of the content iceberg. “This isn’t just for blokes. A lot of women follow football anyway, but there will be much more, such as music, games, entertainment and dining information – the list is endless.”

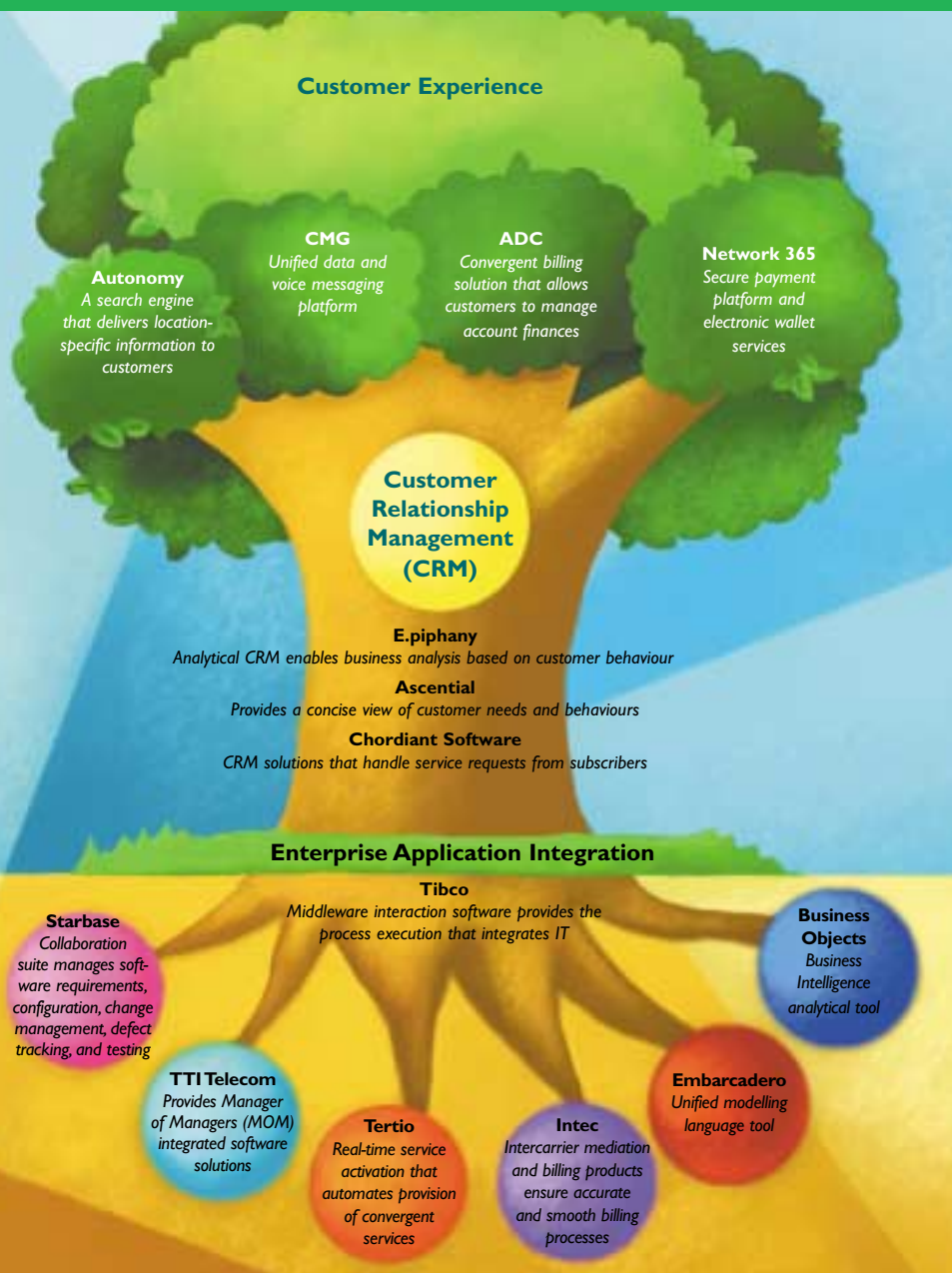
It is hard to predict which applications will take off, but crucial to success will be a sophisticated customer relationship management system (CRM), which will provide a marketing edge. The platform to be used globally is called E-iphany and is similar to the

**ARCHITECTURAL
EDGE**

TO PROVIDE THE BEST possible customer experience, Hutchison 3G has designed an IT infrastructure that allows complex and diverse data to be integrated and processed through a common platform that is scalable and flexible.

This platform is comprised of various software programmes that “decipher” information from different sources and are plugged in to an Enterprise Application Integration level (EAI) which acts as a highway for all communications.

The result is that various processes and components are able to communicate with underlying applications to deliver smooth functionality of the entire system to the user.



All information was accurate at time of going to press.

system used by Amazon, the online retailer.

“We don’t intend our devices to be a mini-TV” says Gernon. “It’s all about ‘snacking’ on the information that you as an individual are interested in. In five years time I believe people won’t know how they managed without 3G. It’s the natural next step in the evolution of communications.”

H3G Italy’s Bob Fuller predicts that 3G will open up thousands of new opportunities. “Italians love TV, fashion, soccer, and mobile communications,” he observes, “in fact, Italy is the second biggest mobile-phone market in Europe with 87% of its 58 million population

using wireless phones. Mobile expenditure accounts for 2% of the GDP.”

Ericsson and Siemens-NEC are building the network for H3G Italy and the company has a roaming agreement with the main Italian mobile operator – Telecom Italia Mobile (TIM) – for interconnection and site sharing. H3G has also signed content agreements with 11 soccer teams, which include the winners of the last 10 Italian championships.

H3G Italy is also in the process of closing agreements with some of its shareholders, who are major players in publishing, Internet and new media. These include CIR, which controls *La Repubblica*, HDP, which holds *Il Corriere*

della Sera, and Tiscali, the leading European Internet service provider.

3G services will be available in 50 major Italian cities from the last quarter of this year. Expected coverage will be 45% by the end of 2002 and 80% by 2004. In the meantime, roaming agreements will fill in the gaps.

“Our clear objective is to succeed with an ‘explosive’ development of the market,” says Fuller. “We have more frequencies, the best technologies, the best content and the best human resources to satisfy our customers’ needs.”

Sweden and Denmark will follow after the UK and Italy. This, says H3G Access Managing Director Chris

3G-WHIZ!

PERSONALISED MULTIMEDIA communications are about to become an everyday reality. Your 3G device will give you the power to process massive amounts of data in the blink of an eye – without cables.

Just think: here is a “phone” that will provide video and audio streaming such as live news and sports broadcasts, music-on-demand, multimedia messaging, instant access to area-specific information, mobile e-commerce, interactive games and even remote surveillance.

3G will add an invaluable dimension to modern life. It will open up a world of services tailored to suit you, as well as help you explore the world. It will enable new, more flexible working practices with users enjoying access to vital data whether they are in the office or not, and it will greatly improve distribution systems for goods and services.

As 3G is put to work it will unleash a tidal wave of possibilities. Imaginative new applications will no doubt emerge, further enhancing both business and leisure, adding variety and colour to our experiences and making life simpler and more enjoyable.

Here’s a glimpse of possible things to come.

Note: Names and activities depicted are fictitious, serving only to illustrate possible 3G applications.

Fun and Games

London art student Emily Jones finds her 3G useful for almost everything.

It’s the perfect tool for staying in touch with family and friends. She has great fun swapping “postcards” and cartoons with them and can even show off her latest “masterpieces”.

Emily can’t resist the fashion, beauty and horoscope sections which she’s bookmarked along with the listings section of London’s dance club scene. She loves the fact that her 3G lets her watch her favourite music video clips whenever (and wherever) she wants to – on the bus, in the park, at her studio. The device actually tells her when her favourite stars will be performing in the city, allows her to buy tickets and alerts her when she’s

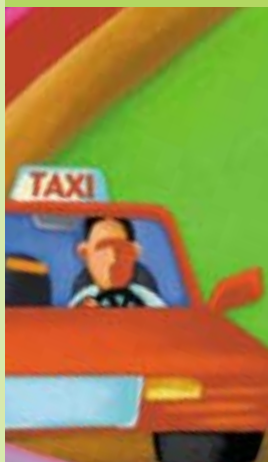


reached her budget limit for the week.

Besides all the fun aspects, her 3G is also a powerful research assistant, giving Emily access to a vast inventory of information on the Web to help with her art history research.

“I get the material I want quickly and with the minimum of effort,” she says.

Emily’s only gripe about her 3G device is that her boyfriend, Ron, keeps borrowing it to watch football clips and to play interactive games!



Logistics

Gotland-based taxi company GotCab understands the benefits of offering excellent, speedy service. To streamline its operation, the company has provided each of its drivers with a 3G device. Using the “always on” Global Positioning System (GPS) function, the central control office is able to keep tabs on the location of each taxi in real time. In turn, the drivers enjoy superb navigation assistance, with instant access to street maps, traffic reports and weather information. When a customer calls the control centre, the nearest available taxi can be deployed immediately. Furthermore, customers calling via a 3G device can be directly linked to the nearest cab and located easily, again through the GPS. Customers can also pay using their 3G electronic wallets.

Bannister, will give the company a chance to learn from the pioneers.

Like its sister companies, Hi3G will offer top-tier sports content, including football and ice hockey.

“But the Scandinavian mobile market has always been highly sophisticated, and Hi3G will initially target business professionals who are not impressed with hype. In Europe, Scandinavia leads in PC penetration, Web usage, Internet banking – they are a very technologically savvy people,” says Bannister.

“There are more m-commerce trials going on in this region than in the rest of Europe. There’s a hunger for technology which we aim to satisfy by bringing

a keen marketing edge to our services and delivering real benefit rather than gimmicks.”

Hi3G and two of its competitors have created a JV company, 3G Infrastructure Services, to build a common UMTS infrastructure outside Sweden’s major urban areas. This will significantly cut costs while leaving the operators free to compete where it counts – providing content and services.

The full menu of content and applications has yet to be revealed, but with a global footprint covering some 170 million people, the eyes of the world will be firmly focused on Hutchison’s 3G launch this year.

“This is going to happen whatever the cynics say,” Tucker enthuses. “3G will improve people’s lives – it really will.”

Reacting to a presentation by H3G in May, John Godfray, head of conglomerates research at ABN AMRO Asia, said: “This is a seriously exciting story, and I can now understand why Canning Fok told me two years ago this was the most exciting project he’d ever worked on. We (the analysts) were gobsmacked by the whole thing.”

The building blocks are in place, the customers are out there and it’s almost time for the show to begin.

– With reporting by Mark Caldwell



Romantic Interlude

Romeo Galanti, a Milan-based banker, is in Rome on business. Although his day is filled with meetings, Romeo makes time to call florist Maria Rossetti for a special bouquet for his wife Juliet, on the occasion of their fifth wedding anniversary. Using the camera on her 3G handset, Rossetti shows Romeo her selection of floral arrangements. Romeo chooses a bouquet, adds a special email card and also forwards Juliet’s address with instructions on when the flowers should reach her. Finally, Romeo pays for the service by keying in his secure payment pin number. All this in a span of six minutes.

Later, Rossetti hops on her delivery bike and uses her 3G device to find the quickest route to Juliet’s office. Naturally, Juliet is delighted to receive her bunch of red roses and sends a thank-you MMS with kisses and roses to her husband.



Windows of Opportunity

Lucky Wong knows the importance of good timing and values his time. Like many Hong Kong residents, he thrives on business, follows the markets, appreciates quality, and loves the horses. It’s Wednesday evening and Wong, who is returning by ferry from his manufacturing plant in Guangzhou, doesn’t want to miss the Happy Valley races, which are in full swing.

From the form-guide obtained through his 3G handset, Wong thinks “Speedy Money” has a very good chance. With a few clicks he places a bet which is automatically charged to his Hong Kong Jockey Club account. Then he watches the race on the small but high-resolution screen. To his delight, the horse wins by a neck. With odds of 6 to 1, Wong has made

a nice profit.

The windfall will justify his splashing out on the Ming Dynasty vase he’s been eyeing. Wasting no time, he bids for the piece on Sotheby’s auction site. Since fortune seems to be smiling on him, Wong logs on to his UK stock trading account and adds some shares to his portfolio.

As the ferry approaches its mooring, an icon of a limo appears on Wong’s 3G screen. With one click he is in contact with his driver who is waiting outside to take him to the racetrack – in good time to enjoy a light supper and watch the last two races. Approaching Happy Valley, an MMS appears on his 3G screen: he has won the bid for the vase. Ah, timing is everything!

– MC







POWER TO THE PEOPLE

For more than a century, Hongkong Electric has provided the vital energy that has powered Hong Kong's development.

By Arun Sudhama



Imagine Hong Kong waking up without power. Apartment lights don't work; neither do electric kettles, cookers or water geysers. Stumbling out into the morning, unwashed and hungry, the workforce is immobilised. Neither the trams nor the Mass Transit Railway is running. Escalators and elevators don't move, TV and radio channels are silent, industrial machinery has ground to a halt, and even the stock exchange has ceased to function. By nightfall, instead of being illuminated by its famous neon lights, "the city that never sleeps" would be shrouded in darkness.

Thanks to Hongkong Electric Company, this scenario is unlikely to occur, except perhaps in the imaginations of its 536,000 customers. For 112 years, the company has energised the city's live-wire Central District and maintained a steady flow of power to the people.

Hong Kong's emergence as an economic dynamo would not have been possible without its continuous supply of electricity, delivered with unobtrusive efficiency. The company's enviable record stands as testimony to solid management and a commitment to deploying the best technology.

"We are in the elite group as far as reliability is concerned," says K.S. Tso, Group Managing Director of Hongkong Electric Holdings (HEH), Hongkong Electric's parent company. "Last year marked the sixth year in a row that the company achieved supply reliability of 99.999%, a record that only a handful of cities in the world can hope to match."



Hongkong Electric supplies all the power that illuminates and energises Hong Kong Island. From left: The stock exchange; city tram; The Peak Tower.

TRACK RECORD

The company started operations at the 100kW Wan Chai power station on December 1, 1890 when electric streetlights were turned on in Central for the first time.

As the city developed, demand for electricity grew, and in 1919 a new 3MW power station opened at North Point. In 1968, a state-of-the-art power station was commissioned, this time at Ap Lei Chau. This facility had an installed capacity of 1,061MW when it was fully developed, meeting the requirements of a city that was now entering the global limelight.

The Lamma Power Station project was commissioned in 1982. To hedge against volatile oil prices it was designed to generate power primarily through coal firing instead of oil, with gas turbines on hand as back-up in emergencies. Today, Lamma Power Station is the sole generator of power for Hong Kong and Lamma islands with a capacity of 3,305MW, including eight coal-fired and seven gas-turbine units.

By global standards, the 50-hectare site at Lamma is compact, but the machinery it houses is among the most advanced. Consequently, the plant is immaculately run with none of the clutter and debris one might expect to find in such a set-up, and people are conspicuous, in large part, by their absence.

“We use computer technology to control most of the plant’s work,” says Technical Services Engineer Kam Wing Fai. “But the human element is of course still crucial to oversee all operations.”

HUMAN DYNAMOS

Mr Tso stresses the vital contribution of the employees. “While the technology is pivotal in providing superior service delivery, the company owes much of its considerable success to a workforce that is highly motivated and experienced,” he says.

“At Lamma Power Station, new recruits – mainly engi-

neering graduates – enter an atmosphere where it is easy to learn from their more experienced seniors. We train our employees thoroughly and make sure they can benefit from on-going professional education. Simulators are used to continuously hone their skills and many are sent abroad for further training.”

By Hong Kong’s standards, staff turnover is insignificant at barely 3% to 5% per year, mainly from retirements. There are even instances of three generations of one family working for the company at the same time.

“It is very important to have mutual understanding with the people who work for you,” Mr Tso adds. “We share a common vision: every staff member is dedicated to contributing to the smooth running of the operation.”

This unwavering focus on increasing efficiency and productivity has produced extraordinary results: over the past 10 years, units sold per employee have soared 83%.

*...over the past
10 years,
units sold
per employee
have soared
83%...*

CENTRAL CONTROL

Once generated, the electricity flows through submarine cables from the power station to Hong Kong Island. It is at the System Control Centre at Ap Lei Chau that the company’s technological edge is most apparent. A gleaming haven of silent efficiency, the System Control Centre deploys some of the most advanced equipment ever seen in the business, enabling remote control of the power generation process, transmission, and each of the 3,444 distribution substations. Engineers monitor wall-sized screens that show the entire distribution network, allowing them to pinpoint and remedy problems accurately and effectively within minutes.

“Power distribution systems worldwide rely on a similar system of distribution substations, but very few are remotely controlled from a single centre, and fewer still can boast the sort of technology employed at the System Control Centre in

POWERFUL SERVICE



AT MIDNIGHT ON JUNE 30 1997, MILLIONS OF people across the world watched the Handover ceremony at the Hong Kong Convention and Exhibition Centre, which was attended by thousands of guests, including China's President Jiang Zemin and Britain's Prince Charles.

While the world's attention was focused on the historic event in Wanchai, a special Hongkong Electric task force, headed by the Group Managing Director K.S. Tso himself, was working behind the scenes to ensure there would not be the slightest disturbance or flickering in the supply network.

For six months, the task force had been implementing a meticulous plan to meet the unique challenges posed by the Handover. In all, the task force worked 1,500 man-days, and more than 130 staff were on standby on the big night.

Unsurprisingly, the company's efforts went virtually unnoticed, which translates to a high level of customer satisfaction. "We aim to give whatever we can for the convenience of our customers," says Mr Tso. "Our staff take it as a personal challenge to meet the customer service standards. We use a charter of 18 service standards to ensure that all customer services are first-rate. Standards in 2001, for example, set the average time for supply restoration after interruption at within two hours; the average waiting time for counter services at the Customer Centre at less than three-and-a-half minutes; and the average waiting time for telephone calls to the Customer Emergency Services Centre at less than 10 seconds."

All 18 pledges were comfortably met and exceeded last year, as they are every year.

Mr H.K. Lung, one of the most experienced members of the Emergency Services Unit, believes that the number of commendations the company receives each year provides ample proof of its dedication to customer service.

In 2000 and 2001, the company received 1,730 commendations from satisfied customers.

Mr Lung personally receives 30-40 thank-you letters from happy customers each year, and has been the recipient of several company service awards.

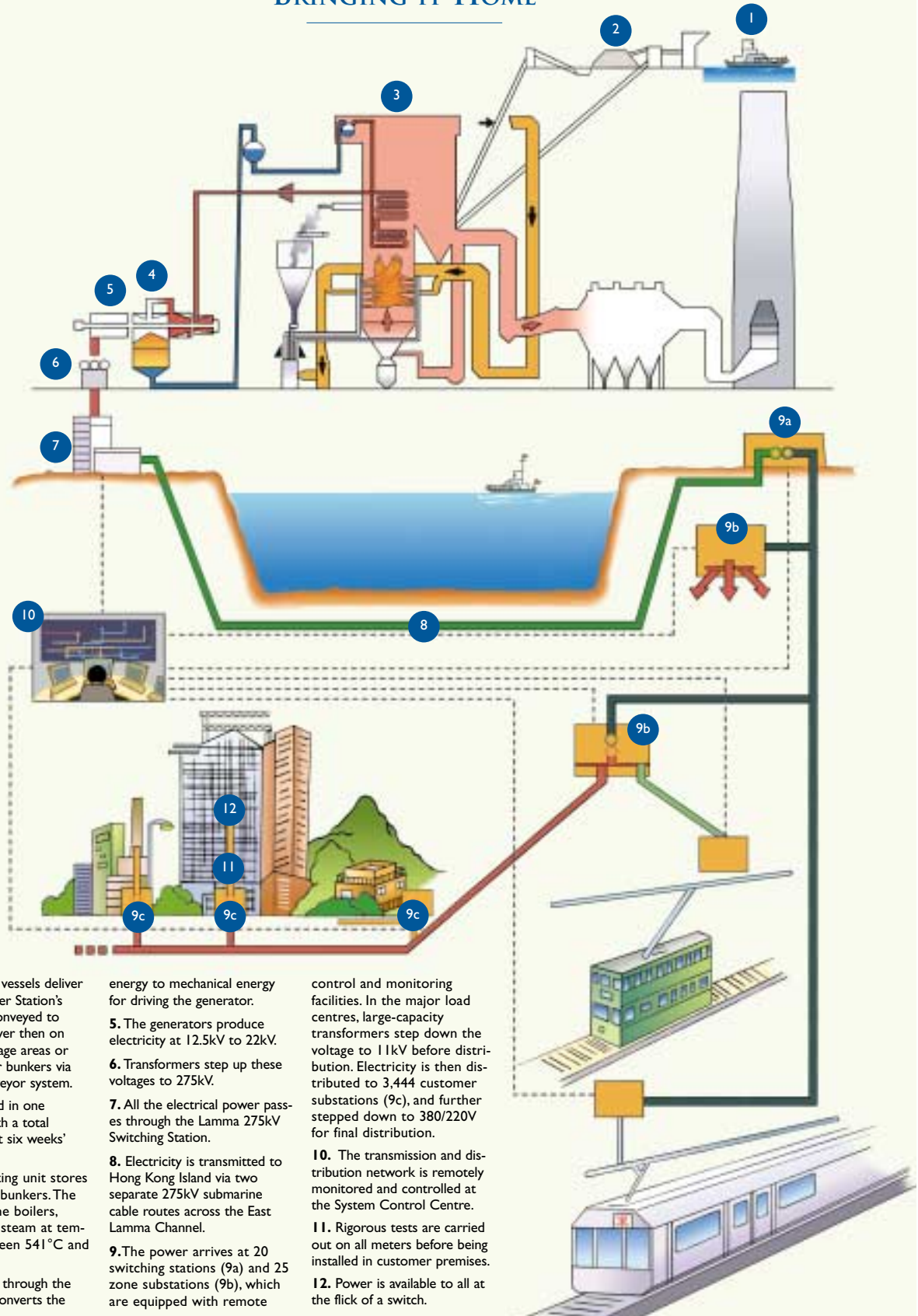
"The intention to help is the most important element in customer service," says Mr Lung. "People should feel it really comes from the heart."

Hongkong Electric was first to introduce concessionary tariffs, in January 1994. Today such tariffs apply to various underprivileged groups, including the elderly, the disabled, single parent families and the unemployed who are on or have qualified for public assistance.

The company was also among the first of its kind to implement a Braille billing service, which came into operation in June 1993.

For the majority, these personalised services go unnoticed, but they make a huge difference to those affected. It is precisely this kind of approach that has led to such a high degree of satisfaction among Hongkong Electric's customers.

BRINGING IT HOME





An aerial view of the Lamma Power Station, left, and the coal storage area, above.

HONGKONG ELECTRIC (6)

Ap Lei Chau,” says Paul Cheng, Chief System Control Engineer. “The engineers comfortably anticipate most customer emergency calls. It is very rare for an emergency call to catch our team unawares.”

So, while the logistical complexity of achieving 99.999% supply reliability might be enough to short-circuit the human brain, the System Control Centre ensures this figure is met, and often surpassed, every minute of the day.

GROWING THE BUSINESS

In the past few years, HEH has embarked on a strategy of extending its operations.

Robust returns from Hongkong Electric, boosted by a “sovereign” credit rating from Standard & Poor’s have enabled Hongkong Electric to secure competitive financing for business expansion.

“We had a wonderful year in Australia last year,” Mr Tso recalls, “it was very hot.”

But if glorious days on a beach “Down Under” spring to mind, think again. Mr Tso is referring to the company’s Australian utilities investments in Victoria and South Australia.

In January 2000, Hongkong Electric International (HEI), a wholly owned subsidiary of HEH, together with Cheung

Kong Infrastructure (CKI), acquired under a 200-year lease the Electricity Trust of South Australia (ETSA), the major electricity distribution company serving the state of South Australia. In August 2000, HEI/CKI also acquired Powercor Australia Limited (Powercor), the largest of the five distribution/retail companies in the state of Victoria.

With these two deals, which had a combined worth of A\$5.565 billion (about US\$3.1 billion), HEI/CKI became the largest electricity distributor in Australia, serving over 1.4 million customers.

Both companies have provided solid returns, and last year the sale of Powercor Australia’s retail division resulted in a one-off gain of HK\$344 million (US\$44 million) for HEI.

“The company’s philosophy is to invest in companies with predictable returns and relatively low risks,” Mr Tso says. “This is the thinking behind our Australian acquisitions; it is a regulated business with returns that are fixed by a formula.”

He notes that HEI has timed its acquisitions well. “Share prices of utility companies reached historic highs in the mid-90s, but came down to more realistic levels following global market turmoil in 1997. Prior to this, we viewed power utilities as overpriced. Now we are looking to consolidate our Australian successes and add to our portfolio.”



In recent months the company has planned to invest (through a 26% stake in Union Power Development) in building a HK\$9.8 billion (US\$1.26 billion) power plant in Thailand that will consist of two 700MW coal-burning plants.

Again, returns are highly predictable as the power station has a power purchase agreement with the Electricity Generating Authority of Thailand, which is state owned. The project is at the final stage of securing approval from the Thai government.

With an investment philosophy that bears obvious rewards, it is little wonder that shareholder confidence is high. In 2001, net profit rose 18% to HK\$6,507 million.

"Many of our 16,300 shareholders invest in our company because of its stable earning power," Mr Tso observes.

BRIGHT FUTURE

Because electricity is such a vital commodity, it is not uncommon globally for governments to exercise some form of regulatory control.

Hongkong Electric is party to the Scheme of Control Agreement with the SAR Government, under which utility companies are seen to balance the benefits for both customers and shareholders.

The scheme safeguards consumers by ensuring them of reasonable tariffs and reliable services. In turn, shareholders receive a specified "permitted return" provision for their long-term investments.

The Agreement is set to expire in 2008 and Mr Tso is confident that a new arrangement will prove agreeable to all parties.

Taking the long view, Hongkong Electric has begun work on the fourth stage of the Lamma Power Station to cope with electricity demand that continues to grow at between 3% and 5% per year.

Some observers believe a fully liberalised electricity market would better serve consumers. Others argue that liberalisation is impractical, especially in a territory defined by its critical shortage of suitable sites and a relatively small market.

It is unlikely that significant market liberalisation would reduce costs to consumers or improve on the already near-perfect reliability. True, Hongkong Electric is the sole utility provider in its domain, but it nevertheless is a highly competitive operation, constantly balancing the interests of its customers, the environment and shareholders while achieving ever-greater efficiency.

As the record shows, the company has been well plugged in to its environment for almost 112 years. It is also impeccably equipped to illuminate the future.



The Admin Building at Lamma Power Station.

CLEAN, GREEN AND UNSEEN

A CENTURY AGO, "ENVIRONMENTAL PROTECTION" was almost unheard of, but that did not stop Hongkong Electric from taking steps to improve the burgeoning city's environmental safety. In 1902, smoke from the company's Wan Chai power station posed an environmental risk to Hong Kong's Central Business District. To remedy the problem the company immediately purchased smoke-consuming apparatus from England. At the next general meeting, Hongkong Electric's chairman pledged that the company would no longer produce such emissions, eliciting a round of applause from the gathered shareholders.

One hundred years later, Hongkong Electric continues to take its role as a responsible corporate citizen very seriously. Working closely with the Government's Environmental Protection Department, the company has successfully implemented a HK\$4.9 billion (about US\$628 million) programme to raise environmental standards to levels much higher than those required under existing legislation.

"We make every possible effort to ensure our operations are environmentally sound. We maintain stringent controls to prevent air, noise and water pollution, we recycle waste, and we actively protect and enhance the natural landscape," says Group Managing Director K.S. Tso. "State-of-the-art technologies are adopted whenever practical and commercially available to ensure the environmental impact of our operation is kept to a minimum."

To maintain air purity, a flue gas desulphurisation system removes at least 90% of sulphur dioxide emissions. Low nitrogen oxide burners are deployed in coal-fired boilers to reduce by two-thirds concentration of NOx in the flue gas. Electrostatic precipitators clean furnace gases further before discharge from the 215m-high chimneystacks, dispersing emissions away from populated areas. Meanwhile, monitoring stations on Hong Kong and Lamma islands keep check on ambient air quality.

The company also employs comprehensive waste-recycling strategies. "There is very little waste that is not recycled from the Lamma Power Station," notes Technical Services Engineer Kam Wing Fai, who is charged with honing the plant's efficiency. "For example, coal ash and gypsum by-products are sold to be used for construction materials."

With an idyllic location overlooking the West Lamma Channel, the company pays equally close attention to the surrounding waters. Local anglers testify that fish are plentiful, attracted perhaps by the flow of warm water which, having cooled the plant, is pumped back into the sea. Furthermore, the company has co-sponsored a research study on the use of coal ash as artificial reefs for marine conservation.

The plant's location has presented the company with an added environmental challenge. Power reaches Hong Kong Island on its south side but most of it is consumed on the north side, with a chain of picturesque hills in between. The traditional solution would be to use overhead transmission lines, but despite their relatively low cost, installation of these would be disruptive and would require excavation in some of Hong Kong's country parks.

"So the company took a more difficult, but environmentally sensitive approach – tunnelling through the mountains," says Chief Engineer (Transmission & Distribution) S.S. Yuen. "Two tunnels were built, keeping the cables out of sight and conserving Hong Kong Island's natural beauty."

At the other end of the supply chain, Hongkong Electric has made every effort to ensure that its network of 20 switching stations, 25 zone substations and 3,444 distribution substations blend in. "The substations are designed to achieve a perfectly harmonious relationship with the environment," Mr Yuen explains. "Each location is unique, so each substation is specially designed to fit its surroundings."

Hongkong Electric also supports research on renewable energy and alternative fuel sources. It has sponsored a research project into wind power on Hong Kong's Po Toi and Lamma islands, solar energy research at the University of Hong Kong, and has invested in electric vehicles for its own use.

Of equal value have been the company's efforts to promote the efficient use of energy. It co-sponsors an Energy

Efficiency Centre at the Hong Kong Science Museum, and provides energy-efficient teaching kits for primary schools.

Furthermore, the company conducts and sponsors corporate afforestation schemes in Hong Kong and China. On Lamma, for example, over 50% of all trees were planted by Hongkong Electric.

In June 2000, the Hong Kong Government approved a company proposal to extend the Lamma Power Station. The government noted that when the six new 300MW gas-fired units are completed, total annual gas emissions are set to drop by as much as 60% while electricity generated will increase 43%.

"Contrary to the general perception," the Government noted in a report, "the Lamma Extension Project would in fact bring considerable environmental benefits in reducing the overall emissions."

Not only is Hongkong Electric fully prepared to meet electricity needs well into the new century but it is also fully committed to maintaining a clean and safe environment for future generations.



RETAIL



ISLAND SHOPPING

When the Philippines opened its doors to foreign retailers last year, Watsons didn't hesitate to make its move.

By Tim Metcalfe



Socialising, entertainment, fast-food dining and shopping all roll into one in the Philippines. They call it “mallng”. In the world’s second-youngest country, where half the population is under 20 and the streets are too hot to be hip, megamalls that stretch as far as 1.5 km over several floors are modern-day community centres for youthful crowds who congregate in their thousands.

The air-conditioning is one attraction – but there’s much, much more. Pop stars perform mini-concerts, outside-TV broadcasts feature the country’s most popular entertainers, and glamorous models strut the catwalks.

Cinemas screen the latest blockbusters, giant fast-food courts feed the multitudes, cavernous arcades howl and explode to the sound of video games, Internet cafés attract long queues and music, the lifeblood of this most musical nation, plays constantly.

Then there’s the shopping. Filipinos famously love to look good, and they cheerfully spend as much as 20% of their income on fashion, beauty and grooming products. Girls are adept at their own make-up at an early age, boys habitually splash on deodorant after basketball practice and men don’t blink at the thought of manicures or pedicures.

OPPORTUNITY KNOCKS

Tough trade restrictions have until recently kept international retailers sitting on the sidelines of this emerging market. However, when the Retail



PATRICK LUCERO (9)

Liberalisation Act was passed in the Philippines last year the door was thrown open.

Some foreign companies remain wary of national statistics indicating an average pay packet of just US\$6 a day – misleading because financial contributions from an army of eight million overseas workers substantially bolster most household incomes.

But for Hong Kong-based Watsons, Asia’s leading chain of health, drug and beauty stores owned by Hutchison Whampoa Limited, the Philippines represents a golden opportunity. Watsons has moved rapidly to become the first “household name” to enter the newly liberalised market – and it is doing so in a big way.

With a 174-year history, the A.S. Watson Group is among the best-known trading names in Asia with over 630 branches of Watsons Your Personal Store spanning Hong Kong, Mainland China, Macau, Taiwan, Singapore, Malaysia and

Thailand. These branded stores have proved adept at catering to the unique characteristics of each market while retaining Watsons’ distinct “discovery” themed shopping formula which incorporates tremendous product diversity under the simple concepts: “Look Good. Feel Great. Have Fun.” It’s a compelling mix that attracts two million customers per week.

The Philippines represents Watsons’ biggest-ever expansion programme. This year, more than 60 ShoeMart stores will be re-branded with the Watson’s identity, 15 new stores will open and at least 150 new outlets are planned over the next five years. The ceremonial grand opening of its first two flagships was on April 26 in two of the biggest and most prestigious malls in Metro Manila.

“We’re registered as number 0001 in the Department of Trade and Industry’s file of international retail investors registered under the new law,” says Dennis Casey, Managing Director of Watsons Personal Care Stores in the Philippines. “We see enormous potential.”

PERFECT PARTNER

The campaign is through a joint venture partnership with the ShoeMart (SM) Group, the leading and largest owner, developer and operator of shopping malls in the Philippines. It owns and operates 11 super-malls – seven in Metro Manila, with others in Cavite, Cebu, Iloilo, Pampanga and Davao.

One of the country’s largest conglomerates with interests also extending to banking, real estate development,

cement manufacturing, tourism and entertainment, the SM Group is headed by Henry Sy Sr., one of the country's most highly regarded business tycoons.

"We've been talking to ShoeMart for many years and have always been interested in taking the Watsons concept to the Philippines," says Philip Ingham, CEO of A.S. Watson Group Retail Non-Food Division. "But before the change of law we could only have taken a minority stake, and we're only interested in business where we at least have man-

agement control. In the event, we now have a 60:40 majority holding in the joint venture."

The deal was in fact brokered by SM Group President Teresita Sy-Coson, Henry Sy's daughter, who is leading ShoeMart into its latest cycle of expansion. She took charge of the chain in 1990 and has continued its evolution from a simple shoe store to an aggressive soft-goods retailer and shopping mall operator, leading the company to adopt new technologies like bar coding, which

is unusual in the Philippines.

"The retailing business is dynamic," she says. "You have to constantly renovate, innovate and change to keep up with consumer tastes and be ahead of the competition."

LOCAL STRATEGY

The partnership with Watsons, under the name Watsons Personal Care Stores (Philippines) Ltd., is destined to ensure ShoeMart remains in the retail driving seat. But it is not simply a case of trans-

BACK TO BASICS



WHEN DR T.R. Colledge founded his first Watson's the Chemist dispensary in Canton in 1828, pharmacists were at the front-line of health care. Customers related the symptoms of their ailments, and pharmacists dispensed pills or potions to treat them.

This was the role of "old-style" pharmacists. Seriously ill patients were, of course, directed to the nearest doctor; but a pharmacist was sufficiently knowledgeable of medicine and experienced to recommend common cures.

Over the years, the key role of a pharmacy in public health care in Hong Kong has substantially diminished. No longer are pharmacists regarded as community health-care professionals. If we are very sick, we go to a doctor. If we are feeling off-colour, we look for cures ourselves in a chemist. Often, we rely on advertising for advice.

Meanwhile, public health has changed dramatically. Society is no longer ravaged by typhoid, cholera and such; but other chronic diseases have taken their place. Today, living longer with more stressful modern lifestyles, we are much more threatened by heart disease, cancer or diabetes.

Most of these "modern" diseases need not be fatal, so long as they are diagnosed early. But the unfortunate irony is that old-fashioned pharmacists are no longer on hand to spot the alarm signals in customers who are feeling unwell. Instead, chronic conditions build up over the years, to the point where they become much harder to treat.

In a major initiative to counter the problem, Watsons is now taking a leaf out of its original founder's book and is leading a groundbreaking coalition of public and private sector organisations to restore the primary health care role of pharmacies.

The collaborative programme called "Pharmacy Self Care" is linking the resources of Watsons, the Chinese University of Hong Kong's School of Pharmacy, leading pharmaceutical com-

panies Glaxo Smith Kline and Bayer Diagnostics, and health care professionals to enhance community health awareness and provide the Hong Kong public with greater access than ever before to simple, relevant health information and advice.

Initially being implemented in Watsons stores, with the aim of eventually extending to all pharmacies, the programme is providing Health Fact Sheets, Risk Factor Tick Tests and simple Risk Detection Kits alongside advice and guidance from Watsons-trained teams of pharmacists and health & fitness advisors.

First, the programme is focusing on diabetes, one of the most serious and fastest-growing chronic illnesses in Hong Kong, affecting an estimated 600,000 people – half of whom are not aware of it.

Advice is also being offered on 11 other "everyday" ailments such as headaches, coughs and colds, together with information about the correct use of vitamins.

"This is a much-needed programme that we're enthusiastically supporting," says Dr Vivian Lee of the CUHK School of Pharmacy. "Hong Kong needs pharmacists to play a more active role."

The initiative is modelled on a programme developed by the Pharmaceutical Society of Australia, which has run successfully there for 15 years.

"We want to change the way the public thinks about pharmacists and uses them," says Andrew Brent, regional Marketing Director of Watsons. "It's a genuine example of Watsons trying to address a growing problem and do something for the public good. It's what we're all about. It's also taking Watsons back to its Canton roots as a community pharmacy."





Filipinos love to look good and they cheerfully spend as much as 20% of their income on fashion, beauty and grooming products.

porting Watsons from Hong Kong to the Philippines. For one, the operation has three arms. Health and beauty stores will most closely resemble Hong Kong operations, with a familiar mix of toiletry, grooming and health products.

Watsons is also revamping 60% of SM's Family Drug pharmacies with a modern facelift, focused entirely on dispensing prescriptions and entering into open competition with traditional drug-stores. Uniquely, explains Ingham, doctors rarely dispense medicine in the Philippines; they only prescribe, so 80% of prescriptions are dispensed by pharmacies.

"In the Philippines, pharmacies are primary health care providers," he says. "People go to them not only for prescriptions, but also for advice."

Finally, Watsons is taking over the running of beauty and cosmetics counters in 16 ShoeMart department stores.

Each new expansion presents its own challenges – as Watsons has learned from extending into six countries over the last 15 years.

"We are

giving Watsons a Philippines touch," says Casey, who has overseen the launch. "Here it's mostly the merchandising, especially the sizing of products. Since disposable income is lower, customers prefer smaller sizes of products.

...The Philippines represents Watsons' biggest-ever expansion programme...

"In Hong Kong, shaving cream comes in 75 grams; here it's 25 grams. The same goes for lotions, which come in 50-ml containers, rather than 250-ml. On the pharmacy side, while a Hong Kong customer is likely to buy an entire prescription at once, in the Philippines customers like to buy a day's supply at a time. They buy five tablets, for example, rather than 25. It's about

affordability. People buy what they can at the time."

ADDED VALUE

Although the new Retail Liberalisation Act stipulates that 30% of products must be sourced from the Philippines, this restriction is not an issue, since Watsons buys products from multinationals like Procter & Gamble, Colgate and Gillette who have well-established production facilities in the country.

More pertinently, the expansion represents a significant employment boom. Since each store will have a staff of around 20, Casey says the potential new workforce should number at least 5,000.

Philippines Trade and Industry Secretary Manuel A. Roxas II also expects the entry of Hutchison Whampoa to inject fresh blood and modern ideas. "The entry of Hutchison into the Philippines retail trade sector will undoubtedly give Filipino consumers greater value for their money and provide impetus for greater efficiencies in retail services and supply chain operations," he says.

"This is a testament to the strength of our domestic economy and will be a boon to our local manufacturers. We are particularly happy that the outlets for pharmaceutical products will offer





Most Watsons' counter staff are science or nursing graduates. Customers go not only for prescriptions, but also for advice.

medicines at affordable prices.”

In turn, Roxas is confident that Philippines' products will gain access to the Watsons worldwide network of retail stores.

Imported products are usually priced at a premium in the Philippines, but Watsons has perfected the art of keeping prices down by sourcing directly from manufacturers and by-passing middlemen, notes Casey. “People always like the idea of imported products at affordable prices.”

Staffing the outlets is not a problem either. “Unemployment is high at around 11-12%, yet educational levels are also high and people prefer working for companies with a good name. You have to be a graduate in science or nursing to work in a pharmacy here, and we're having graduates lining up for interviews.”

Watsons plans to “penetrate major cities first”, says Casey. But the aim is to expand wherever possible. “We're talking to the other major megamall owners in the Philippines, including Ayala and Robinson's, and looking anywhere else we can – from airports and hospitals to university campuses.”

“Overall,” adds Ingham, “there are some really exciting prospects. It's going well so far and if this continues, our expansion target for the next five years might increase significantly. There could well be 300 new stores, not 150.”

TAIWAN TIE-UP

SHOPPERS IN TAIWAN HAVE been enjoying even greater variety since the introduction of British-brand Boots products in Watsons stores.

Both companies have been delighted with the results of a trial that started in July 2001 and received an overwhelming positive response from consumers. “The addition of unique products sold by Boots has enhanced the feeling of ‘discovery shopping’ in Watsons where customers are highly appreciative of the extra choice and convenience,” says Philip Ingham, CEO of A.S. Watson Group Retail Non-Food Division. “The partnership with Boots is a breakthrough in the industry which we see will benefit consumers. We want them to look good, feel great and have fun.”

The rollout plan commenced in March this year and will be completed by early 2003 with around 100 Watsons stores on the programme. Boots' net investment will be some £2 million (about US\$2.9 million).

Watsons has an island-wide chain of excellent retail stores in Taiwan while Boots has a strong established brand that compliments Watsons' extensive product

range. The tie-up thus not only creates a compelling offer for consumers but also real value for each partner.

The implants will occupy approximately 10% of Watsons floor space and offer between 800 and 1,200 beauty and personal care products featuring Boots brands. Watsons will benefit by the creation of a differential in their offer against the competition, leading to increased footfall and sales.

Watsons first opened in Taiwan in 1987 and now operates 223 stores island-wide while Boots has been operating in Taiwan for about 18 months. Consideration is being given to expanding the partnership into other Asian markets where Watsons has stores.

