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Hutchison Whampoa Limited (HWL) is a multinational conglomerate with businesses spanning 41 countries. With over 150,000 employees worldwide, Hutchison operates and invests in five core businesses: ports and related services; telecommunications; property and hotels; retail and manufacturing; and energy and infrastructure.

In 2002, HWL’s consolidated revenue was HK$111,129 million.

For full results, see www.hutchison-whampoa.com/NewsDIR/news

HGC Connects with China

Hutchison Whampoa Limited (HWL) has a fully funded business plan. It has recently signed a new financial agreement with a number of banks and now has unsecured debt ratings.

Global Finance magazine placed HWL at the top of the list in the “Best Asian Companies – Conglomerate” category and fourth in the “Best Companies in Hong Kong” category.

In its “Review 200” awards, an annual survey that asks readers to rank companies in the region by their leadership qualities, the Far Eastern Economic Review ranked HWL third in the category “Asia’s Leading Companies (Hong Kong)”.

Global Finance meanwhile named HWL “Best Company in Asia-Pacific – Conglomerates/Logistics”.

HWL Annual Results

<table>
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<th>2002 HK$’ million</th>
<th>2001 HK$’ million</th>
<th>Changes</th>
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<tbody>
<tr>
<td>Profit attributable to shareholders</td>
<td>14,288</td>
<td>11,890</td>
<td>19%</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>HK$3.35</td>
<td>HK$2.81</td>
<td>19%</td>
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Hutchison Whampoa Limited recorded an audited profit attributable to shareholders for the year amounted to HK$14,288 million (approximately US$1,832 million), an increase of 19% compared to the previous year. Earnings per share amounted to HK$3.35, an increase of 19% with a total dividend per share of HK$1.73 (2001 - HK$1.73).

The results include profit on disposal of investments less provisions totalling HK$1,524 million (2001 - HK$3,124 million) which primarily relates to a profit of HK$1,129 million arising from the sale of equity interests in certain provisions, and HK$408 million from the sale of property, plant and equipment.

For full results, see www.hutchison-whampoa.com/NewsDIR/news

Partner Performs

Hutchison Telecom (HK) and its flagship companies. As one of the earliest big “hongs” or trading companies in Hong Kong, Hutchison’s history dates back to the 1800s. Today, HWL is a multinational conglomerate with businesses spanning 41 countries. With over 150,000 employees worldwide, Hutchison operates and invests in five core businesses: ports and related services; telecommunications; property and hotels; retail and manufacturing; and energy and infrastructure.

Its flagship companies include Hutchison Port Holdings, Hutchison Telecom, Hutchison Whampoa Properties, A.S. Watson, and Cheung Kong Infrastructure. In 2002, HWL’s consolidated revenue was HK$111,129 million.

For full results, see www.hutchison-whampoa.com/NewsDIR/news
Hutchison Essar Hits the Headlines

INDIA

Hutchison Essar claimed a world first in January when its affiliated companies across India launched HutchAlive – a personalised, interactive broadcast service that automatically updates mobile phones with text news headlines. Phones carry menus, such as a list of headlines, and users pay for selecting related information, such as the story behind the headline, which is sent by the network. Apart from News, key content areas are Cricket, Entertainment, Astrology, Lifestyle and Promotional Offers. HutchAlive was simultaneously introduced across Mumbai, Delhi, Kolkata, Chennai, Gujarat, Andhra Pradesh and Karnataka under the Orange and Hutch brands.

Hutchison had an exclusive head-start period for the use of the “cellular broadcast” technology licensed from privately held Israeli firm Celtick. From Feb 8, coinciding with the inaugural game, the company launched the Cricket World Cup video service exclusively on Hutch GPRS phones, allowing subscribers to see video clip replays. As part of HutchWorld, Hutchison Essar is also offering photo messaging, e-mail and games. Reflecting the company’s progressive approach to technology as well as management leadership, speedy response to change, environmental consciousness and social responsiveness, Hutchison emerged as the clear No.1 in a country-wide poll as the “Most Respected Company in the Telecom Sector” published in Businessworld in January.

NEC Takes Equity Stake

HONG KONG

NEC Corporation in October acquired from HWL a 5% strategic equity interest in both Hutchison Telephone Company Ltd. (HTCL) and Hutchison 3G HK Holdings (H3G HK) for a total cash consideration of US$73 million. HTCL and one of its subsidiaries are the licensed providers of cellular mobile telephone services in Hong Kong and Macau. H3G HK, through a subsidiary, is the licensed operator of 3G mobile services in Hong Kong.

As part of this transaction, HWL's interest in HTCL and H3G HK has changed from 74.63% to approximately 71%, while NTT DoCoMo's stake changed from 25.37% to approximately 24% for both companies. The deal creates a strong strategic partnership, with NEC providing comprehensive support for Hutchison’s worldwide 3G businesses.

“Hutch” Service Launched

THAILAND

Hutchison CAT Wireless MultiMedia Ltd., a joint venture between The Communications Authority of Thailand and Hutchison Wireless Multimedia Holdings, commercially launched a new mobile phone service in February under the Hutch brand. The Hutch service deploys CDMA2000 1X, which supports high speed wireless technology that enable multimedia functions, bringing customers more information, communication and entertainment choices on the move.

Hutch has also teamed up with Sanyo of Japan and Samsung of Korea to provide customised terminals equipped with HTML compatible browser and multimedia capabilities to handle new content-rich applications and high-speed data transmission.

Retail Agreements

UK

Hutchison 3G UK has entered into agreements with Dixons/The Link (290 stores), Carphone Warehouse (470 stores) and Phones 4U (325 stores) to retail its 3 brand products and services.

Orange in the Black

AUSTRALIA

Hutchison Telecommunications (Australia) Ltd. under the Orange Mobile brand recorded an EBITDA loss of A$14.1 million (about US$8.3 million) for 2002, a dramatic improvement on the 2001 loss of A$112.9 million. For the first time, second half EBITDA was positive at A$2.1 million.

The turnaround was delivered through customer and revenue growth and ongoing rationalisation of operating costs. Profitability was also enhanced by reduced capital expenditure, down from A$254.2 million in 2001 to A$31.1 million.

The company also reported it was at advanced stages of the technical integration, stabilisation and end-to-end testing of the network, platforms, operating systems and devices for its 3G operation under the 3 brand.

Video Telephony Deal

GLOBAL

Ericsson and HWL have signed a global agreement on an end-to-end solution that supports video telephony between personal computers and 3G handsets. The solution will be deployed in Hutchison 3G markets worldwide.
Husky’s Strong Earnings to Fuel Exploration

Husky Energy’s net earnings for Q4 2002 increased by 438% to C$242 million (approximately US$160 million) compared to C$45 million in the same period the year before. Net earnings for 2002 increased 23% to C$804 million (C$1.88 per share – diluted). Following a 47% increase in net earnings for Q3 2002, the company in December announced a capital expenditure of approximately C$1.8 billion for 2003. Planned expenditures reflect Husky’s focus on long-term projects such as the White Rose offshore oil project in the Jeanne d’Arc Basin off the east coast of Canada, exploration and development programmes in the South China Sea, and oil sands development at the Tucker and Kearl properties in Canada. A total of C$1.66 billion was earmarked for Husky’s upstream segment. Husky estimates production of 305 to 325 thousand barrels of oil equivalent per day during 2003. In November, Husky announced that a significant natural gas discovery in Shackleton, Saskatchewan, would add approximately 75 billion cubic feet of proven natural gas reserves in 2002 and increase reserves to 250 billion cubic feet over the next two to three years. Husky has completed two gathering and compression systems to develop the 300,000-acre Shackleton field. Together these systems are designed to handle up to 30 million cubic feet per day. In February, Husky announced it had entered into a series of commodity hedging contracts for 2003 that hedge 26 million barrels of crude oil at an average strike price of approximately US$29.50. These hedges cover approximately 34% of expected crude oil production for 2003. The Company also has 37 billion cubic feet of natural gas hedged at approximately US$5.20 per MMBtu, representing about 17% of its expected natural gas production for 2003.

CrossCity Motorway, a joint venture of Cheung Kong Infrastructure Holdings (50%), DB Capital Partners (30%) and Bilfinger Berger BOT GmbH (20%), started work in January on a major transport infrastructure project in Sydney, Australia. When completed, the 2.2km Cross City Tunnel will revolutionise travel patterns across Sydney, taking a large number of vehicles per day off the city’s streets, improving environmental quality and freeing up the city for pedestrians and public transport.

Hutchison Whampoa Property has put Britain’s most expensive flat on the market – for an estimated £10 million (approximately US$16 million). For those who can dig deep enough, the prized penthouse, located at the Albion Riverside development in Battersea, South London, is the size of three Wembley centre courts. Designed by world-renowned architect Sir Norman Foster, right down to the bathroom fittings, the Albion is both high-tech and high luxury. The top floor, with 13 luxury penthouse suites, is due for completion this year.

The Horizon Cove residential project in Zhuhai, southern China, has been awarded the “Xin Xin Ren Jia (avant-garde) Architectural Design Prize” by the Center for Housing Industrialization Ministry of Construction P.R. China and China Real Estate News for its supreme design and construction.
Felixstowe Expansion Under Way
The Port of Felixstowe in February began work to extend its Trinity Terminal, providing an additional 270m of deep-water quay and 14ha of additional container storage space. The quay is expected to be fully operational by March 2004 and will increase annual capacity by some 415,000 TEUs to over three million, creating around 400 jobs. On completion, two of the latest generation of large container vessels will be able to berth simultaneously, thereby securing the port’s ability to compete against other European container ports. In line with the expansion, the Port has ordered three more Ship-to-Shore Gantry Cranes (SSGCs) and ten new Rubber-Tyred Gantry Cranes (RTGCs) from Zhenhua Port Machinery Company of Shanghai. Meanwhile, in a move that will significantly increase the volume of containers being transported to and from Felixstowe by rail and thus reduce lorry traffic, English, Welsh & Scottish Railway has started a new rail service, carrying 9ft 6”-high cube containers from the Port to Widnes.

New Name for Old Firm
Hongkong United Dockyards in November changed its name to HUD Group, reflecting the diversification and expansion of its business interests. A joint venture between HWL and the Swire Group, HUD specialises in ship repair and marine engineering operations and is also the largest tug and salvage operator in Hong Kong. HUD’s main business interests have diversified over the years to include non-marine activities, including automotive, electrical, mechanical and process engineering services, and container ship handling.

Balboa Boosts Capacity
Panama Ports Company has ordered five new quay cranes for the Port of Balboa Container Terminal from Hyundai Heavy Industries as part of the Port’s Phase III development programme. The procurement forms part of an expansion programme to double the capacity of the port, increasing its fleet of high-speed container cranes to eight.

IT Model is a Winner
Hongkong International Terminals (HIT) has received an award from the IT publication Intelligent Enterprise Asia, for the development of Yard Model 3, a computer simulation model for yard management systems. The annual “Intelligent 20 Awards” showcase outstanding IT implementations with high business value. The award highlights HIT’s use of computer modelling to test processes and workflows in the container yard. With limited terminal operating area, HIT continues to succeed in developing globally recognised systems and processes, handling its 70 millionth container on Nov. 11. In another development that will enhance efficiency, HIT in January launched Guider, a ship planning system that reduces by 25% the time required to create a ship profile. Developed in-house, Guider is a major advancement over previous systems, improving the flow of information between HIT and the shipping lines, and can process planning systems for vessels over 10,000 TEU in size.

JICT in the Loop
Jakarta International Container Terminal (JICT) on Nov. 6 welcomed the arrival of MV E.R Canberra, marking the start of a new weekly route by the AAA Consortium, an alliance between MISC, MOL, OOCL and PIL. In December, JICT completed construction that increases its quay length by 133m, allowing it to serve larger vessels. JICT has also taken delivery of nine new RTGCs and three Post-Panamax cranes.

Container Milestone
ECT Delta Dedicated West Terminal in Rotterdam handled its millionth container on Oct. 7, two-and-a-half years after the fully automated terminal opened.

SICT Direct to Japan
A new direct service has been launched by Powick (HK) Shipping between Shantou International Container Terminals (SICT) and Japan, offering a cost-effective choice to shippers.

All Aboard
For the first time ever, three cruise vessels simultaneously called at the Panama Ports Company. The historical milestone took place on Jan. 19 when Sun Bird from Sun Cruises, Radisson Diamond from Radisson Seven Seas and Coral Princess from Princess Cruises docked at Pier 6 with a total of 6,590 passengers and crew.
**Hutchison Updates**

**Newsbites**

**Retail & Manufacturing**

**Sen – The New Face of Chinese Healthcare**

Introducing a revolutionary new concept that brings the art and science of Traditional Chinese Medicine (TCM) to the western world, Sen, a wholly owned subsidiary of HWL, has opened its first store in London’s bustling South Molton Street.

The store’s emphasis is on expert guidance that demystifies TCM in a way that is accessible and relevant to modern living without losing the ancient Chinese artistry. Fully qualified practitioners are on hand to ensure all customers are given in-depth product knowledge before any purchase. There is also a Liquid Health Bar offering customers caffeine-free alternatives to tea and coffee. Beverages include green tea, herbal teas and herbal juice mixes “for the body, mind and spirit.”

More Sen stores will open in London this year with a national and global launch planned. The retail programme will also include the sale of Sen products through “shops within shops” in established pharmacy and retail outlets.

**Powwow Sold to Nestlé Waters**

Hutchison Whampoa and Nestlé Waters in January signed an agreement for the acquisition by Nestlé Waters of the Powwow group, from A.S. Watson (ASW), a subsidiary of HWL, for €560 million.

Under ASW, the Powwow group started its European “Home and Office Delivery” water business in September 1998. It developed its activities across Western Europe through a series of acquisitions and strong organic growth to become one of the leading players in Europe.

With 1,500 employees in seven countries – France, Germany, the Netherlands, the UK, Denmark, Italy and Portugal – Powwow’s turnover in 2002 was €120 million. The transaction is a result of a major review of ASW’s European businesses following its acquisition of the Kruidvat group, one of the largest health and beauty chains in Europe. ASW will continue its Asian water and beverage businesses.

**Priceline Offers More**

Internet travel retailer Hutchison-Priceline (Travel) has embarked on a major expansion drive designed to revolutionise the breadth of its travel-product choices in Asia.

The addition of these retail products means visitors to priceline.com.hk and priceline.com.sg will be presented with two options that deliver significant travel discounts.

Alongside its innovative Name Your Own Price model, the company has introduced a new range of discounted, published-price travel products. These include car rentals, via a special partnership with Hertz Rent A Car and hotel reservations via a tie-up with octopustravel.com Ltd.

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Basket of Awards Reflects ASW’s Success

Members of the A.S. Watson Group (ASW) raked in an impressive list of awards during 2002, reflecting excellent service, quality and teamwork.

- Nuance-Watson won the prestigious Hong Kong Retail Management Association (HKRMA) “Service & Courtesy Award” in the travel retail category for the fourth consecutive year.
- Nuance-Watson employee Natalie Chan Pui-kei won both the HKRMA “Junior Frontline Award” and the overall “On The Job Performance Award.”
- Fiona Chan Chun-fung of Labels received top honours in the “Supervisory Level Award.”
- Liong Kam-wa, sales manager of Fortress electrical appliance store at Ginza Plaza, won the HKRMA Service & Courtesy Award for Supervisors.
- In the “Yahoo! Emotive Brand Awards” PARKnSHOP was voted the “Brand Yahoo! Users Trust the Most.”
- PARKnSHOP also won Next Magazine’s “Top Service Award 2002” for a record 12th time in the Supermarket/Convenience Store category.
- Great Food Hall was voted “The Best Food Shop” by readers of HK Magazine.
- Watson’s Wine Cellar was voted “The Best Wine Store” by readers of HK Magazine.
- Already a “Superbrand” in Hong Kong, Watsons Water was a triple winner in the “4 A’s Creative Awards” for its latest TV advertising campaign. The “It’s Your Body – Sport” TV commercial earned an editing and cinematography award, while its “Life” counterpart also earned a cinematography award.
- The new Watsons Water bottle, launched in June 2002, won the “Best Packaging Material Printing” category in the Hong Kong Print Awards.
- ASW was presented the “Diamond Donors Award” by the Community Chest in recognition of the group’s donation drives throughout the year, which collectively raised many thousands of dollars for good causes.

Watsons Philippines Sees Rapid Expansion

Watsons Philippines opened an amazing 14 new stores in the last two months of 2002, bringing the total number of outlets to 83 within just a year of operation. Four units were opened in Bicutan, a new shopping mall located near the Manila airport and home to Watsons’ latest expansion idea: full-service beauty departments within department stores. Watsons has opened a 5,000-sq. ft. beauty department incorporating the first nailbar and full facial and treatment room in a department store – customers can even enjoy a mud bath!

TOM Expands Portfolio

In separate joint ventures in December, the TOM Group teamed up with Charm Art & Advertising (Charm), the leading advertising agent of China Central Television (CCTV), and with Henan Ming Sheng Advertising (Ming Sheng), China’s foremost print media advertising agent.

TOM holds a 60% interest in Charm, which has registered capital of approximately ten million yuan (about US$1.2 million). The JV will provide design, production and agency sales services for TV and other media. The JV with Ming Sheng will focus on advertising, design & production for print media and advertising agency services. Registered capital is approximately two million yuan with TOM holding a 51% interest.

Ming Sheng represents over 266 periodicals and magazines and 23 newspapers nationwide. In a separate deal, TOM has acquired the businesses of two Hong Kong magazines, Cup and AV, from Sing Pao Media. TOM agreed to pay approximately HK$800,000 (about US$102,500) for fixed assets and HK$1 for the magazines’ brands and businesses.
When English author and satirist Jonathan Swift coined the phrase: “A penny for your thoughts” in the 1700s, he probably had no idea how relevant that statement would become. These days, thoughts and ideas are worth substantially more than mere pennies. Indeed, creative, innovative and inventive ideas are the hard currency of modern business.

As a young entrepreneur in the 1950s, Li Ka-shing read about a revolutionary plastics injection-moulding machine. At the time the machine was unavailable in Hong Kong, nor could he afford the HK$20,000 (approximately US$2,564) to buy one for manufacturing new products.

So, based on the limited information available and using an air compressor, plastic tubes and a dash of creativity, Mr Li developed a “home-made” moulding machine that worked just as well, if not better, for a tenth of the price.

Such ingenuity helped him emerge as one of the world’s most successful entrepreneurs – at the head of a business empire (including Hutchison Whampoa Limited) that span the globe.

Mr Li has always placed a high value on original ideas to give his businesses a winning edge. Not only does he actively encourage a culture of creativity within the Li Ka-shing group of companies, he also invests much of his personal wealth in perpetuating the creative process, primarily by sponsoring education initiatives in Hong Kong, Mainland China and abroad through the Li Ka Shing Foundation. To date, the Foundation has donated more than HK$4.8 billion (approximately US$620 million) towards education, health and culture.

CREATIVE CITIES

One of the Foundation’s latest sponsored initiatives, entitled “Creative Cities,” brought into focus the symbiotic link between good ideas and good business. Hong Kong and London are uniquely linked by history. While some observers expected ties to be severed after the 1997 handover of Hong Kong to China, the “Creative Cities” initiative demonstrates that connections at all levels – from business and technology to the media and the arts – remain inter-twined.

Organised by the Hong Kong Institute of Contemporary Culture (HKICC) and London’s Institute of Contemporary Arts (ICA), “Creative Cities” aims to forge new kinds of sustained relationships that explore the potential for long-term creative collaboration by providing a platform for young cultural entrepreneurs to share their expertise.

“There are major opportunities to collaborate,” the organisers said. “Creative industries have moved from the fringes to the mainstream.”

MARKETPLACE OF IDEAS

How did it begin? First, 20 outstanding “cultural entrepreneurs” from both Hong Kong and London were selected. The project kicked off last October in London with presentations by “ambassadors” from nine fledgling Hong Kong companies: Crazysmile, CTCWM Advertising, Deepred Design, GOD, Here, IdN, Kan and Lau Design, People Mountain People, Sea/Poo Records and Shya-la-la.

In November, Hong Kong reciprocated, hosting a conference entitled “Mapping the Creative Economy” at the University of Hong Kong where Hong Kong attendees – including many senior representatives from business and government – learned about innovative approaches to developing a creative economy in London.

British Consul-General Sir James Hodge set the tone by correcting a common misconception about creativity. It is not the exclusive preserve of the arts, he explained, but encompasses every sector embracing original thought and expertise.

He noted that British children’s television show The Teletubbies, which was created by two housewives, now ranks among the top-five most successful British exports, while the long-running stage show Phantom of the Opera has earned more than any movie.

Together, so-called “creative industries” contribute 8% to Britain’s GDP, accounting for two million jobs.
and earning approximately US$123 billion a year. Most importantly, he said, creative industries are growing at a rate of 9% annually, while other industries feel the pinch.

“Creativity is about risk-taking, about spotting the next trend,” Sir James added.

Hong Kong’s Secretary for Home Affairs, Dr Patrick Ho, said Hong Kong, with its melting pot of cultures, was a “perfect testing ground” for creative industries. “We have the platform and we have the critical mass,” he said.

With Hong Kong and the Pearl River delta together ranking among the world’s top 20 economies, he saw enormous potential for collaboration.

“We’re in the era of late-capitalism. Creativity is critical for productive strategy. People don’t buy a car; they buy a brand, an image, a lifestyle. It’s a triumph of style.”

In recent years, London has reinvented itself as the “coolest city on the planet,” but this didn’t happen by accident. Graham Hitchen, head of Creative Industries at the London Development Agency (LDA), said decisive political leadership had been key. The LDA was specifically established in 2002 to spearhead the city’s “culture-led regeneration,” starting from the ground up by providing creative industries with affordable rents and business support.

Sir Michael Bichard, rector of The London Institute, said the key to creativity lay in education. Art colleges not only produce fine artists but also designers, filmmakers, pop groups, writers and the entire range of creative talent that is energising and re-inventing London’s economy. After graduating, these young people continued to need support in the form of advice, capital and management skills. The business community therefore needed to be much closer to the creative community, he said.

CREATING WEALTH

So how can creativity contribute to the hard-nosed business world?

Hutchison Whampoa Group Managing Director Canning Fok took the podium to make the corporate case. Ever realistic, Mr Fok was quick to pre-empt the sceptics.

“Creativity doesn’t always make money. There are a lot of poor artists in this world,” he said.

“So what’s so creative about business?” Mr Fok continued. “Isn’t it just about buying low and selling higher? Maximising profit? Bargain-hunting? Turning inefficient companies into efficient ones?”

Not entirely, Mr Fok said. In fact, creativity contributes in many ways to corporate growth, shareholder value and the bottom line. “Business must be creative, and Hutchison especially encourages creativity because that’s what got us where we are.”

He went on to explain the Chinese phrase for business: Sang yee. “Sang means lively; yee means ideas. Our word for business literally means ‘lively ideas’. It means flexibility to adapt to a changing world. Doing things differently. Thinking out of the box. In short, being creative.”

Mr Fok pointed out the famous shopping centre at Whampoa Gardens, which is built in the shape of a ship and has become a Hong Kong landmark. The idea was obviously “out of the box” but Li Ka-shing immediately saw the potential, gave his approval, and the building’s uniqueness put Hutchison’s first residential “Garden City” on the map.

“The ship caused a sensation. Everyone heard about it. It was in magazines and newspapers outside of Hong Kong,” Mr Fok said. “Whampoa Gardens became so popular the investment paid back in two years.”

Mr Li has consistently demonstrated a taste for backing creative enterprises. Creativity certainly counted at Whampoa Gourmet Place, the “hawkers” centre that rescued a tradition of street-stall dining in Hong Kong.

“As Hong Kong modernised,” Mr Fok recalled, “hygiene regulations put hawkers out of business. When we looked at opening a food court we could have chosen familiar brands. But we thought out of the fast-food takeaway box. We got a famous food critic to inspire our cooks, and the public loves it, and the food court makes money!”

Branding is yet another example of how Hutchison works with creative talent to impact markets.

“When we first moved into telecoms in the UK, a lot of people laughed at our brand-name, ‘Orange’. I must admit, I also nearly fell off my chair when our creative people suggested the name! But we went with it and the market soon realised that our brand was no lemon. Orange became the fastest-growing mobile phone operator in the UK. It also won an advertising industry award for capturing consumers’ imaginations.”

Orange, of course, sold for a handsome profit to fund Hutchison’s boldest step yet in telecoms - the third-generation system recently launched.
under the brand-name “3”.

“3 might seem as strange as Orange and, unsurprisingly, the press is again cynical,” Mr Fok added. “They say we’ve dalled the wrong number. But one day people won’t know how they lived without 3G multi-media communications. We’re not only thinking out of the box but thinking way beyond the box.”

SPREADING THE WORD

Following the Hong Kong event, the Creative Cities road-show, co-organised by the Shantou University, moved on to two Li Ka Shing Foundation-sponsored institutions in Mainland China. Seminars at the Cheung Kong Graduate School of Business in Beijing and at Shantou University facilitated similar cultural exchanges while introducing Mainland students to creative concepts.

The Beijing event attracted a large group of CEOs and professionals from the design, media, advertising and education fields. Discussions centred on Britain’s policies on nurturing creative talents, developing entrepreneurial skills and branding. On a practical level, delegates came out in favour of establishing dedicated “spaces” for experimentation in the design and production of products and services.

The Shantou event attracted an equally large turnout of delegates. Discussions covered the prospect of Shantou serving as a host city for similar creative exchanges among delegates from other Chinese cities and countries in the region.

The “Creative Cities” initiative has thus laid important groundwork for the cross-pollination of creative ideas, not only between Hong Kong and Britain but also within the greater China region.

The response from delegates and attendees has been overwhelmingly positive with participants at each event agreeing they had been stimulated by the exchange of new ideas. Younger attendees in particular were encouraged to learn of the significance of creativity in career development.

“The (Hong Kong) seminar has given me a far greater insight into the commercial prospects of my chosen profession,” said design student Sharon Lam. “Listening to delegates and talking to other attendees has helped me realise that businesses need creative talents as much as we need business.”

In time, Ms Lam hopes to hear someone say: “A million dollars for your thoughts.”

KNOWLEDGE + CURIOSITY = OPPORTUNITY

The Cheung Kong Scholars Programme, a joint initiative between the Li Ka Shing Foundation and China’s Ministry of Education, was set up in 1998 to provide incentives for outstanding Chinese academics working in the field of scientific research overseas to return to China to work. At the fifth award presentation ceremony held recently in Beijing, Mr Li delivered a speech entitled The Power of Mauve to illustrate the symbiotic link between creativity and business. The following is an abbreviated translation.

The Power of Mauve

I RECENTLY READ A BIOGRAPHY entitled Mauve: How One Man Invented a Color that Changed the World. Its protagonist, Sir William Perkin, was the first chemist to make a fortune by transforming an invention into an industrial process.

At school in England, his teacher once asked him to perform a chemistry experiment to synthesise quinine. The experiment failed and a black chemical substance was produced instead, which stained the tablecloth purple. This black substance was to become the basic ingredient of aniline, a dyeing agent with extensive industrial applications.

The young man took out a patent for his invention 18 months later and commercialised it. His discovery was to become the “catalyst” for many subsequent inventions by other scientists whose applications in dyeing, pharmaceuticals, cosmetics and food production created industries worth billions of dollars.

Sir William lived more than a century ago, but we can learn valuable lessons from his life story. The resounding success of his scientific work as a teenager was not fuelled solely by his quest for material profit but also by his innate curiosity.

We can imagine how difficult it was for such a young lad to earn the trust of other people. Nonetheless he surmounted all the obstacles before him and persisted in turning his invention into a commercial enterprise. He eventually became an outstanding entrepreneur. At 23 he was already a very wealthy man. As 36 he retired and returned to what he liked doing best – scientific research.

His success was not the result of sheer luck but was founded upon qualities that everyone should strive to possess: keen powers of observation, a voracious appetite for knowledge, a dogged determination to succeed, and confidence to defy all odds.

The scientist Joseph Henry once said: “The seeds of great discoveries are constantly floating around us, but they only take root in minds well prepared to receive them.”

Education is what prepares us – and it should not be confined to the mere transfer of skills. The greatest challenge for educationalists today is to fire our youth with the enthusiasm to pursue knowledge and be part of the learning process. Success in life depends on a combination of different factors, but the most critical one is the ability to grasp an opportunity when it arises and apply the knowledge one has built up.

Competing in business in today’s increasingly globalised world is a battle of wits; it is not for the run-of-the-mill. Like Sir William, we must combine motivation with vision and curiosity, move ahead with perseverance and courage, and seek perfection through innovation in whatever we do.

Finally, I would like to quote a line from the book: “Without experiment I am nothing; still try, for who knows what is possible.”
3 THE DIFFERENCE

In a global economy battered by recession many 3G players have ducked out, but next-generation mobile services have arrived in the UK and Italy under the 3 brand.

By Mark Caldwell

When Julius Caesar conquered Gaul in 51BC, he made formidable use of carrier pigeons to communicate with his home base in Rome. For Caesar, a man very much on the move, the birds represented a cutting-edge advantage — and mankind has been honing his mobile communications capabilities ever since.

On November 26, 2002, mobile communications took another giant leap forward. Calling from Rome, Italy’s Minister of Communications, Maurizio Gasparri, made the first public person-to-person videocall via ‘3’ handsets over the UMTS commercial network of 3. He spoke to Guido Gentili, Editor-in-Chief of business newspaper Il Sole 24 Ore in Milan, and to Hutchison Whampoa Group Deputy Chairman Victor Li in London. Not only were they able to talk to each other, they could see each other as well.

The event was another significant milestone in the rollout of Hutchison Whampoa’s third-generation (3G) mobile multimedia global network, under the 3 brand.

Combining the convenience of mobile telephony with the power of the PC and the depth and interactivity of the Internet, 3G technology is a quantum leap in mobile interconnectivity. In every respect, speed and mobility are the key. Data transmission is much faster now, allowing us to download video clips in mere seconds. It has taken Hutchison less than three years to build its flagship networks, to bring together a rich brew of content offerings, and to provide the revolutionary new mobile devices that are the window to a bright new world of mobile multimedia communications.

The time span between that first videocall and the commercial rollout of the 3 service is itself indicative of the 21st century pace that applies to the “3G race.”

Consumers in the UK and Italy have just begun to experience the world of 3 first hand and the brand is poised to migrate across the globe.

It is today’s equivalent of Caesar’s carrier pigeon overtaking the foot-messenger.

THEN AND NOW

In the past two decades the mobile phone and the personal computer (PC) have swiftly and simultaneously become essential modern-day tools. The emergence of the Internet, too, has had a massive impact on the way people interact with each other and the world.

Until now, the PC and the mobile phone were two very different creatures. One carried voice and was mobile, the other carried data and was desk-bound, but both were great communications tools. The inevitable convergence manifested in 3G represents a brand new era.

Not only does a 3G handset combine the functions of a PC and mobile phone, it incorporates many other useful “devices,” such as a digital video camera, music player, web browser, e-mailer, games console, global positioning device and more.

“It is part mobile, part TV,” said Italian weekly magazine Panorama after a sneak preview of the 3 handsets.

It can also “double” as a newspaper, radio, tape recorder, electronic wallet, barcode reader, word processor, spreadsheet, or personal organiser, to mention but a few.

“It’s almost what happened for media,” says Vincenzo Novari, Joint CEO of the Italian operation. “First, silent films, soundless images, then the burst of the commercial radio – sounds, without images. Finally television – sound and images together – and later even colour TV: a natural evolution that in time has become a true revolution.”

The new 3G technology paves the way for what 3 calls “the natural next step” whereby usefulness and entertainment are brought together in a single package. Never before have so many devices offering so many functions been so conveniently merged for modern man on the move.

“With 3G, it’s a complete fundamental change in mindset.”

Hutchison’s Group Managing Director Canning Fok concur: “These are not telephones. They are powerful multimedia handsets that focus on the eye as well as the ear. There’s nothing like 3G on the market at the moment. With 3, life will never be the same.”

BUCKING THE TREND

Despite the huge potential, 3 has rolled out against a backdrop of disconsolate industry sentiment.

It has not always been so.
In 1999 the global economy was soaring and the telecoms industry was exuberant. Hutchison itself had helped set off a buying and take-over frenzy when in November 1999 it sold Orange, its European 2G mobile telecommunications business, to Mannesmann for a US$14.6 billion profit. (Soon after, Orange again changed hands, this time to Vodafone whose aggressive bid for Mannesmann saw investors push up the price of the stock deal to a world record US$163 billion.)

In April 2000, a bidding war for next generation 3G-licence spectrum began in the UK, sending prices into the stratosphere. Spurred on by a wave of euphoria among analysts, bankers, investors and the media, operators – including Hutchison – collectively spent £22 billion (about US$33 billion) on five licences in the UK alone, and around €150 billion across Europe.

When the German 3G-licence auction attracted bids worth US$45 billion in July 2000, Hutchison again set the tone – this time dropping out in the belief that the prices had gone too high.

The subsequent decline of global markets saw share prices tumble, with the telecoms sector among the biggest casualties. Several operators have subsequently been crippled by the high prices they paid for licences. Some have delayed the heavy investment needed to build the 3G infrastructure, preferring to capitalise on their existing 2G networks. Others have had to offload assets to stay afloat, and yet others have written off their 3G licences and withdrawn completely.

In this roller-coaster economic environment the bulls turned bearish, citing high capital investment costs along with technical issues, competing technologies and potentially low take-up rates that could all derail operations.

Hutchison was not immune from the fallout: “All available evidence indicates that Hutchison is trying to do too much, too fast,” the Far Eastern Economic Review reported in October last year. “Hutchison is presuming it’s already mastered technological and business paradigms that other operators expect will take years to develop,” the magazine quoted Forrester Research as saying. “If it turns out to be right, it deserves to reap...”
huge profits. But the company is more likely to end up as 3G’s biggest early casualty.”

3G VISION

Far from being an early casualty, Hutchison has every expectation that it will turn out to be right. While others have had second thoughts, choosing to sit on the sidelines, the Group has been the notable exception, powering ahead into uncharted territory and fuelled by a healthy bank balance. Perversely, the financial barriers to entry for new entrants and the demise of incumbent rivals has served only to strengthen the company’s position – to the extent that by the second half of 2002 Hutchison 3G was the last remaining 3G-only player in Europe.

Surveying the carnage, the sceptics have tended to lump financial concerns together with doubts over unproven technology. But Hutchison is fully funded and the company is effectively close to mastering most – if not all – of the nuts and bolts of making it all work. This is not the first time Hutchison has disregarded the sceptics. When the Group launched Orange in the UK in 1994 into what critics regarded as an already-cornered market, analysts and journalists quipped that the company was a lemon, that it would be crushed by its incumbent competitors and that the venture would turn sour and ultimately fail. But Orange sparked imaginations and became a runaway success. By 1999 the brand had financed 3G project risk.

In retrospect, the timing was perfect. Hutchison had simultaneously exited at the top of the 2G market and locked in a dividend that would help fund its move to the next generation. The prevailing sentiment towards the 3G market opportunity is therefore something of a déjà vu scenario for Hutchison, reminiscent of those early days of Orange. Throughout the current downturn, Hutchison has been the one company consistently bucking the trend and “bravely going where others fear to tread.”

By any measure, financing and building the 3 network from

(continued on p.23)
ITALY AND THE UK, 3 HAS undertaken the fastest network build-out in the history of the global mobile communications industry.

The Group has also made deals with infrastructure suppliers in the other countries where it has licences. These are at various stages of construction, and vendors include Alcatel, Ericsson, Motorola, NEC, Nokia and Siemens. Apart from hundreds of base stations, complex application architecture platforms have been built to decipher and process the diverse content carried over the 3 networks.

The scale and scope of technical integration taking place behind the scenes is unprecedented in the industry. Hundreds of people working 24 hours a day in shifts have applied their collective expertise to make it work, innovating and adapting on a daily basis.

As the innovators, there has been no roadmap to follow. The process has been one of continued refinement and expansion.

By early March 2003, the network in Italy – built by Ericsson and Siemens-NEC – covered over 40% of the population in 100 cities with 2,400 base stations installed.

“We have taken great care to analyse and minimise the environmental impact,” said Georges Perez, CTO of H3G Italy. “Wherever possible we share base station sites with other operators and our acquisition of the Blu network also helped speed up our roll-out. We always look for designs that blend in and we work with local authorities and the public to provide complete open and accurate information.”

In the UK, population coverage has reached approximately 50%, and the network – supplied by NEC and Nokia – continues to grow with an on-going phased roll-out. Again, great care has been taken to minimise the impact on local surroundings and to work with communities and local authorities.

All the handsets are dual mode, so they can operate over 2G networks where 3G coverage is not available. In both the UK and Italy, 3 has roaming agreements in place with 2G networks, including international roaming in approximately 100 countries – so users may occasionally be out of the picture, but they need never be out of touch.
Agreement with Australian Cricket Board to provide cricket content in Australia.

Wins 3G licences in Israel and Republic of Ireland.

In January, concludes a € 5.2 billion facility from banks, vendors and government agencies to fully fund H3G Italy.

Acquires Italian cellular sites from Blu for € 58 million.

Selects Nokia to supply a network in Austria.

Agreement with Vodafone and Mobilkom to provide 3G national voice and data roaming in Sweden and Austria.

Agreement with Vitaminic to provide music content in Italy.

Contracts with Motorola in June and NEC in November for the delivery of 3G wireless devices.

Acquires exclusive rights to transmit football content of leading teams in Italy and the FA Premier League in the UK.

Agreement with Motorola in June and NEC in November for the delivery of 3G wireless devices.

Cool Tools

The handsets – a choice of three initially – are manufactured for 3 by NEC and Motorola. They are light, stylish, simple to use and, above all, they deliver the goods, combining the functions of a variety of electronic devices.

Your “phone” is also a PDA, MP3 player, a camera and much more, providing communication, information and entertainment in a single package. The sound quality is superb and colour and clarity of video clips is beyond comparison with any other mobile device. If the necessarily small screens prove insufficient, moving images can easily be transferred to a laptop computer or larger screen.

Apart from groundbreaking applications such as mobile videocalls, multimedia messaging and e-mailing, there’s a massive databank of information available at your fingertips. The range of content is already considerable in both the UK and Italy. You can choose from the categories: Voice, Video Calling, Locate, Sport, Games, Messaging, Lifestyle, News & Finance and Extras. Not only does your handset double as a personal digital assistant (PDA) with a calendar and contacts function but there’s also a plethora of information available in real time.

You can choose to view up to 30,000 news articles and 55,000 financial updates a week, receive TV, radio and cinema listings, plus access a “fastdial” cinema ticketing service. Comprehensive business listings will help you find what you need and show you how to get there with maps and directions based on your exact position. Sports fans can access news and video highlights of football action or play a selection of arcade-style and interactive games to suit every taste. Of course, you will also be able to make calls at highly competitive rates and enjoy roaming services in around 100 countries.

To ensure smooth delivery of the diverse selection of content, 3 itself has had a close involvement with the development and design of the inaugural handsets but this is expected to decline as the market matures.

“Many of the things we have done are
Agreements with SEB to provide e-banking in Sweden.

Agreements with Svenska Hockeyligan AB and ISPR to provide ice hockey content and home games of the Swedish National Football Team and UEFA cup matches in Sweden.

Agreement with BBC Technology to manage the production of audio-visual content in the UK.

Forms partnerships with nine companies to develop games for 3G global markets.

Mediadigit (Mediaset Group) and Ansa selected for the production of micro newscasts and financial information in Italy.

Agreements for the distribution in Italy of more than 20,000 pieces of music from the major national and international labels.

Agreements with five companies to deliver digital mapping technology and location-based services in Europe.

Announces the global brand name “3” in July.

3 brand identity unveiled in October.

In Italy, the launch offer includes two tariff formulas: Top3 Executive and Top3 Privilege. Both packages are all-inclusive and revolutionary in their simplicity and transparency.

They differ in price depending on whether the customer chooses to lease or buy the handset.

Top3 Executive includes a monthly service fee of €85 once a handset has been purchased. For €140 per month, in addition to the “all-inclusive” formula, Top3 Privilege clients can rent the terminal with the option of substituting it once a year.

The bundles include a weekly allocation of: 600 minutes of voice calls; 600 minutes of video calls; 150 SMS and 50 MMS messages; 100 e-mails; and 100 content downloads.

The offer was available from November 2002 until March 2003. Additional charges apply to international calls, usage while abroad, directory enquiries, and premium rate calls.

Top 3

world firsts,” says Oisin O’Conner, Product Development Manager for 3. “The content we have put together and the way we have edited it specifically for our devices is leading edge stuff.”

Other applications will surely come – the scale of 3’s content offerings will be bounded only by the scope of the human imagination.

As a consequence of the anticipated explosion of the new technology and content, the variety of handsets on offer is expected to increase quickly, with new models evolving to meet individual requirements. To help keep pace with developments, 3 has put options in place to enable subscribers to upgrade their handsets as new models come to market.

The prices for handsets and services have been individually tailored to suit the UK and Italian markets. Both have launched introductory “all-inclusive” offers which include the “bundle” of services (see sidebars, p.18; 22). Details of handsets and specifications currently available can be found at 3’s websites at www.three.com.
NEC becomes strategic partner in Hutchison Telephone and H3G HK.

Agreement with NEC to increase the Nov 2001 order of 3G videophones from one million to two million.

Agreement with THQ Inc to develop and publish gaming and entertainment content in the UK.

In November, announces tariff plans for "Founder’s Club" in Italy and begins receiving reservations via its website.

30 million advertising campaign begins in Italy.

3 throws "Trendsetters Parties" in Rome and Milan.

Italian Communications Minister makes first videophone call over the 3 UMTS commercial network.

Aesthetically Teasing

WHEN THE 3 ADVERTISING CAMPAIGN kicked off in Italy in November, it disrupted the usual rules of advertising and made an immediate impact. Italians, who are used to being surrounded by beauty, were immediately drawn to the distinctive imagery. No products or services were actually featured – just strong images of people: a matador, a nun, a beautiful woman – and a particular attention to the 3 values, or emotions, associated with each colour.

Both the poster and video campaigns put the user at the centre, with the 3 services offering the opportunity for individuals to magnify their creative and communicative potential.

The underlying message was simple: 3 is not about the technology but about life itself – fantasy, emotion, drive, passion, simplicity and surprise.

“The first part of our strategy has been to present our brand and its values before anything else,” says Vincenzo Novari, Joint CEO of 3 in Italy. “We are out of the ordinary both from a marketing and advertising point of view.” We then moved onto the second phase, which is inversely proportional to the initial one: at first, we decided to eliminate products and services and concentrate on the brand; now, the stories are told through the application of some of our services.

The company also selected 333 VIPs to be the first customers. They were invited to two parties in Rome and Milan and were the first to receive, test, and give their impressions of the videophones.

Additionally, dealers throughout Italy have been visiting the places frequented by high-spenders, who include technophiles, trendsetters and professionals on the move (3’s early target market), to engage them on the benefits of 3.

“It might seem that our approach is more ‘top-class focused’ than the one chosen by our UK colleagues,” says Novari. “This is partly true, but we are dealing with two very different markets. We are brothers, but not twins.”

Italy is the leading player among the densely populated countries on a continent where mobile communications are part of daily life for millions. (90% of the population uses mobile phones, compared to 51% in the US and 80% in the UK.)

“To us, this means that the ‘pinnacle’ is a very fertile place to launch the most
In Sweden, 3 teams up with children’s hospital to help fund and lay the groundwork for providing health care services through 3G technology.

The first flagship store Negozio 3 opens in Milan on Dec. 13.

Visitors to the Auto and Motorbike International Exhibition of Bologna try the 3 videophones.

Pre-registration for first 20,000 “Founders” customers begins in the UK via its website.

Carphone Warehouse and Phones 4U become retail partners to sell 3 products and services across the UK.

Launches first phase of marketing campaign to build consumer awareness of the 3 brand in UK via viral, online, and ambient marketing.

The 3 logo is beamed onto Big Ben on New Year’s Eve.

In Sweden, 3 is proving that, besides all the fun stuff like sports content and multimedia messaging, the 3 service will have an important role to play in areas such as health care.

In co-operation with the Astrid Lindgrens Children’s Hospital in Stockholm, 3 has set up an initiative that will help the care of very sick children in their homes.

Starting in Spring 2003, mobile teams that treat the sick children will be equipped with mobile handsets from 3. They will mostly use videocalls which will make it possible for worried parents to communicate with the hospital and, via their 3 handsets, directly show the sick child so that a doctor can judge the child’s condition.

Help from specialists at other hospitals will also be possible.

To further assist health care of children, the company donated 200 handsets and pre-paid subscriptions for 3 services. These were auctioned to the public – 100 via the Internet and another 100 at a live auction on March 3 involving business leaders and celebrities. The proceeds – approximately 1.5 million krona (US$175,000) – will go to SABH (Sjukhusbaserad Avancerad Barnsjukvård i Hemmet) the department under the Astrid Lindgrens Children’s Hospital responsible for advanced home-care for children. The extra cash will allow SABH to support a second mobile unit and significantly increase its home-care services to patients.

“We believe that this is the health care of the future,” said Henrik Almkvist, head of Astrid Lindgrens Children’s Hospital. “Treating sick children in their homes raises the quality and efficiency of the care. This is good for the sick children, their families and for the hospital.”
A "DOG AND BONE" MEANS "PHONE" IN COCKNEY rhyming slang. But the sight of three attractive models taking TV sets for "walkies" along London's Oxford Street left many observers speechless. It was all part of 3's eccentric, tongue-in-cheek promotional campaign.

"We're taking a non-traditional approach to the market," says 3 UK Strategy and Marketing Director Lisa Gernon. "So in the first phase we used online advertising, viral marketing techniques — such as short comedy video clips distributed by e-mail — and what's called 'ambient' marketing activity. The latter included projecting the 3 branding onto buildings; hiring actors with tattoos of the 3 logo on their heads to show up at London nightclubs; putting small TVs running video loops in unlikely places — including the 'dog-walkers' towing small TVs on a lead up and down Oxford Street."

"At the start of this year we became much more visible, introducing full mass-market 'above the line' advertising with a high-profile — and well-received — TV and cinema campaign. But the overarching point of our approach is that 3 is different to the rest — hence the fresh and irreverent approach."

"From our research we have a very clear idea of who we're targeting and what they will respond to. Different segments of the market are attracted to different components of the 3G experience, so we have a number of teams developing differing propositions which we will be rolling out over the year. There..."
are a lot of preconceptions about what type of customer will be interested in 3G – and most of those preconceptions are not based on any kind of research. Well, we’ve done the research. We’ve spoken to pretty much every kind of potential customer imaginable, and we have some detailed and robust strategies to reach the key groups in question."

The first TV ad appeared in mid January and depicted the age-old problem of fans trying to describe a great soccer sequence with the aid of ordinary objects that come to hand, such as salt and pepper pots or pieces on a chess board. The segment ends with a video clip of the actual goal shown on a 3 handset. The ad struck the right note and was judged “Pick of the Week” by the advertising industry ‘bible’ Campaign Magazine.

Charity auction of 3 handsets and services raises more than 1.5 million Kronas (US$175,000) for children’s hospital in Sweden.

3 demos video call to Swedish spectators at a 3 sponsored ice hockey game.

The first handsets are delivered to paying customers in Italy and the UK in mid-March.

Banks extend loan to 3 UK to March 2005.

In the UK, the “founders’ launch offer includes two cost-effective bundles named Kit on 3 and Kaboodle on 3 for customers looking to pay a fixed monthly cost.

A third price plan, named 3ToGo, is for customers whose typical usage is lower and who are looking for more flexible options on a pay-as-you-use basis.

With the 3ToGo plan, there are no line rental or monthly charges. Customers only pay for what they use at rates ranging from 5p a minute for calls to other 3 subscribers to 25p to £1 for video downloads.

The Kit on 3 option carries a fixed monthly cost of £59.99 which includes a monthly allocation of 1,000 minutes of voice calls; 100 video call minutes; unlimited e-mail; 250 text messages; 50 video downloads; 60 picture messages and 30 video messages.

Kaboodle on 3 costs £99.99 per month for 12 months and includes a monthly allocation of 2,000 minutes of voice calls; 200 video call minutes; unlimited e-mail; 500 text messages; 100 video downloads, 120 picture messages and 60 video messages.

Additional charges apply to international calls, usage while abroad, directory enquiries and premium rate calls.

In all cases, customers must first buy the handset and there are a number of attractive introductory discounts for early adopters.
scratch is an enormous undertaking – in some ways comparable to the complexity of space exploration. But the Group has already built and tested the “vehicle” and believes it has the vision, stamina and the financial heft to now make the journey.

“Yes, there have been difficulties,” says Colin Tucker, CEO of Hutchison 3G UK. “This is cutting-edge technology and we’re innovating every single day. The key point is that we overcome those difficulties, we focus on them like a laser beam, one by one, until they’re fixed. Like any good consumer-facing business we will use ongoing research to fine-tune our proposition on a rolling basis.”

Inevitably, the Group’s progress has been under intense scrutiny by partners, investors, competitors and the media.

“The big question has been: ‘Why is Hutchison so bullish about 3G when others are not?’”

Apart from the company’s financial security, it’s in large part a matter of experience and perspective. “You have two of the most successful consumer technology revolutions in the history of mankind brought together in one device,” commented Hutchison Chairman Li Ka-shing. “We are not sitting on our 3G licences. We are now going at full speed.”

Revered in Hong Kong for his business prescience, Mr Li has travelled several times to Italy and the UK for detailed reviews on 3’s progress. Group Managing Director Canning Fok is an even-frequent flyer.

“They know every detail of the operation,” commented one insider.

With a strategy that stretches at least 20 years into the future, the Group is well prepared to meet the considerable challenges – and seize the opportunities – inherent in such a huge undertaking.

The company has conducted extensive consumer studies globally (see sidebar, p.16) and has a clear picture of the potential marketplace. And while it is impossible to exactly predict the future, it’s nevertheless instructive to cast an eye on the recent past.

It was as recently as 1980 that IBM approached Microsoft to develop its personal computer project, unleashing its first PC in August the following year.

The World Wide Web was born in 1990 and in just its third year in existence was growing at a rate of more than 3000%.

Whereas in the late ’80s, a mobile handset was a bulky symbol of wealth and status, today’s much smaller version is an essential, everyday part of life, almost as common as fixed-line phones.

More than a billion people globally now use mobile phones, with around 400 million handsets sold in 2002 alone.

SMS was once derided as a peripheral feature with limited potential, yet 366 billion messages were sent in 2002. SMS currently generates an estimated £100 million a month in the UK alone.

These changes have all occurred in spite of the ups and downs of economic cycles. With a longer-term perspective, a bright future for 3G is highly feasible.

London-based consultancy Thinking Box believes that in five years 3G penetration will hit 50% in Europe and could be as high as 75% in some countries. That’s a lot of potential revenue.

The UMTS Forum also sees plenty of upside: “Acknowledging the substantial investments in network infrastructure and the high cost of licensing in some countries in Western Europe, the market opportunity for 3G is nevertheless massive.”

Mobile users would double to two billion in ten years with a substantial proportion using 3G technologies, the UMTS Forum predicted. “Thanks to the extended appeal of 3G’s increased speed, capacity and value-added capabilities, service revenues will grow even more spectacularly.”

**Step by Step**

Hutchison has remained steadfastly upbeat about the business proposition of 3G, and has moved quickly to establish itself as a serious global contender.

It has acquired licences in nine countries, shopping more wisely than competitors and paying far less on average for spectrum. (The company’s attributable licence cost in the UK, for example, is more than 40% lower than that of the other four incumbents.)

While investment costs have been substantial (approximately US$17 billion in total), the Group is within its budget, deploying part of the proceeds from sales of 2G assets, forming strategic partnerships with global players like NEC and DoCoMo, and securing adequate bank financing (see sidebar, p.14) in an extremely difficult market.

The Group is far more focused than competitors, who plan to gradually migrate but are currently torn between collecting the 2G dollar and preparing for a 3G future. Unencumbered by the old technology, 3 has forged ahead to master the new.

“In Europe, we have the opportunity to be a ‘pure 3G player’ with no legacy network and therefore can employ cutting edge technology from day one,” says Novari.

Hutchison understands that it is very important to maintain first-mover advantage by doing all it can to deliver on customer expectation. In the long term, the Group is confident that 3 will prevail.

“There have been so many milestones along the way for us to celebrate,” said Bob Fuller, Joint CEO of H3G Italy. “And all the while the world has had its nose pressed to the glass, eager to find out what we are doing and see a slice of the action.”
HARDWARE HAVENS

By Justin Quillinan

WHEN 3 OPENED ITS FIRST European flagship store in Milan on December 13, customers entered a world of cacti, trickling water and plasma screens. Hostesses eased style-conscious Italians into luxurious chairs and put them literally “in the picture” with one-to-one introductions to the videophones that let them see and be seen. Cities throughout Europe are littered with mobile shops, but when it comes to demonstrating the opportunities ahead nothing compares with the 3Store experience.

The environment is like no other – a tantalising juxtaposition of rock and timber against metal and microchips.

Cities throughout Europe are littered with mobile shops, but when it comes to demonstrating the opportunities ahead nothing compares with the 3Store experience.

The environment is like no other – a tantalising juxtaposition of rock and timber against metal and microchips.

The new stores in Italy and the UK resemble ultra-chic, minimalist art galleries and are designed on the principles of Feng Shui, the ancient Chinese philosophy of harmonising and communicating with your environment.

On entering a 3Store there’s excitement in the air because this isn’t about buying a commodity, it’s about buying into a lifestyle. While the 3Stores radiate boutique-chic, attention quickly shifts from admiring the decor to seeing what the technology can do. It’s crucial, of course, for prospective customers to understand what 3 can do for them. To this end, the company has acted swiftly to create a small army of experts. By the end of January more than 1,000 retail staff in the UK – both in 3Stores and third-party outlets – had received training to explain and demonstrate these powerful new handsets.


To ensure 3G does sell, Hutchison is committed to delivering an experience that is simple, useful and enjoyable.

It’s not the underlying scientific wizardry of 3G that impresses but the seemingly magical delivery of a vastly superior, more flexible and more varied mobile multimedia experience.

“3G is alive and well,” Mobile News reported. “During a recent visit to the out-of-town offices of 3 we saw live person-to-person video, TV news broadcasts over a mobile link and Premiership goal replays. It was impressive. The handsets are more than watchable and at the same time are ‘approachable’ pieces of technology. Having seen the devices working … we are less sceptical.”

In February, Bruno Guissani a Zurich-based journalist and the author of Room: Making Sense of the Wireless Internet, reported: “I travelled to Milan, bringing along a lot of scepticism fed by years of wireless hype. I spent an afternoon at Hutchison, spoke with many people, asked questions, made video-calls using their handsets. And got back to my hotel that evening thinking that if someone has a chance to make 3G work in the near future in Europe, it’s 3.”

Dow Jones also saw significant upside. After testing the system in Milan and London, the newswire service posed the question: “Will 3G sell?” The conclusion: “A resounding maybe.”

“3G does sell,” according to Hutchison’s management, who had received training to explain and demonstrate these powerful new handsets.

In Italy, more than 1,600 people had received training.

“There is a real sense of discovery for customers,” said a staff member at the Milanese store, which is located just a block from the landmark Duomo Cathedral. “They are amazed and engaged and entertained … I don’t have to ‘sell’ anything, just show and teach. When they see what 3 can do, they want to be part of it.”

The 3Stores are structured to create a route – an absorbing experience in which the three families of services – information, communication and entertainment – are emphasised as the customer proceeds.

“IT is clear that 3 doesn’t offer just another telephone,” observed the Italian daily La Stampa. “It wants to present itself as an innovator that can be attractive also from a cultural point of view.”

The proposition is reflected in the uncomplicated 3 branding. As an entirely new product, 3 aims to make life more colourful, more convenient and more fun in a world where usefulness and entertainment are not alternatives. The complex technology is simply what makes it all work.

By March, leading UK consumer magazine Stuff featured 3 in its cover story. “We’ve seen 3G and it is amazing,” Stuff enthused. “This is the hottest new technology in ten years.”

LET THE GAMES BEGIN

There are compelling reasons to believe Hutchison’s business plan will confound the sceptics and succeed.

In terms of both infrastructure and content, 3 is already way ahead of the curve. It has moved very quickly to secure prime licences, build networks, establish the IT enterprise architecture, collaborate with manufacturers to develop handsets, form partnerships with content providers, create the global brand 3 and prepare for
This "inclusive" approach sets 3 apart from the rest of the mobile retail industry.

Typically, a mobile phone shop is a cluttered affair with racks of dummy phones that no one can actually use. But the 3Stores are roomy and serene and feature a small number of "portals" which customers are encouraged to try out for themselves with the help of expert assistants.

It’s not a high-pressure sales approach, or an experience for "nerds" – it’s a gentle introduction to a new video world. Even the briefest visit sparks the imagination and leaves you with plenty to think about – and act upon. Marc Allera, UK Director of Retail Sales, stresses the differences between “box shifting” and initiating the general public into a whole new experience.

“You won’t see handsets locked away in cabinets here. As soon as you walk in you can try the services for yourself.”

He lists the most popular, so far, as videos of Premiership football goals, person-to-person videocalls, multimedia messaging (MMS) and text-to-speech e-mail.

"The environment in our stores is constantly changing, so it’s organic, flexible and fluid. We can change the customer experience overnight so that we always remain fresh."

Mike Ord, Manager of the Oxford Street store, says: “I expect the public to be attracted to the stores because of the way they look – modern and clean, cool on the outside but warm and welcoming on the inside. It’s all about encouraging people to interact with us. We have so many ‘wow’ products. This is just the starting point for us and we’re going to blow people’s socks off when they understand what we can do.”

Including the “Negozio 3” flagship stores, franchise outlets and multi brand outlets, some 1,200 stores in Italy now offer 3 products and services.

In the UK, three dedicated 3Stores – two in London and another in Birmingham – offer customers the 3 experience, and these are backed up by high-street retailers such as Phones 4U, Carphone Warehouse, The Link and selected Dixons stores where customers can purchase the hardware. There are also plans to open stores-within-stores at branches of Superdrug outlets, which are Hutchison-owned.

Customers can also browse or register at www.three.co.uk or www.tre.it
A stroll through the shopping areas of any major metropolis can often reveal more about a company than a sheet of facts and figures. In the case of Hutchison Harbour Ring (HHR), this is particularly applicable. Saturday in Hong Kong or New York or Tokyo sees thousands of shoppers thronging retail stores, searching for the latest hot new video game consoles, futuristic action figures, digital cameras, computer and mobile phone accessories and other examples of high-tech wizardry. The young and the young-at-heart lead this charge, and each new product is greeted with fascination and enthusiasm.

Most of these shoppers, however, are unaware that HHR’s influence is everywhere they look, for the products they crave carry well-known brand names not readily associated with the company. Yet the popularity of these products provides compelling evidence of HHR’s important role in the global supply chain, as the company effectively provides the brains and the brawn behind many of the world’s favourite toy and electronic products.

HHR is at the top of the game when it comes to the design, development and manufacture of a substantial range of toys, electronics, and premium products for big-name brands such as Mattel, Takara, Hasbro, NEC and Motorola.

It is a position the company has attained through years of sustained progress.

The role of Hutchison Whampoa Limited (HWL) in this story began in 1994, when it took a 21% stake in a Hong Kong publicly listed toy manufacturing and property company known as Harbour Ring, which was founded by the Luk family.

By 2001, this share had increased to 50.5%. A new board was installed, with seven of the ten executive directors coming from HWL. Along with the facelift came a name change, and Hutchison Harbour Ring was born.

GAME PLAN

With over 20 years of manufacturing experience in Mainland China, HHR has quickly been positioned as a manufacturing division of HWL. In turn, the acquisition by HWL represents a new growth direction for HHR.

HHR Deputy Chairman Dominic Lai, who is also an executive director of HWL, confirms that HHR’s role as a manufacturing vehicle could make it a key player in Hutchison’s game plan.

“There is great value in HHR’s manufacturing business, and Hutchison Whampoa is harnessing this potential by opening doors for them. We can add value and transform a good company into something even better.”

The synergies between the two companies make HHR an attractive proposition for customers, business partners and investors alike. HHR is one of the world’s leading original equipment toy manufacturers, occupying a prominent role in the world’s largest toy export region. The company has maintained a presence in China for over 20 years and now owns four modern and
efficient manufacturing facilities in the Mainland, putting it in a perfect position to reap the benefits of China’s accession into the World Trade Organisation.

The four factories – located in Dongguan, Guangzhou and Zhongshan in southern China – develop and produce hard, soft and electronic toys for some of the toy world’s biggest names. Strong relationships with leading companies is a recurring theme in the company’s success.

“Our approach is to focus on our customers and build long-term partnerships with them,” explains Deputy Chairman Lewis Luk. “To give these customers world-class service, you have to be innovative.”

**UP THE VALUE LADDER**

This commitment to innovation is manifested throughout the company, and has led to one particularly important development – the establishment by HHR’s subsidiary i.Tech Dynamic Limited of the company’s Technology Division, which focuses on electronic, premium and ODM products.

“Such a progression was natural in light of HHR’s existing strengths, says HHR Executive Director Michelle Chan, who is also General Manager, Group Business Development of HWL. “It is one example of the fundamental growth that is occurring under HWL’s stewardship.”

Mr Lai elaborates: “To boost HHR’s efficiency and productivity, we are focusing our efforts to increase the use of high tech in the production process to make high-value retail products. HHR’s toy product portfolio already included many electronic components, and we believe that the move into high-value-added products is a reflection of the company’s natural adaptation and engineering capabilities.”

HHR’s Toys Division has long-established expertise in manufacturing a range of products like digital cameras, video game controllers and educational electronic toys. The establishment of the Technology Division enables the company to bring this expertise to the lucrative arena of electronics and telecommunication accessories.

The evolution from an original equipment manufacturer (OEM) into an original design manufacturer (ODM) represents an awareness of the company’s strengths. Rather than acting solely as the manufacturing power behind the brand name, as an OEM does, an ODM also designs the complete product, based on customer requirements. This allows for the greatest level of customisation and product differentiation, and enables HHR to fully capitalise on the Hutchison Group’s blue-chip customer portfolio.

Accordingly, the Technology Division applies itself to the research, manufacturing and marketing of a selection of high-tech premium products such as accessories for mobile phones and PDAs (see sidebar, p.30). In this respect, HHR is leveraging not only on its vast operational experience, but also on...
Hutchison’s ability to introduce world-class business partners and customers.

“The client base is critical,” explains Ms Chan. “Hutchison can open doors for HHR through its global network of business partners.”

This has proved particularly important in Japan and the US, where HHR is able to utilise Hutchison’s established resources to build business in key markets. The Hutchison Group already has offices in these countries, allowing HHR to establish an on-the-ground presence relatively swiftly. In addition, Hutchison’s financial strength provides HHR with enhanced flexibility. Together, Japan and the US account for over 60% of HHR’s toy sales, and the Technology Division expects a similar spread for its customers and business partners.

“We have strong relationships with many brand names for both the Toy and Technology Divisions,” explains Mr Lai. “Before HWL’s acquisition, Harbour Ring could approach these names as a relative outsider, but now they work with us very closely to see what we can make for them. Our name and financial resources can help HHR obtain the best terms.”

**Winning Team**

HHR’s improved global capabilities would count for very little, of course, were it not for its proven manufacturing expertise. Accordingly, the company owes much to a culture that values, above all else, learning and advancement.

“We are committed to continuously improving ourselves by learning the kind of new technologies and systems that are applicable to today’s competitive manufacturing environment,” Mr Luk confirms. “In order to work with companies such as Motorola and NEC, we have to make use of very advanced systems.”

The company deploys a variety of world-class procedures to realise this vision, and in the process has become one of the leading manufacturing operators in
Hutchison Harbour Ring (HHR) has been producing digital cameras and video game controllers under its toy manufacturing division for some years, and Hutchison has been quick to identify a potentially huge new market for its products. Accordingly, the subsidiary i.Tech Dynamic Limited was established to research, manufacture and market electronics, ODM toys and other items.

A glance at some of the products being produced by the company’s Technology Division is to step into a futuristic world of next-generation consumer electronics. Hands-free MP3 players, Bluetooth headsets and mobile phone chargers are some examples of accessories already being produced for some of the world’s biggest telecommunications brand names. Along with these are gadgets like the 360° camera module for mobile phones and various other futuristic products that are at advanced stages of development.

Unsurprisingly, Hutchison has been able to introduce names such as Motorola and NEC to HHR’s production capabilities, and the future for the Technology Division already looks assured.

The Technology Division boasts a closely integrated supply chain that enables the company to manufacture innovative products from conception to completion.

The story often begins in one of the handful of world-class R&D houses and university institutes dotted around countries such as the US, Japan and Israel. HHR has established partnerships with a number of these organisations, enabling the company to provide valuable support for the initial development of the product prototype.

“It’s not unusual for a designer to approach a telecommunications business with a great idea, only for him to then be sent to us,” says Deputy Chairman Lewis Luk. “These companies need something they can sell, not just ideas. We develop ideas on behalf of designers and turn them into actual consumer products.”
Once the prototype has been developed, HHR can call on Hutchison’s global capabilities to source the ideal customer and market the product effectively. The product is then manufactured at the Technology Division’s state-of-the-art Guangzhou manufacturing facility, enabling the customer to take advantage of HHR’s efficiency, productivity and economies of scale, which translates into cost savings for both the customer and the end consumer.

As a new entrant to the market, the Technology Division engaged in a major business development drive during 2002. The company has formed alliances with technology partners to further upgrade design capabilities. It has also embarked on a policy of making select acquisitions to speed up growth, beginning with a 65% shareholding of games control manufacturer Try Electronics Japan Ltd., which was acquired in the fourth quarter of 2002.

With its proven “one-stop services” capabilities, the Technology Division has already entered into MOUs with several leading companies. These include deals to co-operate on R&D, manufacturing and marketing of Bluetooth-enabled mobile phone accessories, game controllers, computer accessories and other related products. In several cases, purchase of goods agreements and equipment supply agreements are already in place with blue chip customers, including Motorola and NEC.

It is not external customers alone who benefit from HHR’s technological expertise but also Hutchison Group companies. With HWL’s widespread retailing interests under the A.S. Watson Group (ASW), HHR is extremely well positioned to develop and manufacture products for ASW’s extensive global network of health & beauty chains, supermarkets and consumer electronics stores.

Furthermore, Hutchison 3G is expected to be a major customer as it launches its new services and products under the 3 brand. Many of the products in development are being designed specifically for 3G handsets and devices, and promise significant synergies for the Group’s global mobile multimedia communications arm.

As a company that precisely marries the benefits of advanced technology, manufacturing expertise and global connectivity, HHR’s Technology Division looks set to prosper in the information age.
In her capacity as sales manager for a large manufacturer in Mainland China, Flora Chan Pui-wai travels extensively around the region. Whenever she visits Hong Kong’s Chek Lap Kok airport she makes sure she has plenty of time to spare for shopping at her favourite stores. “I am a cosmetics junkie,” she admits, “and there’s always something new at the airport. They have a great selection, including special travel packs and one-offs that just aren’t available anywhere else.” Flora is such a good customer that many of the sales staff know her by name.

Flora is not alone in her spending habits. Travel retailing has become increasingly big business. According to the Hong Kong Airport Authority’s annual report, the organisation received almost HK$1.82 billion (about US$233 million) in revenue from its shopping complex and other commercial premises in 2001, second only to the HK$2.27 billion generated by aircraft landing fees, parking and other charges. The bulk of this income was generated from airport retailers who have concessions from the authority to operate shops, restaurants, bars and other facilities in the airport’s SkyMart retail zones.

“After four years of operation, Hong Kong SkyMart is clearly identified as a comfortable alternative to downtown retail,” says Christina Cheng, Group Manager for marketing and business development at the Hong Kong Airport Authority. “In fact, the scale of SkyMart makes it a destination in itself: we have 150 outlets, of which 80% are retail and 20% catering, housed in over 32,000 square metres.”

At the vanguard of this development is Nuance-Watson, a joint venture between the A.S. Watson Group (ASW) and the Nuance Group, the world’s largest airport retail company with over 400 stores in 55 airports around the globe. Nuance-Watson, which is the largest retailer within the Hong Kong International Airport (HKIA), began operations in 1998 and expanded into Singapore’s Changi Airport in 2001, when it was awarded the Perfume and Cosmetics concession for Terminal 2.

“The Nuance Group is at the very heart of the business,” explains Alessandra Piovesana, Managing Director of Nuance-Watson’s New Horizons Duty Free. “With their deep knowledge and understanding of the industry around the world, they keep us abreast of developments and help us with contacts for our selection of brands. ASW, on the other hand, is invaluable for its strength of organisation, its vision of development and business strategy. ASW is a well-known and very established retailer in Asia, and its proximity is a great advantage.”

Currently, Nuance-Watson (HK) operates 27 retail stores in Hong Kong, occupying 40,000 square feet of retail space and employing over 500 people. At Chek Lap Kok, Nuance-Watson’s New Horizons Duty Free has a market share of about 45% and currently holds two of the three main “anchor” concessions –
General Merchandise and Perfumes & Cosmetics (the other being Liquor & Tobacco). It also operates brand stores such as Hermes, John Lobb, Bvlgari, Bally and Fortress, along with outposts for Brother, Shu Uemura, Samsonite and Hedgren. Other brand names in the New Horizons Duty Free stable include Rolex, Omega, Cartier, Montblanc, Hugo Boss, Ermenegildo Zegna, Shanghai Tang, Sony, Godiva, Timberland and Dunhill, to name just a few.

In Singapore, Nuance-Watson currently operates 14 stores, which occupy approximately 22,000 square feet and employ over 290 people. These stores are all under the Perfumes & Cosmetics concession and include Giorgio Armani and Mac concepts.

DISTINCTIVE MERCHANDISING
The growing success of Nuance-Watson in the Asian travel retail market lies in part with its distinctive merchandising strategy. Eschewing the traditional “department store” approach, which offers a variety of miscellaneous goods under one roof, New Horizons Duty Free segments its products according to category, giving each store a unique and singular identity. International luxury brands are found in The Atrium, contemporary fashion is located in the Labels store, electronics in Sound & Vision, and so on (see sidebar, below).

“In general, most big brands sell well in an airport retail environment,” says Operations Manager, Clarice Au, “and there are items such as luggage and accessories that obviously have a high sensitivity and appeal. Destination food and souvenirs are also a specialised segment. In travel retailing you have to anticipate the specific requirements of the

YOU COULD, IN THEORY, ARRIVE AT Hong Kong International Airport (HKIA) with little more than a passport, ticket, credit card and some time to spare – for once you’re past immigration you’ll find yourself in a world of retail opportunities that rivals the city’s most enticing shopping malls.

The SkyMart shopping complex offers a huge variety of stores which all are committed to serving you, the traveller.

So, without further ado, grab a shopping trolley and hit the retail trail.

To start, pick up all the gear you need for your about-to-begin tropical adventure from Labels, where you can kit yourself out in latest fashions from brands like Calvin Klein and Esprit.

With the basics taken care of, aim for The Atrium where you can treat yourself to that Cartier (or Rolex or Omega) watch you’ve always wanted, or invest in a Montblanc pen to add some style to your postcards. Then pick up some to-die-for luggage from Dunhill or Coach. And while you’re indulging in The Atrium’s elegant ambience, why not succumb to the chocolate temptations of Godiva? – Something to nibble en route.

It’s going to be hot in paradise, so head for Temptation to stock up on sun cream and moisturiser. With these indispensables in the bag, it’s time to select the perfect fragrance for those warm tropical nights. Choose from a vast range of branded perfumes – and don’t forget to stock up on those other essential cosmetics.

Now make a beeline to Sound & Vision whose friendly staff will advise on which of the latest digital cameras is best for you. Finally, don’t forget the gifts. Kowloon Trading does a fantastic line in souvenirs that will delight your hosts and give the folks back home the impression you were thinking of them all along.

Bon voyage!
travelling customer: products that are light and easy to carry are obviously more appropriate. All-in-one travel packs sell well, as do multi-packs, gift sets and items with destination features.

The key to successful travel retailing, she says, is sourcing a wide selection of products and offering customers exclusive international brands at a range of price points. Duty free does not necessarily mean cheaper, particularly if there is no duty in the first place, as is the case in the free port of Hong Kong.

“Many times we cannot compete with downtown stores on price,” says Au, “but we can offer the customer exceptional service, in-depth product knowledge and limited edition products found only in the travel retail sector.”

Sales staff who speak several languages, most importantly English, Mandarin and Japanese, are also essential to the international operation.

Since 1998, Nuance-Watson’s commitment to service has garnered nine awards from the Hong Kong Retail Management Association, including the “Service & Courtesy Award” for four years running. It has won a similar number of prestigious Raven Fox Awards, including “Best Fragrances & Cosmetics Travel Retailer”, “Best Fashion, Leathergoods & Accessories Travel Retailer”, “Best Food & Confectionery Travel Retailer in Asia/Pacific”, and the much-coveted “Best Travel Retailer in Asia/Pacific 2002.”

This success has been reflected on a larger scale by that of HKIA, which has been voted “Airport of the Year” for two years running (2001, 2002) in polls conducted by Skytrax Research. In 2001, more than 32 million passengers passed through HKIA, armed with credit cards, leftover cash and plenty of time to kill (on average, more than four hours for transiting passengers, just under two hours for departing passengers).

**The Sky’s the Limit**

Further modifications to existing facilities mean that the airport will be able to handle 61 million passengers a year by 2010, while its final design capacity (due to be reached in 2020) is a staggering 87 million passengers. With the continued development of HKIA as a regional hub, the transit/transfer passenger market (currently about a third of total passenger traffic) provides particularly attractive opportunities for retail and catering.

The appeal of Hong Kong as a hub
RETAIL

for China and the region lies mainly in the convenience it provides to flights and destinations around the world. At present, 90 international destinations are served from Hong Kong, giving global access to passengers arriving from a further 42 airports in Mainland China. Half the world’s population are within five hours’ flying time of Hong Kong – a huge potential market for the HKIA and, by extension, for Nuance-Watson, which is currently in the process of tendering for further concessions.

Those passengers span the social spectrum, from businessmen to students to young families and retirees. Departing passengers, not surprisingly, spend more than those coming into Hong Kong, and men account for a whopping 70% of transactions.

Clarice Au says the majority of sales are made to business people, many of whom are regular shoppers, like Flora Chan, using Hong Kong as a hub. “Price is not a big consideration for them,” she explains, “but time is.”

According to Alessandra Piovesana, nearly a quarter of departing visitors bought something in a New Horizons Duty Free store in 2002. Taiwanese shoppers, who account for 21% of New Horizons Duty Free sales, like to buy Rolex watches, Montblanc pens, Lancôme and Estee Lauder cosmetics, handbags from Ferragamo and Cartier, and Sony electronics, while mainland Chinese (10% of sales) choose Rolex and Piaget watches, Christian Dior fashions and Bally shoes. The Japanese – once the world’s most dedicated duty-free shoppers – now account for 17% of sales, buying Godiva and Peninsula chocolates along with Hermès and Bulgari luxury goods. Making up the difference are American and European customers (23%), Southeast Asians, Koreans and other nationalities.

“We can offer the customer exceptional service, in-depth product knowledge and limited edition products found only in the travel retail sector.”

While the Asian crisis of 1998 put an unmistakable dent in retail revenues, the risk-diversified nature of the business, with its wide base of international customers, meant that Nuance-Watson could react quickly to soften the blow. The expansion of SkyMart’s East Hall, the principal airside retail area serving all passengers, will almost double the retail space available. On Level 7, it will increase from a current 4,800 square metres to 6,800 square metres while Level 6 will more than double from 3,500 to 8,300 square metres. This new space will offer around 25 additional retail stores. The configuration of the area is also being redesigned to improve the flow of passengers and shoppers through the area – escalators are being realigned and corridors widened.

Nuance-Watson is poised for its piece of the pie: “Most importantly, we want to win market share for our business in HKIA,” says Piovesana. “It is a huge airport, the hub of Asia, and our first objective is to be outstanding here.” Beyond Hong Kong, the Group is looking to other airport opportunities in Asia. “China is a matter of when and how,” says Piovesana, “not if.”

For Asia’s leading travel retailer, things are just beginning to take off.