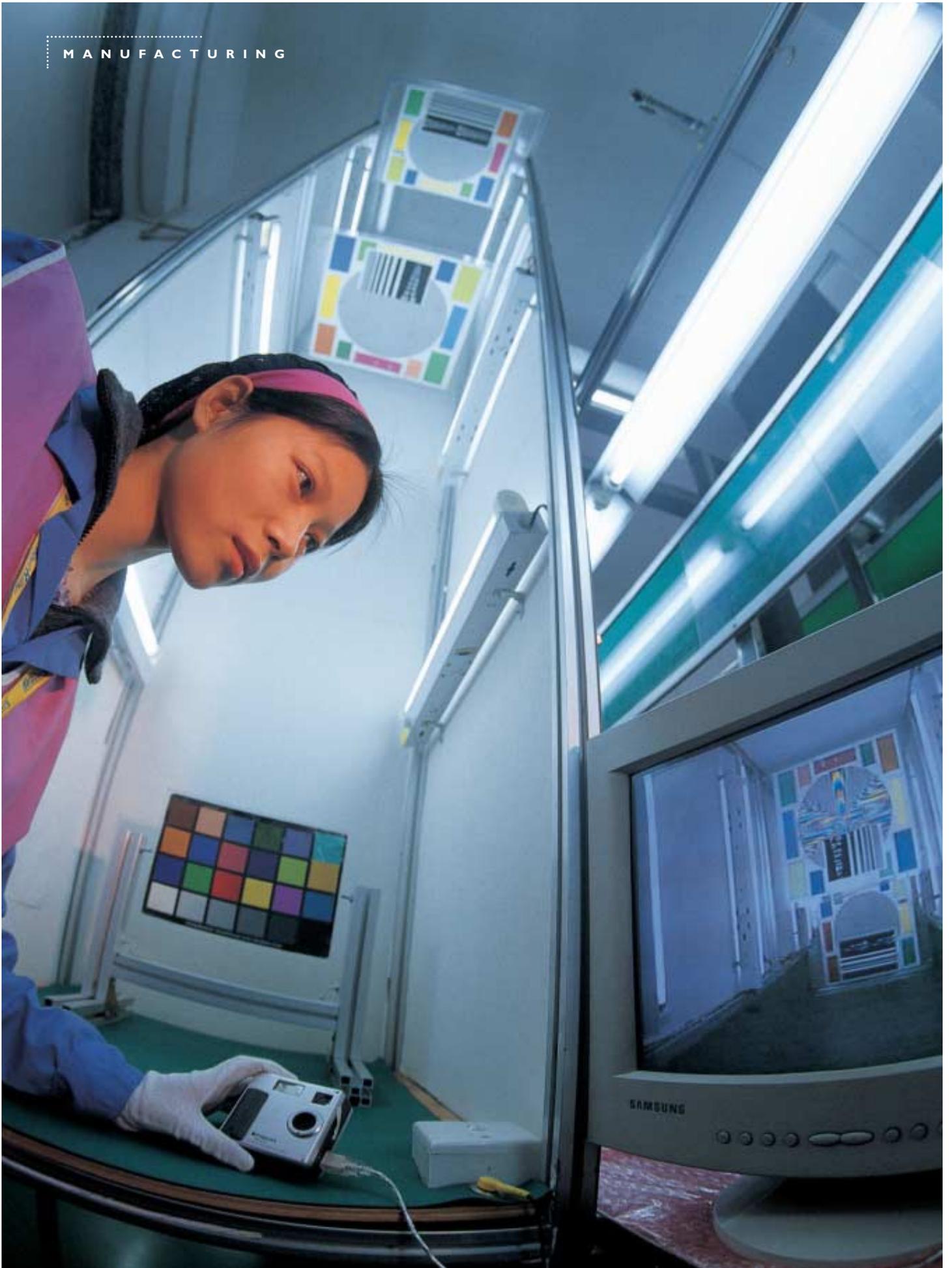


MANUFACTURING



TOP OF THE GAME

Hutchison's tie-up with a leading toy maker is an excellent fit for both companies: Hutchison gains a manufacturing arm and Hutchison Harbour Ring is playing in a bigger league.

By Arun Sudhama



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

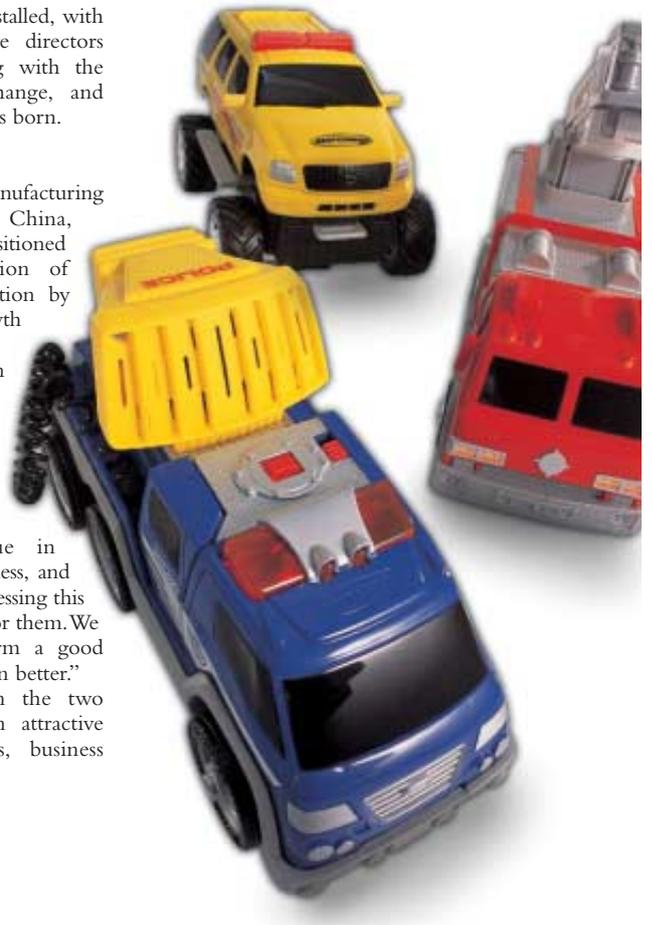
With over 20 years of manufacturing experience in Mainland China, HHR has quickly been positioned as a manufacturing division of HWL. In turn, the acquisition by HWL represents a new growth direction for HHR.

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



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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



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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



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Asia. All testing equipment, for example, meets very strict internal quality assurance standards designed to harmonise with the standards of external customers. The company also utilises sophisticated manufacturing equipment - such as coating systems and service mount



technologies - along with a range of advanced factory software.

The 6-Sigma system is one such technique, ensuring that the product and component defect rates always approach zero. Another is the Enterprise Resource Planning system, which integrates HHR and customer inventory control, reducing risk for all parties. Traditional quality control practices are also strictly followed, with all HHR factories holding ISO9000

certification. Mr Luk, however, sees this certification as a mere prerequisite to the more advanced Total Quality Management model used by the company and sponsored by the Hong Kong Government. The company is also working towards full international accreditation for its laboratories.

HHR's management standards and capabilities are the envy of many manufacturers and it is one of the few



SHAPING THE FUTURE

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."

companies that holds a coveted Management Award in the "People Development and Management" category from the Asian Institute of Management.

Hutchison's management expertise has created a win-win playing field for both companies, Mr Lai believes. "You need investment in people to expand the company. We have put our Hutchison system and culture in place, enabling HHR to grow its business in the global

marketplace."

A restlessness to succeed is readily apparent at the company's Hong Kong offices as well at its southern China manufacturing facilities, which employ some 20,000 workers.

The energised attitude seems more in keeping with a new market entrant than a 20-year industry veteran. Even during the slow season, the company is anything but idle, sending senior management – most of whom are

southern China-based specialists in manufacturing, R&D and engineering – to other facilities to conduct comprehensive benchmarking exercises.

As a result, "we have a track record of attracting the best and brightest staff," says Mr Luk.

OPPORTUNITY KNOCKS

It all adds up to a company that is poised to benefit from the numerous opportunities available in China's post-WTO marketplace. HHR has already begun to see the rewards of the Group's blue-chip global profile, inking deals with several major players. If all goes according to the game-plan, the toy and technology operations should make an equal contribution to turnover within five years, and HHR should become a major global manufacturing player within ten years, not just in the toy business but in consumer electronics as well.

"The opportunities for HHR are huge, as it evolves from an OEM manufacturer into an ODM one," notes Ms Chan. "Our management is very involved in the company's progress."

As HHR continues to develop into a global behind-the-scenes powerhouse manufacturing brand name toys and electronics, it is in the shopping malls where its ultimate success will be realised.

"In terms of product development," says Ms Chan, "it's the consumers who really give us the cues and show us the way."



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.