# Chairman's Statement

he Group's strong performance in 2002 reflects solid earnings growth with all of the Group's operating business divisions reporting improved results despite the continuing uncertain economic conditions and volatile markets. In this challenging period, the Group focused on continuing to develop its existing businesses while laying the groundwork for future growth and value creation in the new 3G mobile multimedia telecommunication operations.

The Group's audited profit attributable to shareholders for the year amounted to HK\$14,288 million, an increase of 19% compared to the previous year. Earnings per share amounted to HK\$3.35, an increase of 19%. These 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 to strategic partners of equity interests, ranging from 1% to 3%, in certain ports. Profit on disposal of investments less provisions is described in Note 6 to the audited consolidated profit and loss account. Excluding these exceptional gains in both years, profit attributable to shareholders increased 44%, reflecting healthy continuous growth in the Group's recurring operations.

During the year, equity markets continued to be volatile and to decline, which has adversely affected the Group's remaining equity investments in Vodafone Group and Deutsche Telekom. The Vodafone Group share price declined from a book carrying value of £1.28 to £1.13 and Deutsche Telekom declined from a book carrying value of £17.38 to £12.25 at 31 December 2002. Considering the continuing volatility in the equity markets and the uncertain global economy, the decline in value of HK\$3,105 million upon marking these investments to the 31 December 2002 market value, is not currently considered a permanent diminution and, therefore, in accordance with the Group's accounting policy, the reduction in value has been accounted for in investment revaluation reserves in the balance sheet. The Group continues to monitor and, where appropriate, enter into hedging arrangements relative to these positions. Currently 40% of the Group's holdings in Vodafone Group are hedged at or above book carrying value.

#### Dividend

Your Directors will recommend a final dividend of HK\$1.22 per share (2001 – HK\$1.22) at the forthcoming Annual General Meeting. This, together with the interim dividend of HK\$0.51 paid on 11 October 2002, gives a total dividend of HK\$1.73 per share (2001 – HK\$1.73).

Profit attributable to shareholders of HK\$14,288 million, an increase of 19%

## **Operations**

The Group's turnover and earnings before interest expense and taxation ("EBIT"), including the Group's share of associated companies' and jointly controlled entities' turnover and EBIT, are shown by business segment in Note 3 to the consolidated profit and loss account. Turnover for the year totalled HK\$111,129 million, an increase of 25% over last year, mainly reflecting increased turnover in the ports and related services, property and hotels, and retail and manufacturing divisions. These were partially offset by decreased turnover in the finance and investments division due to the lower interest rates environment. Total EBIT for the year increased 13% to HK\$24,447 million. All of the Group's divisions, other than the finance and investments division, reported EBIT ahead of last year.

#### **Ports and Related Services**

The ports and related services division reported turnover of HK\$20,572 million, a 33% increase over last year. The increase in turnover reflects throughput growth and the additional activity from the 13 container terminals acquired in the latter part of 2001 and in early 2002. The combined throughput of the worldwide operations increased 32% to 35.8 million TEUs (twenty foot equivalent units) and this division reported EBIT of HK\$6,795 million, 17% above last year. The major contributors to this total EBIT performance are as follows:

- The Hong Kong and Yantian deepwater port operations, which together serve the Shenzhen and Southern China manufacturing basin reported combined throughput growth of 21% and EBIT growth of 11%.
- In the United Kingdom ("UK"), combined container throughput at Felixstowe, Thamesport
  and Harwich was in line with last year and the combined EBIT grew 34%, mainly due to
  a successful cost rationalisation programme. In December 2001, the European Commission
  approved a request to increase the Group's ownership of Europe Container Terminals
  ("ECT") in Rotterdam, from 31.5% to 75.5%, subject to a condition to sell its 33.3%

interest in the recently completed adjacent Maersk Delta Terminals ("MDT"). ECT reported throughput 2% below last year, mainly due to a shipping line moving to MDT after it commenced operation. EBIT was 358% above last year reflecting the increased shareholding and the profit arising from the required disposal of MDT, partially offset by the effect of reduced throughput.

 In Indonesia, Jakarta International Container Terminal and the adjacent Koja Terminal reported combined throughput growth of 5% and EBIT growth of 14%, reflecting a successful effort to reduce costs.

Earnings per share of HK\$3.35, an increase of 19%

- Shanghai Container Terminals, a joint venture company, reported a 16% growth in throughput and EBIT was in line with the previous year. The Group expanded its Mainland operations with the acquisition in January 2002 of a 49% interest in Ningbo Beilun International Container Terminals, which reported throughput of 984,000 TEUs and EBIT ahead of expectation. In March this year, the Group completed the acquisition of a 30% interest in Shanghai Pudong International Container Terminals, which operates the 1.8 million TEU annual capacity terminal in Phase I of Waigaoqiao Container Terminals.
- Internacional de Contenedores Asociados de Veracruz, which is located on the eastern
  coast of Mexico, reported throughput of 600,800 TEUs, a 19% increase over the
  comparable annualised throughput last year and EBIT increased 56% on the same
  comparative basis. International Ports Services at Dammam in Saudi Arabia, reported
  throughput of 564,200 TEUs and a 15% increase over the comparable annualised
  throughput last year and EBIT increased 19% on the same comparative basis.

The other ports in the division taken as a whole also performed satisfactorily.

The division is continuing to expand, mainly by developing its existing operations. Construction work is continuing on the Container Terminal 9 consortium development in Hong Kong to add 1.3 million TEUs of annual capacity and on Phase IIIA of Yantian port to add 2.0 million TEUs of annual designed capacity. The first berth of Container Terminal 9 is expected to be completed in the third quarter of 2003. The first two berths of Phase IIIA of Yantian port are expected to be completed at the end of 2003 and two further berths in 2004. Further capacity is being constructed at Balboa, Panama, to increase annual capacity by 500,000 TEUs to one million TEUs and is scheduled for completion at the end of 2003, while construction of Phase II of Kwangyang port in South Korea, consisting of seven berths with an annual capacity of 2.5 million TEUs, is progressing and is scheduled for completion in phases to 2004. This capacity expansion programme to meet demand and the continuing growth in the existing ports, provides a solid base for earnings growth in 2003 and beyond.

After completing major acquisitions of 13 container terminals in 2001 and 2002, this division currently operates in five of the seven busiest container ports in the world, with interests in a total of 31 ports comprising 175 berths in 15 countries. While this division will continue on a selective basis to seek attractive investment opportunities, it is currently focused on improving and developing its existing businesses.

### Telecommunications

The telecommunication division's turnover of HK\$13,367 million and EBIT of HK\$818 million, an increase of 17% and 14% respectively, reflect the results of the Hong Kong mobile and fixed line operations, the Australian operations, India, Israel and other 2G operations, and dividends received from equity investments in Vodafone Group and Deutsche Telekom. Turnover increased mainly due to continued strong subscriber growth in the 2G operations in India and Israel. Currently, the Group's Hong Kong, Australia, India, Israel and other 2G operations have over 6.1 million subscribers, a growth of 34% from the beginning of the year. EBIT increased 14%, mainly due to improved results in Hong Kong, India and Israel and increased dividends received on equity investments, partially offset by losses in the listed Australian operations. The Group's 3G operations in the UK, Italy, Sweden, Denmark and

Austria along with the CDMA-1X operation in Thailand were in a pre-operating investment phase in 2002 and the related pre-operating expenses of HK\$1,871 million which have been charged to the profit and loss account, have been compensated for by the release of provisions made in previous years.

3G development completed and ready to start business in 2003

In Hong Kong, the Group has maintained its position as the largest mobile operator with approximately 1.7 million subscribers currently and an approximate 28% market share. The 2G mobile operations successfully reduced operating costs and reported a stabilisation of its average revenue per user ("ARPU") after several years of intense price competition, resulting in EBIT well above last year. EBIT from the 2G operations more than covered the pre-operating expenses of its 3G business. The construction of the 3G network is on schedule and services are targeted to commence in June this year. In October, the Group sold an effective 3.73% equity interest in the Hong Kong 2G and 3G operations to a strategic partner, NEC Corporation, reducing the Group's interests to 70.9%.

Hutchison Global Communications ("HGC"), formerly Hutchison Global Crossing, which owns and operates a terrestrial fibre optic network in Hong Kong, continued to grow its business and reported strong customer growth for its broadband, data and voice services as well as its international bandwidth business. HGC increased its duct routes to over 3,300 kilometres. HGC reported improved operations, achieving its first month of EBIT in November and reducing its full year loss before interest expense and taxation ("LBIT") by 49% on an annualised basis compared to last year.

In Australia, listed Hutchison Telecommunications Australia ("HTA") announced a 44% increase in its net loss attributable to shareholders compared to last year of A\$197 million, which reflects reduced losses from its existing 2G operations as a result of increased subscribers and ongoing cost reduction initiatives, offset by pre-operating expenses of A\$85 million incurred as it builds its 3G network, which is scheduled to commence operations in the first half of this year. Orange Mobile subscribers increased 37% from the beginning of the year to over 263,000 and the 2G operation reached a milestone by reporting positive earnings before interest expense, taxation, depreciation and amortisation ("EBITDA") in the second half of the year.

The Group's 2G operations in India increased their combined subscriber base by 80% from the beginning of the year to over 2.0 million currently. EBIT decreased 15% reflecting continuing EBIT growth from the four existing operations in Mumbai, Delhi, Kolkata and Gujarat, offset by start-up losses from operations in the new licence areas in Andhra Pradesh, Karnataka and the city of Chennai, which all launched GSM network services in June 2002. The Indian operations continue to progress satisfactorily and are expected to provide further growth in the future. In January 2003, an agreement was reached to purchase, subject to regulatory approval, a licence to operate cellular mobile telephone services in the state of Punjab.

In Israel, listed Partner Communications ("Partner") has continued to grow its subscriber base, which at the end of 2002 totalled over 1.8 million, a 26% increase from the beginning of the year. Partner announced a milestone first time profit attributable to shareholders of US\$18 million for the year, compared to a loss of US\$69 million last year. During the year, Partner's original 2G spectrum licence was extended for an additional fourteen years to 2022 at no cost.

EBIT of HK\$24,447 million, an increase of 13%

In Europe, the Group focused on finalising the deployment of networks, integration of systems, final user testing and preparations for commercial operations in its 3G businesses this year. In both the UK and Italy, the teams have been working hard and are satisfied that the 3G networks in these countries are now ready to provide quality services to customers. Consequently, the 3G operations in both countries are now "open for business". Handset pricing policies and tariff plans have been announced and early customer responses have been encouraging. Hutchison 3G UK has opened flagship 3 stores and other high street outlets and signed agreements with major handset distributors. Hutchison 3G Italy has also established its distribution channels, announced its handset pricing policies and tariff plans and received enthusiastic customer interest. On 3 March this year, the Group informed the market that the delivery of handsets would begin in both the UK and Italy in mid-March and suppliers have committed to deliver 700,000 units by the end of May. 3G services in Sweden, Denmark and Austria are scheduled to commence later this year. Through a rigorous review of capital expenditure requirements, operating methods and costs, the Group is projecting

to reduce the aggregate peak funding requirement for its 3G business through to 2005 by over €4,000 million (HK\$31,000 million). By the end of this year, approximately 100% of the licence costs and approximately 70% of the capital expenditure requirements for the 3G operations are expected to have been incurred, substantially completing the 3G telecommunication investment phase. The peak funding requirements for both the UK and Italy operations are currently being met by mainly existing non or limited recourse syndicated bank loans and matching loans from equipment vendors. The Group expects to provide some further financial support to its 3G businesses during their start-up phase and has substantial liquid assets to cover any such requirements. As the 3G businesses move from a development phase to full operations mode in 2003, the Group is confident the services will be successfully received.

Operating business divisions all achieved EBIT growth

On 9 August 2002, the Group together with Singapore Technologies Telemedia received the United States of America Bankruptcy Court's approval of an agreement for each to invest US\$125 million for a 30.75% interest in a newly constituted Global Crossing Ltd ("GC") on its emergence from bankruptcy. GC owns and operates an integrated global fibre-optic network that reaches 27 countries and more than 200 major cities around the globe. This transaction is scheduled to be completed in the first half of 2003, subject to obtaining regulatory approvals and satisfaction of other closing conditions.

## **Property and Hotels**

The property and hotels division turnover amounted to HK\$11,709 million, a 112% increase over last year, mainly due to increased development activity. EBIT of HK\$2,570 million was 50% above last year, mainly due to increased rental income from completed properties, the profit from the sale of three hotels in the Mainland and the completion and sale of more development projects. The vast majority of this division's EBIT arises from the steady and recurring gross rental earned from the division's investment portfolio, which grew 9% in 2002. The Hong Kong portfolio of 12.7 million sq ft of commercial, office, industrial and residential properties continues to be substantially fully let. Development profits were realised primarily from the completion and sale of 865 residential units of The Victoria Towers in Hong Kong, 131 residential units of the Harbourfront Landmark in Hong Kong and 525 residential units of Phase II of Le Parc in Shenzhen. The ongoing development projects in

Hong Kong, the Mainland and overseas in London and Singapore are progressing satisfactorily. In 2001 and the first half of 2002, the Group substantially increased its landbank, particularly in Mainland China. The Group's share of the developed landbank portfolio totals approximately 16.0 million sq ft of mainly residential properties to be completed in phases to 2009. The division's portfolio of hotels overall reported EBIT well ahead of last year due to improved operating results and a one time profit realised on the sale of the Time Plaza Shenyang, the Harbour Plaza Beijing and the Harbour Plaza Kunming hotels.

Profit attributable to shareholders, excluding exceptional gains, increased 44%

#### **Retail and Manufacturing**

The retail and manufacturing division reported turnover of HK\$39,471 million, a 34% increase, mainly reflecting increased turnover from the acquisition of the Kruidvat Group. EBIT of HK\$1,031 million was 92% better than last year, mainly due to profits contributed by the Kruidvat Group and improved results from existing operations.

Although PARKNSHOP, the supermarket chain, continued to be affected by the deflationary economy in Hong Kong, it reported improved results from its cost rationalisation programme. Its Mainland operations reported encouraging results and continued to grow, opening an additional four large-format stores in Southern China. The Watsons personal care, health and beauty retail operations in Hong Kong, Mainland China and other Asian countries, and Savers in the UK, reported a combined 21% increase in sales and a 16% increase in EBIT. The increase was mainly attributable to the improved performance of Savers in the UK which increased its chain by 56 stores, partially offset by lower results in Taiwan. In October 2002, the Group acquired the Kruidvat Group, a leading health and beauty retail chain with a store portfolio of approximately 1,900 outlets in six European countries. Kruidvat Group was immediately accretive to the Group, contributing two months of earnings and cash flow. The combined turnover of the water and beverage manufacturing and distribution operations in Hong Kong, the Mainland and Europe was in line with last year, however, EBIT was disappointing and lower due to adverse weather and competitive conditions. In January this year, an agreement was signed to sell the European water operations, subject to regulatory approval, to Nestlé Water for a consideration of approximately €560 million. The disposal is expected to be completed later this year and a profit will be recorded at that time.

Hutchison Harbour Ring, a listed subsidiary, announced turnover of HK\$1,816 million and net profit attributable to shareholders of HK\$105 million.

#### **Cheung Kong Infrastructure**

Cheung Kong Infrastructure ("CKI"), a listed subsidiary, announced turnover of HK\$3,595 million and profit attributable to shareholders of HK\$3,425 million, 3% above last year. CKI has promising prospects.

Cash and liquid investments, at market value, totalled HK\$130,267 million

#### **Husky Energy**

Husky Energy, a listed associated company, announced turnover of C\$6,384 million and profit attributable to shareholders of C\$804 million, 23% above last year, mainly due to increased oil production and improved oil prices. Due to the current strong oil prices, Husky Energy is expected to have satisfactory results in the coming year.

# **Outlook**

In 2002, the uncertain economic global environment continued. Global equity and credit markets were volatile, the Hong Kong economy recorded another year of deflation pressure and interest rates remained at low levels. Despite the challenging environment, the Group's operations remained competitive and reported solid recurring EBIT and growth, benefiting particularly from acquisitions overseas in the ports and retailing divisions in 2001 and 2002.

After completing a number of major acquisitions over the last two years, in 2003 the Group will focus on growing and expanding its existing operations cautiously in Hong Kong, Mainland China and overseas and building its start-up 3G businesses in Europe, Hong Kong and Australia. The technology, networks, handsets, content and business infrastructure required for 3G operations have all been successfully developed and **3** will be in business in all our markets this year.

The Group's cash and liquid investments amounted to HK\$130,267 million at 31 December 2002 and cashflow from the existing core businesses remained strong (EBITDA of HK\$33,273 million; 2001: HK\$33,027 million). Cash and liquid investments include the Group's shareholding in Vodafone Group held at 31 December 2002 marked to the market value of £1.13 per share, in the amount of HK\$20,118 million and in Deutsche Telekom, also marked to its 31 December 2002 market value of €12.25 per share, in the amount of HK\$11,698 million. The Group's consolidated total debt at 31 December 2002 was HK\$180,496 million, and after deducting cash and liquid investments, the Group's net debt position was HK\$50,229 million, resulting in a conservative overall net debt to net capital ratio of approximately 16%. The Group will continue to benefit from the steady and growing cashflow and low borrowing levels of its existing core businesses as it builds its 3G businesses.

3G businesses will be able to demonstrate in a year's time their promising prospects...

The Group has benefited from its geographic diversity, has gained valuable competitive experience with operations in 41 countries and is in a strong financial position. I am confident that all of our existing core businesses will continue to perform well and will provide substantial recurring contributions; and that, in addition, the start-up 3G businesses, which have attracted much attention in the market, will be able to demonstrate clearly in a year's time, their promising prospects and their potential to contribute significantly to the Group's growth and create long term value for our shareholders.

I would like to thank the Board of Directors and all the Group's employees around the world for their hard work, support and dedication.

# LI Ka-shing

Chairman

Hong Kong, 20 March 2003