Chairman's statement

The Group's audited consolidated net profit after tax and after exceptional items for the year ended 31 December 1998 was HK$8,706 million compared to HK$12,266 million earned in 1997. Exceptional profits, totaling HK$566 million (1997 – HK$2,483 million) is comprised of HK$4,016 million from the sale of a portion of the Group's interests in Procter & Gamble–Hutchison and its remaining interest in Asia Satellite Telecommunications, which was partially offset by exceptional provisions totaling HK$3,450 million against the Group's property developments and its portfolio of listed investments. Earnings per share were HK$2.25 compared to HK$3.21 in 1997.

Your Directors will recommend a final dividend of HK$0.88 at the forthcoming Annual General Meeting. This, together with the interim dividend of HK$0.40 paid on 16 October 1998 gives a total dividend of HK$1.28 per share and represents a 19% decrease to the HK$1.58 paid in respect of 1997.

OVERALL REVIEW

As a result of pressures on the local currency resulting from devaluations and the ensuing economic turmoil throughout the region, Hong Kong in 1998 experienced a period of unprecedented asset and price deflation coupled with severe recessionary conditions. The impact of these extraordinary conditions on the Group has primarily been felt in the Property Development and Retail and Manufacturing operations.

Turning to divisional performance, the Group's ports and related services activities reported earnings before interest and tax of HK$4,540 million, 8% less than the previous year. In Hong Kong, HIT's operations at Kwai Chung experienced a modest contraction in throughput in 1998, primarily due to the departure of a major customer that joined another shipping alliance and the decline in import and export trade in the Asian region. The first phase of the River Trade Terminal in Tuen Mun, which will serve the water-borne trade between the Pearl River Delta and Hong Kong, was completed in October and start up operations commenced. In the Mainland, the Group's container terminal operations continued to show strong growth, reporting combined throughput up 23% over 1997. Construction of the second phase at the Yantian facility is progressing satisfactorily and the first of three new berths came into operation in September. Overseas, the Port of Felixstowe in the United Kingdom improved its performance and maintained its ranking as the UK's leading container port facility. Early in 1998 the Group's UK presence was strengthened by the acquisitions of Thamesport and Harwich ports which both contributed increased profits to the Group. Development work continued at the Group's Grand Bahama and Panama ports, with new capacity at Grand Bahama showing solid take up

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rates. Despite a difficult year for the Group’s Asian port interests generally, the Group firmly believes in the continuing potential for growth in trade and increased containerisation in the region.

The Group’s telecommunications businesses reported earnings before interest and tax of HK$474 million, 22% higher than the comparable 1997 earnings. These earnings exclude the gains on disposals of the Group’s interests in Asia Satellite Telecommunications in 1998 of HK$684 million (1997 – HK$1,515 million) and were achieved in an environment of intense competition for subscribers in all markets, and in particular in Hong Kong. The Hong Kong cellular operations increased its subscriber base during the year by 47% and currently has over 1,000,000 subscribers and an approximate 34% market share. In September, a dual band service was launched under the Orange brand to provide higher quality and more innovative services to our customers. Construction of the Group’s fixed line backbone network is on schedule for completion in the first quarter of this year and will provide over 600 kilometres of high quality optic fibre network to the key business and residential districts in Hong Kong. Despite the entrance of new international service providers after the government released an unlimited number of licences, the 0080 service generated increased call minutes and reported a profit for the year. Although the Group’s paging subscribers declined in line with the market as customers transferred to cellular telephones, it has maintained its strong market position and profitability. These businesses will continue to focus on increasing their subscriber base and market share and maintaining strict cost controls.

In the UK, Orange plc surpassed the two million subscriber level and currently has approximately 2,500,000 subscribers representing an approximate 17% share of the national United Kingdom market. Orange reported improved results in 1998 and is expected to contribute growing profits to the Group in the near term. Orange’s European joint venture cellular operations in Belgium and Switzerland made satisfactory progress rolling out their networks and both are on schedule to launch operations this year under the Orange brand name. In February this year, the Group sold an approximate 4% interest in Orange plc and an exceptional profit of approximately HK$5,000 million will be recorded in 1999.

Other international telecommunication operations reported improved results during the year with an impressive increase in profits from the cellular service provider operations in Australia. Expansion of the Australian business is underway after the Group was awarded cellular licences in the greater Sydney and Melbourne areas and plans are well advanced to establish digital networks in both areas. In Israel, the Group's associated company was awarded the first digital GSM licence in mid 1998. The network was commercially launched in January this year under the Orange brand name and the subscriber base has grown swiftly to approximately 80,000. During the year, the Group increased its interest in Hutch Max, one of the two cellular operations currently licenced to provide services in Mumbai, India.

The property development and holdings division's earnings before interest and tax, and excluding exceptional provisions against property developments of HK$2,450 million, amounted to HK$2,851 million, 23% below the previous year. Rental income from the Group's investment properties in Hong Kong declined marginally, affected by difficult conditions in the retail environment, properties under renovation, and excess supply of new office space coming onto the market. The first twenty five floors of Cheung Kong Center were made available for occupancy during the last quarter of the year and tenants are currently moving in. Construction of the building will be completed this year and leasing has progressed satisfactorily with approximately 70% of the building committed to leases to date. Despite a dramatic decline in the residential property market in Hong Kong, property development profits were recorded on the completion of the first phase of the Tierra Verde residential development at Tsing Yi. The second phase of Tierra Verde, 100% presold in 1998, will be completed this year and will contribute to the Group's results for 1999. The properties in the Group's land bank are in various stages of development. The Ma On Shan project is scheduled for presale this year. The Group is financially well placed to acquire further land for development should attractive opportunities arise.

The retail, manufacturing and other services division reported earnings before interest and tax of HK$845 million, 37% below last year. These earnings exclude exceptional gains of HK$3,332 million (1997 – HK$1,430 million) from the sales of portions of the Group's interests in Procter & Gamble–Hutchison. These results reflect the effects of the recessionary economies and weak consumer demand in Asia and, in particular, the losses incurred in the Mainland by the PARKnSHOP and Watson's The Chemist operations which were significantly affected by a slowing economy. As a result expansion plans in the Mainland have been deferred. Despite an overall negative economic environment, the A S Watson Group's

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operations in Hong Kong proved to be relatively resilient due to its offering of essential consumer goods, although its profits were lower than last year. By increasing sales and its market share, PARKnSHOP in Hong Kong made a solid contribution to the Group's results. The Fortress consumer electronics chain in Hong Kong performed well reporting increased sales and profit growth. After several years of growth, the earnings of Watson's The Chemist in Hong Kong and the Southeast Asian region declined in 1998 as a result of the economic conditions, lower tourist arrivals and the effect of currency devaluations on the regional operations. Watson's The Chemist in Taiwan continued to successfully expand its operations and reported increased profits. The Group's joint venture retail concessions at the new Hong Kong International Airport at Chek Lap Kok selling perfume, cosmetics and general merchandise commenced trading in July. The Group's manufacturing operations expanded with the acquisition of two water bottling companies in the UK and further expansion opportunities are being explored.

The energy, infrastructure, finance and investment division reported earnings before interest and tax of HK$7,723 million, an increase of 11% when compared to the previous year's amount, excluding the exceptional profit recorded last year of HK$1,207 million on the transfer of Hongkong Electric Holdings to Cheung Kong Infrastructure ("CKI"). Husky Oil in Canada reported earnings 19% below the previous year. This overall result was better than expected considering the significantly depressed oil prices throughout most of 1998. The Bi-Provincial Upgrader facility and the pipeline operations contributed increased profits to the Group and Husky Oil's retail gasoline station network benefited from the acquisition in July of 300 retail outlets in Western Canada, bringing the total to 626 outlets. In 1998, Husky Oil continued to generate strong recurring cash flows to fund its exploration and development programmes. Husky Oil consolidated its controlling ownership position in a number of resources properties off the East Coast of Canada and steady progress has been made to explore and delineate these substantial resource properties.

Cheung Kong Infrastructure had another year of strong growth and announced an 18% increase in its profit in 1998. Each of its core businesses; infrastructure materials, energy and transportation recorded impressive profit growth. CKI completed its investment programme in a number of existing infrastructure projects in the Mainland in 1998 while seeking further opportunities that meet its investment criteria. Hongkong Electric Holdings again performed well with a 5.5% increase in net profits over 1997.

OUTLOOK

The economic turmoil in 1998 has had a significant adverse effect on the economies of Hong Kong and Asia. Declining consumer and investor confidence in the Asian economies resulted in reduced trade flows and exerted recessionary pressures thoughout the region. Although the financial turmoil has abated and the volatility of interest rates and currency values has reduced, 1999 is expected to be another difficult and challenging year.

The Group continues to be in a strong financial position with a large balance of cash and liquid investments and a long maturity borrowings profile. In addition, the Group's geographically diverse and resilient businesses continue to provide strong recurring cash flows. As a result, the Group is in a favourable position to face the challenging economic environment and to capitalise on opportunities to expand its core businesses.

The Group's overseas investments have been successful overall and the majority are on a platform of financial self sufficiency in the countries in which they operate. These diverse businesses have helped to mitigate the effects of regional economic cycles and in the near term are expected to provide satisfactory returns to the Group. I am very optimistic about the Group's future development and performance. Hong Kong remains the principal base of the Group's operations and the Group will actively develop quality projects in its home base while at the same time continuing to follow its long term strategy of exploring investment opportunities on a prudent basis in the Mainland and on a selective basis overseas. We have confidence in the future of Hong Kong and the Mainland.

I wish to thank the Board of Directors and all the Group's employees for their continuing support, dedication and hard work.

LI Ka-shing
Chairman

Hong Kong, 25 March 1999

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