

# Notes to the accounts

## 1 PRINCIPAL ACCOUNTING POLICIES

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### **A** *Basis of consolidation*

The consolidated accounts of the Group include the accounts for the year ended 31 December 1998 of the Company and of all its direct and indirect subsidiary companies and also incorporate the Group's interest in associated companies and jointly controlled entities on the basis set out in notes 1C and 1D below. Results of subsidiary and associated companies and jointly controlled entities acquired or disposed of during the year are included as from their effective dates of acquisition to 31 December 1998 or up to the dates of disposal as the case may be.

Goodwill represents the excess of purchase consideration over the fair values of net assets of subsidiary and associated companies and joint ventures at the date of acquisition and is written off to reserves in the year of acquisition. Upon disposal, the attributable amount of goodwill previously written off to reserves is taken to the profit and loss account.

### **B** *Subsidiary companies*

A company is a subsidiary company if more than 50% of the equity voting rights is held long term or the composition of the board of directors is controlled. Investments in subsidiary companies are carried at cost.

### **C** *Associated companies*

A company or a joint venture is classified as an associated company if not less than 20% nor more than 50% of the equity voting rights are held as a long term investment, a significant influence is exercised over its management and there is no contractual agreement between the shareholders to establish joint control over the economic activities of the entity. Results of the associated companies are incorporated in the accounts to the extent of the Group's share of the post acquisition results calculated from their accounts made up to 31 December 1998. The investment in associated companies represents the Group's share of their net assets less provision for diminution in value and goodwill, after attributing fair values to their net tangible and intangible assets at the date of acquisition.

### **D** *Joint ventures*

Effective 1 January 1998, the Group has adopted the accounting principles for jointly controlled entities in accordance with the Hong Kong Society of Accountants' Statement of Standard Accounting Practice 21. The adopted accounting principles have no effect on the Group's profit attributable to shareholders or reserves. However, the Group's share of profits less losses and reserves of jointly controlled entities are required to be disclosed separately and the comparative results have been reclassified accordingly.

A joint venture is classified as a jointly controlled entity if it is held as a long term investment and a contractual arrangement between the shareholders establishes joint control over the economic activities of the joint venture. Results of the jointly controlled entities are incorporated in the accounts to the extent of the Group's share of the post acquisition results calculated from their accounts made up to 31 December 1998. Investments in jointly controlled entities represent the Group's share of their net assets less provision for diminution in value and goodwill, after attributing fair values to their net tangible and intangible assets at the date of acquisition.

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

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### **D Joint ventures** (continued)

A joint venture is classified as other joint ventures if it is held as a long term investment and is not an associated company nor a jointly controlled entity. Other joint ventures, which provide fixed rate returns, are carried at cost less repayment of capital. Cost includes capital contributions and loans to the joint ventures, and in circumstances where the Group acquired the joint ventures, after the allocation of the purchase consideration based upon the estimated fair value of the joint ventures. Income is recognised on the accrual basis throughout the joint venture period.

### **E Managed funds and other investments**

Managed funds represents the cost of the funds' investments less provision for permanent diminution in value. Gains and losses on the sale of the funds' investments and interest and dividend income are accounted for on an accrual basis in the determination of operating profit. Other investments are carried at cost less provision for permanent diminution in value and represent listed and unlisted investments in companies which are not subsidiary or associated companies or joint ventures. Results of these companies are included in the accounts to the extent of dividends received and receivable.

### **F Fixed assets**

Fixed assets are stated at cost or valuation less depreciation. Leasehold land is amortised over the remaining period of the lease. Buildings are depreciated on the basis of an expected life of fifty years, or the remainder thereof, or over the remaining period of the lease, whichever is less. The period of the lease includes the period for which a right of renewal is attached.

Depreciation of other fixed assets is provided at rates calculated to write off their costs over their estimated useful lives on a straight line basis at the following annual rates:

Motor vehicles	20 – 25%
Plant, machinery and equipment	3 <sup>1/3</sup> – 33 <sup>1/3</sup> %
Container terminal equipment	5 – 20%
Telecommunication equipment	5 – 10%
Leasehold improvements	Over the unexpired period of the lease or 15%, whichever is the greater

**1 PRINCIPAL ACCOUNTING POLICIES** (continued)

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**G Investment properties**

Investment properties are interests in land and buildings in respect of which construction work has been completed and which are held for their investment potential. Such properties are included in fixed assets at their open market value based on existing use as determined by an annual professional valuation. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Upon disposal of an investment property, the relevant revaluation surplus is credited to operating profit. Investment properties are not depreciated except where the unexpired term of the lease is twenty years or less.

**H Leased assets**

Assets acquired pursuant to finance leases and hire purchase contracts that transfer to the Group substantially all the rewards and risks of ownership are accounted for as if purchased whereby an amount equivalent to cost is recorded as a fixed asset and as a long term liability. Depreciation is provided in accordance with the Group's depreciation policy. Payments to the lessor are treated as consisting of capital and interest elements. The interest element is charged to the profit and loss account. All other leases are accounted for as operating leases and the rental payments are charged to the profit and loss account on the accrual basis.

**I Deferred expenditures**

Commissions paid to dealers and certain other selling costs incurred to add new subscribers to the communication service networks are deferred and amortised on a straight line basis over periods of up to three years.

Pre-operating expenses are deferred and amortised over periods of up to ten years from the date of commencement of commercial operations.

**J Borrowing costs**

Borrowing costs are accounted for on the accrual basis and charged to the profit and loss account in the year incurred, except for costs related to funding of fixed assets, properties under development and infrastructure joint ventures which are capitalised as part of the cost of that asset up to the date of commencement of its operations.

Fees paid for the arrangement of syndicated loan facilities and debt securities are deferred and amortised on a straight line basis over the period of the loans.

**K Properties under development**

Land for properties under development is stated at cost and development expenditure is stated at the aggregate amount of costs incurred up to the date of completion, including capitalised interest on related loans. The profit and turnover on sales of property are recorded either on the date of sale or on the date of issue of the occupation permit, whichever is the later.

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

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### *L Stocks*

Stocks are stated at the lower of cost and net realisable value. Stocks consist mainly of retail goods and cost is determined as the estimated selling price less the normal gross profit margin.

### *M Deferred taxation*

Deferred taxation is provided for when there is a reasonable probability that such taxation will become payable within the foreseeable future. Deferred taxation is calculated by the liability method at the applicable tax rate on timing differences arising from the recognition of income and expenditures in different fiscal years for accounting and for tax purposes.

### *N Foreign exchange*

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are included in the determination of operating profit.

The accounts of overseas subsidiary and associated companies and jointly controlled entities are translated into Hong Kong dollars using the year end rates of exchange for the balance sheet items and the average rates of exchange for the year for the profit and loss account. Exchange differences are dealt with as a movement in reserves.

## 2 TURNOVER

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	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Sale of goods	<b>26,608</b>	20,238
Rendering of services	<b>20,554</b>	20,923
Interest	<b>4,027</b>	3,189
Dividends	<b>194</b>	240
	<b>51,383</b>	44,590

The turnover of the Group comprises the gross value of goods and services invoiced to customers, income from investments and other joint ventures, proceeds from the sales of development properties, rental income from investment properties, interest income and finance charges earned. It does not include the turnover of associated companies and jointly controlled entities.

**3 PROFIT BEFORE EXCEPTIONAL ITEMS**

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Profit before exceptional items is shown after crediting and charging the following items:		
<b>Credits:</b>		
Share of profits less losses of associated companies		
Listed	1,972	1,687
Unlisted	335	497
	<u>2,307</u>	<u>2,184</u>
Gross rental income from investment properties	1,973	2,112
Less: Intra group rental income	(292)	(367)
	1,681	1,745
Less: Related outgoings	(109)	(112)
Net rental income	<u>1,572</u>	<u>1,633</u>
Dividend and interest income from managed funds and other investments		
Listed	395	775
Unlisted	1,014	349
Profit on disposal of investment properties	<u>206</u>	<u>828</u>
<b>Charges:</b>		
Interest		
Bank loans and overdrafts	4,457	3,490
Other loans repayable within 5 years	481	281
Other loans not wholly repayable within 5 years	1,577	874
	6,515	4,645
Less: Interest capitalised	(1,507)	(707)
	<u>5,008</u>	<u>3,938</u>
Cost of inventories sold	17,237	17,604
Depreciation of fixed assets	2,577	2,129
Amortisation of deferred expenditures	828	538
Share of depreciation and amortisation of associated companies and jointly controlled entities	1,513	2,118
Operating leases		
Properties	1,766	1,715
Hire of plant and machinery	391	420
Auditors' remuneration	<u>31</u>	<u>31</u>

#### 4 EXCEPTIONAL ITEMS

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Profit on disposals of investments in associated companies and other investments	4,016	4,152
Provision for diminution in value of listed investments	(1,000)	(919)
Provision for diminution in value of property developments of jointly controlled entities	(2,450)	(750)
	<b>566</b>	<b>2,483</b>

Profit on disposal of investments in associated companies and other investments comprise the profit of HK\$3,332 million (1997 – HK\$1,430 million) on disposal of a portion of the Group's shareholding in Procter & Gamble-Hutchison Limited and profit of HK\$684 million (1997 – HK\$1,515 million) on disposal of the Group's investment in Asia Satellite Telecommunications Holdings Limited, and the 1997 amount also includes the profit of HK\$1,207 million from the transfer of the Group's interest in Hongkong Electric Holdings Limited ("Hongkong Electric") to Cheung Kong Infrastructure Holdings Limited ("CKI").

#### 5 DIRECTORS' EMOLUMENTS

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
The emoluments of the directors of the Company are as follows:		
Fees	1	1
Basic salaries and allowances	39	38
Provident fund contributions	4	3
Bonuses	53	91
Benefit from share options exercised	23	115

The emoluments of the six independent non-executive directors of the Company are HK\$0.3 million (1997 – HK\$0.3 million).

No management remuneration was paid to Mr Li Ka-shing during the year other than a director's fee of HK\$50,000 which he paid to Cheung Kong (Holdings) Limited.

**5 DIRECTORS' EMOLUMENTS** (continued)

Emoluments of all directors of the Company are analysed as below:

HK\$	1998 Number of Directors	1997 Number of Directors
Nil – 1,000,000	7	8
1,000,001 – 1,500,000 (a)	–	1
2,000,001 – 2,500,000	1	–
5,000,001 – 5,500,000	–	1
7,500,001 – 8,000,000	3	–
8,500,001 – 9,000,000	–	1
10,000,001 – 10,500,000 (b)	–	2
10,500,001 – 11,000,000	1	–
12,000,001 – 12,500,000	2	–
14,500,001 – 15,000,000 (c)	–	2
18,000,001 – 18,500,000	–	1
35,500,001 – 36,000,000 (d)	1	–
48,000,001 – 48,500,000	–	1

*Notes a, b and c – Excludes benefits from share options exercised by directors in the amount of HK\$48.5 million, HK\$39.3 million and HK\$27.5 million respectively in 1997.*

*Note d – Excludes benefits from share options exercised by a director of HK\$23.1 million in 1998.*

The five individuals whose emoluments were the highest for the year were four directors of the Company and one director of a subsidiary of the Company. The remuneration of the director of the subsidiary company consisted of basic salary and allowance – HK\$2.9 million; provident fund contribution – HK\$0.5 million; bonus – HK\$3.4 million; and benefit from share options exercised – HK\$9.7 million.

**6 PENSION SCHEMES**

The Group has established pension schemes for employees located in Hong Kong and in some overseas locations. Total pension expense for the year was HK\$433 million (1997 – HK\$242 million) of which HK\$84 million (1997 – HK\$69 million) related to overseas schemes. Contributions to all plans are charged to the profit and loss account in the year incurred.

The Group's Hong Kong employees, excluding CKI group employees, who commenced employment prior to 1 January 1994 are members of a scheme which provides benefits based on the greater of the aggregate of the employee and employer vested contributions plus a minimum interest thereon of 6% per annum, and a benefit derived by a formula based on the final salary and years of service. Employees' contributions are either 5% or 7% of basic monthly salary. The employers' annual contribution is designed to fully fund the scheme as advised by independent actuaries. A formal independent actuarial valuation using the aggregate cost method completed at 30 June 1996 reported a market value of the scheme assets of HK\$1,450 million and a level of funding of 110% of the accrued actuarial liabilities on an ongoing basis. The main assumptions in the valuation are an investment return of 8.5% per annum and salary increases of 6.5% per annum. The valuation was performed by Mark Baxter, Fellow of the Institute of Actuaries of Australia, of William M Mercer Limited.

## 6 PENSION SCHEMES (continued)

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The Group's Hong Kong employees, excluding CKI group employees, who commenced employment subsequent to 31 December 1993 are members of a defined contribution scheme. All contributions are made by the employer at either 7.5% or 10% of the employee's basic monthly salary. Benefits are equal to the vested contributions plus a minimum interest thereon of 5% per annum. Except for the employees of the Group's port business in the United Kingdom, overseas employees are members of defined contribution schemes in their respective country of operation. Forfeited contributions of the Group's defined contribution schemes in the amount of HK\$22 million (1997 – HK\$23 million) were used to reduce the current year's level of contributions and HK\$2 million is available at 31 December 1998 (1997 – HK\$2 million) to reduce future year's contribution.

The CKI group provides defined contribution retirement schemes for the majority of its employees. One of its subsidiary companies provides a defined benefit scheme. Contributions to the defined contribution schemes are made either by the employer only at 10% of the employees' basic monthly salary or by both the employers and employees each at 10% of the employees' basic monthly salary. Forfeited contributions of the CKI group's defined contribution schemes in the amount of HK\$1 million (1997 – HK\$2 million) were used to reduce the current year's level of contributions.

The CKI group's defined benefit scheme is substantially the same as that described above for the Group's Hong Kong employees. The latest actuarial valuation of this defined benefit scheme was completed at 1 January 1999 by Joseph K L Yip, FSA, a fellow member of the Society of Actuaries, of The Watson Wyatt Hong Kong Limited. The actuarial method adopted was the Attained Age Funding Method and the main assumptions used were a long term average annual rate of investment return on the scheme assets of 9% per annum and a long term average annual salary increases of 7% per annum. The market value of the defined benefit scheme's assets as at 31 December 1998 was HK\$92 million and the latest actuarial valuation showed that the scheme's assets covered 67% of the accrued actuarial liabilities at the valuation date. Subject to annual actuarial review, CKI's future annual contribution is designed to fund the shortfall over a period of time and the employers' funding rates have been increased effective 1 January 1998.

The employees of the Group's United Kingdom port businesses are members of one of three defined benefit schemes. Employees contribute 5% or 6% of pensionable salary depending on the scheme. The employers' annual contribution is designed to fully fund the plans as advised by independent actuaries. A formal valuation using the projected unit method completed at 1 January 1998 reported a market value of the Port of Felixstowe scheme assets of HK\$1,041 million and a level of funding of 110% of the accrued actuarial liabilities on an ongoing basis. The main assumptions in the valuation are an investment return of 8.5% per annum and pensionable salary increases of 6% per annum. The valuation was performed by Colin Hedderwick, Fellow of the Institute of Actuaries, of Watson Wyatt Partners.

## 7 TAXATION

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Current taxation expense		
<b>Hong Kong</b>		
Subsidiary companies	578	642
Associated companies	179	161
Jointly controlled entities	52	79
<b>Overseas</b>		
Subsidiary companies	116	137
Associated companies	48	52
Jointly controlled entities	13	4
	<b>986</b>	1,075
Deferred taxation expense (credit)		
<b>Hong Kong</b>		
Subsidiary companies	107	(10)
Associated companies	–	(1)
Jointly controlled entities	(9)	(18)
<b>Overseas</b>		
Subsidiary companies	4	(2)
Associated companies	92	135
Jointly controlled entities	10	–
	<b>204</b>	104
	<b>1,190</b>	1,179
<p>Hong Kong profits tax has been provided for at the rate of 16% (1997 – 16.5%) on the estimated assessable profit less available tax losses. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit less available tax losses.</p>		
<p>The potential tax liabilities (assets) which have not been provided for in respect of the current year are as follows:</p>		
Arising from accelerated depreciation allowances on continuing operations	(110)	277
Arising from tax losses	(156)	60

No provision for taxation has been made for taxes which would arise on the remittance of retained profits of overseas companies to Hong Kong as it is not anticipated that these amounts will be remitted in the near future.

## 8 PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS

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The net profit of the Company is HK\$1,001 million (1997 – HK\$11,351 million) and is included in determining the profit attributable to the shareholders in the consolidated profit and loss account.

## 9 DIVIDENDS

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	Company 1998 HK\$ millions	Company 1997 HK\$ millions
Interim dividend paid of 40 cents per share (1997 – 48 cents)	1,551	1,861
Proposed final dividend of 88 cents per share (1997 – 110 cents)	3,411	4,262
	<b>4,962</b>	<b>6,123</b>

## 10 PROFIT FOR THE YEAR RETAINED

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	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Profit (loss) for the year retained after deducting minority interests is as follows:		
Company and subsidiary companies	2,955	5,074
Associated companies	839	853
Jointly controlled entities	(50)	216
	<b>3,744</b>	<b>6,143</b>

## 11 EARNINGS PER SHARE

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The calculation of earnings per share is based on profit attributable to the shareholders of HK\$8,706 million (1997 – HK\$12,266 million) and on the weighted average of 3,875,355,723 shares in issue during 1998 (1997 – 3,825,914,582 shares). Fully diluted earnings per share is not shown as the dilution is not material.

**12 FIXED ASSETS – GROUP**

	Investment properties HK\$ millions	Other properties HK\$ millions	Other assets HK\$ millions	1998 Total HK\$ millions	1997 Total HK\$ millions
<b>Cost or valuation</b>					
At 1 January	23,778	41,660	22,546	87,984	72,023
Exchange translation differences	–	5	(57)	(52)	(149)
Additions	89	4,676	4,868	9,633	8,491
Disposals	(53)	(29)	(1,098)	(1,180)	(1,368)
Relating to subsidiaries acquired	–	3,023	902	3,925	9,955
Relating to subsidiaries disposed of	(195)	–	(26)	(221)	(556)
Revaluation	(2,827)	–	–	(2,827)	(412)
Transfer between categories	3,523	(3,775)	252	–	–
Transfer to current assets	–	(6,665)	–	(6,665)	–
At 31 December	24,315	38,895	27,387	90,597	87,984
<b>Accumulated depreciation</b>					
At 1 January	–	2,054	9,491	11,545	8,835
Exchange translation differences	–	2	(32)	(30)	(66)
Charge for the year	–	621	1,956	2,577	2,129
Disposals	–	(9)	(927)	(936)	(419)
Relating to subsidiaries acquired	–	156	371	527	1,066
Relating to subsidiaries disposed of	–	–	(13)	(13)	–
Transfer between categories	–	(14)	14	–	–
At 31 December	–	2,810	10,860	13,670	11,545
Net book value at 31 December	24,315	36,085	16,527	76,927	76,439
<b>Cost or valuation at 31 December</b>					
At cost	–	38,895	27,387	66,282	64,206
At valuation	24,315	–	–	24,315	23,778
	24,315	38,895	27,387	90,597	87,984

## 12 FIXED ASSETS – GROUP (continued)

	1998 HK\$ millions	1997 HK\$ millions
Net book value of investment and other properties comprises:		
<b>Hong Kong</b>		
Long leasehold (not less than 50 years)	<b>16,480</b>	19,220
Medium leasehold (less than 50 years but not less than 10 years)	<b>32,221</b>	35,835
Short leasehold (less than 10 years)	<b>1</b>	9
<b>Overseas</b>		
Freehold	<b>1,403</b>	193
Long leasehold	<b>3,367</b>	2,292
Medium leasehold	<b>6,898</b>	5,792
Short leasehold	<b>30</b>	43
	<b>60,400</b>	<b>63,384</b>

Other properties include projects under development in the amount of HK\$7,401 million at 31 December 1998 (1997 – HK\$15,675 million).

Other assets include telecommunication equipment held under finance leases at a cost of HK\$3,221 million and accumulated depreciation of HK\$427 million at 31 December 1998 (1997 – Nil). Depreciation for the year amounted to HK\$98 million (1997 – Nil).

The investment properties have been revalued as at 31 December 1998 by C Y Leung & Company Limited, professional valuers, on an open market value basis based on existing use.

## 13 DEFERRED EXPENDITURES

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Deferred expenditures comprise:		
Subscribers' costs	<b>1,359</b>	1,019
Pre-operating expenses	<b>1,273</b>	975
Loan facilities fees	<b>477</b>	535
	<b>3,109</b>	<b>2,529</b>

**14 SUBSIDIARY COMPANIES**

	Company 1998 HK\$ millions	Company 1997 HK\$ millions
Unlisted shares	728	728
Amounts due from subsidiary companies	46,532	50,480
	<b>47,260</b>	<b>51,208</b>

Particulars regarding the principal subsidiary companies are set forth on pages 93 to 97.

**15 ASSOCIATED COMPANIES**

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Unlisted shares	3,468	3,761
Listed shares, Hong Kong	7,507	7,507
Listed shares, overseas	989	989
Share of undistributed post-acquisition reserves	3,394	2,505
Investment in associated companies	15,358	14,762
Amounts due from associated companies	7,212	6,726
Amounts due to associated companies	<b>(1,324)</b>	<b>(1,292)</b>
	<b>21,246</b>	<b>20,196</b>

The market value of the listed investments at 31 December 1998 was HK\$70,137 million (1997 – HK\$41,779 million). Particulars regarding the principal associated companies are set forth on pages 93 to 97.

**16 INTERESTS IN JOINT VENTURES**

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
<b>Jointly controlled entities</b>		
Unlisted shares	8,195	6,047
Share of undistributed post-acquisition reserves	928	2,062
Investment in jointly controlled entities	9,123	8,109
Amounts due from jointly controlled entities	17,555	13,048
Amounts due to jointly controlled entities	<b>(433)</b>	<b>(302)</b>
	<b>26,245</b>	<b>20,855</b>
<b>Other joint ventures</b>		
Cost of investments	13,032	12,835
Amounts due from other joint ventures	773	531
	<b>13,805</b>	<b>13,366</b>
	<b>40,050</b>	<b>34,221</b>

Particulars regarding the principal jointly controlled entities are set forth on pages 93 to 97.

## 17 MANAGED FUNDS AND OTHER INVESTMENTS

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Managed funds, overseas		
Listed marketable securities	3,255	3,664
Cash and cash equivalents	9,888	11,187
	<b>13,143</b>	14,851
Listed securities	4,629	5,632
Unlisted shares and advances	2,885	927
Long term deposits	4,184	4,851
Convertible redeemable notes	450	620
	<b>25,291</b>	26,881

Listed securities comprise shares listed in Hong Kong of HK\$2,810 million (1997 – HK\$3,040 million) and shares listed overseas of HK\$3,738 million (1997 – HK\$3,511 million) net of provisions for diminution in value of HK\$1,919 million (1997 – HK\$919 million).

The market value of the listed marketable securities at 31 December 1998 was HK\$6,802 million (1997 – HK\$8,946 million).

Convertible redeemable notes carry interest and are convertible into ordinary shares of the issuers which are listed companies in Hong Kong.

## 18 CURRENT ASSETS

	Company 1998 HK\$ millions	Company 1997 HK\$ millions	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Property under development for sale	–	–	4,990	–
Less: Deposits received from purchasers	–	–	<b>(6,326)</b>	–
	–	–	<b>(1,336)</b>	–
Stocks	–	–	3,145	2,981
Debtors	–	–	7,623	6,170
Dividends and other receivables				
from subsidiary companies	3,868	4,696	–	–
Bank balances and cash equivalents	–	2	17,407	31,326
	<b>3,868</b>	4,698	<b>26,839</b>	40,477

**19 CURRENT LIABILITIES**

	Company 1998 HK\$ millions	Company 1997 HK\$ millions	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Bank loans and overdrafts	268	254	8,536	10,438
Other loans	–	–	1,045	38
Creditors	148	136	13,127	14,921
Taxation	–	–	362	448
Proposed final dividend	3,411	4,262	3,411	4,262
	<b>3,827</b>	<b>4,652</b>	<b>26,481</b>	<b>30,107</b>

The bank and other loans of the Group are secured to the extent of HK\$85 million (1997 – HK\$89 million).

**20 SHARE CAPITAL**

	Number of shares 1998	Number of shares 1997	Company 1998 HK\$ millions	Company 1997 HK\$ millions
<b>Authorised:</b>				
Ordinary shares of HK\$0.25 each	4,650,000,000	4,650,000,000	1,162	1,162
7 <sup>1/2</sup> % cumulative redeemable participating preference shares of HK\$1 each	402,717,856	402,717,856	403	403
			<b>1,565</b>	<b>1,565</b>
<b>Issued and fully paid:</b>				
Ordinary shares				
At 1 January	3,874,893,401	3,617,823,624	969	904
Issue of shares	–	254,316,978	–	64
Senior Executive Share Option Scheme	898,218	2,752,799	–	1
At 31 December	<b>3,875,791,619</b>	<b>3,874,893,401</b>	<b>969</b>	<b>969</b>

Pursuant to a Senior Executive Share Option Scheme, options to purchase ordinary shares in the Company were granted to selected executives and executive directors in previous years. All options granted under the Scheme have been fully exercised and there were no options outstanding at 31 December 1998 (1997 – 898,218 ordinary shares).

## 21 RESERVES

	Share premium HK\$ millions	Investment properties revaluation HK\$ millions	Exchange translation HK\$ millions	Retained profit HK\$ millions	1998 Total HK\$ millions	1997 Total HK\$ millions
<b>Company</b>						
At 1 January	28,448	–	–	10,212	38,660	18,642
Premium on issue of shares	–	–	–	–	–	14,814
Premium on exercise of share options	8	–	–	–	8	22
Share issue expenses	–	–	–	–	–	(45)
Profit (loss) for the year retained	–	–	–	(3,961)	(3,961)	5,227
At 31 December	28,456	–	–	6,251	34,707	38,660
<b>Group</b>						
At 1 January	28,448	18,516	(762)	38,418	84,620	67,994
Premium on issue of shares	–	–	–	–	–	14,814
Premium on exercise of share options	8	–	–	–	8	22
Share issue expenses	–	–	–	–	–	(45)
Revaluation deficit	–	(2,840)	–	–	(2,840)	(507)
Valuation released to profit and loss account	–	(170)	–	–	(170)	(650)
Net goodwill on consolidation	–	–	–	(1,349)	(1,349)	(3,034)
Exchange translation differences	–	–	(563)	–	(563)	(167)
Profit for the year retained	–	–	–	2,955	2,955	5,074
Share of reserves of associated companies	–	–	118	839	957	854
Share of reserves of jointly controlled entities	–	(186)	13	(50)	(223)	265
At 31 December	28,456	15,320	(1,194)	40,813	83,395	84,620
Including retained reserves of						
– Associated companies	–	–	359	3,894	4,253	3,242
– Jointly controlled entities	–	417	203	1,236	1,856	2,224

Included in share premium of the Company and the Group is a capital redemption reserve of HK\$404 million (1997 – HK\$404 million). Reserves of the Company available for distribution to shareholders amount to HK\$6,251 million (1997 – HK\$10,212 million).

**2 2 MINORITY INTERESTS**

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Equity interests	7,249	6,968
Loans – interest free	2,580	2,183
Loans – interest bearing	705	3,065
	<b>10,534</b>	<b>12,216</b>

The loans are unsecured and have no fixed terms of repayment.

**2 3 LONG TERM LIABILITIES**

	Company 1998 HK\$ millions	Company 1997 HK\$ millions	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Bank loans repayable within 5 years	11,625	–	46,198	36,431
Bank loans not wholly repayable within 5 years	–	11,625	2,759	12,346
Other loans repayable within 5 years	–	–	2,167	2,174
Other loans not wholly repayable within 5 years	–	–	5,272	6,285
Notes – Series A to D	–	–	15,484	15,484
	<b>11,625</b>	<b>11,625</b>	<b>71,880</b>	<b>72,720</b>
The loans are repayable as follows:				
<b>Bank loans</b>				
After 1 year, but within 2 years	–	–	5,810	5,656
After 2 years, but within 5 years	11,625	–	41,461	31,269
After 5 years	–	11,625	1,686	11,853
<b>Other loans</b>				
After 1 year, but within 2 years	–	–	28	31
After 2 years, but within 5 years	–	–	2,190	2,189
After 5 years	–	–	5,221	6,238
<b>Notes</b>				
in year 2007	–	–	5,807	5,807
in year 2017	–	–	3,871	3,871
in year 2027	–	–	3,871	3,871
in year 2037	–	–	1,935	1,935
	<b>11,625</b>	<b>11,625</b>	<b>71,880</b>	<b>72,720</b>

## 23 LONG TERM LIABILITIES (continued)

The bank and other loans of the Group are secured to the extent of HK\$3,570 million (1997 – HK\$2,881 million).

Other loans repayable within five years include HK\$2,131 million (1997 – HK\$2,131 million) of 7% exchangeable bonds. The bonds are exchangeable for shares of Hutchison Delta Ports Limited, a wholly owned subsidiary company, after an initial public offering of its shares. If there is no such offering, the bonds will mature in 2001.

Other loans not wholly repayable within five years mainly represent HK\$5,200 million of floating rate notes, net of current portion of HK\$1,008 million, bearing interest at LIBOR plus 0.85% due in 2004 (1997 – HK\$6,208 million).

Notes in the aggregate principal amount of US\$2,000 million were issued on 1 August 1997, comprised of US\$750 million principal amount of 6.95% Notes due 2007 (the “Series A Notes”), US\$500 million principal amount of 7.45% Notes due 2017 (the “Series B Notes”), US\$500 million principal amount of 7.5% Notes due 2027 (the “Series C Notes”) and US\$250 million principal amount of 6.988% Notes due 2037 (the “Series D Notes”, and together with the Series A Notes, Series B Notes and Series C Notes, the “Notes”). The Notes are not redeemable by the Group prior to maturity except the Series D Notes are subject to repayment at the option of the holders thereof on 1 August 2009.

## 24 DEFERRED TAXATION

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
The movements in deferred taxation, arising from accelerated depreciation allowances, are as follows:		
At 1 January	111	119
Exchange translation differences	–	(1)
Relating to subsidiaries acquired	(19)	5
Net charge (credit) for the year	111	(12)
At 31 December	<b>203</b>	<b>111</b>
The potential tax liabilities (assets) which have not been provided for in the accounts are as follows:		
Arising from accelerated depreciation allowances	654	764
Arising from tax losses	(488)	(332)

Properties revaluation surpluses do not constitute a timing difference for taxation purposes because the realisation of the surpluses would not be subject to taxation. Therefore the above potential liability does not include deferred taxation related to the revaluation surpluses.

## 25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
<b>(a) Reconciliation of profit before taxation to net cash inflow from operating activities</b>		
Profit before taxation	11,165	14,717
Dividend and interest income	(4,221)	(3,429)
Interest expense	5,008	3,938
Share of profits less losses of associated companies	(2,307)	(2,184)
Share of profits less losses of jointly controlled entities	(513)	(1,272)
Exceptional items	(566)	(2,483)
Depreciation and amortisation	3,405	2,938
Profit on sale of fixed assets	(153)	(733)
Profit on disposal of subsidiary companies, associated companies and other investments	(345)	(664)
Gain on defeasance of finance lease	(123)	-
Decrease in properties under development	1,675	-
Deposits received from pre-sales of properties under development	6,326	-
Increase in stocks	(123)	(267)
Increase in debtors	(300)	(700)
Increase (decrease) in creditors	(2,433)	4,293
Other non cash items	412	(138)
Net cash inflow from operating activities	<u>16,907</u>	<u>14,016</u>
<b>(b) Disposal of subsidiary companies</b>		
<i>Net assets disposed of (excluding cash and cash equivalents):</i>		
Fixed assets	208	556
Jointly controlled entities	55	-
Stocks	26	-
Debtors	9	187
Bank and other loans	(36)	-
Creditors and taxation	(61)	-
Goodwill	8	-
Minority interests	(2)	34
	<u>207</u>	<u>777</u>
Revaluation reserves	(150)	-
Profit on disposal included in operating profit	158	484
	<u>215</u>	<u>1,261</u>
<i>Satisfied by:</i>		
Cash consideration	218	1,261
Less : Cash and cash equivalents sold	(3)	-
Total net cash consideration	<u>215</u>	<u>1,261</u>

25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
<b>(c) Purchase of subsidiary companies</b>		
<i>Net assets acquired (excluding cash and cash equivalents):</i>		
Fixed assets	<b>3,398</b>	8,889
Deferred expenditures	<b>4</b>	256
Associated companies	<b>(9)</b>	87
Interests in joint ventures	–	15,221
Stocks	<b>67</b>	251
Debtors	<b>267</b>	595
Bank and other loans	<b>(98)</b>	(2,363)
Creditors and taxation	<b>(572)</b>	(1,148)
Deferred taxation	<b>19</b>	(5)
Goodwill	<b>494</b>	3,005
Minority interests	<b>472</b>	(3,662)
	<b>4,042</b>	21,126
<i>Discharged by:</i>		
Net cash consideration		
Cash payment	<b>4,057</b>	10,166
Less : Cash and cash equivalents purchased	<b>(15)</b>	(4,237)
Total net cash consideration	<b>4,042</b>	5,929
Non-cash consideration		
Shares issued	–	14,878
Investments in subsidiary companies held prior to acquisition	–	319
	–	15,197
	<b>4,042</b>	21,126

## 25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

	Share capital and premium HK\$ millions	Bank and other loans HK\$ millions	Minority interests HK\$ millions	Group 1998 Total HK\$ millions	Group 1997 Total HK\$ millions
<b>(d) Analysis of changes in financing during the year</b>					
At 1 January	29,417	82,978	12,216	124,611	62,991
Issue of ordinary share capital less expenses	8	–	–	8	(22)
Issue of Notes	–	–	–	–	15,484
New loans	–	4,926	1,288	6,214	32,741
Repayment of loans	–	(6,633)	(3,221)	(9,854)	(7,461)
Issue of shares by subsidiary companies to minorities	–	–	45	45	432
Redemption of preference shares of subsidiary companies	–	–	–	–	(50)
Proceeds from sale of telecommunication equipment to lessor	–	1,358	–	1,358	–
Amounts placed on deposit with defeasance banks	–	(1,235)	–	(1,235)	–
Net cash inflow (outflow) from financing	8	(1,584)	(1,888)	(3,464)	41,124
Minority interests in profit	–	–	1,269	1,269	1,272
Dividend paid to minority shareholders	–	–	(602)	(602)	(520)
Minority interests in revaluation surplus	–	–	13	13	95
Exchange translation differences	–	1	–	1	(99)
Purchase of minority interests	–	–	–	–	(792)
Relating to subsidiary companies acquired	–	98	(472)	(374)	21,695
Relating to subsidiary companies disposed of	–	(36)	(2)	(38)	34
Gain on transfer of Hongkong Electric to CKI	–	–	–	–	(1,207)
Gain on defeasance of finance lease	–	(123)	–	(123)	–
Others	–	–	–	–	18
At 31 December	29,425	81,334	10,534	121,293	124,611

## 25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

	Group 1998 HK\$ millions	Group 1997 HK\$ millions
<b>(e) Movement in cash and cash equivalents</b>		
At 1 January	<b>31,108</b>	10,797
Transfer from long term deposit	<b>851</b>	–
Increase (decrease) in cash and cash equivalents	<b>(14,679)</b>	20,311
At 31 December	<b>17,280</b>	31,108
<b>(f) Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash equivalents	<b>17,407</b>	31,326
Bank overdrafts	<b>(127)</b>	(218)
	<b>17,280</b>	31,108

## 26 CONTINGENT LIABILITIES

	Company 1998 HK\$ millions	Company 1997 HK\$ millions	Group 1998 HK\$ millions	Group 1997 HK\$ millions
Guarantees have been executed in respect of bank and other borrowing facilities available as follows:				
To subsidiary companies	<b>59,115</b>	59,085	–	–
To associated companies	<b>1,661</b>	1,679	<b>2,068</b>	2,368
To jointly controlled entities	<b>3,212</b>	3,436	<b>6,447</b>	4,412

At 31 December 1998 the Company had contingent liabilities in respect of other guarantees amounting to HK\$100 million (1997 – HK\$100 million) and the Group had contingent liabilities in respect of other guarantees amounting to HK\$787 million (1997 – HK\$953 million).

## 27 COMMITMENTS

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Outstanding Group commitments not provided for in the accounts at 31 December 1998 are as follows:

### Capital commitments

1. Contracted for:
  - i. Investment properties in Hong Kong – HK\$1,132 million (1997 – HK\$3,489 million).
  - ii. Container terminals, Hong Kong – HK\$52 million (1997 – HK\$89 million).
  - iii. Container terminals, Mainland China – HK\$86 million (1997 – HK\$1,218 million).
  - iv. Container terminals, United Kingdom – HK\$262 million (1997 – HK\$2,562 million).
  - v. Telecommunications – HK\$1,509 million (1997 – HK\$1,417 million).
  - vi. Investments in Mainland China infrastructure joint venture projects – HK\$795 million (1997 – HK\$3,448 million).
  - vii. Other fixed assets – HK\$1,303 million (1997 – HK\$612 million).
  - viii. Other investments – HK\$669 million (1997 – HK\$504 million).
  
2. Authorised but not contracted for:
  - i. Investment properties in Hong Kong – HK\$222 million (1997 – HK\$110 million).
  - ii. Investments in Hong Kong investment properties joint venture projects – HK\$119 million (1997 – HK\$438 million).
  - iii. Investments in Mainland China investment properties joint venture projects – HK\$1,727 million (1997 – HK\$2,604 million).
  - iv. Investments in overseas investment properties joint venture projects – HK\$90 million (1997 – HK\$789 million).
  - v. Container terminals, Hong Kong – HK\$3,819 million (1997 – HK\$1,982 million).
  - vi. Container terminals, Mainland China – HK\$1,471 million (1997 – HK\$1,339 million).
  - vii. Container terminals, others – HK\$509 million (1997 – HK\$1,404 million).
  - viii. Investments in Mainland China ports – HK\$421 million (1997 – HK\$636 million).
  - ix. Telecommunications – HK\$3,274 million (1997 – HK\$2,218 million).
  - x. Other fixed assets – HK\$9,694 million (1997 – HK\$5,087 million).
  - xi. Other investments – HK\$591 million (1997 – HK\$506 million).

### Operating lease commitments – amount payable within one year for land and buildings leases

1. Expiring in the first year – HK\$314 million (1997 – HK\$298 million).
2. Expiring in the second to fifth years inclusive – HK\$1,024 million (1997 – HK\$901 million).
3. Expiring after the fifth year – HK\$236 million (1997 – HK\$245 million).

### Operating lease commitments – amount payable within one year for other assets

1. Expiring in the first year – HK\$63 million (1997 – HK\$22 million).
2. Expiring in the second to fifth years inclusive – HK\$169 million (1997 – HK\$92 million).
3. Expiring after the fifth year – HK\$4 million (1997 – HK\$107 million).

## **28 SUBSEQUENT EVENTS**

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Subsequent to the year end, the Group disposed of 50 million ordinary shares in its listed associated company Orange plc for a cash consideration of approximately HK\$5.28 billion and an exceptional profit was realised of approximately HK\$5 billion. As a result, the Group's interest in Orange plc was reduced to 44.8%.

In February 1999, the Group issued HK\$1,500 million principal amount of 7.88% guaranteed notes due 2002 which are listed on both the Hong Kong and Luxembourg Stock Exchanges.

The Group also issued in March 1999 a Euro 500 million principal amount of 5.5% guaranteed bonds due 2006 which are listed on both the Hong Kong and Frankfurt Stock Exchanges.

## **29 RELATED PARTIES TRANSACTIONS**

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The Group has entered into joint ventures with various parties, including Cheung Kong (Holdings) Limited, a substantial shareholder of the Company, to undertake property development projects. At 31 December 1998, in aggregate the Group had advanced HK\$14,856 million (1997 – HK\$12,688 million) to and had guaranteed bank loans and other borrowing facilities of HK\$3,733 million (1997 – HK\$4,341 million) for the benefit of these joint ventures. The Group has also entered into a joint venture with a company controlled by Mr Li Tzar Kai, Richard, a director of the Company, to develop a property in Japan. At 31 December 1998, the Group had advanced HK\$15 million (1997 – Nil) to and had guaranteed a bank loan facility of HK\$1,661 million (1997 – HK\$1,311 million) for the benefit of this joint venture. The risks, benefits and financing obligations of these joint ventures are shared in proportion to the respective shareholdings.

## **30 COMPARATIVE FIGURES**

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Certain comparative figures have been restated to conform with the current year's presentation.

## **31 US DOLLAR EQUIVALENTS**

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The US dollar equivalents of the figures shown in the accounts have been translated at the rate of HK\$7.75 to US\$1.

## **32 APPROVAL OF ACCOUNTS**

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The accounts set out on pages 65 to 97 were approved by the board of directors on 25 March 1999.