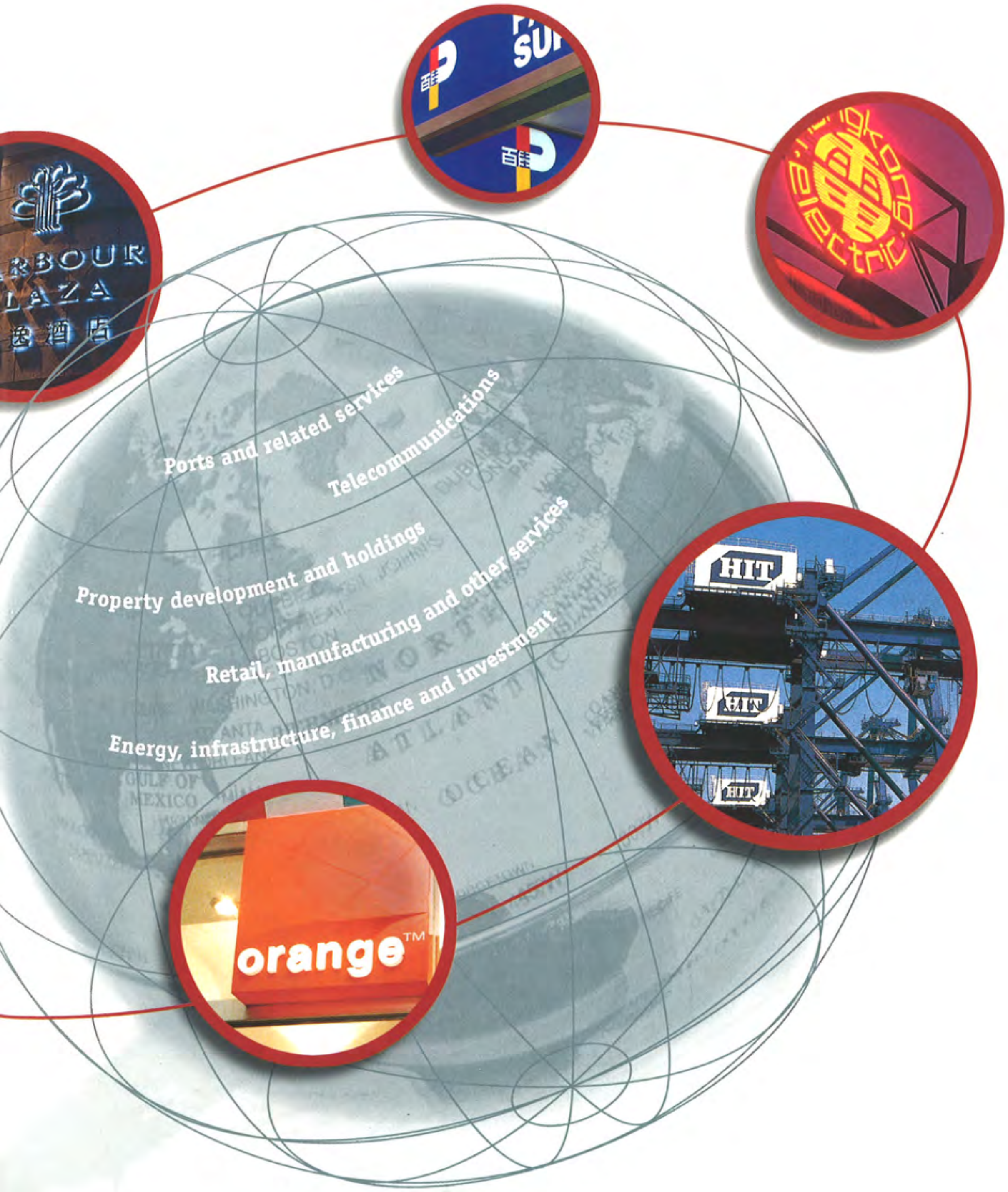
Hutchison Whampoa Limited



ANNUAL REPORT

1998

Hutchison Whampoa Limited

Ports and related services

Hutchison Port Holdings is the world's largest independent port operator with interests in Asia, Europe and the Americas. It handles about 10 per cent of global container traffic.

Telecommunications

Hutchison Telecom operates a wide range of integrated telecommunications services worldwide and is one of the world's major providers of mobile communications.

Property development and holdings

Hutchison Whampoa Property develops residential and commercial properties for sale and lease. Its portfolio includes some of the Hong Kong's largest private housing projects, and several landmark developments in Mainland China and the UK.

Retail, manufacturing and other services

A S Watson operates three of Asia's most innovative retail chains: PARKnSHOP supermarkets; Watson's personal care stores; and Fortress, selling domestic electrical appliances.

The manufacturing division produces and distributes a wide range of water and beverages throughout Asia and the UK.

Energy, infrastructure, finance and investment

The Group has major shareholdings in Cheung Kong Infrastructure, a diversified infrastructure company; Hongkong Electric, the sole supplier of electricity to Hong Kong and Lamma islands; and Husky Oil, one of Canada's largest, privately owned oil and gas companies.

Contents

Corporate information

Chairman

LI Ka-shing, CBE, LLD, DSSc, JP

Deputy chairmen

LI Tzar Kuoi, Victor, BSc, MSc

LI Tzar Kai, Richard

Group managing director

FOK Kin-ning, Canning, BA, DFM, ACA (Aus)

Executive directors

CHOW WOO Mo Fong, Susan, BSc
Deputy Group Managing Director

Frank John SIXT, MA, LLL
Group Finance Director

George Colin MAGNUS, MA

KAM Hing Lam, BSc, MBA

Directors

The Hon Michael David KADOORIE

Christopher Patrick LANGLEY, OBE

LI Fook-wo, CBE, LLD, DSSc, FCIB, FHKIB, JP

Simon MURRAY, CBE

William SHURNIAK, LLD

Peter Alan Lee VINE, OBE, LLD, VRD, JP

WONG Chung Hin, JP

Company secretary

Edith SHIH, MA, EdM

Auditors

Price Waterhouse

Bankers

The Hongkong and Shanghai Banking Corporation Limited

Standard Chartered Bank

The Chase Manhattan Bank, N A

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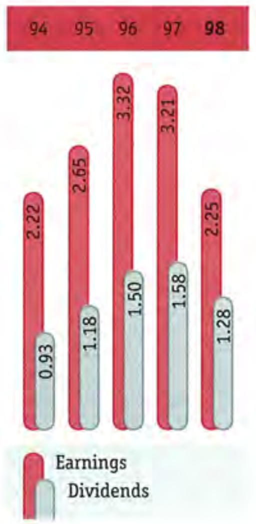
http://www.hutchison-whampoa.com

Financial highlights

Net assets per share
HK dollars

Earnings and dividends per share
HK dollars



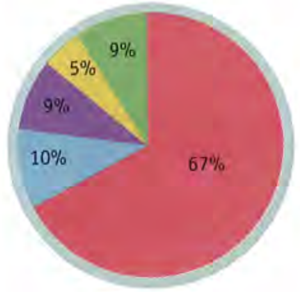
	1998 HK$ millions	1997 HK$ millions	Percentage change
Turnover			
Company and subsidiary companies	51,383	44,590	+ 15%
Share of associated companies and jointly controlled entities	12,141	16,969	– 28%
	63,524	61,559	+ 3%
Earnings before interest expense and taxation			
Company and subsidiary companies	8,416	10,277	– 18%
Share of associated companies and jointly controlled entities	3,678	3,663	–
Interest income, including share of associated companies and jointly controlled entities	4,339	3,423	+ 27%
Total earnings before interest expense and taxation (EBIT)	16,433	17,363	– 5%
Interest expense, including share of associated companies and jointly controlled entities	5,834	5,129	+ 14%
Profit before exceptional items	10,599	12,234	– 13%
Exceptional items	566	2,483	– 77%
Profit before taxation	11,165	14,717	– 24%
Taxation	1,190	1,179	+ 1%
Profit after taxation	9,975	13,538	– 26%
Minority interests	1,269	1,272	–
Profit attributable to the shareholders	8,706	12,266	– 29%
Total assets	193,462	200,743	– 4%
Net debt	42,803	29,601	+ 45%
Shareholders' funds	84,364	85,589	– 1%
Net assets per share – book value (HK$)	21.8	22.1	– 1%
Earnings per share (HK$)	2.25	3.21	– 30%
Dividends per share (HK$)	1.28	1.58	– 19%
Dividend cover	1.8	2.0	– 10%
Net debt/net total capital	31.2%	23.8%	+ 31%
Return on average shareholders' funds	10.2%	15.9%	– 36%

Analysis by core business of group turnover, EBIT and profit

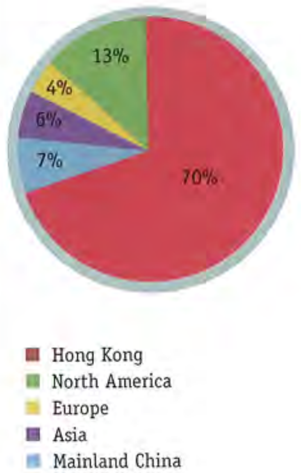
	1998 HK$ millions	1997 HK$ millions	Percentage change
Turnover			
Ports and related services	10,754	10,313	+ 4%
Telecommunications	7,388	13,214	– 44%
Property development and holdings	9,192	3,387	+ 171%
Retail, manufacturing and other services	21,580	21,448	+ 1%
Energy	3,857	3,785	+ 2%
Infrastructure	6,668	5,716	+ 17%
Finance and investment	4,085	3,696	+ 11%
Total	63,524	61,559	+ 3%
Earnings before interest expense and taxation			
Ports and related services	4,540	4,946	– 8%
Telecommunications	474	388	+ 22%
Property development and holdings	2,851	3,717	– 23%
Retail, manufacturing and other services	845	1,336	– 37%
Energy	629	781	– 19%
Infrastructure	3,518	2,765	+ 27%
Finance and investment	3,576	3,430	+ 4%
Total	16,433	17,363	– 5%
Profit attributable to the shareholders			
Ports and related services	3,080	3,097	– 1%
Telecommunications	551	1,071	– 49%
Property development and holdings	(1,479)	1,628	– 191%
Retail, manufacturing and other services	3,318	2,107	+ 57%
Energy	315	433	– 27%
Infrastructure	2,408	3,098	– 22%
Finance and investment	513	832	– 38%
Total	8,706	12,266	– 29%

The above information includes the Company, its subsidiary companies and its proportionate share of associated companies' and jointly controlled entities' amounts.

Turnover by geographical area 1998



EBIT by geographical area 1998



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

"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."

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

"Despite an overall negative economic environment, the A S Watson Group's operations in Hong Kong proved to be relatively resilient due to its offering of essential consumer goods."

"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."

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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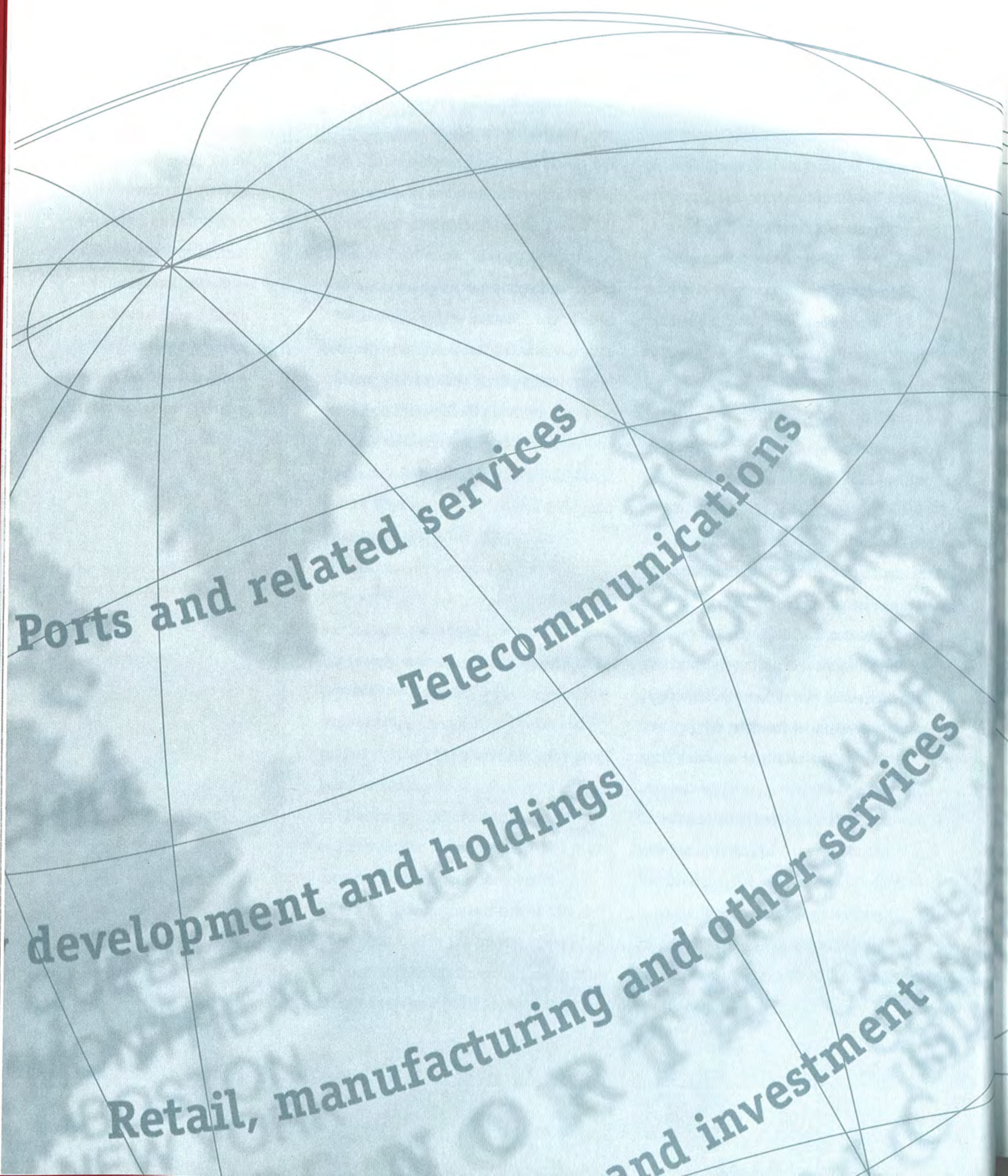


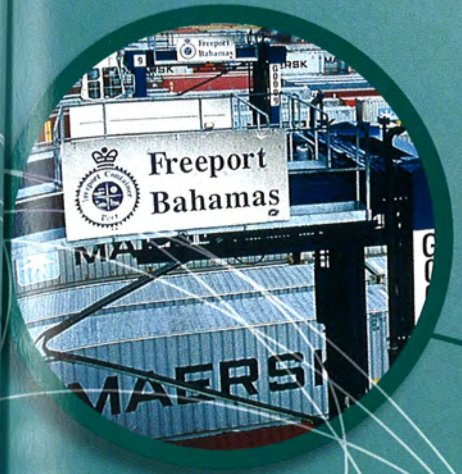
Operations review

The Group's activities are concentrated on five core businesses – ports and related services; telecommunications; property development and holdings; retail, manufacturing and other services; and energy, infrastructure, finance and investment. Although each of the Group's five core businesses was affected to varying degrees by the difficult economic conditions in Asia, all the Group's principal subsidiaries operated profitably during the year. The focus of the Group remains concentrated on its five core businesses to provide future growth and expansion.

Ports & related services

With the experience gained as the operator of Hongkong International Terminals, one of the world's largest independently owned container terminal, the Group continues to extend its expertise to strategic locations in other countries around the world.

Hutchison Port Holdings is fast expanding into Europe since its acquisition of the Port of Felixstowe in 1991.



The throughput in Freeport Container Port in the Bahamas doubled during the year.

One of Hutchison's coastal ports – Shantou International Container Terminals.

Flagship company, HIT, achieved a milestone in 1998, handling its 50 millionth container.

Earnings before interest and tax ("EBIT") from the Group's ports and related services totaled HK$4,540 million (1997 – HK$4,946 million). The Group expanded its international network of port facilities with investments in two ports in the United Kingdom in 1998 and further opportunities are being explored. Combined throughput in 1998 at all operations rose 7.5% to 14.1 million TEUs (twenty foot equivalent units).

Steady performance at HIT in Kwai Chung.

HONG KONG

In March 1998, the Group increased its interest in Hongkong International Terminals Limited ("HIT") from 85% to 88%. HIT, the world's largest privately owned container port facility, operates Terminals 4, 6 and 7 at Kwai Chung and the Group, through COSCO-HIT, also has an effective 44% interest in Terminal 8 East. Combined throughput from both operations totaled 6.0 million TEUs, marginally behind the 6.4 million TEUs handled in 1997, reflecting the loss of one customer that joined another shipping alliance and a slowdown in the export and import trade. As a result, EBIT for the year declined 10% from 1997. On 8 December 1998, the Hong Kong Government granted land at Tsing Yi to HIT, Modern Terminals Limited and Asia Container Terminals Limited to build Container Terminal 9, a six berth container terminal that is expected to have an annual capacity of 2.6 million TEUs when completed in 2004. HIT has received the right to own and operate two of the six berths.

Hutchison Port Holdings
和記黃埔港口

Hongkong International Terminals Limited

Hutchison Delta Ports Limited
和記黃埔三角洲港口有限公司

Shanghai Container Terminals has helped make Shanghai Port one of the largest ports in the world.

During the year, the Group's interest in Mid-Stream Holdings Limited was increased from 95.5% to 100% and despite lower throughput and heightened competition, EBIT increased 26% as a result of efficient operating and cost controls.

In October, the River Trade Terminal Company (33% interest) commenced operations of phase 1 of the 65 hectare river trade terminal development at Tuen Mun. When fully completed in 2000, the facility will have an annual handling capacity of 1.3 million TEUs and 900,000 tonnes of breakbulk cargo and will principally serve the water borne trade between the Pearl River Delta and Hong Kong.

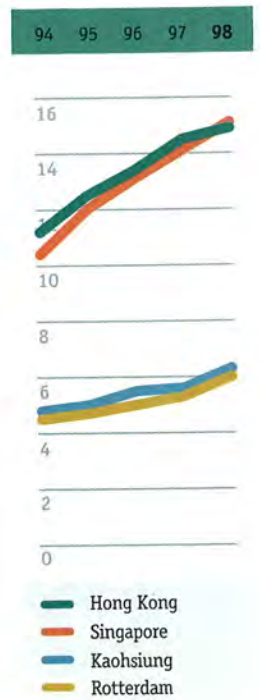
Hongkong United Dockyards (50% interest) returned to profitability in 1998 due to improved revenue from the ship repair business, reduced operating costs and the sale of one of its floating docks. The results of 50% owned Hongkong Salvage and Towage were in line with last year, reflecting increased revenues from its waste disposal container vessel business and the profit on the sale of one of its tugs.

MAINLAND CHINA

Throughput at the Group's 40% owned Shanghai Container Terminals Limited rose 15% to more than 2 million TEUs during the year and EBIT increased 16% over the previous year. This 10 container berth facility is one of the Mainland's most modern and the productivity enhancement programme, which is currently underway, is expected to increase the port's annual capacity to 2.2 million TEUs.

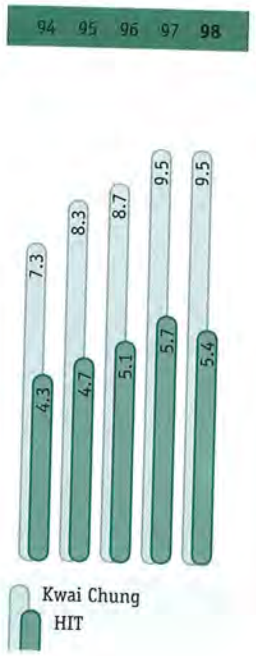
Yantian International Container Terminals ("YICT") recorded another year of strong growth with total throughput exceeding 1 million TEUs, up 63% from 1997, and EBIT was more than double the previous year. Construction of YICT's

Comparison of container throughputs
Millions TEUs



Yantian International Container Terminals recorded strong growth.

Kwai Chung container throughputs
Millions TEUs



HK$4.7 billion second phase is progressing and, when fully completed in 2000, YICT will have six container berths and will be one of the largest deep water container terminals in Southern China with an annual capacity of approximately 2 million TEUs. During the year, the Group increased its effective interest in YICT from 47.75% to 49.95%.

Hutchison Delta Ports ("HDP"), the Group's wholly owned subsidiary which invests in, develops and operates river and coastal ports in the Mainland, performed satisfactorily in difficult market conditions. HDP's six operating joint venture ports handled a total of 545,000 TEUs and 2.2 million tonnes of general cargo, an increase of 5% and 27% respectively over 1997.

In February this year, operations commenced at the 77.5% owned inland warehousing and container depot facilities in Guanlan, Shenzhen and is expected to enhance container traffic handling at YICT.

EUROPE

The Group's European ports reported EBIT 22% ahead of the previous year. The Port of Felixstowe, in which the Group has an effective 90% interest, had another satisfactory year, maintaining its ranking as the UK's leading container facility and reporting a 9% rise in throughput to 2.5 million TEUs. Progress has continued on the port's five year "Productivity Plus Programme" of modernisation, efficiency and productivity enhancements. Felixstowe comprises three terminals which can handle up to nine of the largest container vessels at any one time and in addition, it is one of the UK's busiest terminals for roll-on roll-off traffic.

In February 1998 the Group, through a 90% owned subsidiary, acquired Thamesport container port. This recently developed facility with an annual throughput capacity of approximately 600,000 TEUs, is a modern container terminal, 35 miles from London. In the period from the date of acquisition to 31 December 1998, TEU throughput increased by 28% compared to the same period in 1997 and this port made a positive contribution to the Group's profit for the year.

In April 1998, the Group acquired a 90% interest in Harwich International Port which is situated one mile from Felixstowe port on the opposite side of the Harwich Haven and serves the Northern Europe and Scandinavia routes with regular passenger and freight roll-on roll-off services. This port, which also handles containers, dry bulk and agricultural products, made a positive contribution to the Group's profit for the year.

The acquisition of these two ports further strengthened the Group's competitive position and, together with the Port of Felixstowe, provide a solid base for future profit growth in the UK market.

上海集装箱码头有限公司
SHANGHAI CONTAINER TERMINALS LIMITED

盐田国际集装箱码头有限公司
Yantian International Container Terminals Limited

Port of Felixstowe

THE AMERICAS AND THE CARIBBEAN

The Group has a 72% interest in the ports of Balboa and Cristobal, located on the Pacific Ocean and Caribbean Sea ends of the Panama Canal respectively. These ports provide strategic access for the transatlantic and transpacific trade to the East and West Coasts of the Americas. Satisfactory progress has been made on the redevelopment of the Balboa facility which is on schedule for completion later this year and will double the combined annual throughput to 650,000 TEUs.

The second phase of the development of the two berth, Freeport Container Port on Grand Bahama Island is on schedule for completion this year to increase the annual throughput capacity from 560,000 TEUs to 950,000 TEUs. During 1998, the port, in which the Group has an effective 45% interest, more than doubled its throughput to 470,000 TEUs compared to the previous year.

The Group also has a 50% interest in the Freeport Harbour Company which owns and operates a major cruise ship facility on Grand Bahama Island and a 50% interest in the Grand Bahama Airport Company which owns and operates the islands' airport.

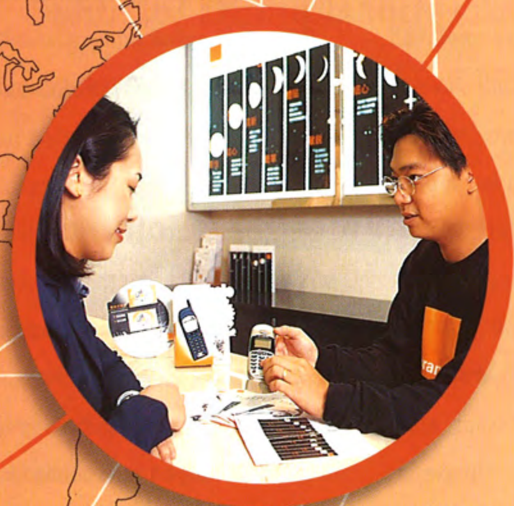
MYANMAR

During the year start up operations commenced at the container port facility at Thilawa, Yangon which is operated under a long term concession. In January this year, the Group increased its interest in this modern two berth facility with an annual capacity of 100,000 TEUs to 84.95%.

Hutchison Telecom's Israel operation has created very high interest in a short time.

VoiceStream Wireless in the US had a remarkable performance in 1998.

Orange shops are fast expanding in key shopping areas in the UK.



Customers in Hong Kong are attracted to Orange for its quality and the variety of subscription packages.

Telecom-munications

The Group continues to build on its recognised telecommunications expertise as one of the leading competitors in mobile telecommunications in Hong Kong and the United Kingdom with a growing presence in mobile communications in a number of other locations in Europe, North America, and the Asia-Pacific region. The Group expanded its activities to Belgium, Switzerland and Austria in continental Europe, Israel, the United States of America, and has secured new wireless network licences in Australia.

Hutchison Telecom outlets provide customers with a wide choice of products and services.

Earnings before interest and tax from the Group's telecommunications division totaled HK$474 million (1997 – HK$388 million). The amount recorded for 1998 excludes exceptional profits totaling HK$684 million (1997 – HK$1,515 million) realised from the sale of the Group's remaining 11.49% interest in Asia Satellite Telecommunications Holdings.

HONG KONG OPERATIONS

Hutchison Telecommunications, which provides cellular, fixed line, internet, and paging services, recorded a 5% increase in EBIT despite operating in an environment of increasingly aggressive competition for subscribers by all telecommunications network operators and service providers. This positive result reflects the strong growth in its cellular subscriber base and the benefits of cost control measures.

During the year, the Group continued to focus on increasing its subscriber base, market share and the quality of customer service, as well as providing value for money and innovative products to its subscribers. In September 1998, Hutchison Telecommunications launched, under the Orange brand name, Asia's first dualband GSM/PCS service which offers seamless access between its GSM and PCS networks to further enhance the quality of reception and to provide a wider range of innovative services and privileges to its subscribers. With over 1,500 cell sites on its three networks, Hutchison Telecommunications currently provides coverage to over 96% of Hong Kong's population. The total number of subscribers on its three networks increased over 47% from the beginning of the year and currently the subscriber base totals more than 1,000,000 subscribers, which represents an approximate 34% share of the Hong Kong cellular market. Our subscribers are now being served by an expanded customer service and distribution network including 3 service centres, 42 retail outlets, 29 franchise stores, 69 sales counters in Watson's The Chemist and Fortress stores, and over 200 authorised dealer outlets carrying the Orange and Hutchison brand handsets. The Everyday Card offered to the Group's qualified subscribers provides a variety of discounts at over 1,000 leading retail outlets and continues to be popular with subscribers.

Hutchison Telecom

orange™

Xin Gen Xian

The construction and development of the fixed line network fibre optic backbone is on schedule for completion in the first half of this year. At the end of 1998, over 600 kilometres of duct work had been installed providing service to the various business districts, high density housing estates and private residential developments in Hong Kong. Steady progress has also been made in the marketing of the fixed line network including the award of contracts to provide high speed trunks for fixed line

Hutchison Telecom ensures quality mobile telephone network services with 24 hour supervision by dedicated technicians.

voice services for the Hospital Authority and the Hongkong & Shanghai Bank. Despite strong competition, the 0080 international dialling service grew its subscriber base to more than 664,000 at the end of 1998 and has recorded significantly improved earnings due to successful marketing and cost reduction programmes. Hutchison Telecommunications launched its HutchCity internet service on 17 November 1998 and its home page on the worldwide web, in English and Chinese, focuses on providing information technology, local and international news, financial, entertainment, leisure and sports information. Effective 1 January 1999, the Group had its licence extended to include an International Simple Resale ("ISR") licence and, as a result, has commenced leasing international private circuits to offer direct connections with other ISR countries. The licence was also extended to include an International Gateway Facility ("IGF") licence and effective 1 January 2000, the Group has the right to operate and/or own infrastructure for the direct placing of international calls and will be able to provide international gateway services to other network operators that do not have IGF licences.

The mobile Orange shop enables Orange to have a presence in smaller UK towns where it does not currently have shops.

HUTCH

VoiceStream WIRELESS

Although the paging market is in decline as subscribers transfer from pagers to cellular telephones, the Group has maintained its dominant position in the paging market. The Group's paging business recorded improved earnings due to the successful implementation of major cost saving initiatives and the introduction of new revenue earning call centre activities earlier in the year.

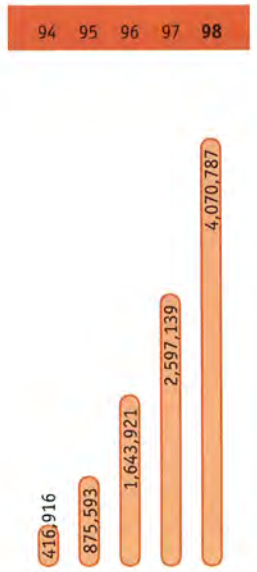
Metro Broadcast Corporation, in which the Group has a 50% interest, broadcasts on three radio channels in Hong Kong. Its results were adversely affected by the overall cut back in advertising spending by Hong Kong companies.

EUROPE OPERATIONS

Orange improved on its previous year's performance and expanded into continental Europe. Orange PCS gained over 21% of the UK's market growth in 1998 to end the year with over 2,162,000 subscribers and a 16.6% share of the national market, representing a 17% increase in its market share. For the first time in 1998, "pay as you go" customers represented a significant proportion of overall growth in the UK market. Most importantly, Orange's strategy of focusing on high value customers, in both the contract and pay as you go segments, is delivering results. Currently Orange PCS has approximately 2,500,000 subscribers. Investment in the network infrastructure continued in 1998 and improved the depth and quality of coverage in the UK. Orange PCS now has the largest, best performing network in the UK providing coverage to more than 98% of the population. Orange's UK paging business and cellular service provider operation continue to perform in line with expectations.

In Europe, the service provider businesses in France and Germany also reported subscriber growth of 15% and 67% respectively. The installation of the third GSM network in Austria, in which Orange has a 17.45% interest, progressed satisfactorily and the network was launched in October 1998. At the end of 1998, the network had 26,000 subscribers, representing approximately 1% of the Austrian cellular market. In 1998, Orange expanded further in Europe with investments in Belgium and Switzerland. KPN Orange Belgium, a consortium in which Orange has a 50% interest, and Orange Communications SA in Switzerland, a consortium in which Orange has a 42.5% interest, are both on schedule to launch their GSM networks in

Cellular telephone subscribers



Hong Kong, Australia, India, Sri Lanka, United Kingdom and the rest of Europe the middle of 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.

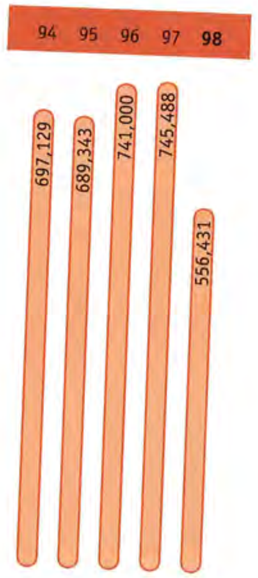
ASIA PACIFIC OPERATIONS

Despite economic troubles in Southeast Asia, the Group's Asia Pacific operations reported overall improved results over the previous year.

The Group's 70% owned GSM cellular service provider and paging operations in Australia had a record year due to a significant increase in revenues from its cellular service provider operations. At the end of 1998, its GSM cellular service provider business had over 191,000 subscribers, a significant 46% increase from the beginning of the year. The Group was awarded cellular network licences in greater Sydney and Melbourne areas in 1998 and good progress is being made to develop CDMA networks in both areas to provide wireless, local and area wide mobile services. Network services are targeted for launch in the second half of this year and the network is expected to be fully completed in 2000.

During the year, the Group increased its effective equity interest in Hutchison Max Telecommunications ("HMT") in India from 29.4% to 49.5% and subscribed to preference shares issued by a company holding a substantial interest in HMT. This associated company recorded lower than expected subscriber growth and utilisation rates due to an overall slow mobile telephony market and currently the subscriber base totals approximately 138,000. In 1998, the Group focused on rationalising and consolidating HMT's paging businesses in India and now operates in seven cities with more

Pager subscribers



Hong Kong, Australia, United Kingdom and other Asian countries

Mobile telephony in India has energised the local telecommunications market.

centralised administrative procedures and a subscriber base of approximately 63,000 subscribers. In Sri Lanka, the redeployment of the TACS network has been completed and the expanded network has been launched. The Group's paging joint ventures in Thailand, Malaysia and Singapore continue to be adversely affected by the economies in those countries. The Group's 66% owned joint venture company, Chung Kiu Telecommunications (China), which primarily provides telecommunications consultancy services and manufactures to order trunk radio systems and handsets, reported significantly reduced activity in 1998.

Hutchison Corporate Access, which provides communication services and equipment utilising very small aperture terminals ("VSAT"), made substantial progress in 1998, increasing its client base and revenues.

REST OF THE WORLD

The Group's 46.7% associated company Partner Communications, commercially launched Israel's first GSM network on 3 January 1999 under the Orange brand name and has already attracted a subscriber base of approximately 80,000. Good progress is being made on the network rollout and a nationwide service with 90% population coverage is expected to be achieved by the end of 1999.

VoiceStream Wireless Corporation, in which the Group has a 19.9% interest, had an outstanding year of growth in 1998. Its subscriber base more than doubled during the year to approximately 322,000 subscribers at the year end. VoiceStream is a PCS business providing service mainly to the mid-western United States covering an area with a total population of approximately 66 million.

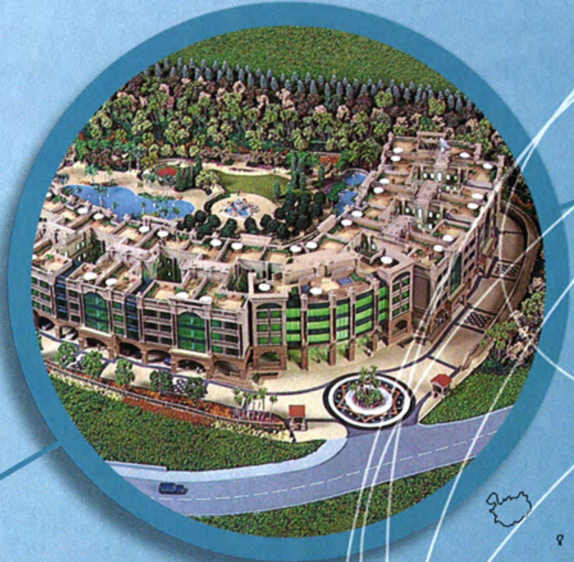
In Ghana, the Group acquired an 80% interest in an established cellular operator which has a nationwide cellular licence. The AMPS equipment from Hong Kong is being deployed in Ghana to provide additional capacity and to improve quality of service and network coverage.

Hutchison Telecom's attractive sales outlets in Israel make an impact in the market.

Property development and holdings

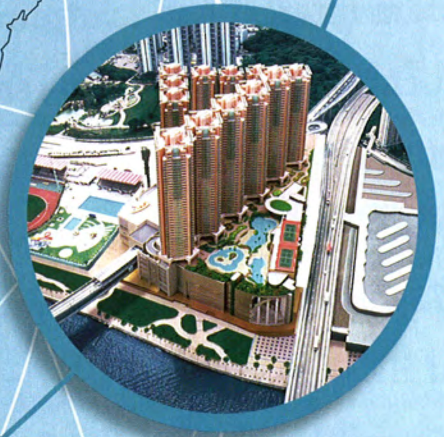
The Group's property activities include the development and sale of high quality residential, commercial, office, hotel and recreational projects in Hong Kong, the Mainland and overseas. An investment portfolio comprising approximately 11.4 million sq ft of commercial, office, industrial and residential premises and the Group's portfolio of premium quality hotels provide a strong recurrent earnings base.

The resident's club at Four Seasons in Shanghai is a combination of luxury, class, service and design.



The Paramount, a low density residential project developed on the mountain slope in Tai Po, attracts those who enjoy nature and tranquility.

Cheung Kong Center provides tenants with the most advanced technology and telecommunication systems.



Tierra Verde, conveniently located atop the Tsing Yi Airport Railway Station, provides residents with easy access to anywhere in the territory.

Located along the Hung Hom waterfront, the Harbourfront offers stunning views of the Hong Kong harbour as well as excellent facilities for tenants.

Earnings before interest and tax from the property division, which arose mainly from rental income and development profits from the sale of phase one of Tierra Verde in Tsing Yi, amounted to HK$2,851 million (1997 – HK$3,717 million) before exceptional provisions of HK$750 million (1997 – HK$750 million) and HK$1,700 million against the Group's property developments at Wan Hoi Street and Tung Chung respectively.

HONG KONG – PROPERTY SALES

During the year, the Group successfully presold all 3,500 units of the Tierra Verde residential project at Tsing Yi. Phase one of the development, which comprises five towers with approximately 1.15 million sq ft, was completed during the year and the related profit was recorded in 1998. Phase two of the project, which comprises seven towers with approximately 1.53 million sq ft, is on schedule for completion this year. The Group has a 60% interest in the consortium that is developing this project. The Paramount at Tai Po, a 132,000 sq ft residential project in which the Group has a 35% interest, was completed and substantially sold during 1998.

In addition the Group sold 16 residential units at Las Pinadas in Clearwater Bay and a

portion of its remaining inventory of carparks. Profits from the sale of carparks were substantially lower than in the previous year as the majority of the Group's carparks were sold in 1997.

HONG KONG – PROPERTIES UNDER DEVELOPMENT

The Group has a number of projects under development in Hong Kong. The occupation permit for the first 25 floors of the 62 storey Cheung Kong Center was received in October 1998. Upon completion of the second phase in early 1999, the office tower will provide approximately 1.26 million sq ft of gross floor area. Cheung Kong Center is one of Hong Kong's most technologically advanced buildings providing state-of-the-art telecommunications infrastructure and flexible working space. Approximately 70% of the tower has been committed pursuant to long term leases and the continuing interest has been encouraging.

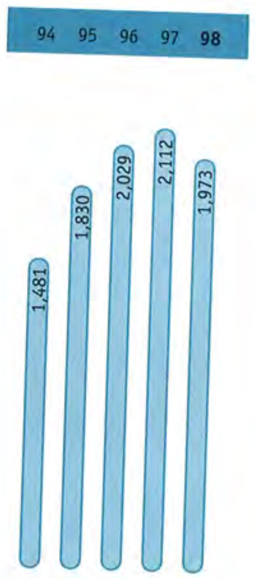
The Group's 39.1% owned North Point twin tower office and hotel is on schedule for completion in the second half of this year and will provide 212,000 sq ft of office and commercial space and approximately 800 hotel rooms. Presales of the 1.39 million sq ft residential project at Ma On Shan, in which the Group has a 50% interest, is scheduled for later this year and completion of construction is expected in early 2000.

Work is progressing on schedule at the 1.4 million sq ft development above the Kowloon-Canton Railway terminus in Hung Hom. The Group has a joint venture interest with a profit sharing arrangement in this project comprising three office towers, a hotel and a shopping arcade which is expected to be completed in 2000. A 50% owned 229,000 sq ft residential project for sale on Broadcast Drive is due to be completed in 2000.

During the year, work commenced on a 672,000 sq ft residential and commercial

Qingdao's Pacific Plaza office complex includes a high class shopping centre and an underground car park.

Gross rental income (includes intra group rental)
HK$ millions



project at Wan Hoi Street in Hung Hom, adjacent to the Group's Harbour Plaza Hotel. The Group has a 50% interest in this development which is expected to be completed in 2001. In March, a consortium in which Hutchison has a 42.5% interest, won the tender for a site near Canton Road in Kowloon. Plans are well advanced to construct a residential and commercial complex for completion in 2001.

In 1998, Hutchison acquired a 70% interest in a site on Tsing Yi Island and plans are well advanced to develop a commercial and serviced suites complex of approximately 2.5 million sq ft for completion in 2003.

At Tung Chung, the Group has a joint venture interest with a profit sharing arrangement in a multi phase residential and commercial development near the new Hong Kong International Airport which is scheduled for completion in phases from 2002 to 2003. This development will provide approximately 4.4 million sq ft of residential units and a shopping centre.

ROYAL GATE KENSINGTON

大都會商廈
METROPOLITAN TOWER

HARBOUR PLAZA
HONG KONG

HONG KONG – RENTAL PROPERTIES

The Group's portfolio of approximately 11.4 million sq ft of commercial, office, industrial and residential investment properties remained virtually fully let in 1998, providing quality recurrent income and cash flow. Overall gross rental income declined by approximately 7% during the year mainly due to extensive renovations at certain commercial properties.

MAINLAND CHINA – PROPERTIES UNDER DEVELOPMENT

In the Mainland, the Group has interests in a number of joint ventures to develop properties in phases over the next five years. In Beijing, a topping out ceremony was recently held at the Beijing Oriental Plaza project, which, when fully

Metropolitan Plaza in Chongqing houses one of the largest indoor shopping arcades in the Mainland with shopping, dining and recreational facilities.

completed in phases to 2003, will provide over six million sq ft of office and retail space, a hotel and service apartments. Construction of the first phase shopping mall is on schedule to open in 2000. The Group has an 18% interest in this project.

In Chongqing, the 898 flat second phase of a low cost housing project, in which the Group has a 50% interest, was completed on schedule during the year and has been sold.

In Qingdao, satisfactory progress was made on the construction of the second phase of Pacific Plaza. Two of the five residential towers were substantially completed during the year and are being offered for sale this year. The Group has an effective 15% interest in this phase of the project which comprises a total of 492,000 sq ft of residential space.

In Shanghai, the Group has a 50% interest in a low density housing development in the Huamu district of Pudong. Construction of 96 houses and a clubhouse comprising the first phase was completed on schedule during the year and completion of the remaining development is scheduled for 2000.

In 1998, a joint venture in which the Group has a 50% interest, acquired a site near the Futian central district in Shenzhen and is planning to develop a 4.4 million sq ft residential project. Completion is scheduled in phases from 2001 to 2006.

In February this year, the Group increased its interest from 35% to 50% in a project to develop a 4.8 million sq ft luxury residential estate adjoining a golf course in Zhuhai. Completion of phase 1, which now comprises 720 residential units, is planned for 2001 with the final phase due for completion in 2005.

MAINLAND CHINA – RENTAL PROPERTIES

In the Mainland, the Group has a 50% interest in 957,000 sq ft of retail space at Metropolitan Plaza in Chongqing of which over 85% is under lease. During 1998

The Beijing Oriental Plaza will comprise eight Grade A office towers, a modern shopping centre, a five star hotel and two blocks of service apartments.

construction of the 554,000 sq ft of office tower (50% interest), adjacent to the Metropolitan Plaza, was completed and a leasing campaign is in progress. The Group also had a 21% interest (increased to 30% in 1999) in 687,000 sq ft of retail space (98% leased) and a 367,000 sq ft office tower (74% leased) at Westgate Mall in Shanghai. These developments are generating rental income in line with expectations.

OVERSEAS – PROPERTIES UNDER DEVELOPMENT

Grand Bahama Island

The redevelopment of a resort hotel complex and two world class golf courses on the island progressed satisfactorily and completion is scheduled in phases later this year and next year. The hotel will provide 1,259 rooms and suites and will be the largest resort complex on the island. The Group has a 50% interest in a joint venture with the Grand Bahama Island Port Authority in a 741 acre undeveloped industrial site which links the airport, container terminal and harbour. Planning is at an early stage for the construction of a sea / air business and industrial centre on this site.

The Royal Gate Kensington, in the heart of London, allows easy access to shopping and entertainment.

London

The Group's 47.5% owned Royal Gate Kensington residential development was completed during the year and all the flats in this 132 unit development have been substantially sold and the profit recorded in 1998. Construction is scheduled to begin this year on the Group's 42.5% owned, 105,000 sq ft Belgravia Place residential development near Sloane Square and completion is expected in 2000. The Group entered into a joint venture (22.5% interest) to develop an approximately 164,000 sq ft residential building at the Montevetro site on the River Thames and completion is planned for 2000. The Group also has a 45% interest in a site near the Albion and Bridge Wharves which will be developed into a residential and commercial complex. Construction is expected to commence this year with completion scheduled in 2001.

Tokyo

The Group has an approximate 45% interest in a site in the Marunouchi district of Tokyo which is being developed into an approximately 800,000 sq ft high rise office tower. The project is expected to be completed in 2001.

The Elegance at Sheraton, the newly renovated shopping mall at the Sheraton Hong Kong Hotel and Towers, attracted tenants from renowned brands.

HOTELS

The Group owns and operates several hotels in Hong Kong, the Mainland and the Bahamas. The performance of the Group's two hotels in Hong Kong was adversely affected by competition for the continuing low number of Hong Kong visitor arrivals which effectively reduced room rates. At the Sheraton Hong Kong Hotel and Towers, in which the Group has a 39% interest, earnings were also affected by the renovations made to the shopping podium and reception area of the hotel which were completed during 1998. The wholly owned Harbour Plaza Hotel performed well by maintaining its occupancy at the same level as in the previous year, although average room rates were lower.

The Harbour Plaza Beijing (95% interest), reopened in April 1998 following an extensive renovation with 429 rooms and suites. This hotel, along with the Great Wall Sheraton in which the Group has a 49.8% interest, reported lower occupancy levels and room rates in line with the increasingly competitive Beijing market.

The Harbour Plaza Chongqing (50% interest), a 425 rooms and suites hotel, commenced operation in June 1998 and is situated in the heart of the city adjacent to the Metropolitan Plaza shopping mall and office tower complex. The hotel is the first international standard premium quality hotel to open in Chongqing.

There are two hotels under development, in addition to the hotels being developed in connection with the Group's property development activities mentioned above. The 321 room Harbour Plaza Kunming, in which the Group has a 95% interest, is being developed and is on schedule to open in April this year in time for the International Horticultural Exposition to be held in Kunming from May to October 1999. Plans are underway for the construction of a hotel (49% interest) on an approximately 86,000 sq ft site in Ma On Shan, Hong Kong.

Harbour Plaza Chongqing has the advantage of its proximity to the airport and railway station.

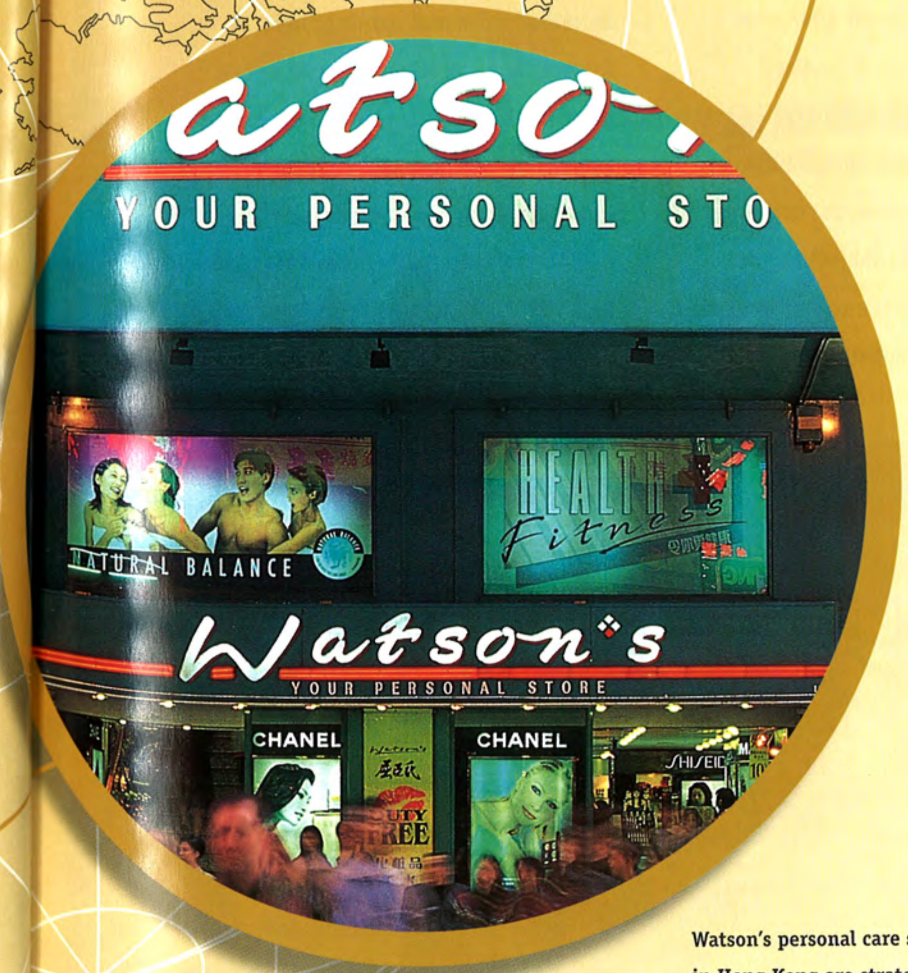
Retail, manufacturing and other services

The Group's A S Watson division is one of Asia's largest retailers, operating three major retail chains with more than 780 stores in the region which provide high quality personal care products, food and household items and electrical consumer goods. The division also manufactures and distributes food and beverage products in Hong Kong and in the Mainland as well as mineral and spring water products in the United Kingdom.

With the launch of the new PARKnSHOP image, the chain has successfully created a bright and dynamic new look.

New Horizons operates a variety of shops at the Hong Kong International Airport.

Mr Juicy dominates the chilled juice market in Hong Kong and is produced in a variety of sizes and flavours.



Watson's personal care stores in Hong Kong are strategically located along the main streets and throughout shopping malls to provide the best service to customers.

Earnings before interest and tax from the retail, manufacturing and other services division totaled HK$845 million (1997 – HK$1,336 million), excluding exceptional profits on the sale of a portion of the Group's interests in Procter & Gamble–Hutchison of HK$3,332 million (1997 – HK$1,430 million).

A S WATSON & COMPANY

Despite weak consumer demand in the Asian region throughout 1998, the Group's wholly owned subsidiary, A S Watson & Company, performed better than the industry average due to the division's focus on essential consumer goods which are less subject to the cyclical volatility of the overall economy and successful promotion campaigns.

The 180 store PARKnSHOP supermarket chain in Hong Kong reported increased sales and earnings before interest and tax slightly ahead of last year. PARKnSHOP continued to expand its successful "wet market" concept for fresh foods and larger format superstores during the year and increased its trading area 20% to 1,343,000 sq ft. During the year, the division introduced the first Watson's Wine Cellar to Hong Kong offering exclusive and competitively priced wines.

Fortress and Watson's personal care stores have become popular retail names in Taiwan.

Watson's Wine Cellar set up its first outlet in June 1998 in Central District to take advantage of Hong Kong people's growing appreciation of wines. A second store was opened later in the year in Festival Walk.

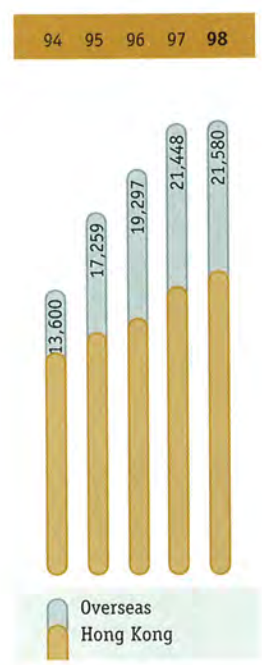
PARKnSHOP's 70 store operation in the Mainland was adversely affected by a slowing economy and competition from local and international supermarkets. Expansion plans have been temporarily curtailed while attention is focused on providing a more competitive product range and store format to enhance performance.

Watson's The Chemist is a leading retail chain of personal care products with strong brand name recognition in Hong Kong, Taiwan and other countries in Southeast Asia. Although earnings declined marginally in 1998 due to the effects from the regional economic situation and the decline in Asian currency values, the chain out performed the market and successfully expanded to a total of 435 outlets in the region at the end of the year.

The 49 store Fortress electrical consumer goods chain in Hong Kong generated another year of increased sales and earnings. During the year, Fortress tested its concept in three stores in Taiwan and the results are encouraging for more expansion.

A S Watson, together with its 50% joint venture partner Nuance International Holdings, commenced operations of its concessions for the sale of perfume, cosmetics and general merchandise at the new Hong Kong International Airport when it opened in July 1998. The joint venture had a disappointing start up due to the unexpected reduction of tourist arrivals in the second half of 1998.

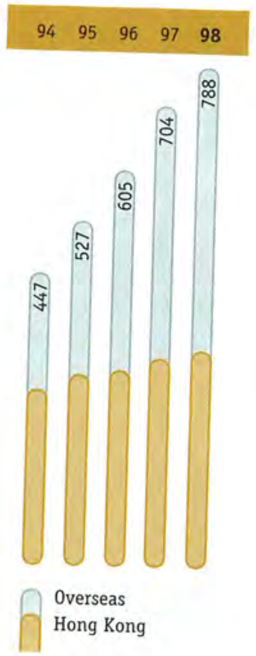
Retail, manufacturing and other services turnover
HK$ Millions



Quality assurance technicians ensure that all products sold at PARKnSHOP are fresh and of the best quality.

The Group's manufacturing division's products include well known brands of distilled water, soft drinks, fruit juices and ice cream, which are manufactured and distributed in Hong Kong and in the Mainland. Earnings declined marginally in 1998, affected by cooler and more rainy weather than average and also by lower priced imports from other Asian countries. In October 1998, the Group expanded and diversified its manufacturing operations with the acquisition of two water companies in the United Kingdom which, combined, currently have an approximate 17% market share of the home and office water delivery market.

Number of retail outlets



HUTCHISON WHAMPOA (CHINA)

Hutchison Whampoa (China) Limited participates, through joint ventures, in the manufacture and distribution of personal care products and the provision of aircraft maintenance and engineering services.

The Group exercised its option in early 1998 to sell a portion of its interest in Procter & Gamble-Hutchison Limited and realised an exceptional profit of HK$3,332 million. The remaining 20% interest may be sold to Procter & Gamble through exercisable call and put options from 2007 through 2017. This joint venture manufactures and distributes throughout the Mainland Procter & Gamble's wide range of hair care, skin care, soap, detergent, dental hygiene and paper products. The joint venture performed well in 1998 in the face of increased competition and reported earnings in line with the previous year after taking into consideration the Group's reduced shareholding.

The Guangzhou Aircraft Maintenance Engineering Company ("GAMECO") in which the Group has a 25% interest, reported increased earnings in 1998 and China Aircraft Services Limited, a joint venture with China National Aviation Company, British Airways and United Airlines in which the Group has a 20% interest, commenced operations of an aircraft line maintenance facility at the new Hong Kong International Airport in July 1998.

During the year, the Group entered into a joint venture (50% interest) with Tibbett & Britten Limited to provide logistic services for the distribution of goods for multinational companies operating in the Mainland. The Group also established a joint venture (81% interest) to develop and operate an approximately 14,700 hectare rice farm in Heilongjiang Province and the first crop harvest from phase one of the development is expected this year.

The manufacturing division strengthened its product lines by acquiring two UK water companies – Braebourne Spring Water and Crystal Natural Mineral Water.

GAMECO serves both China and international airlines from its maintenance facility at Guangzhou's Baiyun International Airport.

Energy, infrastructure, finance and investment

The Group is one of the largest private investors in the Mainland's infrastructure sector and a leading cement and concrete manufacturer in Hong Kong and Southern China. Investments in Hongkong Electric Holdings and Husky Oil in Canada reflect the Group's geographic and sectoral diversification into power generation and distribution as well as the oil and gas industry.

Western Canadian Place – the corporate headquarters of Husky Oil.

Hongkong Electric's engineers in the system control room use advanced technology to efficiently monitor and co-ordinate all aspects of electricity transmission, distribution and generating networks.

Shantou Bay Bridge, Guangdong Province.

Hongkong Electric, one of the oldest electricity companies in the world, contributes to the success of Hong Kong.

Earnings before interest and tax from the Group's energy, infrastructure, finance and investment division totaled HK$7,723 million (1997 – HK$6,976 million), excluding a provision of HK$1,000 million (1997 – HK$919 million) in respect of the Group's portfolio of listed investments and also in 1997, excluding an exceptional profit of HK$1,207 million from the transfer of the Group's interest in Hongkong Electric Holdings to Cheung Kong Infrastructure. Finance and investment income was primarily derived from interest earned on surplus cash and dividends received.

CHEUNG KONG INFRASTRUCTURE

The Group has an 84.58% interest in Cheung Kong Infrastructure ("CKI"), which is listed on The Stock Exchange of Hong Kong Limited ("SEHK"). CKI had another year of strong profit growth in 1998 and reported an increase in net profit of 18% compared with the previous year. In 1998, CKI concentrated its efforts on completing existing projects in the Mainland, and reduced its commitments to new projects significantly as it continued to search for projects that meet its assured return investment criteria.

CKI's cement, concrete, asphalt and aggregates businesses in Hong Kong performed in line with the previous year. In the Mainland, CKI continued to expand its activities in Southern China focusing on the manufacture and distribution of cement and concrete. CKI has a majority interest in a cement plant in Yunfu and construction of a cement grinding plant in Shantou is progressing satisfactorily.

The Guangzhou East-South-West Ring Road is CKI's largest single investment in China.

The Shantou Bay Bridge is one of the best performing transportation projects in CKI's portfolio.

CKI's transportation division significantly increased its earnings from the completion of projects in 1998 and a full year contribution from projects completed in the previous year. CKI currently has joint venture interests in toll roads and bridges with a total length of over 670 kilometres in six provinces in the Mainland.

CKI's energy division, which includes a 36.11% interest in Hongkong Electric Holdings ("HEH"), also reported a healthy increase in earnings due to the completion of projects in the Mainland. During the year, operations commenced at power

Green Island Cement's deep water berth for cement handling is one of the company's biggest competitive advantages.

Lamma Power Station has a total installed capacity of 3,305MW with eight coal fired units and seven gas turbine units.

plants in Qinyang, Henan Province and Siping, Jilin Province while the existing plants at Fushun, Shantou and Nanhai continued to operate smoothly during the year. Work is proceeding on schedule on a 1,400MW power plant in Zhuhai and the first 700MW unit is expected to be commissioned later this year. HEH, which is listed on the SEHK and is the sole provider of electricity to Hong Kong and Lamma islands, recorded a profit of HK$4,967 million in 1998, a 5.5% increase compared with HK$4,709 million in 1997.

HUSKY OIL

In 1998 Husky Oil, the Group's 49% owned Canada based integrated oil and gas corporation, reported earnings before interest and tax attributable to the Group of HK$629 million, a decline of 19% from the previous year due to depressed oil commodity prices which reached twenty five year lows. The effect of lower oil and gas prices was partially offset by increased earnings from Husky's midstream and downstream operations which benefited

Staff at Hongkong Electric's customer service centre courteously handles customers' enquiries and ensures their satisfaction.

from the purchase of the remaining 50% interest in the Bi-Provincial Upgrader facility in Lloydminster in early 1998 and the acquisition of Mohawk Canada's 300 retail gasoline station network in July 1998.

Husky Oil's production in 1998 averaged 92,900 Boe (barrels of oil equivalent) and its Western Canada reserves replacement rate was 108%. At the end of 1998, Husky Oil had proved reserves of crude oil and natural gas liquids of 309 million barrels.

Husky Oil has continued to increase its development and exploration activities, including commencement of the development of the Terra Nova field and the acquisition of additional interests in other offshore oil projects off the east coast of Canada. The delineation of the White Rose field is scheduled to commence in early 1999. The development of these fields has the potential to provide significant growth in light oil production. Husky Oil has also continued to expand its oil pipeline system in 1998 and at the end of the year it had over 1.178 miles of pipeline. In 1998, Husky Oil entered into a joint venture, in which it has a 50% interest, to construct a 215MW natural gas cogeneration facility at the Bi-Provincial Upgrader and commercial operation is scheduled to commence in December 1999.

In connection with its acquisition and expansion activities in 1998, Husky Oil issued US$225 million principal amount of capital securities due in 2028 and bearing interest at 8.9%.

Husky Oil's Lloydminster Upgrader in Saskatchewan processes heavy oil feedstock into synthetic light crude oil.

GROUP LIQUIDITY AND FINANCIAL RESOURCES

The Group's capital expenditure for the year, excluding expenditures for properties under development and for sale, totaled HK$9,633 million (1997 – HK$7,236 million), and were funded from cash on hand, internal cash generation, and to the extent required, by external borrowings. At 31 December 1998, the Group's cash, managed funds and other listed investments totaled HK$39,363 million (1997 – HK$56,660 million) of which 51% (1997 – 54%) were denominated in US dollars. At the year end, the Group's borrowings, net of cash, managed funds and other listed investments were HK$42,803 million (1997 – HK$29,601 million). Approximately 41% of the Group's total borrowings were denominated in HK dollars, 50% in US dollars, 7% in pound sterling and the remaining 2% in other currencies. The non-HK dollar and non-US dollar loans are either directly tied in with the Group's businesses in the countries of the currencies concerned, or the loans are balanced by assets in the same currencies. Approximately 28% of the total borrowings are at fixed interest rates. At the year end, the net debt to net capital ratio was approximately 31% (1997 – 24%) and the earnings before interest, taxation and depreciation covered the gross interest expense for the year 3.8 times (1997 – 5.3 times). Excluding non-interest bearing loans from minority shareholders, the Group's borrowings at the year end were repayable as shown below.

Committed borrowing facilities available to Group companies, but not drawn at 31 December 1998, amounted to the equivalent of HK$3,676 million.

During 1998, all bi-lateral borrowings that matured were renewed at satisfactory rates and terms with one exception, a US$300 million loan that was repaid on maturity. Recently two note issues were completed:

(i) In February 1999, the Group issued HK$1,500 million principal amount, three year, 7.88% fixed interest rate notes which are listed on both the Hong Kong and Luxembourg Stock Exchanges.

(ii) In March 1999, the Group also successfully entered the European bond market with a Euro 500 million, seven year, 5.5% fixed interest bond issue. The issue is listed on both the Hong Kong and Frankfurt Stock Exchanges.

	HK$ denominated	US$ denominated	£ denominated	Others	Total
Within 1 year	5%	4%	2%	1%	12%
In years 2 to 4	36%	7%	2%	–	45%
In year 5	–	14%	1%	1%	16%
In years 6 to 10	–	13%	2%	–	15%
In years 11 to 20	–	7%	–	–	7%
Beyond 20 years	–	5%	–	–	5%
	41%	50%	7%	2%	100%

TREASURY POLICIES AND CAPITAL STRUCTURE

The Group's overall treasury and funding policy is one of risk management and control, with transactions being directly related to the underlying businesses of the Group. For synergies, efficiency and control, the Group operates a central cash management system for all its unlisted subsidiaries in Hong Kong, and bank arrangements and long term borrowing requirements for all unlisted subsidiaries are monitored and approved at the holding company level. The Group endeavours to hedge its assets and investments located in other countries with the appropriate level of borrowings in the currencies of those countries. Forward foreign exchange contracts and interest and currency swaps are utilised when suitable opportunities arise and, when considered appropriate, to hedge against major non-HK and non-US dollar exposures as well as assist in managing the Group's interest rate exposures. At 31 December 1998, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or financial derivatives.

During 1998 and early 1999, the Group remained an active participant in global capital markets, further strengthening its balance sheet through medium and long term fundraising activities. These included the first ever Euro denominated bond issued by an Asian corporate issuer outside Japan.

COMMUNITY SERVICE

The Group has continued to support a wide range of activities and organisations which benefit and aim to improve the quality of life of the people in the community. In view of the increasing unemployment rate experienced by the SAR during the year, the Group sponsored Christian Action for a pioneer project – *Spirit of Hong Kong*. This self-employment training programme provides the unemployed with business skills and technical training so they can start their own business in areas where there are growth potentials. The Group continued to support a number of charities, including the Community Chest, which provides funds to more than 140 member agencies, the Save the Children Fund, the Hong Kong Red Cross, Youth Outreach, the Catholic Cathedral in Hong Kong, the Children's Miracle Charity, Flood Relief and Earthquake relief in the Mainland and

The Spirit of Hong Kong programme has successfully helped many people become self employed.

Lifeline Express. Lifeline Express is a hospital train which travels to remote places in the Mainland and provides operations to cataract patients. The Group also supported arts activities such as the Hong Kong Arts Festival Society, the Chinese Cultural Exchange Fund and the National Ballet of China.

Lifeline Express has helped many people restore their eyesight in the Mainland.

EMPLOYEE RELATIONS

Excluding associated companies, the Group employs 39,860 people (1997 – 37,100 people) of whom 19,015 (1997 – 20,087) are employed in Hong Kong. Employee costs, excluding Directors' emoluments, totaled HK$6,522 million (1997 – HK$5,766 million). All subsidiary operating companies of the Group are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The pay levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. The 1998 review resulted in reduced bonuses for the majority of management in line with the Group's overall performance. A wide range of benefits including medical coverage, provident funds and retirement plans and long service awards are also provided to the employees.

Many social, sporting and recreational activities were arranged during the year for employees on a Group wide basis. Group employees also participated in charity walks as well as other community oriented events. In addition, training and development programmes are provided on an on-going basis throughout the Group. Financial assistance is also available to qualifying employees who wish to further their education through part time diploma or degree courses.

OUTLOOK

1998 was a year of continued financial turmoil and reduced economic activity in Hong Kong and the Asian region. 1999 is expected to be another challenging year, depending on the length of time it will take for the economies to recover.

The Group is in a strong financial position with healthy recurring cash flows from its geographically and sectorally diverse core businesses. In addition, the Group has a large balance of cash and liquid investments and a long maturity borrowing profile. The Group is in a favourable position not only to meet the challenges of 1999, but also to take advantage of attractive investment and expansion opportunities that may arise locally and / or regionally. Supported by the underlying strength of its core businesses, the Group continues to be committed to a policy of focused strategic and controlled growth of its core businesses.

The results of 1998 were achieved in a difficult environment through the hard work and dedication of the Group's employees and I would like to join our Chairman in thanking them for their efforts throughout the year.

FOK Kin-ning, Canning
Group managing director

Hong Kong, 25 March 1999

Biographical details of directors

LI Ka-shing, CBE, JP, aged 70, has been an Executive Director since 1979 and the Chairman since 1981. He is the founder and the Chairman of Cheung Kong (Holdings) Limited ("Cheung Kong"), a substantial shareholder of the Company under the Securities (Disclosure of Interests) Ordinance, and has been engaged in many major commercial developments in Hong Kong for more than 40 years. Mr Li served as a member of the Hong Kong Special Administrative Region's Basic Law Drafting Committee, Hong Kong Affairs Adviser, the Preparatory Committee and the Selection Committee for the First Government of the Hong Kong SAR. He is also an Honorary Citizen of Shantou, Guangzhou, Shenzhen, Nanhai, Foshan, Jiangmen, Chaozhou and Zhuhai respectively. Mr Li is a keen supporter of community service organisations, and has served as honorary chairman of many such groups over the years. Mr Li has received Honorary Doctorates from Beijing University, University of Hong Kong, Hong Kong University of Science and Technology, Chinese University of Hong Kong, City University of Hong Kong and the University of Calgary in Canada.
Mr Li Ka-shing is the father of Deputy Chairmen, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard.

LI Tzar Kuoi, Victor, aged 34, has been an Executive Director since 1995 and was appointed as Deputy Chairman on 8 April 1999. He is the Chairman of Cheung Kong Infrastructure Holdings Limited ("Cheung Kong Infrastructure") and the Managing Director and Deputy Chairman of Cheung Kong. He is also an Executive Director of Hongkong Electric Holdings Limited ("Hongkong Electric") and a Director of The Hongkong and Shanghai Banking Corporation Limited. He is a member of the Chinese People's Political Consultative Conference, the Commission on Strategic Development and the Business Advisory Group. He holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural Engineering.

LI Tzar Kai, Richard, aged 32, has been an Executive Director since 1992 and Deputy Chairman since 1993. He is also a Director of Hongkong Electric. He is the founder of Satellite Television Asian Region Limited (STAR TV) and Chairman and Chief Executive of the Pacific Century Group.

FOK Kin-ning, Canning, aged 47, has been an Executive Director since 1984 and Group Managing Director since 1993. He is also Chairman of Orange plc, Deputy Chairman of Hongkong Electric and Cheung Kong Infrastructure and a Director of Cheung Kong. He holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants.

CHOW WOO Mo Fong, Susan, aged 45, has been an Executive Director since 1993 and Deputy Group Managing Director since 1998. She is a solicitor and holds a Bachelor's degree in Business Administration. She is also a Director of Orange plc and Hongkong Electric and an Executive Director of Cheung Kong Infrastructure.

Frank John SIXT, aged 47, has been an Executive Director since 1991 and Group Finance Director since 1998. He is also an Executive Director of Cheung Kong and Cheung Kong Infrastructure and a Director of Orange plc and Hongkong Electric. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada.

George Colin MAGNUS, aged 63, has been an Executive Director since 1980. He is also Chairman of Hongkong Electric and Deputy Chairman of Cheung Kong and Cheung Kong Infrastructure. He holds a Master's degree in Economics.

KAM Hing Lam, aged 52, has been an Executive Director since 1993. He is also Deputy Managing Director of Cheung Kong, Group Managing Director of Cheung Kong Infrastructure and a Director of Hongkong Electric. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

The Hon Michael David KADOORIE, aged 57, has been a Director since 1995. He is also Chairman of CLP Holdings Limited and The Hongkong and Shanghai Hotels Limited as well as Heliservices (Hong Kong) Limited.

Christopher Patrick LANGLEY, OBE, aged 54, has been a Director since 1996. He is a Director of The Hongkong and Shanghai Banking Corporation Limited and holds directorships in a number of listed companies in Hong Kong, including Hang Seng Bank Limited, Cathay Pacific Airways Limited, Hongkong Electric, Winsor Industrial Corporation Limited and Winsor Properties Holdings Limited.

LI Fook-wo, aged 82, has been a Director since 1977. He is also a Director of The Bank of East Asia, Limited and Johnson Electric Holdings Limited.

Simon MURRAY, CBE, aged 59, has been a Director since 1984. He is the Chairman of General Enterprise Management Services Limited, a private equity fund management company sponsored by Simon Murray And Associates Limited and Deutsche Bank. He is also a director of a number of listed companies including Cheung Kong and Orient Overseas (International) Limited.

William SHURNIAK, aged 67, has been a Director since 1984. He has broad experience in banking and is also a Director and Deputy Chairman of Husky Oil Ltd. He holds an Honorary Doctor of Laws degree from the University of Saskatchewan in Canada.

Peter Alan Lee VINE, OBE, LLD, VRD, JP, aged 77, is a solicitor and has been a Director since 1977. He is also a Director of the Cross Harbour Tunnel Company Limited and a number of other listed companies in Hong Kong including International Maritime Carriers (Holdings) Limited, Liu Chong Hing Investments Limited and Liu Chong Hing Bank Limited.

WONG Chung Hin, aged 65, is a solicitor and has been a Director since 1984. He is also a Director of The Bank of East Asia, Limited and Hongkong Electric.

Report of the directors

The directors have pleasure in submitting to shareholders their report and statement of accounts for the year ended 31 December 1998.

Principal activities

The principal activity of the Company is investment holding and the activities of its principal subsidiary and associated companies and jointly controlled entities are shown on pages 93 to 97. The turnover and contribution to operating profit of the principal activities of the Company and its subsidiaries are as follows:

	Turnover		Operating profit	
	1998 HK$ millions	1997 HK$ millions	1998 HK$ millions	1997 HK$ millions
By activity				
Ports and related services	9,401	9,003	3,892	4,274
Telecommunications	6,938	7,538	532	352
Property development and holdings	8,475	3,238	2,809	2,947
Retail, manufacturing and other services	19,211	18,700	689	934
Energy, infrastructure, finance and investment	7,358	6,111	4,865	4,209
Finance charges	–	–	(5,008)	(3,938)
	51,383	44,590	7,779	8,778
By geographical area				
Hong Kong	37,425	32,798	4,523	5,211
Mainland China	3,815	3,056	506	180
Asia	5,336	5,079	1,025	1,315
Europe	2,771	1,995	296	732
North America	2,036	1,662	1,429	1,340
	51,383	44,590	7,779	8,778

Group profit

The consolidated profit and loss account is set out on page 65 and shows the Group profit for the year ended 31 December 1998.

Dividends

An interim dividend of 40 cents per share was paid to shareholders on 16 October 1998 and the directors recommend the declaration of a final dividend at the rate of 88 cents per share payable on 21 May 1999 to all persons registered as holders of shares on 20 May 1999.

Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 21 to the accounts.

Charitable donations

Donations to charities by the Group during the year amounted to HK$62,195,000 (1997 – HK$41,219,000). The Group also donated HK$20,000,000 and HK$5,000,000 respectively towards flood and earthquake relief programmes in the Mainland.

Fixed assets

Particulars of the movements of fixed assets are set out in note 12 to the accounts.

Share capital

During the year, 898,218 ordinary shares were issued on the exercise of options granted under the Senior Executive Share Option Scheme, the total consideration for these shares being HK$7,936,923.39.

Directors

The board of directors as at 31 December 1998 comprised Messrs Li Ka-shing, Li Tzar Kuoi, Victor, Li Tzar Kai, Richard, Fok Kin-ning, Canning, Chow Woo Mo Fong, Susan, Frank John Sixt, George Colin Magnus, Kam Hing Lam, Michael David Kadoorie, Christopher Patrick Langley, Li Fook-wo, Simon Murray, William Shurniak, Peter Alan Lee Vine and Wong Chung Hin.

Messrs Li Tzar Kai, Richard, Fok Kin-ning, Canning, Kam Hing Lam, Li Fook-wo and Wong Chung Hin retire by rotation under the provisions of Article 85 of the Articles of Association of the Company and, being eligible, offer themselves for re-election.

The Directors' biographical details are set out on pages 52 and 53.

Interest in contracts

No contracts of significance in relation to the businesses of the Company and its subsidiaries to which the Company or a subsidiary was a party in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected transactions

Cheung Kong, a substantial shareholder of the Company, rented under various rental agreements of varying duration, but none in excess of three years, approximately 64,985 sq ft of office space at China Building, a building owned by the Company. Approximately 64,360 sq ft of the rented space had been surrendered in 1999 with the remaining approximately 625 sq ft to be surrendered in 2001. All tenancy agreements were entered into in the ordinary course of business and on normal commercial terms. Rent received during 1998 amounted to approximately HK$57,505,000.

On 30 December 1998, Turbo Top Limited, an indirect wholly owned subsidiary of the Company, entered into certain tenancy agreements as landlord with Cheung Kong as tenant with respect to certain premises at Cheung Kong Center. The tenancies created are for a term of approximately six years all commencing in 1999 with an option to renew for a further three years. The total floor space rented is approximately 123,000 sq ft with rentals ranging from HK$42.10 per sq ft (for approximately 111,000 sq ft) to HK$54.50 per sq ft (for approximately 12,000 sq ft), subject to rent review at the fourth year at the then prevailing market rent.

Arrangement to purchase shares or debentures

At no time during the year was the Company or a subsidiary a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate with the exception of the Senior Executive Share Option Scheme, details of which are set out in note 20 to the accounts.

Directors' service contract

There is no unexpired directors' service contract which is not terminable by the Company within one year of any director proposed for re-election at the forthcoming annual general meeting.

Directors' interests

As at 31 December 1998, the interests of the directors in the shares of the Company and its associated corporations as required to be recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(a) Interests in the Company

	No of ordinary shares				
Name	Personal interests	Family interests	Corporate interests	Other interests	Total
Li Ka-shing	–	–	–	1,944,547,978 [1]	1,944,547,978
Li Tzar Kuoi, Victor	–	–	610,000	1,944,547,978 [1]	1,945,157,978
Li Tzar Kai, Richard	100,000	–	–	1,944,547,978 [1]	1,944,647,978
Fok Kin-ning, Canning	875,089	–	–	–	875,089
George Colin Magnus	800,000	9,000	–	–	809,000
Michael David Kadoorie	–	–	–	14,530,996 [2]	14,530,996
William Shurniak	200,000	–	–	–	200,000
Peter Alan Lee Vine	30,000	–	–	–	30,000

Notes:

(1) The three references to 1,944,547,978 shares relate to the same block of shares in the Company comprising:

(a) 1,936,547,978 shares held by certain subsidiaries of Cheung Kong. Li Ka-Shing Unity Trustee Company Limited ("TUT") as trustee of The Li Ka-Shing Unity Trust (the "LKS Unity Trust") and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong. All the issued and outstanding units in the LKS Unity Trust are held by Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and by another discretionary trust. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and his wife and daughter and Mr Li Tzar Kai, Richard. Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard, as directors of the Company, are taken to be interested in such shares in the Company held by the subsidiaries of Cheung Kong by virtue of their deemed interests in the shares of Cheung Kong as discretionary beneficiaries of such discretionary trusts. In accordance with the provisions of the SDI Ordinance, Mr Li Ka-shing is also taken to be interested in such 1,936,547,978 shares by virtue of his owning more than one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited which in turn owns more than one-third of the issued share capital of the trustees of the LKS Unity Trust and the abovementioned discretionary trusts; and

(b) 8,000,000 shares held by a unit trust. All issued and outstanding units of such unit trust are held by discretionary trusts. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and his wife and daughter and Mr Li Tzar Kai, Richard and accordingly Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard, as directors of the Company, are taken to be interested in such 8,000,000 shares under the SDI Ordinance. In accordance with the provisions of the SDI Ordinance, Mr Li Ka-shing also is taken to be interested in the same 8,000,000 shares in the Company by virtue of his owning more than one-third of the issued share capital of Li Ka-Shing Castle Holdings Limited which in turn owns more than one-third of the issued share capital of the trustees of the abovementioned unit trust and discretionary trusts.

(2) The Hon Michael David Kadoorie is deemed to be interested by virtue of the SDI Ordinance in 14,530,996 shares in the Company.

(b) Interests in associated corporations

As at 31 December 1998, Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard, as directors of the Company, were deemed to be interested in (i) 1,912,109,945 shares in Cheung Kong Infrastructure of which 1,906,681,945 shares were held by a subsidiary of the Company and 5,428,000 shares were held by companies controlled by TUT as trustee of the LKS Unity Trust as described in Note (1) above under the SDI Ordinance, (ii) 729,605,362 shares in Hongkong Electric which shares were held by certain subsidiaries of Cheung Kong Infrastructure and (iii) all the shares of the subsidiary and associated companies of the Company held by the Company and its subsidiary companies by virtue of their interests in the shares of the Company as described in Note (1) above.

In addition, Mr Li Ka-shing had, as at 31 December 1998, a corporate interest in 4,600 class C common shares in Husky Oil Holdings Limited and 13,800 common shares in Husky Oil Ltd. Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard were deemed to be interested in 1,000,000 ordinary shares in Orange plc ("Orange") which were held by the LKS Unity Trust and another unit trust as described in Note (1) above under the SDI Ordinance.

Mr Li Tzar Kuoi, Victor had, as at 31 December 1998, a corporate interest in 250,000 ordinary shares in Orange.

Mr Li Tzar Kai, Richard had, as at 31 December 1998, corporate interests in 11,000 shares in Marunochi N V and 55 shares in Asian Growth International Limited.

Mr Fok Kin-ning, Canning, Mrs Chow Woo Mo Fong, Susan and Mr William Shurniak had, as at 31 December 1998, personal interests in 24,390, 14,634 and 14,634 ordinary shares respectively in Orange.

Mr George Colin Magnus was, as at 31 December 1998, a discretionary beneficiary of a family trust which owns a company which was interested in 25,000 ordinary shares in Orange.

Mr Kam Hing Lam had, as at 31 December 1998, a personal interest in 100,000 shares in Cheung Kong Infrastructure.

Mr Simon Murray and members of his family were, as at 31 December 1998, discretionary beneficiaries of a family trust which was interested in 50,000 ordinary shares in Orange.

Mr Peter Alan Lee Vine had, as at 31 December 1998, a personal interest in 79,650 shares in Hongkong Electric.

Save as outlined above, none of the directors had, as at 31 December 1998, any interests in the ordinary shares of the Company and its associated corporations or any right to subscribe for ordinary shares of the Company or its associated corporations which had been granted and exercised as recorded in the register required to be kept under Section 29 of the SDI Ordinance since no right to subscribe for the ordinary shares of the Company or its associated corporations had been granted to any director or his spouse or children under 18 years of age since 1 September 1991, the commencement of the SDI Ordinance.

Certain directors held qualifying shares in certain subsidiaries of the Company on trust for other subsidiaries.

Substantial shareholders

As at 31 December 1998, the register required to be kept under Section 16 (1) of the SDI Ordinance showed that the Company had been notified of the following interests in the issued ordinary share capital of the Company. These interests were in addition to those disclosed above in respect of the directors.

Name	No of ordinary shares
Cheung Kong (Holdings) Limited	1,936,547,978 [1]
Continental Realty Limited	422,969,063 [2]

Notes:

(1) This interest represents the total number of ordinary shares of the Company held by certain subsidiaries of Cheung Kong where Cheung Kong is taken to be interested in such shares under Sections 8(2) and (3) of the SDI Ordinance.

(2) This is a subsidiary of Cheung Kong and its interests in the ordinary shares of the Company is duplicated in the interests of Cheung Kong. In addition, Li Ka-Shing Unity Holdings Limited, TUT as trustee of The LKS Unity Trust and Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust have notified the Company that each of them is to be taken as interested in the same 1,936,547,978 shares of the Company as described in Note (1) (a) above.

Purchase, sale or redemption of shares

During the year, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares. In addition, the Company has not redeemed any of its ordinary shares during the year.

Code of best practice

With the exception that non-executive directors have no set term of office but retire from office on a rotational basis, the Company has complied throughout the year ended 31 December 1998 with Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Major customers and suppliers

During the year, the respective percentage of purchases attributable to the Group's five largest suppliers combined and the turnover attributable to the Group's five largest customers combined was less than 30% of the total value of Group purchases and total Group turnover.

Auditors

The Company's auditors, Price Waterhouse, have merged with Coopers & Lybrand and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors of the Company will be proposed at the forthcoming annual general meeting.

The Year 2000

The Group is progressing well with the implementation of Year 2000 action plans in both its operational and financial systems, working under the Year 2000 Committee spearheaded by the Group Finance Director. Based on the current assessment, approximately 70% of the Group's operational and financial systems will achieve Year 2000 compliance by the first quarter this year with the remaining portion expected to be completed by the second quarter. The compliance status of the implementation has been reviewed by the Group's internal audit department. In parallel with the remediation process, Group companies have also been assessing potential impact that internally or externally Year 2000 induced failures might have on their business operations.

The Group has been actively developing contingency plans for its operations units to ensure business continuity amidst internal and external Year 2000 threats. Fallback systems and procedures are being developed to handle possible interruption of operations that might be caused by internal systems, external infrastructure or supply chain failures. Response teams comprising senior executives and operations managers are being formed and response centres at operations unit as well as head office levels are being established to administer the contingency plans to ensure a smooth transition into the new millennium. The Group targets to complete all contingency planning by the second quarter of 1999 with testing and drilling to be conducted during the second half of the year.

On costs incurred or to be incurred by the Group on the Year 2000 issue, there has been no significant difference in such costs as disclosed in the press announcement made by the Company on 30 December 1998.

With respect to insurance coverage, the majority of insurers have moved to limit their Year 2000 exposures by mandating exclusions of varying strengths. In respect of the major assets of the Group, there is insurance cover for resultant damage arising from a list of defined perils triggered by Year 2000 related accidents. During the course of 1999, in addition to providing specific information on exposures and remediation efforts to encourage insurers to consider more liberal endorsements, the Group will also endeavor to obtain wider form of cover generally supportable in the international insurance market.

Practice Note 19 of the Listing Rules

Please refer to supplemental information on page 63.

By order of the board

Edith SHIH
Company Secretary

Hong Kong, 25 March 1999

Supplemental information

Practice Note 19 of the Listing Rules

In accordance with the requirements under part 3.3 of Practice Note 19 ("PN 19") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the directors of the Company announced on 31 March 1999 the details of advances to, and guarantees given for the benefit of, their Affiliated Companies (as defined by PN 19) as at 31 December 1998. In aggregate the Company and its subsidiaries had advanced an amount of HK$24,767 million to Affiliated Companies (included in amounts disclosed in notes 15 and 16 to the accounts), guaranteed bank loans and other borrowing facilities for the benefit of the Affiliated Companies in the amount of HK$8,515 million (included in the amounts disclosed in note 26 to the accounts) and contracted to further provide an aggregate amount of HK$795 million in capital and loans to Affiliated Companies (included in the amounts disclosed in note 27 to the accounts).

In addition, in accordance with the requirements under part 3.10 of PN 19 the Company is required to include in its annual report a proforma combined balance sheet of its Affiliated Companies which should include significant balance sheet classifications and state the attributable interest of the Company in the Affiliated Companies. The Company has numerous Affiliated Companies and is of the opinion that it is not practical nor meaningful to prepare a proforma combined balance sheet and such information may be misleading. Pursuant to PN 19 the Company made an application to, and received a waiver from, the Stock Exchange to provide as an alternative the following statement.

The Company's Affiliated Companies include joint ventures with Cheung Kong, a substantial shareholder of the Company, mainly to undertake or invest in property development projects. As at 31 December 1998, the Company's attributable interest in the combined indebtedness and capital commitments of such Affiliated Companies amounted to approximately HK$3,075 million and approximately HK$8,345 million respectively, and such Affiliated Companies reported no contingent liabilities as at 31 December 1998.

Auditors' report

To the Members of Hutchison Whampoa Limited

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 65 to 97 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view, in all material respects, of the state of the affairs of the Company and of the Group at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Price Waterhouse

Certified Public Accountants

Hong Kong, 25 March 1999

Consolidated profit and loss account

for the year ended 31 December 1998

1998 US$ millions		Note	1998 HK$ millions	1997 HK$ millions
6,630	Turnover	2	51,383	44,590
1,004	Operating profit		7,779	8,778
298	Share of profits less losses of associated companies	3	2,307	2,184
66	Share of profits less losses of jointly controlled entities		513	1,272
1,368	Profit before exceptional items	3	10,599	12,234
73	Exceptional items	4	566	2,483
1,441	Profit before taxation		11,165	14,717
154	Taxation	7	1,190	1,179
1,287	Profit after taxation		9,975	13,538
164	Minority interests		1,269	1,272
1,123	**Profit Attributable to the Shareholders**	8	8,706	12,266
640	Dividends	9	4,962	6,123
483	**Profit for the Year Retained**	10	3,744	6,143
US 29 cents	**Earnings per Share**	11	**HK$2.25**	HK$3.21

Consolidated balance sheet

at 31 December 1998

1998 US$ millions		Note	1998 HK$ millions	1997 HK$ millions
9,926	Fixed assets	12	76,927	76,439
401	Deferred expenditures	13	3,109	2,529
2,742	Associated companies	15	21,246	20,196
5,168	Interests in joint ventures	16	40,050	34,221
3,263	Managed funds and other investments	17	25,291	26,881
3,463	Current assets	18	26,839	40,477
3,417	Current liabilities	19	26,481	30,107
46	Net current assets		358	10,370
21,546	**Employment of Capital**		166,981	170,636
125	Share capital	20	969	969
10,761	Reserves	21	83,395	84,620
10,886	**Shareholders' Funds**		84,364	85,589
1,359	Minority interests	22	10,534	12,216
9,275	Long term liabilities	23	71,880	72,720
26	Deferred taxation	24	203	111
21,546	**Capital Employed**		166,981	170,636

FOK Kin-ning, Canning
Director

Frank John SIXT
Director

Balance sheet

at 31 December 1998

1998 US$ millions		Note	1998 HK$ millions	1997 HK$ millions
6,098	Subsidiary companies	14	47,260	51,208
499	Current assets	18	3,868	4,698
494	Current liabilities	19	3,827	4,652
5	Net current assets		41	46
6,103	**Employment of Capital**		47,301	51,254
125	Share capital	20	969	969
4,478	Reserves	21	34,707	38,660
4,603	**Shareholders' Funds**		35,676	39,629
1,500	Long term liabilities	23	11,625	11,625
6,103	**Capital Employed**		47,301	51,254

FOK Kin-ning, Canning
Director

Frank John SIXT
Director

Consolidated cash flow statement

for the year ended 31 December 1998

1998 US$ millions		Note	1998 HK$ millions	1997 HK$ millions
2,182	**Net cash inflow from operating activities**	25 (a)	**16,907**	14,016
	Returns on investments			
132	Dividends received from associated companies		**1,026**	960
60	Dividends received from jointly controlled entities		**470**	1,147
547	Interest and other dividends received		**4,236**	3,423
739			**5,732**	5,530
	Servicing of finance			
(848)	Interest paid		**(6,575)**	(4,006)
(78)	Dividends paid to minority shareholders		**(602)**	(520)
(750)	Dividends paid to shareholders		**(5,813)**	(6,043)
(1,676)			**(12,990)**	(10,569)
	Taxation			
(78)	Hong Kong profits tax paid		**(606)**	(907)
(23)	Overseas profits tax paid		**(175)**	(113)
(101)			**(781)**	(1,020)
	Investing activities			
48	Proceeds on disposal of fixed assets		**377**	1,032
28	Proceeds on disposal of subsidiary companies	25 (b)	**215**	1,261
527	Proceeds on disposal of and repayments from associated companies		**4,082**	3,551
28	Proceeds on disposal of and repayments from jointly controlled entities		**218**	1,288
32	Proceeds on disposal of other investments		**247**	6,618
(1,243)	Purchase of fixed assets		**(9,633)**	(8,491)
(181)	Additions to deferred expenditures		**(1,404)**	(1,728)
(522)	Purchase of subsidiary companies	25 (c)	**(4,042)**	(5,929)
(171)	Purchase of and advances to associated companies		**(1,323)**	(2,444)
(1,034)	Purchase of and advances to jointly controlled entities		**(8,017)**	(9,904)
195	Interest capitalised		**1,507**	707
(204)	Additions to other joint ventures		**(1,578)**	(2,729)
(94)	Additions to managed funds and other investments		**(732)**	(12,002)
(2,591)			**(20,083)**	(28,770)
(1,447)	**Net cash outflow before financing activities**		**(11,215)**	(20,813)
(447)	**Net cash inflow (outflow) from financing activities**	25 (d)	**(3,464)**	41,124
(1,894)	**Increase (decrease) in cash and cash equivalents**	25 (e)	**(14,679)**	20,311

Notes to the accounts

1 PRINCIPAL ACCOUNTING POLICIES

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)

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	$3^{1/3}$ - $33^{1/3}$%
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)

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)

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

	Group 1998 HK$ millions	Group 1997 HK$ millions
Sale of goods	**26,608**	20,238
Rendering of services	**20,554**	20,923
Interest	**4,027**	3,189
Dividends	**194**	240
	51,383	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:		
Credits:		
Share of profits less losses of associated companies		
Listed	**1,972**	1,687
Unlisted	**335**	497
	2,307	2,184
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	**1,572**	1,633
Dividend and interest income from managed funds and other investments		
Listed	**395**	775
Unlisted	**1,014**	349
Profit on disposal of investment properties	**206**	828
Charges:		
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)
	5,008	3,938
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	**31**	31

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)
	566	2,483

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)

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		
Hong Kong		
Subsidiary companies	**578**	642
Associated companies	**179**	161
Jointly controlled entities	**52**	79
Overseas		
Subsidiary companies	**116**	137
Associated companies	**48**	52
Jointly controlled entities	**13**	4
	986	1,075
Deferred taxation expense (credit)		
Hong Kong		
Subsidiary companies	**107**	(10)
Associated companies	**–**	(1)
Jointly controlled entities	**(9)**	(18)
Overseas		
Subsidiary companies	**4**	(2)
Associated companies	**92**	135
Jointly controlled entities	**10**	–
	204	104
	1,190	1,179

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.

The potential tax liabilities (assets) which have not been provided for in respect of the current year are as follows:

	Group 1998 HK$ millions	Group 1997 HK$ millions
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

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

	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
	4,962	6,123

10 PROFIT FOR THE YEAR RETAINED

	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
	3,744	6,143

11 EARNINGS PER SHARE

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
Cost or valuation					
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
Accumulated depreciation					
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
Cost or valuation at 31 December					
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:		
Hong Kong		
Long leasehold (not less than 50 years)	**16,480**	19,220
Medium leasehold (less than 50 years but not less than 10 years)	**32,221**	35,835
Short leasehold (less than 10 years)	**1**	9
Overseas		
Freehold	**1,403**	193
Long leasehold	**3,367**	2,292
Medium leasehold	**6,898**	5,792
Short leasehold	**30**	43
	60,400	63,384

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	**1,359**	1,019
Pre-operating expenses	**1,273**	975
Loan facilities fees	**477**	535
	3,109	2,529

14 SUBSIDIARY COMPANIES

	Company 1998 HK$ millions	Company 1997 HK$ millions
Unlisted shares	**728**	728
Amounts due from subsidiary companies	**46,532**	50,480
	47,260	51,208

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	**(1,324)**	(1,292)
	21,246	20,196

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
Jointly controlled entities		
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	**(433)**	(302)
	26,245	20,855
Other joint ventures		
Cost of investments	**13,032**	12,835
Amounts due from other joint ventures	**773**	531
	13,805	13,366
	40,050	34,221

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
	13,143	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
	25,291	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	–	–	(6,326)	–
	–	–	(1,336)	–
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
	3,868	4,698	26,839	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
	3,827	4,652	26,481	30,107

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
Authorised:				
Ordinary shares of HK$0.25 each	4,650,000,000	4,650,000,000	1,162	1,162
$7^{1/2}$% cumulative redeemable participating preference shares of HK$1 each	402,717,856	402,717,856	403	403
			1,565	1,565
Issued and fully paid:				
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	3,875,791,619	3,874,893,401	969	969

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
Company						
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
Group						
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).

22 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
	10,534	12,216

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

23 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
	11,625	11,625	71,880	72,720
The loans are repayable as follows:				
Bank loans				
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
Other loans				
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
Notes				
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
	11,625	11,625	71,880	72,720

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	203	111
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
(a) Reconciliation of profit before taxation to net cash inflow from operating activities		
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	16,907	14,016
(b) Disposal of subsidiary companies		
Net assets disposed of (excluding cash and cash equivalents):		
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
	207	777
Revaluation reserves	(150)	-
Profit on disposal included in operating profit	158	484
	215	1,261
Satisfied by:		
Cash consideration	218	1,261
Less : Cash and cash equivalents sold	(3)	-
Total net cash consideration	215	1,261

25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

	Group 1998 HK$ millions	Group 1997 HK$ millions
(c) Purchase of subsidiary companies		
Net assets acquired (excluding cash and cash equivalents):		
Fixed assets	3,398	8,889
Deferred expenditures	4	256
Associated companies	(9)	87
Interests in joint ventures	–	15,221
Stocks	67	251
Debtors	267	595
Bank and other loans	(98)	(2,363)
Creditors and taxation	(572)	(1,148)
Deferred taxation	19	(5)
Goodwill	494	3,005
Minority interests	472	(3,662)
	4,042	21,126
Discharged by:		
Net cash consideration		
Cash payment	4,057	10,166
Less : Cash and cash equivalents purchased	(15)	(4,237)
Total net cash consideration	4,042	5,929
Non-cash consideration		
Shares issued	–	14,878
Investments in subsidiary companies held prior to acquisition	–	319
	–	15,197
	4,042	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
(d) Analysis of changes in financing during the year					
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
(e) Movement in cash and cash equivalents		
At 1 January	**31,108**	10,797
Transfer from long term deposit	**851**	–
Increase (decrease) in cash and cash equivalents	**(14,679)**	20,311
At 31 December	**17,280**	31,108
(f) Analysis of the balances of cash and cash equivalents		
Bank balances and cash equivalents	**17,407**	31,326
Bank overdrafts	**(127)**	(218)
	17,280	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	**59,115**	59,085	**–**	–
To associated companies	**1,661**	1,679	**2,068**	2,368
To jointly controlled entities	**3,212**	3,436	**6,447**	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

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

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

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

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

31 US DOLLAR EQUIVALENTS

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

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

Principal subsidiary and associated companies and jointly controlled entities

at 31 December 1998

	Subsidiary and associated companies and jointly controlled entities	Place of incorporation/ principal place of operations	Nominal value of issued ordinary share capital		Percentage of equity attributable to the Group	Principal activities
	Ports and related services					
☆	COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	HK$	40	44	Container terminal operating
#+	Freeport Container Port Limited	Bahamas	B$	2,000	45	Container terminal operating
	Harwich International Port Limited	United Kingdom	GBP	16,812,002	90	Container terminal operating
	Hongkong International Terminals Limited	Hong Kong	HK$	20	88	Holding company & container terminal operating
☆	The Hongkong Salvage and Towage Company, Limited	Hong Kong	HK$	20,000,000	50	Tug fleet operating
☆	Hongkong United Dockyards Limited	Hong Kong	HK$	76,000,000	50	Ship repairing & general engineering
	Hutchison Delta Finance Limited	Cayman Islands / Luxembourg	US$	3	100	Finance
	Hutchison Delta Ports Limited	Cayman Islands	US$	2	100	Holding company
	Hutchison International Port Holdings Limited	British Virgin Islands / Hong Kong	US$	1	100	Holding company
	Hutchison Westports Limited	United Kingdom	GBP	50,000,000	90	Holding company
☆	Jiangmen International Container Terminals Limited	China	US$	14,461,665	50	Container terminal operating
	Mid-Stream Holdings Limited	British Virgin Islands	US$	25,400	100	Holding company & mid-stream container operating
	Myanmar International Terminals Thilawa Limited	Myanmar	Kyat	1,000,000	80	Container terminal operating
☆	Nanhai International Container Terminals Limited	China	US$	22,000,000	50	Container terminal operating
☆	River Trade Terminal Company Limited	British Virgin Islands / Hong Kong	US$	1	33	River trade terminal operation
	Panama Ports Company, S A	Panama	US$	10,000,000	72	Container terminal operating
	Port of Felixstowe Limited	United Kingdom	GBP	100,002	90	Holding company
☆	Shanghai Container Terminals Limited	China	RMB	2,000,000,000	40	Container terminal operating
	Shantou International Container Terminals Limited	China	US$	88,000,000	70	Container terminal operating
	Thamesport (London) Limited	United Kingdom	GBP	2	90	Container terminal operating
☆	Xiamen International Container Terminals Limited	China	RMB	900,000,000	49	Container terminal operating
	Yantian International Container Terminals Limited	China	HK$	2,400,000,000	49.95	Container terminal operating
☆	Zhuhai International Container Terminals (Gaolan) Limited	China	US$	23,500,000	50	Container terminal operating
☆	Zhuhai International Container Terminals (Jiuzhou) Limited	China	US$	52,000,000	50	Container terminal operating

Subsidiary and associated companies and jointly controlled entities	Place of incorporation/ principal place of operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Telecommunications				
Celltel Limited	Ghana	GHC 13,165,886,000	80	Cellular mobile telephone services
Hutchison Communications Limited	Hong Kong	HK$ 20	100	Fixed line communications & paging services
☆ Hutchison Max Telecom Limited	India	INR 1,000,000,000	49.49	Cellular & paging services
Hutchison Paging Limited	Hong Kong	HK$ 10,000	100	Dormant
#+ Hutchison Serting Telecom Sdn Bhd	Malaysia	M$ 5,000,000	49	Paging services
Hutchison Telecommunications (Hong Kong) Limited	Hong Kong	HK$ 20	100	Telecommunications
Hutchison Telecommunications Limited	Hong Kong	HK$ 10,000	100	Holding company
Hutchison Telecommunications Technology Investments Limited	British Virgin Islands	US$ 10	100	Holding company and corporate access networks
Hutchison Telecommunications (Australia) Limited	Australia	A$ 15,000,000	70	Holding company & telecommunications
#+ Hutchison Telecommunications (Thailand) Limited	Thailand	THB 54,000,000	45	Paging services
Hutchison Telephone Company Limited	Hong Kong	HK$ 1,000,000	70	Cellular mobile telephone services
+ Lanka Cellular Services (Private) Limited	Sri Lanka	LKR 875,000,000	100	Cellular mobile telephone services
# Metro Broadcast Corporation Limited	Hong Kong	HK$ 1,000,000	50	Radio broadcasting
*# Orange plc	United Kingdom	GBP 239,652,955	49.01	Holding company & telecommunications
☆ Partner Communications Company Ltd	Israel	NIS 100,000	47	Cellular mobile telephone services
Property				
Aberdeen Commercial Investments Limited	Hong Kong	HK$ 2	100	Property owning
☆ Afford Limited	Hong Kong	HK$ 20	50	Property investment
☆ Bayswater Developments Limited	British Virgin Islands	US$ 2	50	Property investment
☆+ Becogate Limited	Hong Kong	HK$ 4	50	Property investment
Beijing Harbour Plaza Co Ltd	China	US$ 17,200,000	95	Investment in hotel
Cavendish Hotels (Holdings) Limited	Hong Kong	HK$ 100,000,000	51	Investment in hotel
☆ Chesgold Limited	Hong Kong	HK$ 4	50	Property investment
☆ Cheung Wo Hing Fung Enterprises Limited	British Virgin Islands	US$ 100	35	Property investment
☆ Conestoga Limited	Hong Kong	HK$ 10,000	39	Property owning
+ Consolidated Hotels Limited	Hong Kong	HK$ 78,000,000	39	Investment in hotel
Elbe Office Investments Limited	Hong Kong	HK$ 2	100	Property owning
☆ Forton Investment Limited	Hong Kong	HK$ 4	50	Property investment
Foxton Investments Limited	Hong Kong	HK$ 10,000	100	Property owning
Glenfuir Investments Limited	Hong Kong	HK$ 1,000,000	100	Property owning
☆ Glory Sense Limited	Hong Kong	HK$ 100	50	Property investment
Grafton Properties Limited	Hong Kong	HK$ 100,000	100	Property owning
# Harbour Plaza Hotel Management (International) Limited	British Virgin Islands / Hong Kong	US$ 2	50	Hotel management

Subsidiary and associated companies and jointly controlled entities	Place of incorporation/ principal place of operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Property (continued)				
Harley Development Inc	Panama / Hong Kong	US$ 2	100	Property owning
Hongkong and Whampoa Dock Company, Limited	Hong Kong	HK$ 139,254,060	100	Holding company
Hongville Limited	Hong Kong	HK$ 2	100	Property owning
Hutchison Estate Agents Limited	Hong Kong	HK$ 50,000	100	Property management
Hutchison Hotel Hong Kong Limited	Hong Kong	HK$ 2	100	Investment in hotel
Hutchison International Hotels Limited	British Virgin Islands	US$ 1	100	Holding company
Hutchison Lucaya Limited	Bahamas	US$ 5,000	100	Investment in hotel
Hutchison Properties Limited	Hong Kong	HK$ 166,758,910	100	Holding company
Hutchison Whampoa Properties Limited	Hong Kong	HK$ 2	100	Holding company
Hutchison Whampoa Properties (Management and Agency) Limited	Hong Kong	HK$ 20	100	Property management & related services
Hybonia Limited	Hong Kong	HK$ 20	100	Property owning
☆ Konorus Investment Limited	Hong Kong	HK$ 2	43	Property developing
☆ Marketon Investment Limited	Hong Kong	HK$ 4	50	Property owning
# Marunochi N V	Netherland Antilles	US$ 20,000	45	Property owning
☆ Montoya (HK) Limited	Hong Kong	HK$ 140	50	Property investment
Mossburn Investments Limited	Hong Kong	HK$ 1,000	100	Property owning
☆ New China Sheen Limited	Hong Kong	HK$ 4	50	Property investment
☆ New China Target Limited	Hong Kong	HK$ 4	50	Property investment
Omaha Investments Limited	Hong Kong	HK$ 10,000	88	Property owning
Palliser Investments Limited	Hong Kong	HK$ 100,000	100	Property owning
Provident Commercial Investments Limited	Hong Kong	HK$ 2	100	Property owning
#+ Randash Investment Limited	Hong Kong	HK$ 110	39	Investment in hotel
☆+ Ranon Limited	Hong Kong	HK$ 2	50	Property owning
Rhine Office Investments Limited	Hong Kong	HK$ 2	100	Property owning
☆+ Secan Limited	Hong Kong	HK$ 10	50	Property owning
Shinta Limited	Hong Kong	HK$ 2	60	Property developing
☆ Southern Mount Limited	Hong Kong	HK$ 4	50	Property developing
#+ Talent Sun Limited	British Virgin Islands	US$ 100	35	Property investment
Trillium Investment Limited	Bahamas / Hong Kong	US$ 1,060,000	100	Property owning
Turbo Top Limited	Hong Kong	HK$ 2	100	Property owning
Vember Lord Limited	Hong Kong	HK$ 2	100	Property owning
☆ Wonder Pacific Investment Limited	Hong Kong	HK$ 4	50	Property developing
Retail, manufacturing and other services				
A S Watson & Company, Limited	Hong Kong	HK$ 109,550,965	100	Holding company
A S Watson Group (HK) Limited	British Virgin Islands/ Hong Kong	US$ 1	100	Retailing, supermarket operating, and water, beverage, fruit juice & frozen products manufacturing & distributing
Fortress Limited	Hong Kong	HK$ 20	100	Retailing
☆+ Guangzhou Aircraft Maintenance Engineering Company Limited	China	US$ 27,500,000	25	Aircraft maintenance

Subsidiary and associated companies and jointly controlled entities	Place of incorporation/ principal place of operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Retail, manufacturing and other services (continued)				
Guangzhou Watson's Food and Beverages Co Ltd	China	US$ 12,000,000	95	Beverage manufacturing & trading
Guangzhou Park'N Shop Supermarkets Limited	China	HK$ 50,000,000	95	Supermarket operating
*#+ Hanny Holdings Limited	Bermuda / Hong Kong	HK$ 392,440,334	31	Distribution & manufacturing of data storage media
*#+ Harbour Ring International Holdings Limited	Bermuda / Hong Kong	HK$ 172,912,740	21	Trading & manufacturing of toys
Hutchison Whampoa (China) Limited	Hong Kong	HK$ 15,000,000	100	Investment holding & China services
☆ Nuance-Watson (HK) Limited	Hong Kong	HK$ 20	50	Retailing
Pan Asian Systems Limited	Hong Kong	HK$ 100,000	100	Trading satellite equipment
Park'N Shop Limited	Hong Kong	HK$ 1,000,000	100	Supermarket operating
#+ Procter & Gamble-Hutchison Limited	Hong Kong	US$ 52,750,000	20	Investments in manufacturing consumer products
Shanghai Biajia Supermarket Company Limited	China	HK$ 30,000,000	70	Supermarket operating
Shenzhen Park'N Shop Limited	China	HK$ 25,000,000	65	Supermarket operating
United Soft Drinks Limited	Hong Kong	HK$ 34,500,000	51	Beverage distributing
Watson Park'N Shop Limited	Taiwan	NT$ 711,000,000	100	Retailing
Watson's Personal Care Stores Pte Ltd	Singapore	S$ 5,000,000	100	Retailing
Watson's The Chemist Limited	Hong Kong	HK$ 1,000,000	100	Retailing
Energy, infrastructure, finance and investment				
+ Anderson Asia (Holdings) Limited	Hong Kong	HK$ 1	85	Quarry operation and production; distribution of concrete & aggregates
+ Cheung Kong China Infrastructure Limited	Hong Kong / China	HK$ 2	85	Investment in infrastructure projects
*+ Cheung Kong Infrastructure Holdings Limited	Bermuda / Hong Kong	HK$ 2,254,209,945	85	Holding company
+ Green Island Cement (Holdings) Limited	Hong Kong	HK$ 203,098,914	85	Cement manufacturing & distributing
*#+ Hongkong Electric Holdings Limited	Hong Kong	HK$ 2,020,334,691	30	Electricity generating
#+ Husky Oil Ltd	Canada	C$ 559,368,303	49	Investment in oil and gas

Subsidiary and associated companies and jointly controlled entities	Place of incorporation/ principal place of operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Energy, infrastructure, finance and investment (continued)				
#+ Asian Growth International Limited	British Virgin Islands	US$ 100	45	Finance
Baulkham Limited	British Virgin Islands	US$ 1	100	Overseas portfolio investment
Binion Investment Holdings Limited	Cayman Islands	US$ 3	100	Overseas portfolio investment
Cavendish International Holdings Limited	Hong Kong	HK$ 2,898,985,782	100	Holding company
Hutchison International Finance (BVI) Limited	British Virgin Islands	US$ 1	100	Finance
Hutchison International Limited	Hong Kong	HK$ 446,349,093	100	Holding company & corporate head office
Hutchison Whampoa (Europe) Limited	United Kingdom	GBP 1,000	100	Consultancy services
Hutchison Whampoa Finance (CI) Limited	Cayman Islands	US$ 1	100	Finance
Lunogo Limited	British Virgin Islands	US$ 1	88	Overseas portfolio investment
☆+ Ostani Limited	Hong Kong	HK$ 20	50	Finance
Sandalwood Group Limited	British Virgin Islands	US$ 359,582,001	100	Overseas portfolio investment
Strategic Investments International Limited	British Virgin Islands	US$ 1	88	Overseas portfolio investment & treasury
Union Faith (Lincoln) Limited	Canada	C$ 1	100	Finance
Zeedane Investments Limited	British Virgin Islands	US$ 1	100	Overseas portfolio investment

The above table lists the principal subsidiary and associated companies and jointly controlled entities of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiary and associated companies and jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

Unless otherwise stated, the principal country of operation of each company is the same as its country of incorporation. The activity of portfolio investment is international, and not attributable to a principal country of operation.

Except Hutchison International Limited which is 100% directly held by the Company, the interests in the remaining subsidiary and associated companies and jointly controlled entities are held indirectly.

* *Company listed in Hong Kong except Orange plc which is listed on the London Stock Exchange and the NASDAQ Stock Market.*

\# *Associated company.*

☆ *Jointly controlled entities.*

\+ *The accounts of these subsidiary and associated companies and jointly controlled entities have been audited by firms other than Price Waterhouse. In this respect, (a) the turnover (excluding the turnover of associated companies and jointly controlled entities) is HK$3,781 million, (b) the profit before taxation of subsidiary companies and the profit before taxation of associated companies and jointly controlled entities attributable to Hutchison Whampoa Limited is HK$3,154 million and (c) the net assets are HK$18,092 million.*

Schedule of principal properties

at 31 December 1998

Description	Lot number	Lease term	Group's interest	Approx gross floor area (sq ft unless otherwise stated)	Type	Estimated completion date (% complete)
Aberdeen Centre, Aberdeen, Hong Kong	AIL 302 & 304	Long	100%	345,026	C	Existing
Provident Centre, Wharf Road, Hong Kong	IL 8465	Long	100%	209,768	C	Existing
Hunghom Bay Centre, Hunghom, Kowloon	RP of HHML 1	Long	100%	80,402	C	Existing
Whampoa Garden, Hunghom, Kowloon	KIL 10750	Long	100%	1,713,990	C	Existing
	Sec A-H & Sec J-L					
Hutchison House, 10 Harcourt Road, Hong Kong	IL 8286	Long	100%	503,715	C	Existing
China Building, 29 Queen's Road, Central,	IL 2317	Long	100%	258,751	C	Existing
Hong Kong						
Cheung Kong Center, 2 Queen's Road, Central,	IL 8887	Medium	100%	1,256,037	C	1999(90%)
Hong Kong						
(site area approx 103,937 sq ft)						
A commercial development at 661-665	IL 8885	Medium	39%	348,901	H	1999(60%)
King's Road, North Point, Hong Kong			39%	212,170	C	1999(60%)
(site area approx 36,641 sq ft)						
Trust Tower, 1/F -20/F, 68-74 Johnston Road,	IL 4280 & RP of	Long	43%	56,260	C	Existing
Wanchai, Hong Kong	Sec A of ML 64A					
Shopping Centre of Belvedere Garden,						
Phase 1	TWTL 308	Medium	100%	20,539	C	Existing
Phase 2	TWTL 316 (Plot A)	Medium	60%	120,039	C	Existing
Phase 3	TWTL 316 (Plot B)	Medium	100%	131,945	C	Existing
Castle Peak Road, Tsuen Wan, New Territories						
Watson House, Wo Liu Hang Road, Shatin,	STTL 61	Medium	100%	280,900	C/W	Existing
New Territories						
Hongkong International	M/F to 6/F on	Medium	88%	4,705,141	C/W	Existing
Distribution Centre,	KCL No 4					
Kwai Chung, New Territories	G/F on KCL No 4	Medium	85%	737,394	C/W	Existing
798 guest rooms & shopping mall at the	KIL 9172	Long	39%	729,945	H	Existing
Sheraton Hong Kong Hotel & Towers,						
Salisbury Road, Tsimshatsui, Kowloon						
One and Two Harbourfront and	Sec A, B & RP of	Long	100%	862,988	C	Existing
The Harbour Plaza Hong Kong,	HHML 6 and		100%	473,623	H	Existing
Hunghom, Kowloon	extension thereto					
A development above KCRC freightyard extension,	KIL 11077	Medium	25%	992,724	C	2000(25%)
Hunghom Bay, Kowloon			25%	430,598	H	2000(25%)
(site area approx 538,837 sq ft)						
Tsing Yi Resort,	TYTL 140	Medium	70%	2,546,000	H/C	2003(1%)
a hotel /commercial development near Container						
Terminal No. 9						
(site area approx 268,000 sq ft)						
Ma On Shan Hotel, New Territories	STTL 461	Medium	49%	602,784	H	2002(1%)
(site area approx 86,112 sq ft)						
Harbour Plaza Beijing, 8 Jiang Tai West Road,	Chao Yang District	Medium	95%	392,883	H	Existing
Chao Yang District, Beijing, China	Beijing					
Great Wall Hotel, 10 North Dong Sang Hun Road,	Chao Yang District	Medium	49.8%	898,800	H	Existing
Chao Yang District, Beijing, China	Beijing					
Harbour Plaza Shenyang, Bai Lu, North Station	Shenhe District	Medium	92%	440,860	H	1999(50%)
Shenhe District, Shenyang, China	Shenyang					
Yunnan Lakeview Plaza Hotel,	Wu Hua District,	Medium	95%	296,017	H	1999(50%)
No 20 Hong Hua Qiao,	Kunming					
Kunming, China						

Description	Lot number	Lease term	Group's interest	Approx gross floor area (sq ft unless otherwise stated)	Type	Estimated completion date (% complete)
Holiday Resort in Freeport, Grand Bahamas	Lucaya, Freeport,	Freehold	100%	1,016,730	H	2000(10%)
Bahamas (site area approx 372 acres) .	Grand Bahama Island		100%	320 acres	G	2000(55%)
Watson Centre, 16-24 Kung Yip Street,	KCTL 258	Medium	100%	687,200	I	Existing
Kwai Chung, New Territories						
Watson's Water Centre,	Tai Po Town Lot 1	Medium	100%	255,138	I	Existing
6 Dai Li Street, Tai Po Industrial Estate,	Sec B SS2					
New Territories						
Cavendish Centre, 23 Yip Hing Street,	AIL 399	Long	100%	342,868	I	Existing
Wong Chuk Hang, Hong Kong						
One half of M/F, whole of 6/F-10/F & the Roof,	RP of KCTL 129	Medium	100%	100,800	I	Existing
1-11 Ka Ting Road, Kwai Chung, New Territories						
Food distribution depot,	FSSTL 97	Medium	100%	163,075	I	Existing
Sheung Shui, New Territories						
Cement manufacturing plant, Tap Shep Kok,	TMTL201	Medium	85%	1,645,331	I	Existing
Tuen Mun, New Territories						
Trendy Centre,	NKIL 6224	Medium	25%	179,931	I/O	Existing
682-684 Castle Peak Road, Kowloon						
Peninsula Heights, 77 Broadcast Drive, Kowloon	NKIL 5104	Medium	50%	228,907	R	2000(23%)
(site area approx 50,880 sq ft)						
Tierra Verde,	TYTL 132	Medium	60%	1,526,421	R	1999(40%)
Tsing Yi Airport Railway Station, New Territories						
(site area approx 581,250 sq ft)						
Monte Vista, Ma On Shan, New Territories	STTL 446	Medium	50%	1,175,708	R	1999(60%)
(site area approx 277,980 sq ft)			50%	214,192	R	2000(60%)
A residential development at Tung Chung,	TCTL 5	Medium	40%	659,144	R	2002(7%)
New Territories						
(site area approx 730,876 sq ft)			50%	3,008,726	R/C	2002(7%)
			50%	292,593	R	2003(7%)
			40%	477,534	R	2003(7%)
Hunghom Wan Hoi Street development,	KIL 11055	Medium	50%	597,555	R	2001(15%)
Hunghom, Kowloon			50%	74,285	C	2001(15%)
(site area approx 79,675 sq ft)						
A residential development at	KIL 11086	Medium	42.5%	1,015,842	R/C	2001(1%)
Canton Road, Kowloon						
(site area approx 112,871 sq ft)						
Oriental Plaza,	Dong Chang An Jie, Beijing	Medium				
Dong Chang An Jie, Beijing, China	Phase 1		18%	3,412,188	C/H	2000(55%)
(site area approx 1,018,557 sq ft)	Phase 2		18%	581,256	C	2001(55%)
	Phase 3		18%	1,528,488	C/H	2002(55%)
	Phase 4		18%	538,200	C	2003(55%)
Huangsha Metro Station, Guangzhou, China	Huangsha MTR	Medium	50%	1,868,721	R/C	2003(3%)
(site area approx 369,060 sq ft)	Station Podium					

Description	Lot number	Lease term	Group's interest	Approx gross floor area (sq ft unless otherwise stated)	Type	Estimated completion date (% complete)
Lakeview, Hwang Gang Lake, Dongguan, Guangdong, China (site area approx 7,910,291 sq ft)	Hwang Gang Lake, Dongguan	Medium				
	Phase 1.1		10%	210,138	R	Existing
	Phase 1.2		10%	399,706	R	Existing
	Golf Course		39%	14,242,803	G	1999(85%)
Metropolitan Plaza, Chongqing, China	Ba Yi Lu, Chongqing	Medium	50%	1,511,515	C	Existing
			50%	482,765	H	Existing
Low Cost Housing, Chongqing, China (site area approx 941,477 sq ft)	Yang He District, Chongqing	Medium				
	Phase 1.3		50%	711,562	R	2000(10%)
Pacific Plaza, Qingdao, China (site area approx 238,662 sq ft)	Dong Hai Lu, Qingdao	Medium				
	Phase 1		30%	108,432	C	Existing
	Phase 2.1		15%	245,003	R	Existing
	Phase 2.2		15%	247,214	R	2000(5%)
Walton Plaza, Xuhui, Shanghai, China (site area approx 319,788 sq ft)	Changsu Lu/Changle Lu Xuhui District, Shanghai	Medium				
	Phase 2 & 3		39%	1,600,000	R/C/H	2001(2%)
Westgate Mall & Tower, Mei Long Zhen, Shanghai, China	Nanjing Xi Lu / Jiang Ning Lu, Shanghai	Medium	21%	1,053,553	C	Existing
Low density housing (site 1), Pudong Huamu, Shanghai, China (site area approx 2,653,229 sq ft)	Pudong Huamu Road, Shanghai	Medium	50%	1,287,373	R	2000(30%)
Low density housing (site 2), Pudong Huamu, Shanghai, China (site area approx 5,075,226 sq ft)	Pudong Huamu Road, Shanghai	Medium	31%	1,193,168	R/C	2002(1%)
Futian Project, Shenzhen, China (site area approx 1,679,300 sq ft)	Futian District, Shenzhen,	Long				
	Phase 1		50%	1,081,772	R	2001(1%)
	Phase 2		50%	1,114,064	R	2003(1%)
	Phase 3		50%	1,081,772	R	2004(1%)
	Phase 4		50%	1,114,064	R	2006(1%)
Tang Jia Bay, Zhuhai, China (site area approx 4,797,213 sq ft)	Tang Jia Bay, Zhuhai	Medium				
	Phase 1		35%	799,536	R	2001(5%)
	Phase 2 - 6		35%	3,997,677	R	2005(1%)
Belgravia Place Sloane Square, London , United Kingdom (site area approx 47,243 sq ft)	Westminster, London	Freehold	43%	105,261*	R	2000(8%)
Albion & Bridge Wharves, United Kingdom (site area approx 180,030 sq ft)	Wandsworth, London	Freehold	45%	427,000*	R/C	2001(1%)
Montevetro, Battersea, London, United Kingdom (site area approx 108,900 sq ft)	Battersea, London	Freehold	23%	164,384*	R	2000(43%)
A residential development at Bayshore Road, Singapore (site area approx 427,349 sq ft)	7455 PTMK 27, Singapore	Long	24%	1,495,903	R	2004(10%)
An office / commercial development at Tokyo, Japan (site area approx 68,696 sq ft)	Marunouchi, Tokyo	Freehold	45%	652,000	C	2001(3%)
Container Terminal No 4, Kwai Chung, New Territories	KCL No 4	Medium	88%	70.08 acres	CT	Existing

Description	Lot number	Lease term	Group's interest	Approx gross floor area (sq ft unless otherwise stated)	Type	Estimated completion date (% complete)
Container Terminal No 6, Kwai Chung, New Territories	KCL No 6	Medium	88%	71.13 acres	CT	Existing
Container Terminal No 7, Kwai Chung, New Territories	KCL No 7	Medium	88%	77.87 acres	CT	Existing
Container Terminal No 8, East, Kwai Chung, New Territories	KCL No 8	Medium	44%	72.13 acres	CT	Existing
Mid-Stream Terminal at Stonecutters Island, Hong Kong	KCTL No 479	Medium	100%	360,000	CT	1999(95%)
Container terminal at Felixstowe, United Kingdom	Felixstowe, County of Suffolk	Long	90%	540 acres	CT	Existing
		Freehold	90%	250 acres	CT	Existing
Container terminal at Thamesport, United Kingdom	Isle of Grain County of Kent	Long	90%	210 acres	CT	Existing
Multi purpose freight & passenger port at Harwich, United Kingdom	Harwich, County of Essex	Freehold	90%	185 acres	P	Existing
Freeport International Airport, Bahamas	Freeport, Grand Bahama Island	Freehold	50%	2,709 acres	A	Existing
Port operation at Freeport, Bahamas	Freeport, Grand Bahama Island	Freehold	50%	1,630 acres	P	Existing
Container terminal at Freeport, Bahamas	Freeport, Grand Bahama Island	Freehold	45%	56 acres	CT	Existing
Container terminal at Yantian Port, Shenzhen, China	Yantian, Shenzhen, Guangdong Province	Medium	49.95%	7,755,206	CT	Existing
Container terminal at Jiuzhou, Zhuhai, Guangdong, China	Shihua Donglu, Zhuhai SEZ	Medium	50%	1,659,592	CT	Existing
Multi purpose terminal at Zhuhai Port, Gaolan, Zhuhai, Guangdong, China	Zhuhai Port, Zhuhai Guangdong Province	Medium	50%	2,238,891	CT	Existing
Container terminal at Zhuchi Port, Shantou, Guangdong, China	Zhuchi Port, Shantou Guangdong Province	Medium	70%	4,582,505	CT	Existing
Container terminals at Zhang Hua Bang, Jun Gong Lu & Bao Shan, Shanghai, China	Zhang Hua Bang, Jun Gong Lu & Bao Shan, Shanghai	Medium	40%	8,983,662	CT	Existing
Container terminal at San Shan Port, Nanhai, Guangdong, China	San Shan Island, Nanhai Guangdong Province	Medium	50%	2,152,783	CT	Existing
Container terminal at Gaosha Port, Jiangmen, Guangdong, China	Gaoshawei, Baishi Administration Area, Jiangmen, Guangdong Province	Medium	50%	1,337,675	CT	Existing
Container terminal at Haicang Port, Xiamen, Fujian, China	Haicang Port Zone, Xiamen, Fujian Province	Medium	49%	4,167,867	CT	Existing
Container terminal at Yangon, Myanmar	Thilawa, Yangon Myanmar	Medium	80%	185 acres	CT	Existing

Note:
Lease term: Long = lease not less than 50 years; Medium = lease less than 50 years but not less than 10 years.

** Total net floor area for UK projects*

C = Commercial H = Hotel I = Industrial I / O = Industrial / Office R = Residential CT= Container Terminal
W = Warehouse P = Port Operation G = Golf Course A = Airport

Ten year summary

	1989	1990	1991	1992	1993	1994	1995	1996	1997	**1998**
Consolidated Profit and Loss Account										
HK$ millions										
Turnover	17,685	15,975	19,212	21,030	24,748	30,168	35,026	36,662	44,590	**51,383**
Profit attributable to shareholders	6,080	4,370	4,340	3,052	6,304	8,021	9,567	12,020	12,266	**8,706**
Dividends	1,644	1,980	2,073	1,846	2,461	3,362	4,267	5,703	6,123	**4,962**
Profit for the year retained	4,436	2,390	2,267	1,206	3,843	4,659	5,300	6,317	6,143	**3,744**
Consolidated Balance Sheet										
HK$ millions										
Fixed assets	18,856	20,781	27,381	32,467	42,292	52,192	54,508	63,188	76,439	**76,927**
Deferred expenditures	–	168	894	1,240	395	1,153	2,536	1,086	2,529	**3,109**
Associated companies	10,375	10,989	11,086	11,329	11,659	13,551	15,195	17,393	20,196	**21,246**
Interests in joint ventures	854	701	291	1,240	2,775	8,154	7,583	8,976	34,221	**40,050**
Managed funds and other investments	3,544	3,460	5,720	6,813	14,423	13,223	15,965	22,551	26,881	**25,291**
Net current assets (liabilities)	6,012	5,575	491	(3,930)	(6,807)	361	(5,329)	(1,903)	10,370	**358**
Employment of capital	39,641	41,674	45,863	49,159	64,737	88,634	90,458	111,291	170,636	**166,981**
Share capital	761	762	762	839	904	905	904	905	969	**969**
Reserves	21,752	23,834	26,893	35,004	48,157	56,252	57,935	67,994	84,620	**83,395**
Shareholders' funds	22,513	24,596	27,655	35,843	49,061	57,157	58,839	68,899	85,589	**84,364**
Minority interests	4,764	5,092	6,023	2,018	1,795	5,144	5,333	7,814	12,216	**10,534**
Long term liabilities	11,469	11,925	12,074	11,126	13,696	26,189	26,174	34,459	72,720	**71,880**
Deferred items	895	61	111	172	185	144	112	119	111	**203**
Capital employed	39,641	41,674	45,863	49,159	64,737	88,634	90,458	111,291	170,636	**166,981**
Performance Data										
Earnings per share – (cents)	200	143	142	96	179	222	265	332	321	**225**
Dividends per share – (cents)	54	65	68	55	68	93	118	150	158	**128**
Dividend cover	3.7	2.2	2.1	1.7	2.6	2.4	2.2	2.1	2.0	**1.8**
Return on average shareholders' funds (%)	31.7	18.6	16.6	9.6	14.8	15.1	16.5	18.8	15.9	**10.2**
Current ratio	1.9	1.7	1.0	0.7	0.6	1.0	0.8	0.9	1.4	**1.0**
Net debt/net total capital (%)	9.5	6.5	10.6	15.5	6.5	16.4	16.2	12.3	23.8	**31.2**
Net assets per share – book value (HK$)	7.4	8.1	9.1	10.7	13.6	15.8	16.3	19.0	22.1	**21.8**

Net debt is defined as total interest bearing borrowings (including such borrowings from minority interests) net of bank balances and cash equivalents, long term cash deposits, managed funds and listed securities. Net total capital is defined as total interest bearing borrowings plus share capital, reserves and minority interests net of bank balances and cash equivalents, long term cash deposits, managed funds and listed securities.

Notice of meeting

NOTICE is hereby given that the Annual General Meeting of shareholders will be held in the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 20 May 1999 at 12:15 pm for the following purposes:

1. To receive and consider the statement of accounts and reports of the directors and auditors for the year ended 31 December 1998.
2. To declare a final dividend.
3. To elect directors.
4. To consider and, if thought fit, pass the following resolution, special notice having been received of the intention to propose the resolution, as an Ordinary Resolution: "THAT PricewaterhouseCoopers be and are hereby appointed auditors of the Company in place of the retiring auditors to hold office until the conclusion of the next annual general meeting and that their remuneration be fixed by the directors."
5. As special business to consider and, if thought fit, pass the following Ordinary Resolutions:

Ordinary Resolutions

1. "THAT the authorised share capital of the Company be and is hereby increased from HK$1,565,217,856 comprising 4,650,000,000 ordinary shares of HK$0.25 each and 402,717,856 $7^{1/2}$ per cent cumulative redeemable participating preference shares of HK$1 each to HK$1,565,467,856 comprising 4,651,000,000 ordinary shares of HK$0.25 each and 402,717,856 $7^{1/2}$ per cent cumulative redeemable participating preference shares of HK$1 each by the creation of an additional 1,000,000 ordinary shares of HK$0.25 each."
2. "THAT a general mandate be and is hereby unconditionally given to the directors to issue and dispose of additional ordinary shares of the Company (in addition to ordinary shares issued under the Senior Executive Share Option Scheme) not exceeding 20% of the existing issued ordinary share capital of the Company. "
3. "THAT:

   (A) subject to paragraph (B) below, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase ordinary shares of HK$0.25 each in the capital of the Company in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

Notes:

1. *In order to qualify for the final dividend payable on Friday, 21 May 1999, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Central Registration Hong Kong Limited, for registration not later than 4 pm, Wednesday, 12 May 1999.*
2. *Only members are entitled to attend and vote at the meeting.*
3. *A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of that member. A proxy need not be a member. The Company's Articles of Association require proxy forms to be deposited at the Registered Office of the Company not later than 48 hours before the time for holding the meeting.*
4. *Following the merger of the Company's auditors, Price Waterhouse, with Coopers & Lybrand, it is proposed that the new firm, PricewaterhouseCoopers, be appointed to succeed them as auditors of the Company.*
5. *Concerning Ordinary Resolution No 1, the increase in authorised share capital is being proposed so that the mandate proposed to be given pursuant to Ordinary Resolution No 2 would, if approved, be capable of being exercised in full.*

6. *Concerning Ordinary Resolution No 2, the directors wish to state that they have no immediate plans to issue any new shares of the Company. Approval is being sought from the members under Ordinary Resolution No 2 as a general mandate for the purposes of Section 57B of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.*

7. *Concerning Ordinary Resolution No 3, an Explanatory Statement containing the information regarding the repurchase by the Company of its own shares will be sent to shareholders together with the Company's 1998 Annual Report.*

(B) the aggregate nominal amount of ordinary shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (A) above shall not exceed 10% of the aggregate nominal amount of the ordinary share capital of the Company in issue at the date of this Resolution, and the said approval shall be limited accordingly; and

(C) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting."

4. "THAT the general mandate granted to the directors to issue and dispose of additional ordinary shares pursuant to Ordinary Resolution No 2 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the ordinary share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No 3 set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued ordinary share capital of the Company at the date of this Resolution."

The register of members will be closed from Thursday, 13 May 1999 to Thursday, 20 May 1999 both days inclusive.

By order of the board

Edith SHIH
Company Secretary

Hong Kong, 25 March 1999

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