

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

Name	Personal interests	Family interests	No of ordinary shares		Total
			Corporate interests	Other interests	
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.

<u>Name</u>	<u>No of ordinary shares</u>
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.