

Chairman's Statement



The Group benefited from its diversification and a general improvement in the world economy, reporting profit attributable to shareholders 38% better than last year, as restated (see note on page 15). The Group's established businesses reported another year of healthy growth and the 3G businesses, in their first full year of operations, increased their customer base to currently total over eight million and are on target to achieve earnings before interest expense and finance costs, taxation, depreciation and amortisation ("EBITDA") breakeven on a month-by-month basis in the latter part of this year.

Results

The Group's audited profit attributable to shareholders for the year amounted to HK\$16,128 million, a 38% increase compared to last year's profit of HK\$11,677 million, which has been restated for the retrospective adoption of Hong Kong Accounting Standards ("HKAS") recently issued by the Hong Kong Institute of Certified Public Accountants to align the standards with International Accounting Standards ("IAS"; see note on page 15 and Note 1(a) to the attached accounts). Excluding the effect of adoption of these new standards in both years, profit attributable to shareholders was in line with last year. Earnings per share amounted to HK\$3.78 (2003 – HK\$2.74), an increase of 38%. These results include a profit on revaluation of investment properties of HK\$5,302 million and a profit on disposal of investments and others totalling HK\$19,181 million, comprising a profit of HK\$1,300 million on disposal of a 26% interest in listed Hutchison Global Communications Holdings ("HGCH") in March, a profit of HK\$13,759 million on the disposal of all of the Group's remaining 20% interest in the Procter & Gamble-Hutchison joint venture in the Mainland in May, a profit of HK\$4,100 million from the listing of Hutchison Telecommunications International ("HTIL") in October, and others of HK\$22 million.

Dividends

Your Directors have today declared a final dividend of HK\$1.22 per share (2003 – HK\$1.22), payable on 20 May 2005 to those persons registered as shareholders on 19 May 2005. The proposed final dividend, together with the interim dividend of HK\$0.51 paid on 8 October 2004, gives a total dividend of HK\$1.73 per share (2003 – HK\$1.73) for the year. The share register of members will be closed from 12 May 2005 to 19 May 2005, both days inclusive.

Business Growth

I am pleased to report that 2004 represented a year of growth and all of the Group's operating business divisions continued to develop and expand their businesses. The Group's turnover grew 23% to total HK\$179,415 million. Turnover from the established businesses grew 15% to HK\$163,673 million, while turnover from the **3** Group grew 398% to HK\$15,742 million, reflecting the substantial increase in the scale of its businesses, particularly during the second half of the year. Earnings before interest expense and finance costs, taxation and minority interests ("EBIT") from the established businesses, before investment property revaluation profit and profit on disposal of investments and others, grew 11% in 2004, reflecting strong growth in the ports and related services, retail and manufacturing as well as finance and investments divisions. The **3** Group made solid progress during the year, reducing the loss before interest expense and finance costs, taxation, depreciation and amortisation and before investment in prepaid customer acquisition costs ("LBITDA before expensed CAC") by 37%, from HK\$11,571 million for the seven months of operations in 2003 to HK\$7,291 million for the full year of 2004. This trend is expected to continue and the **3** Group is on target to reach the major milestone of becoming EBITDA breakeven after expensed CAC on a month-by-month basis in the latter part of this year.

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Established Businesses

Ports and related services

The ports and related services division recorded another year of strong growth. Turnover grew 17% to HK\$26,980 million. The combined throughput increased 15% to 47.8 million TEUs (twenty-foot equivalent units). EBIT increased 17% to HK\$8,867 million.

The major contributors to the division's EBIT performance were as follows:

- ❖ In Hong Kong, Hongkong International Terminals reported growth of 18% in throughput and 4% in EBIT, compared to last year.
- ❖ Yantian port reported throughput growth of 19% and EBIT growth of 20%, reflecting new capacity from Phase III's four new berths which were completed in September 2004.
- ❖ The combined operations in Shanghai, Waigaoqiao, Ningbo, Xiamen and other Mainland ports reported strong growth with a 19% increase in throughput and a 17% increase in EBIT.
- ❖ In Europe, the combined throughput of the UK ports and Europe Container Terminal ("ECT") in Rotterdam grew by 23%. Combined EBIT increased 42%, mainly due to higher throughput and the effect of the strengthening British pound and Euro against the Hong Kong dollar.

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- ❖ Operations in other Asian countries, the Middle East and Africa reported combined throughput 14% better than last year and EBIT increased 12% due to throughput growth in Busan and Gwangyang in South Korea, Dammam in Saudi Arabia and Laem Chabang in Thailand.
- ❖ Operations in the Americas and the Caribbean reported combined throughput 6% ahead of last year and EBIT increased 17% due to strong throughput growth in Buenos Aires in Argentina, partially offset by the effect of hurricanes on the port in Freeport in the Bahamas.

This division continued to expand its existing terminals and to invest in new opportunities which will contribute to throughput growth to higher record levels. In September, the Group announced the formation of a 50:50 joint venture with Shanghai International Port Group to acquire Waigaoqiao Phase V in Shanghai. In October, the Group entered into a 30-year concession agreement with the Port Authority of Thailand to develop six container terminals at Laem Chabang Port and in January this year completed its acquisition of an 83.53% stake in Gdynia Container Terminal, a terminal in the Port of Gdynia, Poland. Also in March this year, the Group entered into an agreement with the Alexandria Port Authority for the construction, operation and management of two terminals at Alexandria Port and El Dekheila Port in Egypt.

Property and Hotels

The property and hotels division reported EBIT of HK\$3,125 million, in line with last year despite a 19% decrease in turnover due to lower sales of completed development projects in Hong Kong and the Mainland. Gross rental income of HK\$2,391 million, mainly from properties in Hong Kong, remained at the same level as last year, and is continuing to provide strong recurrent income to the Group. Rental income is expected to rise in the near term in line with the recent upturn in the property market. Development profit came primarily from the sale of residential units and a hotel tower in Rambler Crest in Hong Kong, residential units in Cape Coral in Guangzhou, Horizon Cove in Zhuhai, Dynasty Garden in Shenzhen and Beverly Hills in Chongqing. This division is focused on actively and selectively seeking new development opportunities in the Mainland that are expected to give rise to future profits. In 2004 and the first three months of this year, the Group further increased its interests in landbank in the Mainland with the acquisition of land that can be developed into approximately 34.7 million square feet of mainly residential property. The Group's hotel businesses reported EBIT 494% better than last year's breakeven result, when the tourism industry was adversely affected by SARS.

Retail and Manufacturing

Turnover for the Group's retail and manufacturing division totalled HK\$74,445 million, a 16% increase. EBIT from this division totalled HK\$3,654 million, up 57%. The strengthening of the British pound and Euro against the Hong Kong dollar contributed 7% of the EBIT growth. This division continues to grow its retail brands and store concepts both organically through store additions, particularly in the Mainland, elsewhere in Asia and in Europe, as well as in new markets through partnerships and acquisitions. In June, the Group acquired Drogas, a health and beauty retail

chain in Eastern Europe. In August, the Group exercised an option to acquire a 40% stake in Dirk Rossmann, the German health and beauty retail chain. In November, the Group announced a joint venture with a local strategic partner to develop a health and beauty retail chain in South Korea. Earlier this year, the Group announced a cash offer for the listed, 1,226-store, health and beauty retailer – Marionnaud Parfumeries of France, and acquired Cosmo Shop, a health and beauty chain in Turkey. The retail division currently operates in 18 countries with over 4,800 retail outlets and will continue to grow both in Europe and Asia as good opportunities arise.

Energy, Infrastructure, Finance and Investment

Cheung Kong Infrastructure (“CKI”), a listed subsidiary, announced turnover of HK\$4,460 million and profit attributable to shareholders of HK\$3,556 million, 4% and 6% above last year respectively. During the year, CKI continued to expand and diversify its investments overseas, including entering into agreements to acquire a 40% interest in the North of England Gas Distribution Network, which operates a major profitable natural gas distribution network, extending south from the Scottish border to South Yorkshire in the UK. This acquisition is expected to be completed in 2005.

Husky Energy (“Husky”), a listed associated company, announced turnover of C\$8,440 million and profit attributable to shareholders of C\$1,006 million, 25% below last year, mainly due to the negative impact of Husky’s crude oil hedging programme, which expired at the end of 2004, the relative performance of the Canadian dollar to the US dollar this year and last year, and a non-recurring tax rate reduction in 2003. Notwithstanding the impact of the hedging programme, Husky achieved strong operational and financial results for the year, and based on currently prevailing oil and gas prices, is expected to provide substantial earnings growth in 2005. In November, Husky declared a special cash dividend of C\$0.54 per share.

The Group’s EBIT from its finance and investments operations, which mainly represents returns earned on the Group’s substantial holdings of cash and liquid investments, amounted to HK\$8,681 million, an increase of 39%, mainly due to realised foreign exchange gains and profits on disposal of certain equity and fixed-income securities held as investments. The Group’s consolidated cash and liquid investments at 31 December 2004 totalled HK\$140,301 million, and consolidated debt was HK\$282,993 million, resulting in a Group net debt position of HK\$142,692 million and an overall net debt to net total capital ratio of approximately 33%. Currently, over 68% of the Group’s debt matures in five years and beyond.

“**Consolidated cash and liquid investments totalled HK\$140,301 million.**”

Hutchison Telecommunications International

The Group’s principal 2G assets together with its fixed line business were completely re-organised in 2004.

In March, the Group’s fixed line business was listed by way of the acquisition of Vanda Systems, a Hong Kong Stock Exchange listed associate of the Group now renamed Hutchison Global Communications Holdings (“HGCH”). Following the merger, a placement was effected reducing the Group’s common shareholding in this business to 52.5%.

In October, the Group’s interests in HGCH together with its major interests in 2G cellular businesses were combined under a single parent, HTIL, which was then listed by way of initial public offering on the Hong Kong Stock Exchange and the New York Stock

Exchange. Following the initial public offering, the Group's shareholding in this new subsidiary is approximately 70%.

On 7 March 2005, HTIL announced its annual results for 2004. Highlights included a mobile customer base of over 12.5 million at year end, representing 47% growth in the year, increased turnover of 48% year-on-year to HK\$14,960 million and profits attributable to shareholders of HK\$72 million for the year. These results reflect the strong growth of the India operation and Partner Communications' ("Partner") business in Israel and also include the 3G Hong Kong start-up losses in its first year of operations.

In February this year, HTIL announced that it had entered into a joint venture with Hanoi Telecommunications Joint Stock Company to build and operate a mobile network in Vietnam, and recently entered into a conditional agreement to acquire a 60% interest in PT Cyber Access Communications, the holder of a combined 2G and 3G licence in Indonesia. In addition, Partner announced a share buy-back transaction which, if approved, will result in HTIL increasing its ownership of Partner from 43% to over 50%.

3 Group Businesses

The Group's strategy in 2004 as a first mover in major developed mobile markets around the world has begun to yield tangible results. In 2004, the 3 Group was amongst the fastest growing operators in developed mobile markets. The 3 Group's and HTIL's 3G customer base at 30 March totalled over eight million, with over 1.7 million new customers added in the first quarter this year following a very successful holiday season which saw sales of over 900,000 in November and 1.3 million in December. In several of our markets, 3 is now recognised as the mobile industry leader in product offering and growth momentum. In all of our markets, the 3 brand was synonymous with 3G mobile technology well before any local competitor had launched a competitive 3G offering.

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Average revenues for 3 customers, which are detailed below, remain substantially above market averages in all of our markets, driven both by customer quality and stronger than expected take-up of non-voice services such as content, multi-media messaging and video services. Measured on content services, for example, the 3 Group would be one of the largest wireless value added services operators in the world.

As a result, 3 Group revenues have increased rapidly, reaching HK\$15,742 million for 2004, nearly five times the revenue contribution for the seven months of operations in 2003. As average customer numbers grow and with costs tightly managed, the 3 Group is progressing rapidly to achieving its stated target of being EBITDA breakeven after expensed CAC on a month-by-month basis in the latter part of this year.

In the UK, 3 achieved an important milestone with EBITDA breakeven before expensed CAC on a month-by-month basis in December 2004 as well as for the first quarter of this year. 3 in Italy likewise is expected to achieve this milestone on a month-by-month basis starting from April this year.

Despite new competition as incumbents launch 3G services, unit CAC is expected to continue to decline in 2005. Unit CAC in the last half of 2004 averaged €271 compared to the seven-month average of €299 announced with our interim results. The principal factor in the decline is rapidly dropping average handset prices, reflecting increases in both the number of suppliers offering quality product and the range of product specifications and price points offered.

Key Business Indicators

Current key business indicators for the **3** Group and HTIL's 3G businesses are:

| | 3G Customers at 30 Mar 2005 (‘000) | 12-month Average Revenue per User ("ARPU") ⁽¹⁾ in 2004 | | Mix of Postpaid / Prepaid Customers (ratio) | Estimated Network Service Coverage ⁽²⁾ at 28 Feb 2005 | |
|------------------------------|--|--|-----------------|---|---|-------|
| | | Local Currency / HK\$ | Non-voice ARPU% | | 3G | Voice |
| Australia | 543 | A\$88.23 / 506.78 | 13% | 85/15 | 68% ⁽³⁾ | 92% |
| Austria | 240 | €62.18 / 610.85 | 12% | 85/15 | 47% | 99% |
| Italy | 3,560 | €47.17 / 463.91 | 23% | 10/90 | 74% | 99% |
| Sweden & Demark | 414 | SEK397.06 / 429.82 | 14% | 84/16 | 84% | 99% |
| United Kingdom | 3,021 | £40.30 / 578.04 | 20% | 45/55 | 82% | 99% |
| 3 Group Total/Average | 7,778 | €52.43 / 515.11 | 20% | 36/64 | | |
| Hong Kong | 282 | HK\$240.00 / 240.00 | 23% | 100/0 | 99% | 99% |
| Israel ⁽⁴⁾ | 20 | | | | | |
| Total | 8,080 | | | | | |

Note 1: ARPU equals total revenue before promotional discounts and excluding handset and connection revenues, divided by the average active customers, where an active customer is one that has generated revenue from either an outgoing or incoming call or 3G service in the preceding 3 months.

Note 2: % of population.

Note 3: % of licence population.

Note 4: 3G operations in Israel commenced in December 2004 and the key business indicators are not meaningful.

3 Group reported LBITDA of HK\$15,714 million, loss before interest expense and finance costs, taxation and minority interests ("LBIT") of HK\$37,496 million and net loss after taxation and minority interests ("NLAT") of HK\$25,315 million in 2004. Reported LBITDA, LBIT and NLAT from the **3** Group for 2004 appears higher than expected on the basis of previous Group reporting. This is due to the retrospective adoption of the most recent interpretation of the applicable HKAS relating to CAC and their IAS counterparts. This change results in an additional expense for the **3** Group of HK\$9,588 million comprised of HK\$8,423 million of prepaid CAC that would have been capitalised under previously applicable interpretations, and an additional CAC amortisation expense of HK\$1,165 million for the year that would not have been charged under previously applicable interpretations. Looking forward, this change will result in lower amortisation expense in future years and therefore improved future reported

earnings. It must be stressed that this change is not indicative of any adverse performance in the **3** Group businesses during the year and, of course, does not reflect any change in the cash flow profile and funding requirements of the businesses, which are within expectations.

Excluding the effect of this change, the **3** Group's recurring operating results have continued to improve steadily, with LBITDA before expensed CAC reducing from HK\$11,571 million for the seven months of operations in 2003 to HK\$7,291 million for the full year of 2004. Further, excluding the one-off positive impact of contributions from suppliers of HK\$4,982 million in 2004, LBITDA before expensed CAC reduced from HK\$8,557 million in the last half of 2003 to HK\$7,527 million in the first half of 2004 and HK\$4,746 million in the second half of 2004.

In addition, foreign currency movements, particularly in the Euro and the British pound against the HK dollar also adversely affected the reported LBITDA, LBIT and NLAT. These movements of course do not reflect any adverse operating performance, however, they did increase LBITDA, LBIT and NLAT by approximately HK\$1,350 million, HK\$2,850 million, and HK\$1,950 million respectively.

Reported LBIT and NLAT in 2004 includes a full 12 months of depreciation and amortisation charges, compared to seven months in 2003. As a result, depreciation and amortisation of licence costs and capitalised CAC increased by 203% in 2004 to HK\$21,782 million. In addition, the **3** Group's NLAT reflects a deferred taxation credit for the year of HK\$8,589 million compared to HK\$6,762 million in 2003. The credit reflects the expected future tax benefit of the current year's tax deductible losses. The current **3** Group performance trend provides convincing evidence that it is probable that these benefits will be realised.

Although losses at the LBIT and NLAT level are expected to be reported in 2005 as the **3** Group builds its businesses, these losses will narrow, reflecting a rapid growth in the customer base and the resulting recurring revenues, achieving positive EBITDA operations and reflecting reduced amortisation expense from the new required CAC accounting. Capital spending is expected to decline after the networks expansion to meet customer growth is completed. As a result, **3** Group will exit 2005 in a position to begin to contribute positively to the Group's results.

Outlook

The results of 2004 reflect the overall solid growth of the Group's established businesses and the realisation of profit on disposal of investments and cash proceeds from the disposal of a non-core business asset and the initial public offerings of certain of our telecommunication businesses. The Group's established businesses continued to generate strong and growing cash flow. EBITDA from the Group's established businesses grew 44% to HK\$65,618 million.

The **3** Group achieved substantial business momentum in 2004 and will continue to press its first mover advantage through 2005. With the expected achievement of EBITDA breakeven on a month-by-month basis in the latter part of this year, the Group's operating loss profile in respect of this business, will improve in 2005 and future years. Consequently, I believe the market has begun to recognise the value created in this business which going forward, will be judged more as opportunity than risk for the Group. Although we do not underestimate the impact of competition in 2005 and subsequent years, we remain confident that the **3** Group will continue to gain market share and take its place as a strong player in each of its markets.

The world economy generally improved in 2004, despite rising US dollar interest rates and a high oil and commodities price environment. We expect modest continuing improvement in 2005 under similar conditions with continuing strong growth in the Mainland and Hong Kong, India and elsewhere in Asia. All of the Group's established businesses are expected to achieve strong operating performances as well as solid financial performances. Each of our ports, infrastructure, energy, property and retail businesses is making an improved contribution to our Group's "sum of the parts" valuation, and each is expected to continue to produce both short and long term satisfactory returns to the Group. With the **3** Group

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becoming self-financing in the 2005-2006 period, plans are already being made to put in place appropriate new capital structures for the Italy and UK businesses which will maximise their value contribution to our Group. All of this gives me confidence that 2005 will be another year of solid achievement and value creation for our shareholders.

Mr Li Fook-wo and Mr Peter Alan Vine, have both retired from their positions as Directors of the Company. Mr Li has served on the Board of the Company since 1977, and prior to that on the Board of A S Watson, a subsidiary company, since 1953. Mr Vine has served on the Board of the Company since 1977, and prior to that on the Boards of several subsidiaries since 1965. I wish to take this opportunity, personally and on behalf of all Board members, to express our utmost gratitude to Mr Li for his 50 years of service, and to Mr Vine for his 40 years of service; their many substantial and invaluable contributions to the Group are deeply appreciated. We wish them all the best in their retirement. I also wish to welcome Mr Holger Kluge as an Independent Non-executive Director who brings a wealth of international financial experience to the Board.

I would like to thank the Board of Directors and all employees around the world in all of our businesses for their professionalism, enterprise, hard work, loyal support and dedication.

Li Ka-shing

Chairman

Hong Kong, 31 March 2005

Basis of Preparation of Accounts

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) is pursuing its policy objective of full convergence with the standards and interpretations established by the International Accounting Standards Board (“IASB”). To this end, the HKICPA has recently issued over a dozen new and revised Hong Kong Financial Reporting Standards (“HKFRS”), which are effective for the financial year beginning 1 (a) January 2005, with the objective to eliminate, to the greatest extent possible, the differences that currently exist between HKFRS and IAS. Early adoption of these standards is encouraged. As further explained in Note 1(a) to the accounts, the Group has adopted retrospectively, where required, the current interpretation of four of those standards that are believed to have the most material effect on the Group’s accounts and, as a result, the profit attributable to shareholders in 2004 and 2003 have been materially affected and the 2003 profit is required to be restated to be comparable on a consistent basis of accounting. The results of 2003 have been restated to reflect the Group’s adoption, with retrospective effect where applicable, of HKFRS 3 “Business Combinations”, HKAS 36 “Impairment of Assets”, HKAS 38 “Intangible Assets”, HKAS 40 “Investment Property” and, in addition, Interpretation 22 “The Appropriate Accounting Policies for Infrastructure Facilities”. In 2004, prepaid CAC of HK\$8,423 million (2003 – HK\$917 million) previously capitalised have been expensed and capitalised postpaid CAC are now amortised over 12 months, previously 36 months, resulting in increased amortisation expense in 2004 of HK\$1,472 million (2003 – HK\$612 million). In 2004, the increase in valuation of investment properties of HK\$5,302 million (2003 – decrease of HK\$1,705 million) has been included in the calculation of profit, having previously been credited directly to reserves. At 1 January 2004, goodwill totalling HK\$11,787 million deducted from reserves in previous years is not to be recognised in the profit or loss calculation on disposal of the related business and will remain as a reduction of reserves. In 2004, the Group sold 29.84% of HTIL and goodwill in reserves related to the disposal of this business of HK\$2,011 million was not included in the calculation of the profit. The net effect after taxation and minority interests of the adoption of these standards, which align HKAS with IAS, increased profit attributable to shareholders for the year ended 31 December 2004 by HK\$1,702 million and reduced profit attributable to the shareholders for the year ended 31 December 2003 by HK\$2,701 million.