Dynamic Power

At 21:45 hr at Husky Energy's Lloydminster facility in Canada, Process Engineer Bob Brierley braves the chilly air to check the final installation of a project prior to startup. The company's upgrading and refining facilities at Lloydminster are the "end of the line" for much of Husky's heavy oil production; whereupon it gets refined and upgraded, then transported abroad.

21:45 hr

23:00 00:00 01:00 02:00 03:00 04:00 05:00 06:00 07:00 08:00 09:00 10:00 11:00 12:00 13:00 14:00 15:00 16:00 17:00 18:00 19:00 20:00 21:00 22:00

Energy, Infrastructure, Finance and Investments

The energy, infrastructure, finance and investments division includes the Group's 84.6% interest in Cheung Kong Infrastructure ("CKI"), a leading investor in the infrastructure sector in Hong Kong, the Mainland and Australia and a 35.1% interest in Husky Energy, one of Canada's largest integrated energy and energy related companies. In addition the Group's finance and investment income, derived from its substantial pool of cash, managed funds and listed investments, is reported in this division.

Turnover for the energy, infrastructure, finance and investments division for 2001 totalled HK$27,006 million, a 4% increase over 2000. EBIT from this division totalled HK$13,082 million, a 13% increase over the EBIT reported in 2000 of HK$11,549 million. The increase in turnover is mainly due to increases from CKI and increased production volumes at Husky Energy. The increase in EBIT is primarily due to an increased contribution from CKI and increased finance and investment income.

Hongkong Electric's system control centre maintains 24 hour surveillance and exercises remote control over the transmission and distribution system.

The regulated power distribution businesses of both ETSA Utilities and Powercor Australia Limited continue to exceed expectations.

CHEUNG KONG INFRASTRUCTURE

The Group has an 84.6% interest in CKI, which is listed on the SEHK. CKI announced turnover of HK$3,838 million and profit attributable to shareholders of HK$3,323 million, an increase of 15% and 3% respectively compared with the previous year. The group is currently engaged in the development, ownership, operation and management of infrastructure businesses, including power plants, electricity distribution networks, gas distribution networks, toll roads and bridges, tunnels and water treatment plants in Hong Kong, the Mainland and Australia. The group is also engaged in infrastructure materials businesses in Hong Kong, the Mainland, Canada and the Philippines, including the production, distribution and sales of cement, concrete, asphalt, aggregates and spray coating materials. Growing out of its infrastructure materials businesses, CKI has developed its environmental businesses in areas related to recycling waste materials, reduction of natural resources usage and reduction of emissions to the environment.

CKI holds a 38.9% interest in Hongkong Electric Holdings ("HEH"), which is the largest contributor to CKI's results. HEH, which is listed on the SEHK and is the sole provider of electricity to Hong Kong and Lamma islands, reported a profit attributable to shareholders of HK$6,507 million, increasing from HK$5,535 million in 2000. CKI's other infrastructure businesses recorded a decrease in profit, reflecting reduced contributions from Mainland infrastructure projects and a HK$500 million provision against certain Mainland joint venture projects, partially offset by a gain of HK$351 million on the disposal of Powercor's retail operation in Australia and a gain of HK$221 million on disposals of Nanhai Power Plant I. CKI's cement, concrete, asphalt and aggregates businesses in Hong Kong and the Mainland recorded a decline in profits during the year due to the continuing slowdown of construction in the Hong Kong property and infrastructure sectors.

CKI's joint ventures in the PRC own and operate approximately 500 km of toll roads and bridges, spanning the provinces of Guangdong, Hunan, Henan, Hebei and Liaoning.

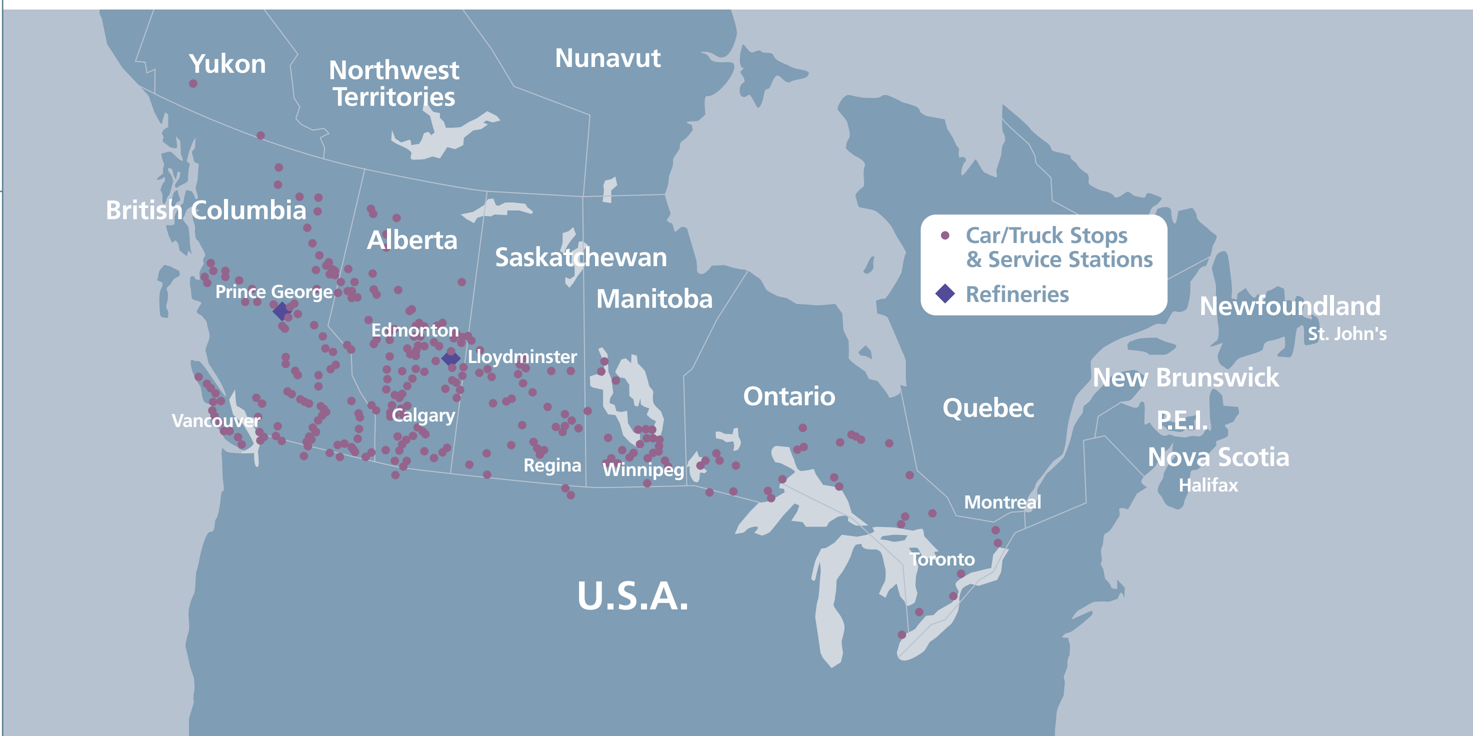
HUSKY ENERGY

Husky Energy, a listed Canadian based integrated energy and energy related company, announced profit attributable to shareholders of C$701 million in its first full year of combined operations after its merger with Renaissance Energy. The merger in August 2000 reduced the Group's interest from 49% to 35.1%. The Group's 35.1% share of Husky Energy's revenue of HK$11,801 million was 3% higher than the previous year, although its share of EBIT of HK$2,036 million was 4% less due to the lower Canadian dollar exchange rate.

In 2001, Husky Energy's production volumes averaged 272,800 barrels of oil equivalent ("boe") per day compared to 176,800 boe per day during 2000, a 54% increase. At the end of 2001, Husky Energy had estimated gross proved reserves of crude oil, natural gas liquids and natural gas of 927 million boe and a production replacement ratio including net additions of 155%. Husky Energy's significant land position includes 7.5 million net acres of undeveloped land in Western Canada which provides future exploration and development potential for conventional crude oil and natural gas, as well as for heavy oil. Husky Energy's upstream operations have continued with the development of the Terra Nova oil field off the east coast of Canada and production from this field commenced in January 2002. The Wenchang oil field in the South China Sea is expected to commence production in the second quarter of 2002. These two projects are expected to increase Husky Energy's daily production in 2002 by approximately 10,000 and 8,000 boe, respectively. In December 2001, the governments of Canada, Newfoundland and Labrador announced acceptance of the Canada Newfoundland and Offshore Petroleum Board's Report for the White Rose oil field project. A decision by the owners on project sanction is expected during the first half of 2002. Husky Energy is also one of the largest working interest holders in the Jeanne d'Arc basin off the east coast of Canada.

The midstream operation, which includes the heavy oil upgrader facility at Lloydminster, pipeline systems, commodity marketing, power generation and gas storage operations are structured to take advantage of the oil commodity value chain. The refined products operation

Husky's Retail Network



comprises the wholesale, commercial and retail marketing of a range of refined petroleum products, through a network of 580 branded retail outlets, as well as the marketing of asphalt products.

GROUP CAPITAL RESOURCES AND LIQUIDITY

The Group's total shareholders' funds amounted to HK$218,273 million at 31 December 2001 compared to HK$253,348 million at the end of last year. The reduction reflects the steep decline in global stock market values in 2001 that has adversely affected the Group's portfolio of listed equity investments, which are marked to market value at each year end. The Group made a provision for diminution in value of its portfolio of equity investments of HK$28,100 million in the first half of 2001 and a further provision of HK$1,669 million at the year end, totalling HK$29,769 million for the full year.

At 31 December 2001, the Group's cash, portfolio of managed debt security funds and other listed investments (including equity investments in Vodafone Group of HK$33,895 million and Deutsche Telekom of HK$27,907 million) totalled HK$145,336 million (2000 – HK$174,821 million) of which 7% were denominated in HK dollars, 44% in US dollars, 24% in Pounds Sterling (mainly investment in Vodafone Group), 22% in Euros (mainly investment in Deutsche Telekom) and 3% in other currencies.

During the year, the Group entered into forward sales contracts with major credit worthy financial institutions to dispose of an aggregate of approximately 695 million shares of Vodafone Group at an average price of £1.75 per share, which gave rise to a profit of HK$3,485 million in 2001. In addition, options were granted to the purchasers to acquire an additional approximately 258 million shares of Vodafone Group which are exercisable in 2002. The Group also entered into similar forward sales contracts for an aggregate of approximately 89 million shares of Deutsche Telekom at an average price of €21.26 per share, which gave rise to a profit on disposal of HK$908 million in 2001. In addition, options were granted to the purchasers to acquire an additional approximately 42 million shares of Deutsche Telekom which are exercisable in 2002. In accordance with the Group's treasury policy, the Group has entered into currency forward sales contracts to sell, in 2002, a portion of the consideration to be received in Pounds Sterling and Euros for US dollars. Approximately 31% of the consideration for Vodafone Group shares has been sold, and approximately 84% of the consideration for Deutsche Telekom shares has been sold.

The Group's pool of consolidated cash and liquid assets of HK$145,336 million compares to the Group's total borrowings at 31 December 2001 of HK$146,992 million (2000 – HK$124,526 million). During the year, all bilateral borrowings that matured were either renewed at satisfactory rates and terms or, at the Group's option, were repaid early or on maturity. The major bank loans borrowed and repaid were as follows:

- In April, arranged a five year, floating interest rate, A$405 million bank loan to refinance the Group's Australian infrastructure investments;
- In April, repaid early, without penalty, a one year, floating interest rate, A$792 million bridging loan which was due to mature in September 2001;
- In July, arranged a two tranche, five and seven year, floating interest rate, HK$12,000 million loan which was drawn down in November and December;
- In July, repaid early, without penalty, a five year, floating interest rate, HK$12,000 million bank loan which was to mature in June 2002;
- In September, repaid early, without penalty, a three year, floating interest rate, HK$1,160 million bank loan and a three year, floating interest rate HK$840 million bank loan which were due to mature in November 2001;
- In October, repaid on maturity, a three year, floating interest rate, HK$2,500 million bank loan;
- In January 2002, arranged a nine and three quarter year, floating interest rate, bank and equipment vendor financing, totalling €4.2 billion, to finance the 3G Italy operations;

Loan notes and bonds issued and redeemed were as follows:

- In January, issued US$2,657 million principal amount of 2.0% fixed interest rate notes due in 2004, exchangeable into ordinary shares of Vodafone Group;
- In February, issued US$1,500 million principal amount of 7.0% fixed interest rate notes due in 2011 to repay early, without penalty, a US$1,500 million bank loan facility which was due to mature in July 2003;
- In November, repaid on maturity US$275 million, 7.0% fixed interest rate convertible bonds;
- In November, repaid early without penalty, US$1,131 million, floating interest rate notes which were due to mature in November 2004;
- In December, issued A$425 million principal amount of 6.5% fixed interest rate notes to finance the Group's Australian telecommunications operations;
- In February 2002, repaid on maturity, three year, fixed interest rate notes, HK$1,500 million.

Total borrowings include US$3,000 million principal amount of 2.875% exchangeable notes due in 2003 which are exchangeable on the basis of US$1,000 principal amount for 196.61 ordinary shares of Vodafone Group at an exchange price of US$5.086 per share and as mentioned above, US$2,657 million principal amount of 2.00% exchangeable notes due in 2004 which are exchangeable on the basis of US$1,000 principal amount for 214.51 ordinary shares at an exchange price of US$4.6618 per share. If all of the notes were to be exchanged, the Group's interest in Vodafone Group would reduce to 0.4%, after subtracting the shareholdings disposed pursuant to the forward sale contracts mentioned previously.

The Group's borrowings at 31 December 2001 are denominated and repayable as follows:

The non-HK dollar and non-US dollar denominated loans are either directly related to the Group's businesses in the countries of the currencies concerned, or the loans are balanced by assets in the same currencies.

As at 31 December 2001, approximately 40% of the Group's borrowings bear interest at floating rates and the remaining 60% are at fixed rates. The Group has entered into various interest rate agreements with major financial institutions to swap approximately HK$31,550 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$4,320 million principal amount of an infrastructure related, floating interest rate borrowing was swapped to a fixed interest rate borrowing. After taking into consideration these interest rate swaps, as at 31 December 2001, approximately 63% of the Group's borrowings bear interest at floating rates and the remaining 37% are at fixed rates.

	HK$	US$	£	€	Others	Total
Within 1 year	10%	1%	–	1%	1%	13%
In years 2 to 4	11%	32%	4%	–	3%	50%
In year 5	7%	–	1%	3%	2%	13%
In years 6 to 10	2%	13%	–	1%	–	16%
In years 11 to 20	–	3%	2%	–	–	5%
Beyond 20 years	–	3%	–	–	–	3%
	30%	52%	7%	5%	6%	100%

At 31 December 2001, the Group's net debt to net capital ratio was 0.7% (2000 – net cash of HK$50,295 million). EBITDA covered the gross interest expense for the year 3.4 times (2000 – 6.2 times).

At 31 December 2001, assets of HK$56,792 million (2000 – nil) were pledged as security for project financing facilities and HK$14,988 million (2000 – HK$7,272 million) were pledged as security for bank and other loans of the Group. The Group's investment in the ordinary shares of Vodafone Group are not pledged or otherwise restricted pursuant to the covenants of the two notes described above which are exchangeable into Vodafone Group shares. Committed borrowing facilities available to Group companies, but not drawn at 31 December 2001, amounted to the equivalent of HK$28,195 million (2000 – HK$6,554 million).

The Group's capital expenditures, excluding expenditures for properties under development and for sale, totalled HK$14,293 million (2000 – HK$6,324 million), of which HK$9,915 million related to 3G operations (which were primarily funded by standalone bank borrowings). The Group's capital expenditures were funded primarily from cash generated from the cash on hand, internal cash generation and to the extent required, by borrowings.

TREASURY POLICIES

The Group's overall treasury and funding policies focus on managing financial risks, including interest rate and foreign exchange risks, and on cost efficient funding of the Group and its companies. For synergies, efficiency and control, the Group operates a central cash management system for all its unlisted subsidiaries in Hong Kong. Except for listed and certain overseas entities, the Group generally obtains long term financing at the Group level to on-lend to its subsidiaries and associates to meet their funding requirements. For overseas subsidiaries and associates and other investments which consist of non-HK and non-US dollar assets, the Group endeavours to hedge its foreign currency positions with the appropriate level of borrowings in those currencies. For transactions directly related to the underlying businesses, 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 currency exposures as well as to assist in managing the Group's interest rate exposures. The currency and interest rate swaps entered into by the Group are described in the Group Capital Resources and Liquidity section.

CONTINGENT LIABILITIES

At 31 December 2001, the Group had provided guarantees for banking and other borrowing facilities granted to associated companies and jointly controlled entities of HK$11,226 million (2000 – HK$9,848 million). At 31 December 2001, the Group had contingent liabilities in respect of other guarantees amounting to HK$12,419 million (2000 – HK$2,662 million).

COMMUNITY RELATIONS

The Group, in its role as a corporate citizen, continues to support numerous community programmes through active participation and financial assistance.

In particular, the Group has been a significant donor to educational and professional institutions such as the Chinese University of Hong Kong, Stanford University in the USA, Hong Kong Federation of Education Workers and the Hong Kong Surgical Forum Trust Fund to further various research projects ranging from mathematical sciences to western and traditional Chinese medicine, as well as outreach programmes to serve the underprivileged.

The Group's annual contribution to the Community Chest helps ease the difficulties facing many less fortunate individuals.

The Group also made donations aggregating to HK$57 million (2000 – HK$87 million) to charities including the Community Chest, which provides funds to more than 140 member agencies, Impact Hong Kong Foundation's Lifeline Express Project, the Save the Children Fund, Children's Miracle Charity and several arts and culture related programmes. During the year, the Group also established the HWL Volunteer Team which organises community activities among employee volunteers, including visiting and aiding the elderly and groups with special needs.

In addition, the Group also supports a number of sports events, including the Hong Kong Professional Golfer's Association Championship 2001, and "Watsons Water Challenge", a four day tennis tournament in January bringing top women tennis players to Hong Kong.

EMPLOYEE RELATIONS

Excluding associated companies, the Group employs 77,253 people (2000 – 49,570 people) of whom 23,775 (2000 – 22,405) are employed in Hong Kong. Employee costs, excluding Directors' emoluments, totalled HK$10,043 million (2000 – HK$7,642 million). All of the Group's subsidiary companies are equal opportunity employers, with the selection and promotion of individuals based on suitability for the position offered. The salary and benefit 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. A wide range of benefits including medical coverage, provident funds and retirement plans, and long service awards are also provided to employees. In addition, training and development programmes are provided on an ongoing basis throughout the Group. Many social, sporting and recreational activities were arranged during the year for employees on a Group wide basis. Furthermore, Group employees also participated in community oriented events.

OUTLOOK

The Group's results for 2001 were achieved in a year characterised by slow economies in Hong Kong and Southeast Asia, a decrease in global import and export activity, and the rapid decline of interest rates led by the USA's economic policy decisions. In addition, 2001 was the second consecutive year of volatile and declining equity markets, particularly in the telecommunications sector. In this challenging environment, the Group performed well and reported improved results from its recurring operations as well as profits from its timely disposal of its investment in VoiceStream.

The HWL Volunteer Team makes regular visits to charity groups.

Recently there are positive, albeit early, signs from the USA economy that are encouraging for the start of a recovery in the global economies in the latter part of 2002. Although this year is expected to be another challenging year, the Group's geographically and segmentally diversified core businesses provide an established base for another solid and steady operating performance in 2002.

The Group's financial position continues to be strong, with consolidated cash and liquid marketable securities of HK$145,336 million almost equal to the consolidated borrowings of HK$146,992 million at the year end. With the recent completion of the Italian 3G bank financing facility, the funding requirements for the Group's major 3G start up operations have been secured. The Group will continue to benefit from the healthy recurrent cash flows from its core businesses, and will continue to maintain low gearing levels. From this favourable financial position, the Group is well placed to meet the challenges of 2002 and also in an advantageous position to take advantage of attractive expansion opportunities. This year, the Group is focused on developing and launching its existing 3G telecommunication operations, which will provide future growth and value creation to our shareholders, while also expanding all of its other core businesses to enhance the recurring profit base of the Group.

The results for 2001 were achieved in a difficult economic climate through the efforts and the dedication of the Group's employees and I would like to join our Chairman in thanking them for their continuing support and hard work throughout the year.

FOK Kin-ning, Canning
Group Managing Director
Hong Kong, 21 March 2002