





Canada

Husky holds a 50% interest in, and operates, the Rainbow Lake processing plant. Located in northern Alberta, this is the site of Husky's largest light oil production operation and one of the largest plants of its kind in Alberta. Husky's production in this area is derived from more than 50 oil and gas pools spread over an area of approximately 500 square miles.

AAL Recognised for Quality Management

The dedication of Anderson Asphalt (AAL) staff in establishing a modern management system with a clear policy, achievable objectives and measurable targets has won recognition by successfully obtaining ISO 9001:2000 certification from Hong Kong Quality Assurance Agency (HKQAA), the most recognised ISO certification body in the construction industry. AAL is also the first Hong Kong asphalt supplier to achieve this international standard.

Since 1997, AAL has been the first and only asphalt company in Hong Kong with all operations — from mix design to asphalt production, testing, transportation and laying — certified to the ISO 9001:1994 standard by the HKQAA. AAL had surpassed the ISO complying standards and was therefore quick to implement the ISO 9001:2000 conversion with excellent results. AAL has been the first and only ISO 14001:1006 certified asphalt company in Hong Kong since 1999.

Hongkong Electric Energises Community Care

Hongkong Electric received a Caring Company Award from the Hong Kong Council of Social Service in recognition of the company's efforts "to build a caring community spirit through cultivating corporate citizenship and strategic partnership between the business and social service sectors".

The objectives of the 'Caring Company' programme are to raise

public awareness of good corporate citizenship and its contribution to a caring community. Caring companies should demonstrate good corporate citizenship in at least two of six areas: Volunteering, Family Friendly, Employing the Vulnerable, Partnership, Mentoring and Giving. Hongkong Electric fulfilled the requirements in all six areas.

Husky Strikes Gold on Health, Safety & Environment

Husky Energy has been awarded a Health, Safety and Environmental Stewardship Award — Gold Level, from the Canadian Association of Petroleum Producers (CAPP).

The Award recognises CAPP-member organisations that facilitate and enhance the sustainability of the Canadian petroleum industry by responsibly balancing environmental, economic and societal interests.

"We are particularly pleased to receive the award, as it recognises the company's commitment and dedication of resources to socially responsible health, safety and environmental practices," said manager Ken Jackson of Health, Safety, Environment & Risk Management.

Husky also received a Stewardship Award in 2001, when the awards programme began.

Husky named "Top 100" Employer

For the third consecutive year, Husky Energy has been named one of Canada's Top 100 Employers. This recognition was designated by MediaCorp Canada Inc., a Toronto-based publisher that evaluates interesting employers, both large and small, that have innovative programmes to attract and retain talented employees.

In selecting this year's top 100 Companies, MediaCorp pared an initial listing of 47,000 organisations down to the 6,000 fastest-growing employers. These employers were invited to complete a Request for Information application, which included detailed questions regarding human resource policies and financials.

Employers were compared to

others in their industry. Winners will be profiled in *Maclean's* magazine and in the 2003 edition of Canada's Top 100 Employers.

"We are very proud of this accomplishment," says John C.S. Lau, President and Chief Executive Officer. "Being nominated three years in a row is an achievement we can all share in."

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% 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 the Group treasury operations and from the substantial pool of cash and other liquid investments, is reported in this division.

Turnover for the energy, infrastructure, finance and investments division for 2002 totalled HK\$26,010 million, a 4% decrease from last year. EBIT from this division totalled HK\$13,233 million, a 2% increase over the EBIT in 2001 of HK\$12,945 million. The aggregate net increase is mainly due to the increased returns from CKI and the effect of increased crude oil prices and production at Husky Energy, partially offset by the effects of lower market interest rates on the finance and investment income.





CitiPower distributes approximately 5,300 GWh of electricity to around 265,000 connected customers with concentration aggregated in the densely populated Melbourne central business district and inner suburban areas.

Cheung Kong Infrastructure

The Group has an 84.6% interest in CKI, which is listed on the SEHK. CKI announced turnover of HK\$3,595 million, a decrease of 6%, and profit attributable to shareholders of HK\$3,425 million, an increase of 3% compared with last year. CKI is currently engaged in the development, ownership, operation and management of infrastructure businesses, including power plants, electricity distribution networks, gas distribution networks, roads, toll bridges, tunnels and water treatment plants in Hong Kong, the Mainland and Australia. CKI 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. CKI has developed an environmental business 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\$6,827 million, an increase of 5% over last year. CKI’s other infrastructure businesses recorded increased profits reflecting improved contributions from the Mainland and Australian energy projects. In July, CKI and HEH completed the acquisition of CitiPower in Australia, an electricity distributor serving approximately 265,000 customers in and around Melbourne. CKI’s cement, concrete, asphalt and aggregates businesses in Hong Kong and the Mainland experienced another difficult year and a decline in profits.

Husky Energy

The Group has a 35% interest in Husky Energy, a listed Canada based integrated energy and energy related company. Husky Energy announced turnover of C\$6,384 million, 3% below last year, mainly due to lower average North American natural gas prices, partially offset by higher crude oil prices and production. Net profit attributable to shareholders of C\$804 million was 23% higher than the previous year, mainly due to increased oil production and improved crude oil prices, partially offset by lower natural gas prices.

In 2002, Husky Energy's gross production volume averaged approximately 300,200 barrels of oil equivalent ("boe") per day compared to 272,800 boe per day during 2001, a 10% increase. In the upstream operations, the Terra Nova oil field offshore the east coast of Canada commenced production in January 2002 and increased Husky Energy's average daily production by 18,750 boe. The Wenchang oil field offshore Southern China commenced production in July 2002 and increased Husky Energy's average daily production by 25,250 boe.

At the end of 2002, Husky Energy had estimated gross proved reserves of crude oil, natural gas liquids and natural gas of 918 million boe and for the three years up to December 2002, a production replacement ratio, including acquisitions and divestitures, of 136%. Husky Energy has substantial offshore development and exploration opportunities. It is one of the largest working interest holders in the Jeanne d'Arc basin offshore the east coast of Canada. In western Canada, Husky Energy has a high working interest, undrilled land base comprising 7.8 million net acres of undeveloped land. In addition, it has development and exploration opportunities offshore Southern China.



In the city that never sleeps, Hongkong Electric helps keep life on the go 24 hours a day – every day.

In March 2002, the decision was made to proceed with the development of the White Rose oil field offshore the east coast of Canada, with first oil anticipated by the end of 2005. On completion, this oil field is expected to produce approximately 200 million to 250 million barrels of oil over a ten to fifteen year period. In the fourth quarter, Husky Energy increased its working interest in the in-situ development of the oil sands property at Kearl, Alberta to 100%. Evaluation of this property is ongoing and further test wells are planned in 2003. A development plan for the Tucker oil sands property is being prepared and on completion, this property is expected to produce approximately 30,000 barrels of bitumen per day for twenty five years.

The midstream operations comprise a portfolio of assets strategically located in western Canada which include the heavy oil upgrader facility at Lloydminster, marketing and infrastructure activities consisting of pipeline systems, commodity marketing, thermal and electrical generation and crude oil and natural gas storage and processing. The refined products operations include a network of 571 branded retail outlets, providing a full range of services and petroleum products, as well as the marketing of asphalt products.



Sunrise at the Bolney Celtic facility near Lloydminster. The Bolney/Celtic thermal expansion project, which will utilize an existing 6,000 barrels per day of spare capacity at Bolney, commenced production on December 2002 and averages 2,000 barrels per day from six horizontal steam-assisted gravity drainage well pairs. Peak production from this project is estimated at 14,000 barrels per day.

Group Capital Resources and Liquidity

The Group's total shareholders' funds increased 4% to HK\$226,176 million at 31 December 2002 compared to HK\$218,077 million at the end of last year.

Net debt of the Group was HK\$50,229 million (2001 - HK\$1,656 million) and the net debt to net capital ratio was 16% (2001 - 0.7%). This ratio is a combination of the net debt to net capital ratio of the existing operations of approximately 13% and of the 3G start-up operations of approximately 21%. The Group will continue to benefit from the steady and growing cashflow and also the low net debt levels of its existing core businesses during the start-up phase of its 3G businesses. EBITDA amounted to HK\$33,273 million (2001 - HK\$33,027 million) and funds from operations ("FFO"), before capital expenditure and changes in working capital, amounted to HK\$20,836 million (2001 - HK\$16,571 million). EBITDA and FFO, after adjusting for interest income, covered net interest expense 13.6 and 7.8 times respectively (2001 - 11.1 times and 4.5 times).

At 31 December 2002, the Group's cash, portfolio of managed debt security funds and other liquid investments (including equity investments, marked to market value, in Vodafone Group of HK\$20,118 million and Deutsche Telekom of HK\$11,698 million) totalled HK\$130,267 million (2001 - HK\$145,336 million) of which 7% were denominated in HK dollars, 59% in US dollars, 17% in Pounds Sterling (mainly investment in Vodafone Group), 12% in Euros (mainly investment in Deutsche Telekom) and 5% in other currencies.

During the year, all the Group's forward sales contracts entered into in 2001 matured, completing the disposal of an aggregate of approximately 695 million shares of Vodafone Group and approximately 89 million shares of Deutsche Telekom. A total cash consideration of HK\$27,196 million was received.

The shareholdings in Vodafone Group and Deutsche Telekom are accounted for as long term investments and are marked to market value at each period end. The change in market value, positive or negative, is credited or charged to the investment revaluation reserves on the balance sheet, unless a decline in value is judged to be a permanent diminution in value, in which case a charge is made to the profit and loss account. Considering the continuing volatility in the equity markets and the uncertain global economy, this decline in value of HK\$3,105 million upon marking these investments to market value, is not currently considered a permanent diminution and therefore, in accordance with the Group's accounting policy, the reduction in value has been charged against the existing investment revaluation reserves in the balance sheet. The Group continues to monitor and, where appropriate, enter into hedging arrangements relative to these positions. Currently 40% of the Group's holdings in Vodafone Group are hedged at or above book carrying value.

The Group's total borrowings at 31 December 2002 were HK\$180,496 million (2001 - HK\$146,992 million) of which HK\$26,110 million (2001 - HK\$5,977 million) relates to the mainly non or limited recourse borrowings of the 3G UK and Italy operations. The significant financing activities during the year were as follows:

- In January 2002, arranged a nine and three quarter year, floating interest rate, bank and equipment vendor financing, totalling €4,200 million, to finance the 3G Italy operations;
- In February 2002, repaid on maturity, three year, fixed interest rate notes, totalling HK\$1,500 million;
- In March 2002, repaid early, without penalty, a floating interest rate, US\$210 million bank loan which was to mature in January 2004;
- In March 2002, CKI issued a fixed interest rate foreign currency note totalling the equivalent of HK\$1,813 million under a US\$2,000 million medium term note programme established in March 2001;
- In April 2002, arranged a five year, floating interest rate, HK\$1,500 million bank loan to repay at maturity an existing floating interest rate bank loan;
- In May 2002, CKI arranged a five year, floating interest rate, HK\$3,800 million syndicated bank loan to refinance an existing syndicated bank loan of HK\$3,100 million maturing in September 2002;
- In June 2002, arranged two short term floating interest rate loans totalling A\$600 million to finance the Group's share of the telecommunication Australia operations;
- In September 2002, CKI arranged a one year, floating interest rate, A\$413 million bridging loan to partially finance the Group's acquisition of CitiPower, an Australian electricity distributor;
- In October 2002, arranged a five year, floating interest rate, €550 million and US\$210 million syndicated bank loans to partially finance the acquisition of the Kruidvat Group;

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- In November 2002, arranged a five year, floating interest rate, ¥19,257 million loan and a floating interest rate short term, ¥5,093 million loan, totalling ¥24,350 million to refinance the Group's share of the existing bank loans of an associated company holding an investment property in Japan;
 - In December 2002, repaid on maturity, a five year, fixed interest rate, HK\$4,000 million bank loan, and a five year, floating interest rate, HK\$1,000 million bank loan.

Total borrowings include US\$3,000 million principal amount of 2.875% exchangeable notes due in September 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, US\$2,657 million principal amount of 2.00% exchangeable notes due in January 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.

The Group's borrowings at 31 December 2002 were denominated as to 23% in HK dollars, 42% in US dollars, 13% in Pound Sterling, 11% in Euros, 11% in other currencies.

Subsequent to the year end, significant financing activities were as follows:

- In February 2003, issued ten year, fixed interest rate, US\$1,500 million notes which will be used to repay a portion of exchangeable notes due in September 2003;
- In March 2003, issued five year, floating interest rate, A\$800 million notes to repay three of the telecommunication Australia operations bank loans totalling A\$796 million;
- In March 2003, an agreement was signed whereby the £3,252 million project financing facilities of Hutchison 3G UK were extended one year to mature in March 2005, subject to certain conditions including the contribution of not less than £1,000 million to Hutchison 3G UK from its direct parent company by way of new subordinated debt.

After considering the refinancing activity subsequent to the year, the Group's borrowings are denominated and repayable as follows:

	HK\$	US\$	£	€	Others	Total
Within 1 year	3%	7%	–	–	3%	13%
In year 2	2%	12%	1%	–	2%	17%
In year 3	7%	–	9%	–	–	16%
In year 4	6%	1%	1%	2%	2%	12%
In year 5	3%	4%	–	3%	1%	11%
In years 6 to 10	2%	7%	–	1%	2%	12%
In years 11 to 20	–	8%	2%	5%	–	15%
Beyond 20 years	–	3%	–	–	1%	4%
	23%	42%	13%	11%	11%	100%

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 2002, approximately 47% of the Group's borrowings bear interest at floating rates and the remaining 53% are at fixed rates. The Group has entered into various interest rate agreements with major financial institutions to swap approximately HK\$30,363 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK\$6,539 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 2002, approximately 60% of the Group's borrowings bear interest at floating rates and the remaining 40% are at fixed rates.

At 31 December 2002, shares of Hutchison 3G UK and Hutchison 3G Italy owned by the Group were pledged as security for their respective project financing facilities. The assets of these two companies totalled HK\$119,812 million (2001 – HK\$56,792 million). In addition, HK\$22,238 million (2001 – HK\$14,988 million) of the Group's assets 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 2002, amounted to the equivalent of HK\$58,573 million (2001 – HK\$28,195 million), of which HK\$55,748 million (2001 – HK\$27,510 million) related to 3G operations.

The Group's capital expenditures, excluding expenditures for properties under development and for sale, totalled HK\$39,198 million (2001 – HK\$14,293 million), of which HK\$28,282 million (2001 – HK\$7,532 million) related to 3G operations. Capital expenditures are shown by business segment in Note 3 to the consolidated accounts. The majority of capital expenditures for the 3G operations were primarily funded by mainly non or limited recourse project financing facilities. The Group's remaining capital expenditures were funded primarily from cash generated from operations, cash on hand 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 same 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 assist in managing the Group's interest rate exposures.

Contingent Liabilities

At 31 December 2002, the Group had provided guarantees for banking and other borrowing facilities granted to associated companies and jointly controlled entities of HK\$11,696 million (2001 – HK\$11,226 million). At 31 December 2002, the Group had contingent liabilities in respect of guarantees related to the procurement of 3G handsets of HK\$14,116 million (2001 – HK\$8,722 million), procurement of 3G infrastructure of HK\$2,036 million (2001 – HK\$2,539 million), and other guarantees totalling HK\$2,103 million (2001 – HK\$1,158 million).

Community Relations

The Group is aware of and is committed to its role as a corporate citizen, and frequently supports numerous community programmes through active participation and financial assistance.

During the year, the Group made donations aggregating to HK\$64 million (2001 – HK\$57 million) to charities and educational and professional institutions. Donations were made to charitable organisations, including the Community Chest, which provides funds to more than 140 member agencies. Some of the other organisations that received assistance included Impact Hong Kong Foundation's Lifeline Express Project, Children's Miracle Charity, the Hong Kong Cancer Fund and the Save the Children Fund, as well as several arts and culture related programmes, like the Hong Kong Arts Festival and the Hong Kong Philharmonic Society. The Group has also been a significant donor to educational and professional institutions such as the Stanford University in the USA and the Hong Kong America Center to further medical research projects and academic exchange programme.

During the year, the HWL Volunteer Team formed by the Group in 2001, continued to organise community activities among employee volunteers, including visiting and aiding the elderly and groups with special needs.

Employee Relations

At 31 December 2002, the Company and its subsidiaries employed 117,843 people (2001 – 77,253 people) and the related employee costs for the full year, excluding Director's emoluments, totalled HK\$15,100 million (2001 – HK\$10,043 million). Including the Group's associated companies, at 31 December 2002 the Group employed 154,813 people of whom 29,871 are employed in Hong Kong. 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. The Company does not have a share option scheme for the purchase of ordinary shares in the Company. 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. Further, Group employees also participated in community oriented events.

Outlook

The Group's results for 2002 were achieved in a year characterised by uncertain and slow economies in Asia, a deflationary economy in Hong Kong, the threat of war, and low market interest rates. In addition, 2002 was the third consecutive year of volatile and declining equity markets. In this challenging environment, all of the Group's operating businesses performed well and reported improved, solid results as well as benefiting from expansion activity in 2001 and also in 2002.

The Group's financial position continues to be strong, with a conservative net debt level and strong cash flows generated by the established core businesses. The Group has on hand consolidated cash and other liquid investments totalling HK\$130,267 million. This favourable financial position will benefit the Group as it builds its 3G telecommunication business in 2003. These state-of-the-art operations will provide future profit growth and value creation to our shareholders. In 2003 the Group will continue to focus on improving the performance and cost effectiveness of its existing solid core businesses to enhance the recurring profit base of the Group.

The business environment and markets continue to be affected by the uncertain economies, low interest rates and also the threat of war. As a result 2003 is expected to be another challenging year. The Group's geographically and segmentally diversified, established core businesses provide a strong base for another solid and steady operating performance in 2003.

The results for 2002 were achieved 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, 20 March 2003