Chairman's Statement

The Group benefited from its diversification, reporting results in line with last year. Despite SARS, the war in Iraq and mixed economic conditions, the Group's established businesses reported healthy growth. In the UK, Italy and Australia, the Group began offering 3G services and in January this year began to offer these services in Hong Kong.

> **"Excluding exceptional profits and 3G start-up losses in both years, profit attributable to shareholders increased 25%."**

RESULTS

The Group's audited profit attributable to shareholders for the year amounted to HK$14,378 million, which is HK$16 million ahead of last year's results. Earnings per share amounted to HK$3.37 (2002 – HK$3.37). These results include a net profit on disposal of investments and provisions of HK$8,893 million, which primarily relate to profits on the disposal of the European water businesses and the remaining holdings in Vodafone Group and in Deutsche Telekom of HK$1,683 million and HK$2,627 million respectively, a release of provisions of HK$7,810 million, partially offset by a full write-off of the Group's HK$3,111 million investment in Global Crossing and other charges of HK$116 million. The Group achieved a profit ahead of last year despite the unforeseen write-off of the Global Crossing investment, reflecting the strong performance of the Group's established businesses. Excluding exceptional profits and 3G start-up losses in both years, profit attributable to shareholders increased 25%.

DIVIDEND

Your Directors will recommend at the forthcoming Annual General Meeting the payment of a final dividend of HK$1.22 per share (2002 – HK$1.22) to Shareholders whose names appear on the Register of Members of the Company on 20 May 2004. The proposed final dividend, together with the interim dividend of HK$0.51 paid on 10 October 2003, gives a total dividend of HK$1.73 per share (2002 – HK$1.73). The Register of Members will be closed from 13 May 2004 to 20 May 2004, both days inclusive, and the proposed final dividend will be paid on 21 May 2004.

OPERATIONS

The Group's turnover and earnings before interest expense and taxation ("EBIT"), including the Group's share of associated companies' and jointly controlled entities' turnover and EBIT, are shown by business segment in Note 3 to the consolidated profit and loss account. Turnover for the year totalled HK$145,609 million, an increase of 31% over last year, mainly due to additional turnover contributed by the Kruidvat health and beauty retail group acquired in October 2002, higher commodity prices of Husky Energy, increased container throughput in the ports and related services division and revenue from the start-up 3G businesses. All of the Group's operating business divisions reported EBIT ahead of last year, except the start-up 3G operations. EBIT, excluding 3G start-up losses and exceptional profits was 21% better than last year.

Ports and Related Services

The ports and related services division reported growth in turnover to HK$23,129 million, a 12% increase over last year. EBIT increased a healthy 15% to HK$7,597 million due to a 16% increase in combined throughput to reach 41.5 million TEUs (twenty-foot equivalent units). This division continues to provide a steady income stream to the Group, contributing 16% and 25% respectively to the Group's turnover and EBIT from its established businesses for the year. Results of the major port operations are as follows:

- Hong Kong and Yantian deepwater port operations reported combined throughput growth of 8% and EBIT growth of 13%.

- European operations reported combined throughput in line with last year while EBIT increased 11% mainly due to the improved results of Europe Container Terminals ("ECT") in Rotterdam.

- Operations in other Asian countries, the Middle East and Africa reported combined throughput 13% ahead of last year and EBIT increased 15%.

- The Group's combined operations in Shanghai, Waigaoqiao, Ningbo, Shantou, Xiamen and other Mainland ports reported strong growth with a 53% increase in throughput and a 53% increase in EBIT of which 17% of the increase was due to the acquisition of Shanghai Pudong International Container Terminals at Waigaoqiao in March 2003.

- Operations in the Americas and the Caribbean reported combined throughput 16% ahead of last year and EBIT increased 17%.

This division continues to grow by improving operating efficiency, maximising utilisation of its existing facilities and, on a selective basis, pursuing growth opportunities through strategic acquisitions. In July, the first berth at Container Terminal 9 in Kwai Chung started operation. Development of its second berth will be completed in late 2004 and commence operation in early 2005. Also in July, the Group acquired a 51% interest in a joint venture company which holds a concession to operate in the Port of Lazaro Cardenas on the Pacific Coast of Mexico. In the fourth quarter, the construction of two new berths at Phase III of Yantian port in the Mainland was completed. An additional two berths are planned to be completed at Yantian in late 2004. During the year, the Group increased its stake in ECT in Rotterdam to 98%.

Telecommunications – 2G and other operations

The Group's telecommunications – 2G and other operations reported turnover of HK$15,471 million, a 16% increase over last year, and EBIT of HK$1,195 million, a 23% increase over last year. This division represents 11% and 4% respectively of

"Turnover for the year totalled HK$145,609 million, an increase of 31% over last year."

the Group's turnover and EBIT of established businesses for the year. These results reflect the improved results from the 2G operations in India, Israel and Australia, the continued customer growth for Hutchison Global Communications' ("HGC") broadband, data and voice services, and a gain of HK$239 million arising from TOM Group's placement of its shares during the year, partially offset by a one-time HK$225 million write-off of international bandwidth capacity by HGC as a result of Asia Global Crossing's bankruptcy. In addition, last year's results included a HK$758 million dividend from Deutsche Telekom, which paid no dividends during the year. Excluding these non-recurring items, EBIT increased 460%. The Group currently has over 10 million 2G customers worldwide, an increase of 64% from the beginning of the year.

In March 2004, Vanda Systems & Communications ("Vanda"), an information technology solutions company listed on The Stock Exchange of Hong Kong purchased 100% of HGC and 100% of PowerCom Network Hong Kong ("PowerCom"), an innovative provider of broadband services that can be accessed through power sockets. The merger of the HGC, Vanda and PowerCom businesses, renamed Hutchison Global Communications Holdings ("HGC Holdings"), has created an integrated telecommunications and information technology company offering a wide range of innovative and advanced information technology, systems integration and telecommunications services. The total consideration received by the Group on disposal of HGC was HK$7,100 million, which was satisfied by the issuance of new HGC Holdings shares valued at HK$3,900 million and convertible notes valued at HK$3,200 million. Combined with the Group's original 37% interest in Vanda, the Group's stake in HGC Holdings increased to approximately 79% of the enlarged share capital base. Subsequently, the Group sold a portion of its new HGC Holdings shares by way of a share placement, and as a result, the Group's stake in HGC Holdings decreased to approximately 53%. The profit on this subsequent disposal of approximately HK$1,300 million will be reported in the Group's first half results for 2004.

Telecommunications – 3G

The Group began 3G operations in the UK, Italy and Australia during the year and with the arrival of new handset models in January this year, 3G services were launched in Hong Kong. 3G operations reported total turnover of HK$2,023 million, and a net loss after taxation of HK$9,668 million, before a release of provisions of HK$7,810 million, after which the net loss totalled HK$1,858 million. Summer promotional offerings in the UK, Italy and Australia were well received and all of the first generation of 3G handsets delivered by the Group's suppliers were sold in a few months. Although committed to develop, manufacture and deliver a significantly enhanced second generation of 3G handsets for sale during the third quarter, suppliers only made limited deliveries, seriously impairing the Group's ability to increase its customer base in the fourth quarter of 2003. This issue has been resolved and early this year, the Group's suppliers commenced delivery of new handset models in commercial quantities and as a result of which sales have progressed very well. Currently, the Group has over 1,038,000 customers worldwide with approximately 361,000 in the UK, 453,000 in Italy and 36,500 in Hong Kong.

The Group continued to roll out rapidly and improve the quality of the network infrastructure in all 3G operations. At the end of 2003, approximately 65% of the capital expenditure requirements for 3G operations worldwide had been incurred (over and above licence costs, which were 100% funded at the outset of these projects). The technology, network infrastructure and distribution channels are all firmly developed, and the Group is now focusing on sales and operations in order to enhance **3**'s innovative services and establish its customer base. The number of 3G subscribers is now expected to grow satisfactorily.

During the year, the Group and KPN Mobile ("KPN") settled their disputes and the Group entered into an agreement providing for the purchase of KPN's 15% interest in 3G UK which KPN acquired from the Group for £900 million in 2000. The Group is paying a total of £90 million for this interest, of which £60 million has been paid. Upon payment of the last of three equal amounts, the Group's interest in 3G UK will increase to 80% in 2007.

Property and Hotels

The property and hotels division turnover totalled HK$11,224 million, 4% below last year but EBIT of HK$3,121 million was 21% above last year, mainly due to increased profit from the sale of development projects which offset the adverse effect of the SARS outbreak on the hotel businesses in Hong Kong and the Mainland. This division contributed 8% and 10% respectively to the Group's turnover and EBIT from its established businesses for the year. The Group's rental properties in Hong Kong account for the majority of the division's EBIT and continued to provide strong recurrent cash income to the Group, albeit decreased 3% compared to last year. The Group's portfolio of 15.7 million square feet of rental property continues to be substantially fully let. Development profits, which accounted for 40% of EBIT, were realised from the completion and sale of residential units of Rambler Crest in Hong Kong, of The Summit and Le Parc in the Mainland and of Albion Riverside in the UK. The Group has several ongoing development projects in Hong Kong, the Mainland and overseas in London and Singapore that are progressing satisfactorily. The Group's share of the landbank in various joint venture projects is being developed into approximately 16.1 million square feet of mainly residential properties in phases to 2015. The Group is also seeking to selectively acquire new landbank for development. The hotel business showed signs of recovery in the latter half of the year after SARS subsided and with the lifting of travel restrictions for individuals from the Mainland. The continuation of this trend should benefit our hotel business in 2004.

Retail and Manufacturing

Turnover for the retail and manufacturing division totalled HK$63,086 million, a 60% increase, mainly due to the turnover contributed from the Kruidvat health and beauty retail group acquired in October 2002, and also from the existing health and beauty operations in Asia and the UK. EBIT of HK$2,305 million was 124% ahead of last year (35% above last year on an annualised basis), mainly due to additional profits contributed by the Kruidvat group, including Superdrug in the UK, and also improved results from the Group's joint venture with Procter & Gamble in the Mainland. This division contributed 44% and 8% respectively to the Group's turnover and EBIT from its established businesses for the year. The Group's retail operations currently have over 3,400 retail outlets in 12 countries and these operations will continue to expand mainly by adding new stores to its existing strong retail chains in Europe and Asia.

Hutchison Harbour Ring, a listed subsidiary, announced turnover, including its share of associated companies' turnover, of HK$2,208 million and net profit attributable to shareholders of HK$128 million for the year, an increase of 18% and 30% respectively.

Cheung Kong Infrastructure

Cheung Kong Infrastructure ("CKI"), a listed subsidiary, announced turnover of HK$3,454 million and profit attributable to shareholders of HK$3,349 million, 1% above last year's profit. CKI contributed 8% and 18% respectively to the Group's turnover and EBIT from its established businesses for the year.

Husky Energy

Husky Energy, a listed associated company, announced turnover of C$7,658 million and profit attributable to shareholders of C$1,321 million, 64% above last year. Husky Energy contributed 10% and 11% respectively to the Group's turnover and EBIT from its established businesses for the year. In light of its strong financial performance in

> **Our new 3G operations will demonstrate their potential to creat long-term shareholder value.**

the first half, Husky Energy declared a special cash dividend of C$1 per share, from which the Group received C$147 million in October.

Finance and Investments

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$6,250 million, in line with last year. These operations contributed 20% of the Group's EBIT from its established businesses. The Group's consolidated cash and liquid investments at 31 December 2003 amounted to HK$185,542 million and consolidated total debt totalled HK$273,144 million, resulting in a net debt position of HK$87,602 million and an overall net debt to net capital ratio of approximately 23%. In 2003, the Group issued long-term maturity bonds primarily for refinancing and mainly in the US dollar market, totalling US$10,137 million (HK$79,069 million). This exercise reduces the Group's dependence on bank loans and extends its debt maturity profile to better match the life of its long-term assets. Currently, over 65% of the Group's debt matures in five years and beyond.

OUTLOOK

Although 2003 was a difficult year due to SARS, the war in Iraq and an increasingly competitive world environment, all of the Group's established businesses performed well, and the Group enjoyed strong cashflows from its diversified operations. Earnings before interest, taxation, depreciation and amortisation ("EBITDA") from the Group's established businesses grew 30% to HK$45,812 million (2002 - HK$35,110 million). Currently, the Group has operations in 39 countries with over 170,000 employees. The Group will continue to develop and grow its core businesses while maintaining its healthy financial position.

With the introduction of a number of economic revival policies by the Central Government, economic recovery is now underway in Hong Kong. Of course, our businesses are also sensitive to global economic trends, and in particular the US and European economies, as well as increasing global competition. Although the 3G operations experienced a lack of handset supply in the second half of the year which prevented a full start-up, handsets are now being delivered in commercial quantities and new handset suppliers are entering the market. With good quality networks in place and an ample supply of handsets, we are confident that in 2004 the 3G operations will grow into solid businesses.

Despite the challenges ahead of us, I am fully confident that with our healthy financial position, solid business foundation, efficient and loyal management and staff, all of our existing core businesses will continue to provide substantial recurring contributions in 2004 and our new 3G operations will demonstrate their potential to create long-term shareholder value.

I would like to thank the Board of Directors and all the Group's employees around the world for their hard work, support and dedication.

Li Ka-shing
Chairman

Hong Kong, 18 March 2004