operations

review

The Group's activities are concentrated on five core businesses:

- Ports and related services
- Telecommunications
- Property development and holdings
- Retail, manufacturing and other services and
- Energy, infrastructure, finance and investments

Although each of the Group's five core businesses was affected to varying degrees by the recovering economic conditions in Asia and increased competition, all the Group's core businesses reported positive earnings before interest and tax ("EBIT") during the year. EBIT for the year was HK$16,465 million, 1% ahead of the previous year's EBIT of HK$16,383 million.

Ports and related services

With the experience gained as the operator of Hongkong International Terminals, one of the world's largest independently owned container terminals, the Group has continued to extend its expertise by **expanding to strategic locations** in other countries **around the world**.

BAHAMAS

The Phase II development of Freeport Container Port in the Bahamas has been completed and the annual handling capacity of the port has increased to 950,000 TEUs.

ports and related services

The Hutchison Port Holdings' flagship company, Hongkong International Terminals, recorded stable growth in throughput in 1999.

EBIT from the Group's ports and related services **increased 6%** in 1999, totalling HK$4,823 million (1998 – HK$4,540 million). The Group expanded its international network of port facilities with **investments in Jakarta and Rotterdam,** and continues to actively pursue other attractive investment opportunities. Combined **throughput** for the year of all operations **rose 30% to 17.9 million TEUs** (twenty foot equivalent units).

Hongkong International Terminals Limited

盐田国际集装箱码头有限公司
Yantian International Container Terminals Limited

上海集装箱码头有限公司
SHANGHAI CONTAINER TERMINALS LIMITED

HONG KONG

Hongkong International Terminals ("HIT") in which the Group holds an 89% interest, is one of the world's largest privately owned container port facilities, operating Terminals 4, 6 and 7 at Kwai Chung and COSCO-HIT, in which the Group has an effective 44.5% interest, operates Terminal 8 East. Combined throughput increased by 6% over 1998 to six million TEUs, reflecting a general recovery in the volume of trade in the latter part of the year, and EBIT was in line with the previous year. HIT is a member of a consortium which is at a preliminary stage in the construction of a six berth facility, Container Terminal 9. HIT has the right to own and operate two of the six berths at this facility which is scheduled to be fully completed in 2004.

During the year, the Group commenced an e-commerce initiative to build a comprehensive transportation portal covering road, rail, air and maritime transport, ports and logistics industries to provide value added services.

Mid-Stream Holdings had a satisfactory year handling over one million TEUs in 1999, representing 6% growth over 1998.

The River Trade Terminal Company (33% owned) will have an annual handling capacity of 1.3 million TEUs and 900,000 tonnes of breakbulk cargo when fully completed this year and will principally serve the water borne trade between the Pearl River Delta and Hong Kong. The terminal's operations continue to be affected by strong competition and it is currently performing below expectations.

MAINLAND CHINA

Throughput at the Group's 40% owned Shanghai Container Terminals rose an impressive 28% to 2.6 million TEUs and EBIT increased 44% over the previous year. Further productivity enhancements to effectively expand capacity at this 10 berth facility are planned for 2000 to meet increasing demand.

Yantian International Container Terminals ("YICT") recorded another year of strong growth with total throughput of 1.6 million TEUs, an increase of 53% over 1998 and EBIT rose 91%. The three new berths of the second phase development were commissioned during the year and YICT is now one of the largest deep water container terminals in Southern China with an annual capacity of approximately two million TEUs. During the year, the Group increased its effective interest in YICT from 49.95% to 50.5%.

Hutchison Delta Ports' six joint venture ports in the Mainland handled a total of 542,000 TEUs, similar to 1998 and 2.8 million tonnes of general cargo, an increase of 29% over 1998.

Yantian International Container Terminals handled 1.6 million TEUs in 1999, up 53% over 1998.

Nanhai International Container Terminals is one of the river ports of Hutchison Delta Ports.

Ports & related services

HPH completed the purchase of a 51% stake in Jakarta International Container Terminal.

INDONESIA

In March, the Group entered into a joint venture (51% interest) to operate the Jakarta International Container Terminal, at Tanjung Priok Port, Jakarta, under a 20 year concession agreement. During the period from April to December, the terminal handled over 1.16 million TEUs and made a positive contribution to the Group's earnings. Expansion plans for the terminal are in progress and are scheduled to be carried out over the next five years. When completed, the terminal's annual handling capacity of 3.1 million TEUs will be virtually doubled.

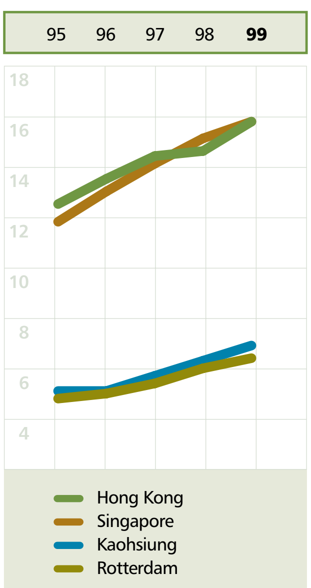
MYANMAR

The container port facility at Thilawa, Yangon, in which the Group has an 84.95% interest, achieved satisfactory throughput growth in difficult market conditions. New offdock depot, barge shuttle and trucking services were introduced during the year, providing customers with a wider range of services.

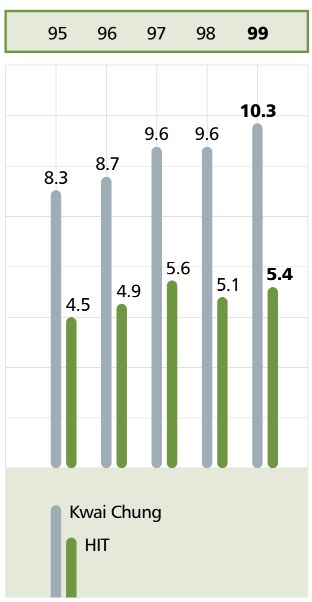
EUROPE

The Group's United Kingdom ("UK") ports, in which the Group has an effective 90% interest, reported EBIT 11% ahead of 1998. The Port of Felixstowe reported an increase in throughput of 10% to 2.7 million TEUs. Felixstowe remains the largest container port in the UK and is one of the busiest terminals in terms of roll-on roll-off traffic. The growth in throughput reflects the commissioning of major new capital equipment and additional capital expenditures are planned in this year to enhance productivity and satisfy increasing demand. Thamesport reported throughput growth of 12% to 490,000 TEUs partly due to the take up of additional capacity created with the completion of a new quay and an extension of its container park. The Group's Harwich International Port, which serves Northern European and Scandinavian routes with regular passenger and

Comparison of container throughputs
Millions TEUs



Kwai Chung container throughputs
Millions TEUs



With the new equipment installed, Port of Felixstowe will become the UK's first 3 million TEUs port.

freight roll-on roll-off services, recorded a 15% increase in cruise ship traffic. Its general cargo and roll-on roll-off traffic also showed encouraging growth.

On 1 November, the Group acquired an effective 31.5% stake in Europe Combined Terminals B V ("ECT"), a 16 berth facility in Rotterdam. ECT is the largest container port in Europe and the fifth largest in the world and the acquisition represents the Group's first port investment in continental Europe. ECT handled a total throughput of 4.5 million TEUs during the year and it is expected that throughput will increase this year as new capacity comes on stream.

THE AMERICAS AND THE CARIBBEAN

The Group has a 72% interest in a company that was awarded the concession to operate the ports of Balboa and Cristobal, located on the Pacific Ocean and Atlantic Ocean ends of the Panama Canal respectively. These ports provide hub facilities to the transatlantic and transpacific trade for strategic access to the east and west coasts of the Americas. Redevelopment of the Balboa facility, which is on schedule for phased completion in the first half of this year, will double the combined annual throughput to 650,000 TEUs.

With the completion of the second phase expansion of Freeport Container Port on Grand Bahama Island (45% interest) in December, the port's capacity increased from 560,000 TEUs to 950,000 TEUs per year and throughput reached a record 544,000 TEUs, 16% higher than in 1998.

ECT handles almost three quarters of all containers in the port of Rotterdam.

Telecommunications

The Group has continued to build on its recognised telecommunications expertise as the leading mobile telecommunications operator and has formed **strategic alliances with world leaders** in telecommunications to increase its competitive advantage in Hong Kong. The Group will continue to pursue investment opportunities in telecommunications projects overseas and in addition, e-commerce opportunities in Hong Kong and throughout Asia.

AUSTRALIA

HTA was successfully listed on the Australia stock exchange in August. It is now one of the top 100 listed companies in Australia in terms of market capitalisation.

telecom-munications

The Hutchison Telecom one stop Customer Services Centres bring together the convenience of maintenance, servicing, payment and sales to meet our customers' needs. A "Kids" corner is specially designed to allow kids to access Internet, play computer games and try video conferencing.

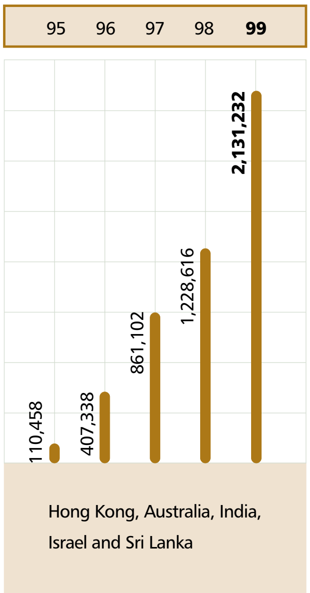
EBIT from the Group's telecommunications division totalled HK$563 million, a **19% increase** over the HK$474 million in 1998. The amount recorded for the year **excludes** profits totalling **HK$116,916 million** (1998 – HK$684 million) realised on the disposal of Orange plc and from the IPO of Partner Communications in Israel less provisions totalling of HK$2,476 million mainly against the accumulated capitalised cost of acquiring new Hong Kong cellular subscribers.

HONG KONG OPERATIONS

Hutchison Telecommunications in Hong Kong, which provides mobile telephony services through Hutchison Telephone and fixed line, Internet and data services through Hutchison Global Crossing, recorded positive earnings before interest and tax, although lower than the previous year reflecting the highly competitive mobile market and losses from start up businesses. However, the Group has continued to experience strong growth in its cellular subscriber base and has benefited from cost control measures.

A Hutchison Telecom staff explaining the handset features to a customer.

Cellular telephone subscribers



During the year, Hutchison Telephone continued to focus on increasing its cellular subscriber base and market share and succeeded in becoming the leading mobile operator with a subscriber base currently exceeding 1.4 million. Subscribers grew an impressive 55% and Hutchison Telephone's leading market share is approximately 34%. Further investment has been made in the wireless networks and coverage has been increased to over 98% of Hong Kong's population utilising over 2,000 cell sites on its Orange dual band and CDMA networks. Our subscribers are now being served by four service centres and an extensive distribution network leveraging off the Group's retail outlets and over 200 authorised dealer outlets carrying the Orange and Hutchison brand handsets. The appeal of the Everyday Card which is offered to the Group's qualified subscribers has been enhanced by increasing the number of participating retailers that offer a variety of discounts to over 1,500 retail outlets.

The alliance with NTT DoCoMo will enable Hutchison Telephone to further expand its mobile Internet capability.

Early this year, the Group completed the sale of a 19% interest in Hutchison Telephone to NTT DoCoMo and also restructured the company's capital. After the sale and restructuring, the Group holds a 55.9% interest, Motorola Inc holds a 25.1% interest and NTT DoCoMo a 19% interest. The profit realised from this transaction of HK$2,200 million will be reported in this year's interim results. NTT DoCoMo is currently the largest mobile operator in Japan with approximately 29 million subscribers, representing a market share of approximately 60%, and is a world leader in the development and implementation of mobile multimedia services. With NTT DoCoMo's technology and vision, Motorola's strength in mobile communications and Hutchison Telephone's leading market position, this strategic alliance is well positioned to expand its technical and commercial capabilities not only for voice telephony but also for data communications, Internet access and e-commerce transactions.

1999 marked a milestone for the Group's fixed line business with the completion of the basic fibre optic network backbone which currently comprises over 700 kilometers of duct work. Good progress has been made to expand the voice and data client base. At the end of the year, the 0080 international direct dialling service had over 1,460,000 activated lines, more than double the previous year, despite strong competition. An International Gateway Facility licence was formally awarded to the Group at the beginning of this year facilitating directly placed international calls and the direct provision of IDD services to customers and other network operators. The HutchCity branded Internet service provider business experienced rapid growth since its launch in November 1998 and currently has over 122,000 subscribers on its bilingual service.

Hutchison Global Crossing

Early this year, the Group completed the sale of a 50% interest in its fixed line, Internet and data services telecommunications business to Global Crossing, a company quoted on the Nasdaq Stock Market, realising a profit of HK$1,720 million, which will be recorded this year. Global Crossing is building and offering a broad range of telecommunications services over the world's first global fibre optic network and this strategic alliance will provide Hutchison Global Crossing ("HGC") with international cable capacity and global data centre capabilities. HGC will build on its position as the largest full service alternative fixed line operator in Hong Kong and, using the network's infrastructure, offer high quality broadband services to high volume customers, including multinational corporations, government bodies, and other telecommunication operators. This will provide the foundation for HGC to pursue fixed line opportunities in the Greater China region as and when regulations permit. In November, a joint venture company held by HGC (85% interest) and Compaq Computer (15% interest) won the contract to build and operate a public Electronic Service Delivery ("ESD") system in Hong Kong which will initially enable users to conduct a wide variety of online transactions with various government departments when it is launched in October this year. HGC will expand this platform to facilitate other private sector e-commerce activities. In addition, HGC plans to establish a global data centre in Hong Kong, connected to other Global Crossing centres around the world to provide state of the art web hosting, application services and other Internet facilities management services.

HGC provides a broad range of communications services including voice, data and broadband internet access.

The Group is one of the largest shareholders in Vodafone, a leading telecom company in Europe.

EUROPE OPERATIONS

During the year the Group disposed of its entire holding in Orange plc in two tranches for a total consideration of HK$118,000 million comprised of HK$26,400 million of cash, HK$21,400 million equivalent of three year Euro denominated notes issued by Mannesmann and a 10.2% shareholding in Mannesmann, a company listed on the Frankfurt stock exchange. As a result of this disposal, the Group realised a profit of HK$118,000 million and substantially enhanced the Group's pool of liquid assets, equity reserves and its financial position. Subsequent to this transaction, Vodafone AirTouch ("Vodafone"), a company listed on the London stock exchange, made a general offer to purchase the shares of Mannesmann. In February this year, the Board of Mannesmann recommended its shareholders to accept the general offer. The Group tendered its entire shareholding in Mannesmann in exchange for an approximate 5% shareholding in Vodafone and realised a gain of approximately HK$50,000 million which will be reported in this year's interim results. This transaction significantly further enhanced the Group's equity reserves and financial strength. Vodafone is one of the largest companies in the world with leading telecommunication businesses in many countries in Europe, the United States and other parts of the world.

ASIA PACIFIC OPERATIONS

The Group's subsidiary in Australia, Hutchison Telecommunications (Australia) ("HTA"), recorded strong subscriber growth in its GSM cellular service provision business during the year and currently has approximately 250,000 cellular subscribers. Steady progress was made in the construction of its CDMA network in Sydney and Melbourne and its Home Zone service was soft launched in December under the Orange brand name. HTA sucessfully completed its IPO in August, and is listed on the Australia stock exchange. The IPO raised approxmiately A$235 million to fund the build out of the network and start up losses. As a result of the IPO, the Group realised a profit of HK$300 million and its shareholding was reduced to a 54% interest.

The launching of the Orange brand in 2000 will ensure business growth and expansion in India.

The Group's operation in Israel continued its strong growth after the successful IPO of Partner's shares on the Nasdaq Stock Market and the London stock exchange in November.

Hutchison Max Telecom ("HMT") in India, owned 49% by the Group, recorded slower than expected subscriber growth due to the uncertainty surrounding a number of regulatory issues including the delayed implementation of calling-party-pays rules. HMT reported a 10% increase in its subscriber base compared to the previous year end and currently it has approximately 145,000 GSM cellular subscribers.

REST OF THE WORLD

The Group's associated company, Partner Communications Company ("Partner"), launched Israel's first GSM network in January 1999 under the Orange brand name and had an outstanding year of growth achieving 96% population coverage and approximately 355,000 subscribers at the end of the year. An IPO of its shares in November raised net proceeds of approximately US$500 million for Partner which was partially used to repay shareholders loans and the balance will be used to finance the continued development of the business. As a result of the IPO, the Group's equity interest in Partner was reduced to 35% and a profit of HK$1,392 million was realised. Partner is quoted on the Nasdaq Stock Market and the London stock exchange.

VoiceStream Wireless Corporation ("VoiceStream"), a PCS operator in the United States quoted on the Nasdaq Stock Market, had a successful year more than doubling its subscriber base by the end of 1999. VoiceStream's merger with Omnipoint Corporation was completed in February this year. In 1999 VoiceStream announced a proposed merger with Aerial Communications to further expand its GSM footprint in the Eastern United States. Upon completion of this merger, which is expected in April this year, the Group will hold an approximately 19% interest in the common shares of the merged entity and convertible preference shares, which if converted would increase the Group's equity interest to approximately 23%. The merged entity's licences would cover a population of approximately 220 million people and it would be the largest GSM telecommunications operator in the United States with a combined subscriber base of approximately 1.73 million.

VoiceStream, after its planned merger with Omnipoint and Aerial Communications, will be the largest GSM operator in the United States.

Property development and holdings

The Group's property activities include the **development and sale** of high quality residential, commercial, office, hotel and recreational projects in Hong Kong, the Mainland and overseas. **An investment portfolio comprising** approximately **12.2 million sq ft** of commercial, office, industrial and residential premises and the Group's portfolio of premium quality hotels provide steady flows of recurrent income.

C H I N A

The clubhouse of the Group's prestigious residential complex in Shanghai offers various amenities that appeal to residents.

property development and holdings

Tierra Verde, located above the Airport Railway Tsing Yi Station, commands a panoramic harbour view of Rambler Channel and is an ideal home for modern families.

EBIT from the property division, which arose mainly from **rental income and development profits** from the sale of the second phase of Tierra Verde in Tsing Yi, amounted to **HK$2,334 million** (1998 – HK$2,851 million). No specific provisions were made during the year against the Group's property developments (1998 – HK$2,450 million).

HONG KONG – PROPERTY SALES

Phase two of the Tierra Verde residential development at Tsing Yi (60% interest), which comprises seven towers with approximately 1.53 million sq ft, was completed in the second half of the year and the related profit from this fully presold development was recorded in December.

HONG KONG – PROPERTIES UNDER DEVELOPMENT

Steady progress was made on the Group's projects under development in Hong Kong. The occupation permit for the second phase of the 1.25 million sq ft Cheung Kong Center was obtained in March 1999 and substantially all of the premises are occupied pursuant to long term leases. The Group's 39% owned CEF Lend Lease Plaza in North Point was completed during the year comprising 212,000 sq ft of office and commercial space. A leasing campaign has been conducted successfully and the property is already fully let. Adjacent to this building, construction of the Harbour Plaza North Point hotel was also completed during the year and is scheduled to open for business this spring with 566 hotel rooms and suites.

The Group has launched the presale of its residential units in Peninsula Heights, Broadcast Drive (229,000 sq ft) and Monte Vista, Ma On Shan (1.39 million sq ft) and to date over 60% of the units have been presold. The Group has a 50% interest in both these developments which are on schedule for completion this year.

Superstructure work commenced on a 672,000 sq ft residential and commercial project at Wan Hoi Street in Hung Hom adjacent to the Harbour Plaza Hotel. The Group has a 50% interest in this development which is on schedule for completion in 2001. Work is progressing satisfactorily on the 1.4 million sq ft development "Metropolis" above the Kowloon Canton Railway terminus in Hung Hom which is on schedule for completion in 2001. The Group has a joint venture interest with a profit sharing arrangement for this project, which when completed will comprise an office tower, hotel and two serviced apartment towers.

Foundation work is on schedule for a one million sq ft residential and commercial complex on Canton Road in Kowloon. The Group has a 42.5% interest in this development which is expected to be completed in 2002.

At Tung Chung, the Group has a joint venture interest with a profit sharing arrangement in a multiphase

The newly renovated Home World Provident Centre at North Point offers a wide selection of household products, electrical appliances, furniture and interior designs for home makers.

residential and commercial development totalling approximately 4.4 million sq ft. Phased completion of the development is scheduled for 2002 and 2003. The planning phase is almost completed for a proposed commercial, hotel and serviced suites complex of approximately 2.5 million sq ft on Tsing Yi Island. The Group has a 70% interest in this project which is planned for completion in 2003.

HONG KONG – RENTAL PROPERTIES

The Group's portfolio of approximately 12.2 million sq ft of commercial, office, industrial and residential investment properties provides a strong recurrent earnings base. Gross rental income of HK$1,988 million overall was 1% higher than 1998 with the effect of lower rental rates on scheduled lease renewals offset by rental income generated from the occupation of premises in the newly completed Cheung Kong Center. Despite the current office over supply situation, all of the Group's premises remain substantially fully let with satisfactory rental levels.

MAINLAND CHINA – PROPERTIES UNDER DEVELOPMENT

In the Mainland, the Group has interests in a number of joint ventures to develop properties in phases over the next five years. In Beijing,

The newly renovated four level shopping mall, The Elegance at Sheraton, has become a new shopping focus in Tsim Sha Tsui.

Located in Dongguan, the 27 hole Harbour Plaza Golf Club offers superb facilities to golf enthusiasts.

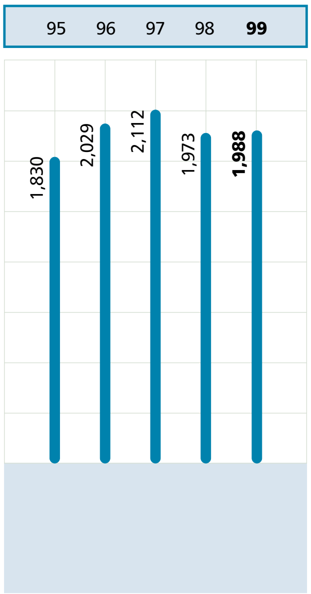
The clubhouse of our Shanghai residential development is fascinating by night.

construction and fitting out work is well advanced for the Beijing Oriental Plaza in which the Group has an 18% interest. The entire project will provide over six million sq ft of office and retail space, a hotel and serviced apartments when fully completed in 2002.

Gross rental income

(includes intra group rental)

HK$ millions



In Shanghai, the Group has a 50% interest in a low density housing development in the Huamu district of Pudong. The first phase of the project has already been completed and over 70% of the units have been leased. The second and third phases of the development comprising both villas and apartments are expected to be completed this year. At a nearby site, the Group has a 31% interest in a joint venture for the staged development, over the next five years, of a 1.7 million sq ft villa and apartment complex. The Group also has a 39% interest in a residential development in Xuhui in Shanghai which will provide over one million sq ft of both low and high rise accommodation when completed in 2002.

In Qingdao, over 60% of the high rise residential units of the two completed towers were sold during the year and the remaining three high rise residential towers are expected to be completed in 2001. The Group has an effective 15% interest in this project.

During the year, the Group increased its interest, from 9.5% to 46%, in a site of approximately 32 million sq ft near Houjie, Dongguan. Planning is at an advanced stage for the first phase of this extended development of deluxe residential accommodation covering 2.7 million sq ft. The 27 hole Harbour Plaza Golf Club in which the Group has a 42% interest, was completed and opened for play during the year.

In Shenzhen, superstructure work has commenced on the first phase of a residential development, Le Parc, near the Futian central district. A marketing programme to launch presale activity commenced during the latter part of the year and over 300 purchasers have subscribed for units. The first phase of the development is targeted for completion in 2001 with completion of the final phase expected in 2005.

The Group also has a 50% interest in a project to develop a 4.8 million sq ft estate of low rise apartments and villas in Zhuhai. Phased completion of this project is planned for 2001 to 2006.

Situated at Battersea, London, Montevetro is an upscale residential complex commanding a spectacular view of River Thames.

Planning work for a development above the Guangzhou Huangsha Underground Railway Station is progressing and the first phase is scheduled for completion in 2002. When completed, the project will consist of approximately 1.3 million sq ft of residential and 0.5 million sq ft of commercial space.

MAINLAND CHINA – RENTAL PROPERTIES

The Group has a 50% interest in 957,000 sq ft of retail space and 554,000 sq ft of office space above the shopping arcade at Metropolitan Plaza in Chongqing and they are 83% and 34% occupied respectively. The Group also has a 21% interest in 687,000 sq ft of retail space (94% leased) and 367,000 sq ft of office space (99% leased) in the Westgate Mall in Shanghai. These developments are generating rental income in line with current expectations.

OVERSEAS – PROPERTIES UNDER DEVELOPMENT

Grand Bahama Island

The redevelopment in phases of the 1,350 room resort hotel complex and two USGA championship rated golf courses is progressing satisfactorily and completion is scheduled for December 2000.

London

Construction of the Group's 42.5% owned 116,000 sq ft Belgravia Place residential development near Sloane Square is on schedule for completion in 2001. Over 75% of the units were presold during the year. At the Montevetro site on the bank of the Thames river (22.5% interest), three blocks were completed during the year and the remaining two blocks will be completed this year. Over 90% of the flats in this 164,000 sq ft residential development have been presold. The Group also owns a 45% interest in a site at the Albion and Bridge Wharves which will be developed into a residential / commercial development of 410,000 sq ft. Construction is expected to commence next year and completion is scheduled for 2003.

Earlier this year, the Group acquired a 22.5% interest in a 96,000 sq ft site on Lots Road in London with the intention to build an approximate 720,000 sq ft residential / commercial development for completion in 2005.

Tokyo

The Group has an effective 38% interest in a 784,000 sq ft high rise office tower adjacent to the Tokyo Station in the Marunouchi district, which is under construction and due for completion in 2001.

Located in North West Hong Kong, Harbour Plaza Resort City features serviced suites and guest rooms, themed restaurants and a wide range of recreational facilities.

HOTELS

The Group owns and operates hotels in Hong Kong, the Mainland and the Bahamas.

The market in Hong Kong remained highly competitive during the year with the economy still in a state of recovery. Despite lower room rates, the wholly owned Harbour Plaza Hong Kong reported an improved overall performance. The earnings of Sheraton Hong Kong Hotel and Tower, in which the Group has 39% interest, also increased in comparsion to 1998 mainly due to higher occupancy levels.

The Harbour Plaza Beijing (95% interest) and Great Wall Sheraton (49% interest) both faced another year of strong competition which resulted in lower average room rates for the year. The Harbour Plaza Chongqing (49% interest), one of the highest quality hotels in the city, was affected by the slowing Mainland economy and competition from new hotels. The Harbour Plaza Kunming (95% interest) opened in April on time to accommodate the visitors to the International Horticultural Exposition held in Kunming during the period May to October. Its performance was, however, affected by an over supply of rooms from new and existing hotels.

The Lucayan, Grand Bahama Island completed its Phase I (Reef Village) redevelopment in April and the entire resort is scheduled for completion by the end of this year.

Four other hotels are currently in various phases of development. Harbour Plaza North Point (39% interest) with 566 guest rooms and suites will be opened this spring, and the Harbour Plaza Metropolis in Hung Hom (25% interest), which will have 653 rooms and suites, is expected to open in mid 2001. The Oriental Harbour Plaza Beijing (18% interest) plans to offer 1,650 deluxe rooms and suites on completion in early 2002. Also scheduled to open in mid 2002 is the Harbour Plaza Ma On Shan with 831 rooms and suites.

The Sugar Mill Pool of The Lucayan in The Bahamas is equipped with waterfalls, aqueducts, and a waterslide.

Retail, manufacturing and other services

The Group's A S Watson division is **one of Asia's largest retailers**, operating three major retail chains with more than 820 stores in the region which provide high quality personal care products, food and household items, and electrical consumer goods. The division also **manufactures and distributes** various water and other beverage products in Hong Kong and the Mainland as well as water products in Europe. The Hutchison Whampoa (China) division invests in ventures in the Mainland.

UNITED KINGDOM

Under the brand names of Crystal Spring and Braebourne, and with a national distribution capability, Watsons Water is now the leading water supplier to offices throughout the UK.

retail, manufacturing and other services

Watson's Personal Care Stores in Thailand are part of a 500 store chain operating in seven Asian countries.

EBIT from the retail, manufacturing and other services division **totalled HK$1,313 million** (1998 – HK$845 million), excluding a provision of HK$706 million for restructuring costs of the Group's Mainland operation and other retail businesses (1998 – profit of HK$3,332 million).

PARKnSHOP provides a wide range of high quality food at unbeatable prices for every family in Hong Kong.

A S WATSON

Despite continued weak consumer demand which significantly reduced the retail industry's overall sales in Asia in 1999, the A S Watson division performed better than the industry average due to the division's focus on essential consumer goods, which are less subject to the cyclical volatility of the overall economy, and to its successful promotion campaigns.

The 182 store PARKnSHOP supermarket chain in Hong Kong reported an increased and currently leading market share, increased sales and positive EBIT for the year, although EBIT was lower than 1998 due to an extremely competitive market. PARKnSHOP continued to expand its successful "wet market" concept for fresh foods and larger format superstores during the year increasing its trading area by 12% to 1,498,000 sq ft. In addition, PARKnSHOP relaunched its "Shop and Drop" service to allow its customers the convenience of personal choice shopping combined with home delivery and continued to increase the product range offered on its Internet shopping website.

Multimedia products are now a core business of Fortress.

PARKnSHOP's chain store operation in the Mainland continued to be adversely affected by the slowing economy, reduced consumer spending and competition from local and international supermarkets. A restructuring exercise is underway with a new management team closing poorly performing and loss making stores, reducing costs and focusing on providing a more competitive product range and enhancing the store format to return the business to a profitable position. A full provision has been made for all losses and costs of this exercise.

Watson's The Chemist ("WTC") is a leading retail chain of personal care products with strong brand name recognition in Hong Kong, Taiwan and other countries in South East Asia. Despite recessionary pressures WTC out performed the market and reported combined sales and EBIT ahead of 1998 levels. WTC successfully expanded the total number of its outlets in the region to 488 at the end of the year.

Despite difficult market conditions, the 61 store Fortress electrical consumer goods store chain in Hong Kong increased its sales and its market share although EBIT declined from the year before due to competitive pricing pressures.

A S Watson, together with its 50% joint venture partner Nuance International Holdings, recorded improved results from its concessions for the sale of perfume, cosmetics and general merchandise at the new Hong Kong International Airport as a result of higher tourist traffic.

During the year, the manufacturing division disposed of its ice cream businesses in Hong Kong and the Mainland profitably. This division is focusing on its beverage operations which are comprised of well known brands of distilled water, soft drinks and fruit juices being manufactured and distributed in Hong Kong and the Mainland. Earnings declined marginally during the year, due to margin pressure from consumer down trading and an aggressive soft drinks market in the Mainland. Expansion of the home and office water business in the United Kingdom and continental Europe has continued, and to date sales volume and earnings have been better than expected.

OTHER SERVICES

During the year the Group continued to build on its existing e-commerce operations. The Group's strategy is to focus the e-commerce operations and initiatives of each of its core businesses under an innovative management team to benefit from the opportunities in each business. Alliances are being formed with strategic partners to invest in e-commerce enablement, business to consumer ("B2C") and business to business ("B2B") enterprises. The current B2B initiatives will benefit from the Group's available resources, including its extensive business and telecommunications network in Hong Kong, and further investments are planned in Hong Kong and overseas to capture the tremendous potential of B2B commerce in Asia.

In January this year, the recently formed TOM.COM, a joint venture with Cheung Kong (Holdings), Pacific Century CyberWorks and other strategic partners, launched a unique and personalised multilingual China related new media megaportal. In

TOM.COM introduced TOMCAST, a device to provide desktop infotainment services in Chinese. It offers personalised instantaneous infotainment news services tailored to users' needs and preferences.

Watsons Water operates one of the fastest and most modern bottling facilities in the UK.

March TOM.COM successfully completed an IPO of 16.7% of its shares on the Growth Enterprise Market in Hong Kong and raised HK$876 million for its captial expenditure and other funding requirements. Subsequent to the IPO the Group holds a 31% interest in TOM.COM. This portal will provide "Lifestyle for Chinese" content and e-commerce to the world wide Chinese population in both the Greater China region and overseas Chinese speaking communities. In its first month of operations approximately 70,000 members registered and daily page views were 2.5 million. The hit rate is expected to increase significantly as new content currently being developed is added, such as travel, culture, science, learning, art, fashion, games and fun, news, sports and other infotainment items.

Hutchison Whampoa (China) invests in ventures in the Mainland and currently has investments in a number of successful consumer product, aviation and agricultural projects.

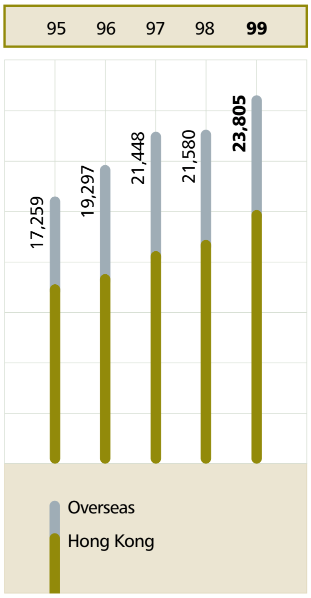
The Group has a 20% interest in Procter & Gamble-Hutchison ("PGH") which manufacturers and distributes a range of haircare, skincare, soap, detergent, dental hygiene and paper products throughout the Mainland. PGH contributed increased profits to the Group and is continuing to expand its operations and manufacturing facilities.

The Guangzhou Aircraft Maintenance Engineering Company ("GAMECO") in which the Group has a 25% interest, reported lower earnings due to reduced demand for maintenance services. China Aircraft Services Limited ("CASL"), a joint venture with China National Aviation Company, British Airways, and United Airlines in which the Group has a 20% interest, had a successful first full year of operation providing line maintenance and cabin cleaning services at the new Hong Kong International Airport.

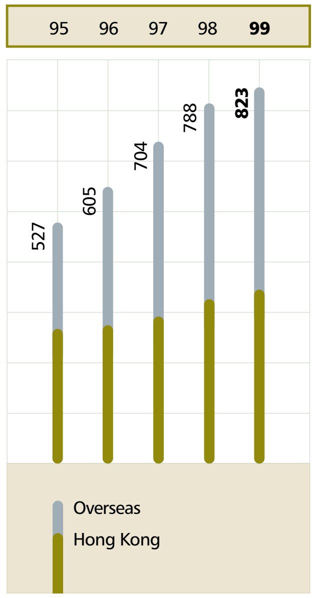
The Group's rice farming project in Heilongjiang Province had its first harvest in the autumn of 1999. The yield and quality were satisfactory and marketing efforts are being directed at Southern China and Hong Kong consumers.

Watson's Wine Cellar lists over 1,500 wines, beers and spirits from around the world.

Retail, manufacturing and other services turnover
HK$ millions



Number of retail outlets

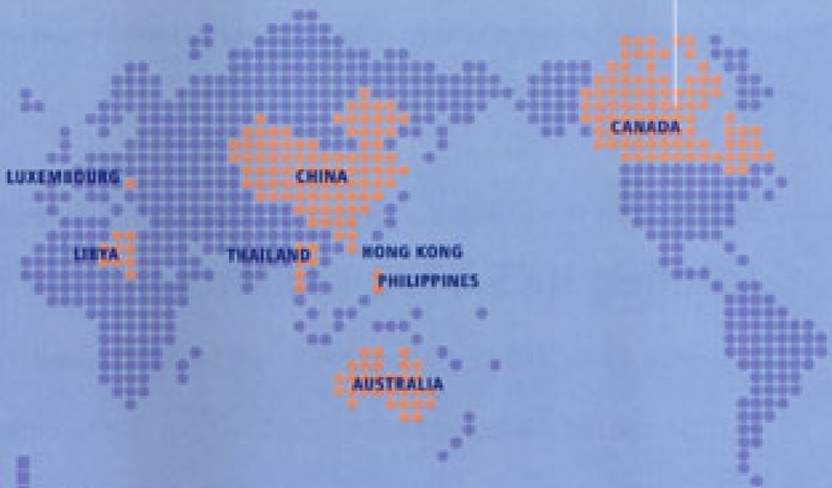


Energy, infrastructure, finance and investments

The Group is one of the largest private investors in the **Mainland's infrastructure sector** and is a leading **cement and concrete** manufacturer in Hong Kong and Southern China. Investments in Hongkong Electric Holdings ("HEH") and Husky Oil in Canada reflect the Group's geographic and sectoral diversification into **power** generation and distribution as well as **oil and gas**.

C A N A D A

Husky Oil was recognised by the Canadian Government as a 1999 Vision Award winner for its leading edge strategies in workforce diversity.



energy, infrastructure, finance and investments

Hongkong Electric's new control centre acts as the nerve centre of the electricity supply system.

EBIT from the Group's energy, infrastructure, finance and investment division **totalled HK$7,432 million** (1998 – HK$7,673 million), excluding a provision of HK$6,678 million (1998 – HK$1,000 million) against certain investments. EBIT decreased 3% compared to 1998 mainly due to reduced finance and investment income, which is primarily derived from interest earned on surplus cash and dividends received, as a result of lower interest rates and also due to effects of investments and capital expenditures in early 1999 and a replenishment of cash on hand in the latter part of the year.

CHEUNG KONG INFRASTRUCTURE

The Group has an 84.58% interest in Cheung Kong Infrastructure ("CKI"), which is listed on the Hong Kong stock exchange ("HKSE"). CKI reported an increase in profit attributable to shareholders of 10% compared with the previous year and successfully acquired several investments which further diversified its portfolio.

CKI's energy division accounted for 64% of total earnings with the major contribution coming from its 37.63% interest in Hongkong Electric ("HEH"). HEH, which is listed on the HKSE and is the sole provider of electricity to Hong Kong and Lamma islands, reported a profit attributable to shareholders of HK$5,286 million, a 6% increase compared with HK$4,967 million in 1998. CKI currently has joint venture interests in power plants in four provinces in the Mainland with a total capacity of 2,539 MW, including a 1,400 MW power plant in Zhuhai which is expected to be fully operational this year. In July, CKI acquired a 19.97% interest in Envestra, a company listed on the Australian stock exchange, and became one of the largest shareholders of Australia's largest natural gas distributors. In December, CKI formed a 50:50 joint venture with HEH and entered into an agreement with the government of the state of South Australia to lease for 200 years the power distribution network operated by ETSA Utilities. The acquisition was completed in January this year for a consideration of A$3.25 billion (approximately HK$16.7 billion) and both CKI and HEH successfully raised Australian dollar denominated syndicated bank financing to fund this investment.

Advanced engineering and construction technologies were applied in the construction of the Ya Ji Sha Bridge.

CKI and HEH have been successful in the acquisition of the right to manage and operate ETSA Utilities in South Australia for the next 200 years.

Mastic asphalt was laid on the deck of the Tsing Ma Bridge in Hong Kong.

CKI's transportation division recorded a steady increase in its profits from projects completed in the previous year. CKI currently has joint venture interests in toll roads and bridges with a total length of approximately 660 kilometers in five provinces in the Mainland. During the year a 50% interest in Hong Kong Eastern Harbour Crossing Rail Tunnel was acquired and contributed to the profits of the Group. In December, CKI entered into a contract to purchase a 40% interest in a joint venture to construct and operate a toll bridge in Panyu, a key transportation hub in Guangdong Province.

CKI's cement, concrete, asphalt and aggregates businesses in Hong Kong recorded a decline in profits during the year due to reduced demand after the completion of the airport and related infrastructure projects in Hong Kong. CKI continued to expand these activities in Southern China, focusing on the manufacture and distribution of cement and concrete. CKI has a majority interest in a cement plant in Yunfu and commissioned a new cement grinding plant in Shantou during the year.

In December, CKI acquired a 50% interest in a company engaged in the manufacture and marketing of energy saving devices and will continue to seek out opportunities for investment in environmental protection and high technology projects in 2000.

HUSKY OIL

Husky Oil, the Group's 49% owned Canada based integrated oil and gas company, reported EBIT attributable to the Group of HK$714 million, an increase of 23% over the previous year. The upstream sector performed well, benefiting from improved oil and gas prices, while the midstream sector maintained earnings in an environment of lower heavy / light oil price differentials. The downstream sector, while experiencing lower retail and asphalt margins, achieved improved light oil refined product sales.

Husky Oil's production averaged 93,650 BOE (barrels of oil equivalent) and its reserves replacement rate was 131%. At the end of the year, Husky Oil had estimated proved reserves of crude oil, liquids and natural gas of 401 million BOE. Husky Oil has continued to grow its upstream sector with its development and exploration activities off the east coast of Canada. The development of the Terra Nova oil field is approximately 75% complete with oil production scheduled to commence in 2001. A three well delineation programme undertaken at the White Rose oil field was successfully completed during the year with encouraging results. Husky Oil is one of the largest working interest holders in the Jeanne d'Arc basin off the east coast of Canada. The development of these offshore fields has the potential to provide significant growth to Husky's light oil production and reserves.

Husky Oil has continued to expand its midstream segment, which includes upgrading, pipeline systems, marketing and commodity trading and infrastructure projects. Construction of the 50% owned 215MW natural gas cogeneration facility located on the site of the Husky Lloydminster upgrader was completed and the facility was commissioned in early January this year.

The downstream segment comprises the wholesale, commercial and retail marketing of a range of refined petroleum products, including unleaded gasoline, through a network of more than 600 branded retail outlets, as well as the marketing of asphalt products.

During the year, Husky Terra Nova Finance, a wholly owned subsidiary of Husky Oil, issued US$250 million in senior secured bonds due in 2012 and bearing interest at 8.45% per annum to fund its share of the development costs of the Terra Nova oil field.

Husky Oil's heavy oil upgrader in Lloydminster, Saskatchewan, achieved record processing volumes of synthetic crude oil in 1999.

GROUP LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 1999, the Group's cash, managed funds and other listed investments (excluding strategic equity investments in Mannesmann and VoiceStream) totalled HK$89,800 million (1998 – HK$39,363 million) of which 55% (1998 – 51%) were denominated in US dollars and 28% (1998 – nil) were in Euro. Also at the year end, the Group's borrowings, net of cash, managed funds and other listed investments were HK$842 million (1998 – HK$42,803 million). Approximately 41% of the Group's total borrowings were denominated in HK dollars, 46% in US dollars, 7% in Pounds Sterling, 4% in Euro and the remaining 2% in other currencies. The non-HK dollar and non-US dollar denominated loans are either directly tied in with the Group's businesses in the countries of the currencies concerned, or the loans are balanced by assets in the same currencies. Approximately 35% of the Group's total borrowings is at fixed interest rates. At the year end the net debt to net capital ratio was approximately 1% (1998 – 31%) and the earnings before interest, taxation and depreciation covered the gross interest expense for the year 3.6 times (1998 – 3.8 times). The Group's capital expenditures for the year, excluding expenditures for properties under development and for sale, totalled HK$7,565 million (1998 – HK$9,633 million), and were funded primarily from cash on hand, internal cash generation, and to the extent required, by borrowings. Excluding non interest bearing loans from minority shareholders, the Group's borrowings at the year end were repayable as shown below.

	Denominated					
	HK$	US$	£	Euro	Others	Total
Within 1 year	7%	2%	–	–	1%	10%
In years 2 to 4	32%	22%	–	–	1%	55%
In year 5	2%	4%	1%	–	–	7%
In years 6 to 10	–	7%	2%	4%	–	13%
In years 11 to 20	–	7%	4%	–	–	11%
Beyond 20 years	–	4%	–	–	–	4%
	41%	46%	7%	4%	2%	100%

Committed borrowing facilities available to Group companies, but not drawn at 31 December 1999, amounted to the equivalent of HK$11,982 million.

During the year, all bilateral borrowings that matured were renewed at satisfactory rates and terms. A HK$2,830 million three year syndicated bank loan that matured during the year was repaid on maturity. Loan notes issued during the year were as follows:

(i) In February the Group issued HK$1,500 million principal amount, three year, 7.88% fixed interest rate notes which are listed on the Hong Kong and Luxembourg stock exchanges.

(ii) In March the Group was one of the first Asian companies to successfully enter the European bond market with a Euro 500 million, seven year, 5.5% fixed interest rate note issue. The issue is listed on both the Hong Kong and Frankfurt stock exchanges.

(iii) Also in March the Group issued a £325 million, 6.75% fixed interest rate bond due in 2015 to refinance existing Sterling dominated borrowings and provide general working capital for the UK port operations. The bond is listed on the Luxembourg stock exchange.

(iv) In August the Group issued HK$1,500 million of five year floating rate notes that are listed on the Hong Kong stock exchange.

(v) In September the Group issued HK$500 million principal amount, three year, 7.82% fixed interest rate notes which are listed on the Luxembourg stock exchange.

TREASURY POLICIES AND CAPITAL STRUCTURE

The Group's overall treasury and funding policy focuses on controlled management of risks, with transactions being directly related to the underlying businesses of the Group. For synergies, efficiency and control, the Group operates a central cash management system for all its unlisted subsidiaries in Hong Kong. Bank arrangements and long term borrowing requirements for all unlisted subsidiaries are monitored and approved at the holding company level. The Group endeavors to hedge its non-HK and non-US dollar denominated assets and investments located in other countries with the appropriate level of borrowings in the currencies of those countries. 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 exposures as well as to assist in managing the Group's interest rate exposures. At the year end the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or financial derivatives.

The Hong Kong Federation of Youth Groups recruited two thousand Chinese youths from all over the world to perform a 10,000 ft long dragon dance on the Great Wall to commemorate the Millennium early this year.

COMMUNITY RELATIONS

Through active participation and financial assistance, the Group consistently endeavors to support various activities and organisations, which benefit people from all walks of life in the community. In particular, the Group joined forces with Cheung Kong (Holdings) to sponsor "Knowledge Changes Fate", a television documentary that focuses on the importance of knowledge to individuals and the community. The series proved widely popular with audiences in Hong Kong and the Mainland and has also won several awards in the communications industry.

With regard to environmental conservation, the Group's Husky Oil operations in Canada received an award in recognition of its ongoing commitment to proactively reduce greenhouse gas emissions. In Hong Kong, the Group is also a sponsor of numerous green projects.

During the year, the Group assisted a number of charities including the Community Chest, which provides funds to more than 140 member agencies. Some of the other organisations that received assistance from the Group included The Hong Kong Federation of Youth Groups for the Dragon Foundation, the Stanford University Medical Centre, the Hong Kong Arts Festival and several arts related programmes.

EMPLOYEE RELATIONS

Excluding associated companies, the Group employs 42,510 people (1998 – 39,860 people) of whom 20,858 (1998 – 19,015) are employed in Hong Kong. Employee costs, excluding Directors' emoluments, totalled HK$7,036 million (1998 – HK$6,522 million). All of the Group's subsidiary companies are equal opportunity employers, with the selection and promotion of individuals

The Group sponsored the Corporate Afforestation Scheme, a three year tree planting and management project.

being based on suitability for the position offered. The pay 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.

Many social, sporting and recreational activities were arranged during the year for employees on a Group-wide basis. Group employees regularly participated in charity walks as well as other community oriented events. In addition, training and development programmes are provided on an ongoing basis throughout the Group. Financial assistance is also available to qualifying employees who wish to further their education through part time diploma or degree courses.

Staff members from Hutchison Whampoa's overseas operations also join in the fun at the Group's annual sports and family day.

OUTLOOK

The economies of Hong Kong and the Asian region benefited from the beginnings of an economic recovery during the year and although the Group will continue to benefit from the anticipated paced recovery of the Asian economies, 2000 is expected to be another challenging year. In 2000 and beyond we anticipate benefiting from the strategic alliances that have recently been forged with a number of key industry leaders in telecommnications, e-commerce and Internet fields. With China's anticipated entry into the World Trade Organisation and with the rapid development in information technology and related businesses, the Group's investment opportunities in Hong Kong, the Mainland and globally have increased. In addition to the continuing development of our core businesses, we are actively pursuing investments overseas in new telecommunications projects and also B2B and other e-commerce opportunities in Hong Kong and throughout Asia.

The Group's financial position is very solid with a net debt to net total capital ratio of 1%, a large balance of cash and liquid investments, a long term debt profile and geographically and sectorally diverse core businesses which continue to generate healthy recurrent cash flows. From this strong position, the Group is well placed to not only to meet the challenges of 2000, but also to take advantage of attractive investment and expansion opportunities.

The results for 1999 were achieved in a very competitive and difficult economic environment due to the efforts and dedication of the Group's employees and I would like to join our Chairman in thanking them for their support and hard work throughout the year.

FOK Kin-ning, Canning
Group Managing Director

Hong Kong, 23 March 2000