Western Canadian Place – the corporate headquarters of Husky Oil.

Hongkong Electric's engineers in the system control room use advanced technology to efficiently monitor and co-ordinate all aspects of electricity transmission, distribution and generating networks.

Shantou Bay Bridge, Guangdong Province.

Energy, infrastructure, finance and investment

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

Hongkong Electric, one of the oldest electricity companies in the world, contributes to the success of Hong Kong.

Earnings before interest and tax from the Group's energy, infrastructure, finance and investment division totaled HK$7,723 million (1997 – HK$6,976 million), excluding a provision of HK$1,000 million (1997 – HK$919 million) in respect of the Group's portfolio of listed investments and also in 1997, excluding an exceptional profit of HK$1,207 million from the transfer of the Group's interest in Hongkong Electric Holdings to Cheung Kong Infrastructure. Finance and investment income was primarily derived from interest earned on surplus cash and dividends received.

CHEUNG KONG INFRASTRUCTURE

The Group has an 84.58% interest in Cheung Kong Infrastructure ("CKI"), which is listed on The Stock Exchange of Hong Kong Limited ("SEHK"). CKI had another year of strong profit growth in 1998 and reported an increase in net profit of 18% compared with the previous year. In 1998, CKI concentrated its efforts on completing existing projects in the Mainland, and reduced its commitments to new projects significantly as it continued to search for projects that meet its assured return investment criteria.

CKI's cement, concrete, asphalt and aggregates businesses in Hong Kong performed in line with the previous year. In the Mainland, CKI continued to expand its 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 construction of a cement grinding plant in

The Guangzhou East-South-West Ring Road is CKI's largest single investment in China.

The Shantou Bay Bridge is one of the best performing transportation projects in CKI's portfolio.

Shantou is progressing satisfactorily.

CKI's transportation division significantly increased its earnings from the completion of projects in 1998 and a full year contribution from projects completed in the previous year. CKI currently has joint venture interests in toll roads and bridges with a total length of over 670 kilometres in six provinces in the Mainland.

CKI's energy division, which includes a 36.11% interest in Hongkong Electric Holdings ("HEH"), also reported a healthy increase in earnings due to the completion of projects in the Mainland. During the year, operations commenced at power

Green Island Cement's deep water berth for cement handling is one of the company's biggest competitive advantages.

plants in Qinyang, Henan Province and Siping, Jilin Province while the existing plants at Fushun, Shantou and Nanhai continued to operate smoothly during the year. Work is proceeding on schedule on a 1,400MW power plant in Zhuhai and the first 700MW unit is expected to be commissioned later this year. HEH, which is listed on the SEHK and is the sole provider of electricity to Hong Kong and Lamma islands, recorded a profit of HK$4,967 million in 1998, a 5.5% increase compared with HK$4,709 million in 1997.

Lamma Power Station has a total installed capacity of 3,305MW with eight coal fired units and seven gas turbine units.

HUSKY OIL

In 1998 Husky Oil, the Group's 49% owned Canada based integrated oil and gas corporation, reported earnings before interest and tax attributable to the Group of HK$629 million, a decline of 19% from the previous year due to depressed oil commodity prices which reached twenty five year lows. The effect of lower oil and gas prices was partially offset by increased earnings from Husky's midstream and downstream operations which benefited

Staff at Hongkong Electric's customer service centre courteously handles customers' enquiries and ensures their satisfaction.

from the purchase of the remaining 50% interest in the Bi-Provincial Upgrader facility in Lloydminster in early 1998 and the acquisition of Mohawk Canada's 300 retail gasoline station network in July 1998.

Husky Oil's production in 1998 averaged 92,900 Boe (barrels of oil equivalent) and its Western Canada reserves replacement rate was 108%. At the end of 1998, Husky Oil had proved reserves of crude oil and natural gas liquids of 309 million barrels.

Husky Oil has continued to increase its development and exploration activities, including commencement of the development of the Terra Nova field and the acquisition of additional interests in other offshore oil projects off the east coast of Canada. The delineation of the White Rose field is scheduled to commence in early 1999. The development of these fields has the potential to provide significant growth in light oil production. Husky Oil has also continued to expand its oil pipeline system in 1998 and at the end of the year it had over 1.178 miles of pipeline. In 1998, Husky Oil entered into a joint venture, in which it has a 50% interest, to construct a 215MW natural gas cogeneration facility at the Bi-Provincial Upgrader and commercial operation is scheduled to commence in December 1999.

In connection with its acquisition and expansion activities in 1998, Husky Oil issued US$225 million principal amount of capital securities due in 2028 and bearing interest at 8.9%.

Husky Oil's Lloydminster Upgrader in Saskatchewan processes heavy oil feedstock into synthetic light crude oil.

GROUP LIQUIDITY AND FINANCIAL RESOURCES

The Group's capital expenditure for the year, excluding expenditures for properties under development and for sale, totaled HK$9,633 million (1997 – HK$7,236 million), and were funded from cash on hand, internal cash generation, and to the extent required, by external borrowings. At 31 December 1998, the Group's cash, managed funds and other listed investments totaled HK$39,363 million (1997 – HK$56,660 million) of which 51% (1997 – 54%) were denominated in US dollars. At the year end, the Group's borrowings, net of cash, managed funds and other listed investments were HK$42,803 million (1997 – HK$29,601 million). Approximately 41% of the Group's total borrowings were denominated in HK dollars, 50% in US dollars, 7% in pound sterling and the remaining 2% in other currencies. The non-HK dollar and non-US dollar 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 28% of the total borrowings are at fixed interest rates. At the year end, the net debt to net capital ratio was approximately 31% (1997 – 24%) and the earnings before interest, taxation and depreciation covered the gross interest expense for the year 3.8 times (1997 – 5.3 times). Excluding non-interest bearing loans from minority shareholders, the Group's borrowings at the year end were repayable as shown below.

Committed borrowing facilities available to Group companies, but not drawn at 31 December 1998, amounted to the equivalent of HK$3,676 million.

During 1998, all bi-lateral borrowings that matured were renewed at

	HK$ denominated	US$ denominated	£ denominated	Others	Total
Within 1 year	5%	4%	2%	1%	12%
In years 2 to 4	36%	7%	2%	–	45%
In year 5	–	14%	1%	1%	16%
In years 6 to 10	–	13%	2%	–	15%
In years 11 to 20	–	7%	–	–	7%
Beyond 20 years	–	5%	–	–	5%
	41%	50%	7%	2%	100%

satisfactory rates and terms with one exception, a US$300 million loan that was repaid on maturity. Recently two note issues were completed:

(i) In February 1999, the Group issued HK$1,500 million principal amount, three year, 7.88% fixed interest rate notes which are listed on both the Hong Kong and Luxembourg Stock Exchanges.

(ii) In March 1999, the Group also successfully entered the European bond market with a Euro 500 million, seven year, 5.5% fixed interest bond issue. The issue is listed on both the Hong Kong and Frankfurt Stock Exchanges.

TREASURY POLICIES AND CAPITAL STRUCTURE

The Group's overall treasury and funding policy is one of risk management and control, 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, and bank arrangements and long term borrowing requirements for all unlisted subsidiaries are monitored and approved at the holding company level. The Group endeavours to hedge its 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 assist in managing the Group's interest rate exposures. At 31 December 1998, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or financial derivatives.

During 1998 and early 1999, the Group remained an active participant in global capital markets, further strengthening its balance sheet through medium and long term fundraising activities. These included the first ever Euro denominated bond issued by an Asian corporate issuer outside Japan.

COMMUNITY SERVICE

The Group has continued to support a wide range of activities and organisations which benefit and aim to improve the quality of life of the people in the community. In view of the increasing unemployment rate experienced by the SAR during the year, the Group sponsored Christian Action for a pioneer project – *Spirit of Hong Kong*. This self-employment training programme provides the unemployed with business skills and technical training so they can start their own business in areas where there are growth potentials. The Group continued to support a number of charities, including the Community Chest, which provides funds to more than 140 member agencies, the Save the Children Fund, the Hong Kong Red Cross, Youth Outreach, the Catholic Cathedral in Hong Kong, the Children's Miracle Charity, Flood Relief and Earthquake relief in the Mainland and Lifeline Express. Lifeline Express is a hospital train which travels to remote places in the Mainland and provides operations to cataract patients. The Group also supported arts activities such as the Hong Kong Arts Festival Society, the Chinese Cultural Exchange Fund and the National Ballet of China.

The Spirit of Hong Kong programme has successfully helped many people become self employed.

Lifeline Express has helped many people restore their eyesight in the Mainland.

EMPLOYEE RELATIONS

Excluding associated companies, the Group employs 39,860 people (1997 – 37,100 people) of whom 19,015 (1997 – 20,087) are employed in Hong Kong. Employee costs, excluding Directors' emoluments, totaled HK$6,522 million (1997 – HK$5,766 million). All subsidiary operating companies of the Group are equal opportunity employers, with the selection and promotion of individuals 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. The 1998 review resulted in reduced bonuses for the majority of management in line with the Group's overall performance. A wide range of benefits including medical coverage, provident funds and retirement plans and long service awards are also provided to the employees.

Many social, sporting and recreational activities were arranged during the year for employees on a Group wide basis. Group employees also participated in charity walks as well as other community oriented events. In addition, training and development programmes are provided on an on-going 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.

OUTLOOK

1998 was a year of continued financial turmoil and reduced economic activity in Hong Kong and the Asian region. 1999 is expected to be another challenging year, depending on the length of time it will take for the economies to recover.

The Group is in a strong financial position with healthy recurring cash flows from its geographically and sectorally diverse core businesses. In addition, the Group has a large balance of cash and liquid investments and a long maturity borrowing profile. The Group is in a favourable position not only to meet the challenges of 1999, but also to take advantage of attractive investment and expansion opportunities that may arise locally and / or regionally. Supported by the underlying strength of its core businesses, the Group continues to be committed to a policy of focused strategic and controlled growth of its core businesses.

The results of 1998 were achieved in a difficult environment through the hard work and dedication of the Group's employees and I would like to join our Chairman in thanking them for their efforts throughout the year.

FOK Kin-ning, Canning
Group managing director

Hong Kong, 25 March 1999