



Cheung Kong  
Infrastructure  
Holdings Limited

Serving Local Communities

Quality Assets

Solid  
Prospects  
Solid  
Growth

Dedicated Management

Cheung Kong Infrastructure Holdings Limited

# Solid Prospects Solid Growth

The year under review has been a challenging period for many Asian companies. Yet, some companies have risen to the challenge, and even prospered. In this period

of uncertainty, CKI has been watching, waiting, and most importantly, continuing to grow.

CKI is in an enviable position. With large cash reserves to invest in new projects, we have the will – as well as the financial and human resources – to continue our growth trend. Our solid prospects have led to solid growth, allowing us to emerge even stronger.

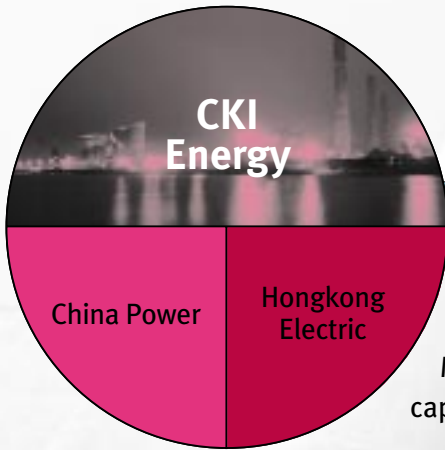
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## 1998 Annual Report

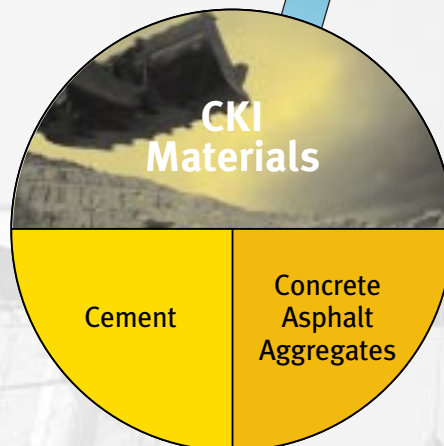
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CKI Transportation's portfolio comprises a variety of road types: ranging from a section of the National Trunk Highway System to city roads and ring roads.



Our power portfolio comprises power plants in Hong Kong and the Mainland with an installed capacity of 5,965 MW.



We are one of the most successful cement and concrete companies in Asia. Green Island Cement and Anderson Asia enjoy dominant market positions and strong profitability.

# This is CKI

Cheung Kong Infrastructure Holdings Limited (CKI) is a diversified infrastructure company with three core businesses: **infrastructure materials, energy and transportation**. We are the largest diversified infrastructure company listed in Hong Kong, and one of the largest investors in China's infrastructure sector.

In infrastructure materials, our wholly-owned subsidiaries Green Island Cement and Anderson Asia are leaders in the cement, concrete, asphalt and aggregates markets in Hong Kong – and are bringing this market-leading expertise into China. In recent years, we have also expanded our focus to take advantage of the increasing economic and social benefits of the environmental business.

Our transportation portfolio comprises over 670 km of toll roads and bridges in six provinces in China.

Our energy business has a 36.1 per cent shareholding in Hongkong Electric, one of Hong Kong's two electric utilities with an installed capacity of 3,305 MW. In addition, we have interests in power plants with a total installed capacity of 2,660 MW in four provinces in China.

CKI is firmly committed to the infrastructure business, and aims to be a leader in terms of market presence, operating and financial performance, and growth capacity. Through our established operations in Hong Kong and the Mainland, we have accumulated significant expertise in the development, investment and operation of infrastructure projects. We are also pursuing a wide range of related assets throughout the region – and wherever else our business leads.



## Year at a Glance

	1998	% change
Profit attributable to shareholders (HK\$ million)	2,855	+18%
Earnings per share (HK\$)	1.27	+10%
Dividend per share (HK\$)	0.38	+19%

### Consolidated Profit and Loss Summary

for the year ended 31st December

HK\$ million	1998	1997	1996	1995	1994
Turnover	3,291	3,314	2,992	2,288	1,918
Operating profit	1,122	1,059	931	546	311
Share of results of associated companies	1,971	1,635	–	–	1
Share of results of jointly controlled entities	33	2	40	51	–
Profit before taxation	3,126	2,696	971	597	312
Taxation	(273)	(283)	(87)	(29)	(12)
Profit after taxation	2,853	2,413	884	568	300
Minority interests	2	(2)	2	1	–
Profit attributable to shareholders	2,855	2,411	886	569	300
<i>Growth per cent.</i>	18%	172%	56%	90%	126%
Dividends	(857)	(721)	(361)	–	–
Profit for the year retained	1,998	1,690	525	569	300

### Consolidated Balance Sheet Summary

as at 31st December

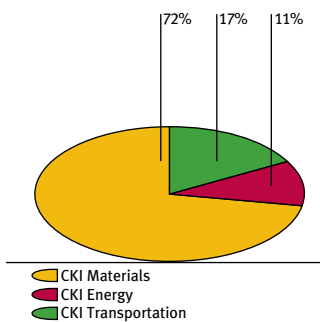
HK\$ million	1998	1997	1996	1995	1994
Fixed assets	2,336	1,700	1,627	1,664	2,156
Associated companies	10,450	9,657	95	(8)	(4)
Jointly controlled entities	2,267	1,618	988	726	431
Infrastructure project investments	6,935	5,868	3,641	930	797
Other non-current assets	139	139	147	83	66
Current assets	2,835	3,686	4,861	1,090	656
Total assets	24,962	22,668	11,359	4,485	4,102
Current liabilities	(1,272)	(1,223)	(3,000)	(450)	(434)
Long term liabilities	(3,363)	(3,116)	(9)	(2,188)	(2,390)
Total liabilities	(4,635)	(4,339)	(3,009)	(2,638)	(2,824)
Net assets	20,327	18,329	8,350	1,847	1,278

### Per Share Data

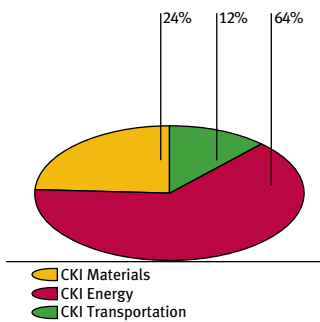
HK\$	1998	1997	1996	1995	1994
Earnings per share	1.27	1.15	0.75	0.55	0.29
Dividend per share	0.38	0.32	0.16	N/A*	N/A*
Net book value per share	9.02	8.13	6.10	1.80	1.25

\* Not applicable as the Company was listed in 1996.

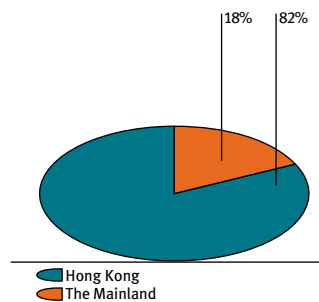
### 1998 Turnover by Business Segment



### 1998 Profit Contribution by Business Segment

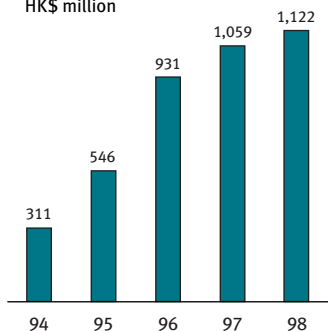


### 1998 Profit Contribution by Geographic Region



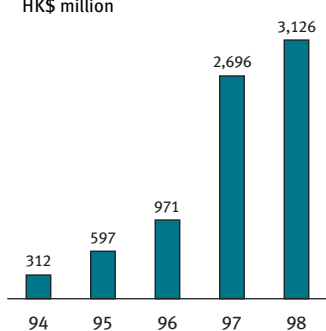
### Operating Profit

up 6%  
HK\$ million



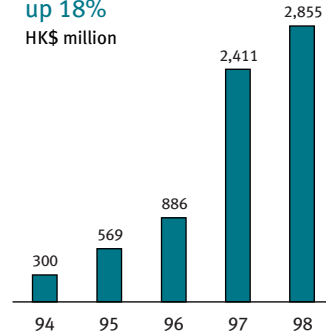
### Profit Before Taxation

up 16%  
HK\$ million



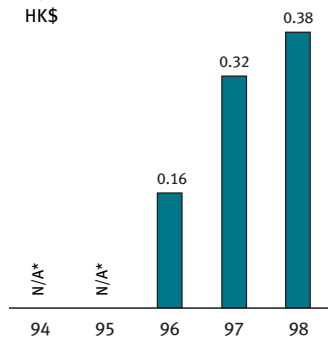
### Profit Attributable to Shareholders

up 18%  
HK\$ million



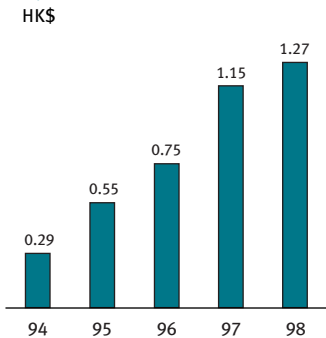
### Dividend Per Share

up 19%  
HK\$



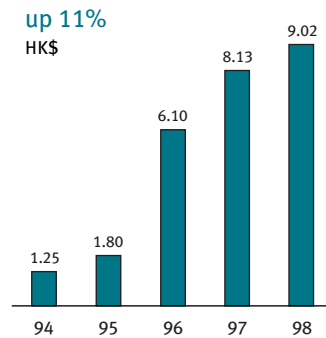
### Earnings Per Share

up 10%  
HK\$



### Net Book Value Per Share

up 11%  
HK\$



\* Not applicable as the Company was listed in 1996.

# Quality Assets

**Hong Kong and the Mainland  
need an efficient, modern  
and high quality  
infrastructure back bone**

The Guangzhou East South West Ring Road is one of China's largest toll road projects under construction.

The infrastructure business in Hong Kong and the Mainland has grown significantly in recent years, both in size and sophistication. We believe an infrastructure company needs to be more than a mere provider of capital. CKI is now a value-adding investor firmly intertwined with our partners in their long-term, total development. We believe our unique strengths have positioned CKI in a favourable position to capitalise on this tremendous opportunity in the development of

infrastructure in Hong Kong and the Mainland.

These markets need more than just roads and power plants. They need an efficient, modern and high quality infrastructure backbone. As such, CKI has made it a policy to invest only in quality projects. In this case, quality has two meanings. Firstly, it refers to the world-class design, engineering and construction that go into each of our projects. Secondly, it refers to the sound investment attributes of





the projects in which we choose to invest.

### Advanced Engineering

CKI's projects represent some of the most advanced engineering and construction in PRC infrastructure. The Guangzhou East South West Ring Road is one of China's largest toll road projects under construction.

One of the key civil structures is the Ya Ji Sha Bridge, which has a main span of 360 metres across the Pearl River. The bridge deck of the main span is suspended by cables from composite steel and concrete arches – the world's largest for this type of design. The construction method involves rotating the two halves of

our total team of over 4,300 workers and engineers.

The Shantou Bay Bridge received ISO 9002 certification from the Hong Kong Quality Assurance Agency in early 1999 for its operation and maintenance standards – the first bridge project in China to receive this certification.

In Hong Kong, CKI's market-leading materials business is one of the flagships of quality in the industry. Ready Mixed Concrete is Hong Kong's only manufacturer of high-performance concrete. The higher strength-to-volume ratio of this product enables less concrete to be used in order to achieve the same amount of support – resulting in lower construction costs and more aesthetic architecture. With over 100 years of operating experience, Green Island Cement was also the exclusive supplier of cement to Hong Kong's new airport at Chek Lap Kok – one of the largest single infrastructure projects Hong Kong has ever seen.

Hongkong Electric, which has been supplying power to Hong Kong Island for over 100 years, is one of the most valuable assets in CKI's portfolio. Hongkong Electric's 3,305 MW power station on Lamma Island is a model of efficiency, technology and environmentally-friendly operation.

### Efficiency Through Technology

Infrastructure is more than just bricks and mortar. Operation and maintenance on an ongoing basis are equally important as the engineering aspects of a project. The 140 km Shen-Shan Highway (Eastern Section) is connected by an optical fibre-networked, computerised toll collection, traffic surveillance and communication system. Total investment was about HK\$70 million. The system is considered one of the most advanced in China, in terms of toll collection (magnetic card entry and exit), data collection and analysis. Toll collection and road safety have benefited from the installation of the communication system. In addition, operating cost has decreased.

All of our projects feature strong project fundamentals – inherent need, solid return on investment, and excellent future prospects. CKI is highly selective in identifying projects for investment, and our dedication to quality is what sets us apart.

Investment in quality projects has always been a fundamental building block of the CKI philosophy, and will continue to be one of our major strengths as we move into the next millennium – and beyond.



the bridge from shore and connecting them at mid-span. Foundation work began in July 1998 and the bridge is expected to be completed by mid-2000.

Another of our PRC infrastructure projects, the Zhuhai Power Plant, is expected to be one of the largest thermal power stations in China. Occupying a total area of 1.2 million square metres, the Zhuhai Power Plant will have a generating capacity of 1,400 MW. The turnkey contractor for the project, Mitsubishi Corporation, has an on-site team of 180 top engineers, which helps to lead

# Dedicated Management

**Strong qualifications and extensive, relevant experience are the unique features of our management team.**

CHU Po Lau (left), general manager of the Shantou Bay Bridge joint venture, has over 17 years of experience in the toll bridge and tunnel business in Hong Kong and the Mainland.



We believe CKI is one of the few companies capable of providing for China's infrastructure sector— as a total package – capital, credibility, experience and expertise. Our business activity in China began many years ago, and we are capitalising on the experience and knowledge of our management team gained from many years of operating the same businesses in Hong Kong.

Strong qualifications and extensive, relevant experience are the unique features of our management team. All of our general managers have professional qualifications in their respective fields, as well as over 20 years of relevant experience. More importantly, all of our senior managers have years of business experience in China.

## **Professional Project Development**

While entrepreneurial skills and personal connections are considered important in conducting PRC business, we strongly believe in a professional project development effort. Our PRC project development teams are grouped by industry and geographical area. With dedicated professionals, we believe we can better identify and evaluate project merits with market intelligence and local knowledge. We take an active approach towards the operation

of our projects. Active not in the sense of hands-on daily management, but in the preservation and possible enhancement of the underlying value of our investments. Teams of managers from Hong Kong are seconded by the Group to work on-site at the joint venture companies in the PRC, maintaining responsibility for general management, finance and operation. We believe having our own personnel on the ground, working alongside our PRC joint venture partners, is a strong competitive edge.





### Knowledge of Hong Kong Business

Effective and experienced management has been the driving force behind CKI's market-leading materials divisions: Green Island Cement and Anderson Asia. We deliver more than just cement and concrete – we deliver quality products and services to our customers. The concrete business, for example, is about timely delivery of quality products. Every day, we deliver our products through a fleet of 246 concrete mixer trucks from 11 strategically-located concrete batching plants in Hong Kong. Having the right people to deliver the right quality

products and services is very important in Hong Kong's competitive construction industry.

Our reputation in the industry has been built up from years of reliable service, and has been recognized by the numerous quality, productivity, safety and environmental awards won by our materials business over the years.

The guidance of our management team and the dedication of our over 2,300 staff will ensure that CKI Materials retains its leadership position for years to come.

Hongkong Electric, which has been supplying power to Hong Kong Island for over 100 years, has consistently



demonstrated the quality of its management team in creating one of the leading electric utilities in Asia.

On-the-ground involvement, coupled with the experience of our Hong Kong-based senior management team, translates into an unbeatable combination of management skill and active commitment.

**The staff of CKI is characterised by a strong sense of loyalty and low turnover**





# Serving Local Communities

**We are a partner in  
the total development  
of cities.**

Just as concrete and cement form the foundations of cities, nations and economies; reliable and established transportation routes form the arteries of commerce and economic development. And no one can deny that energy is one of the most valuable commodities in today's advanced society, powering the progress of the world. It is in these areas that CKI has focused its activities – building our own business opportunities, while improving the lives of millions.

## **Committed to Infrastructure**

We are one of the largest investors in the infrastructure sectors of Hong Kong and the Mainland. In addition to Hong Kong, our projects now span seven provinces in the Mainland, from Jilin Province in the north to Guangdong province in the south. We have interests in over 670 km of toll roads and 5,965 MW of power plants in Hong Kong and the Mainland. Total committed investments in China at the end of 1998 were over HK\$11 billion.





**We have made substantial investments in Shantou City, such as the Shantou Bay Bridge**

## Cheung Kong Scholars Programme

In support of the Chinese government's objectives to promote national prosperity through education and to encourage Chinese intellectuals to return to China to teach, CKI donated HK\$60 million to establish the Cheung Kong Scholars Programme in 1998, in collaboration with Li Ka Shing Foundation Limited and China's Ministry of Education.

The programme aims to appoint, in stages, 300 to 500 Cheung Kong Scholars over the next three to five years, who will each receive an annual grant of HK\$100,000. In addition, outstanding Cheung Kong Scholars will be selected to receive the Cheung Kong Scholars Achievement Award from a fund of HK\$10 million contributed by Li Ka Shing Foundation Limited. To date, CKI has funded HK\$20 million for the programme.

In addition to helping to promote intellectual development in China, CKI is also concerned with improving the standard of living of the Chinese people. In 1998, CKI, together with Mr Li Ka Shing and the three other publicly-listed companies in the Cheung Kong Group, each donated HK\$10 million to the Yangtze River flood relief effort.

### PRC Investments

In China, CKI has invested in a key section of the National Trunk Highway System, as well as strategically-located bridges, city roads and ring roads. CKI Energy has also been a major investor in power plants. Our involvement in the development of China's infrastructure sector has not only improved the quality of life for Chinese citizens, but also supplied new jobs and supported growing economies.

### Hong Kong Investments

In Hong Kong, CKI is the major shareholder in one of Asia's leading power utilities, Hongkong Electric, which supplies power to all of Hong Kong Island. We are also the largest cement and concrete player in Hong Kong, providing the raw materials that fill the foundations and support the skyscrapers of this dynamic city – such as The Centre (pictured left) – developed by

Cheung Kong (Holdings) Limited, one of the newest and most brilliant additions to Hong Kong's skyline.

CKI Materials was also a major supplier to one of the most important infrastructure projects in Hong Kong – the new airport at Chek Lap Kok. In addition to providing raw materials for this state-of-the-art airport, we also provided cement and concrete for much of the essential supporting infrastructure, including transportation links and support facilities. Quality infrastructure systems are one of the raw materials required to support growth. We are more than just a mere investor in individual projects, we are a partner in the total development of cities – garnering attractive returns for CKI, while benefiting millions of citizens in Hong Kong and the Mainland.



# Solid Prospects Solid Growth

## To our shareholders

We are pleased to report that Cheung Kong Infrastructure Holdings Limited ("CKI") reported satisfactory growth in 1998. Net profit for the year ended 31st December, 1998 reached HK\$2.855 billion, 18 per cent. over that of last year. Earnings per share were HK\$1.27, up 10 per cent.

The Board of Directors is recommending a final dividend of HK\$0.26 per share. Together with the interim dividend of HK\$0.12 per share, this will bring the total dividend for the year to HK\$0.38 per share, a 19 per cent. increase from the HK\$0.32 per share paid in respect of last year. The proposed dividend will be paid on 14th May, 1999 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members on 13th May, 1999.

While the general economic slowdown and tight credit situation in 1998 have put pressure on many companies, this environment has also presented opportunities to those with a solid foundation and financial position to gain a stronger market position. In the case of CKI:

1. Solid growth in profit contribution was recorded in all of the three core businesses:

Infrastructure Materials	+8%
Energy	+22%
Transportation	+63%

2. Our infrastructure projects in the Mainland reported an increase of 58 per cent. in profit contribution. Our PRC portfolio is entering a mature phase, with the majority of the projects contributing in 1998.
3. Hongkong Electric Holdings Limited ("Hongkong Electric") reported a net profit increase of 5.5 per cent., on the back of a 6.8 per cent. increase in electricity sales.
4. CKI Materials produced satisfactory results in a challenging environment. Despite keen market competition, our continued progress in cost control and improved productivity combined to sustain higher profits.

Our financial position has remained solid. As at the end of 1998, the Group's net debt to equity ratio was 8.7 per cent., with cash on hand of HK\$1.331 billion and debt of HK\$3.1 billion.

## Prospects

China's economic growth in the past year has been, to a large extent, driven by infrastructure investment. Through the domestic banking and capital markets, 1998 saw a continuing increase in funding for infrastructure development, which has received the priority of the various levels of PRC government. The Group can only benefit from a more robust infrastructure market which is still in the high growth stage of development. The commitment to infrastructure spending can also be witnessed in Hong Kong where the government has affirmed its intention to speed up the investment process.

We are looking forward to the new year with confidence. Our core businesses, which have been constantly tested by the difficult economic conditions, have delivered solid results. With the completion of major commercial buildings, Hongkong Electric's growth prospects will continue to be steady. Given strong market positions and an efficient cost structure, CKI Materials is well positioned to benefit from the increased spending in public housing and infrastructure in Hong Kong. With the majority of projects becoming operational, our infrastructure portfolio in China has matured, and is poised to report continued growth. We are confident that the internal growth of all of the core businesses will continue.



Victor Li  
Chairman

Our financial strengths are building up at a time when asset values across the region have been deflating. Many attractive opportunities in the infrastructure sector have arisen in the wake of the regional financial turmoil. We will rigorously pursue quality projects by applying a disciplined approach.

In a particularly challenging environment, I would like to thank the Board of Directors for its sound guidance and all employees for their hard work and dedication.

## Li Tzar Kuoi, Victor

Chairman

Hong Kong, 18th March, 1999

# All three of our core businesses experienced growth

## 1998 Results

Despite the difficult economic climate around the region, CKI continued its trend of year on year growth in overall performance. Our net profit during the year ended 31st December, 1998 was HK\$2,855 million, an improvement of 18 per cent. over the previous year.

We experienced growth in all three of our core businesses: infrastructure materials, energy and transportation. In light of the turbulent economic situation in Asia, this has been a satisfactory performance. The fundamental strengths of our assets and dedicated management have led us to another year of solid growth.

## Steady Earnings from Hongkong Electric

During the year under review, we received a full year's contribution from our 36.1 per cent. – owned subsidiary, Hongkong Electric. For the year, Hongkong Electric achieved net profit of HK\$4,967 million, up 5.5 per cent. from the previous year's figure of HK\$4,709 million.

As one of Hong Kong's two power utilities and the sole supplier of electricity to Hong Kong Island, Hongkong Electric was able to maintain its growth trend. In spite of the very difficult economic circumstances which prevailed in Hong Kong throughout 1998, Hongkong Electric was still able to register a 6.8 per cent. increase in

electricity sales and achieved a new maximum demand record of 2,316 MW, up five per cent. from the previous year.

Hongkong Electric has been a steady cash earner for CKI, and its contribution for the year has significantly strengthened our overall financial position. We expect further growth in contributions from Hongkong Electric as the volume of electricity consumed increases due to the completion of major commercial buildings in Hong Kong.

## Maturing Portfolio in Mainland

Our portfolio of infrastructure projects in China is maturing, and the rising levels of profit contribution from this sector of the business reflect this fact. Earnings from our investments in PRC infrastructure increased 58 per cent. from the previous year.

Much of this increase can be attributed to the organic growth of our existing projects and the coming on stream of new projects. As China's economy develops, the country is becoming increasingly more reliant on the transportation routes and power stations that fuel the growth of commerce. More cars and trucks travel on our roads, and more households and businesses rely on our power stations. As China's economy develops more momentum and critical mass, we are looking forward to increased contributions from our existing portfolio of projects.

Two major projects are expected to begin contributing to profit in the coming two years. These are the Zhuhai Power Plant and Guangzhou East South West Ring Road. The Zhuhai Power Plant, one of the Group's highest-profile power projects, comprises two 700 MW units, and we believe it is the largest single-unit thermal power plant currently under construction in China. The Zhuhai Power Plant will become fully operational by mid-2000. The Guangzhou East South West Ring Road represents our largest single infrastructure investment in China. The entire 39 km ring road is expected to be operational by the year 2002.



We continue to be active in the development of new projects in China. The economic slowdown has had a limited impact on the infrastructure business, which remains robust across the country. Our emphasis on China remains unchanged, and we are currently negotiating several projects in different regions.

### Increased Efficiency in Materials

Market conditions were extremely challenging for our infrastructure materials business during the year. However, despite a 15 per cent decrease in turnover, we managed to increase profit contribution by eight per cent. This increase was attributable to rigorous cost-control efforts and improved operating efficiency.

Newer members to the materials group have all performed well. The Yunfu Cement Plant in Guangdong has shown improvement after our operational takeover in early 1998. Further integration with our downstream operations in Guangdong will yield additional benefits. Bonntile Industries, an acquisition in Hong Kong, has produced a remarkable turnaround in profitability, and is positioned for more exciting growth.

In addition, the environmental programs undertaken at Green Island Cement have helped to cut costs – proving that our environmental efforts make good business sense. Utilisation of waste products as raw materials and fuel at Green Island Cement has reduced costs, and we also receive payment for the disposal of certain waste materials. We are currently undertaking several new initiatives on the waste management front, which may materialise into viable businesses.

### Strong Financial Position

Our prudent attitude towards investment and strict requirements for PRC infrastructure projects, coupled with the organic growth of our business, has put CKI in an enviable position to tackle the coming year. We have substantial cash reserves and financing capacity, and are poised to act quickly and decisively when attractive investment opportunities present themselves. In the wake of



H. L. Kam  
Group Managing  
Director

the regional financial turmoil, we believe such opportunities are available, and we will continue to apply a disciplined approach to investment evaluation.

In the meantime, we are actively seeking out new investment opportunities – watching and waiting for the right projects at the right time. CKI can afford to be selective in its investment strategy, as our existing businesses are well positioned for long term growth.

Solid prospects and solid growth. This is the underlying philosophy of our business strategy – a strategy that has seen us through the economic turmoil of 1998, and will accompany us far into the future.

Finally, I would like to take this opportunity to thank the board, management and all of our employees for their contribution to the results we have achieved.

### H. L. Kam

Group Managing Director

Hong Kong, 18th March, 1999



Lam Tei Quarry is one of Hong Kong's four contract quarries.





## CKI Materials

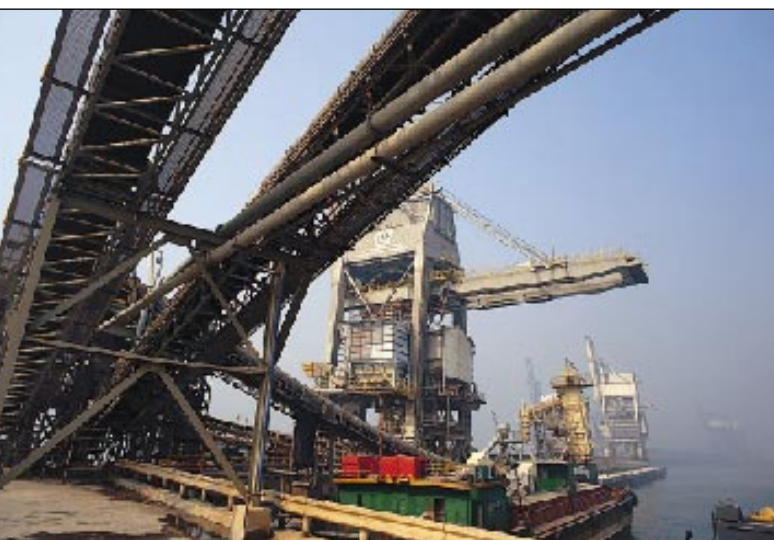
**The Materials Division performed well despite the competitive environment in the Hong Kong market.**

**Profit Contribution  
up  
8%**

## CKI's market-leading materials business is a steady source of earnings.

The year in review presented a challenging market for our materials division. However, even in the face of such a challenge, we managed to thrive – and even excel. 1999 is shaping up to be another challenging year, but we are casting an eager eye towards recovery of the market in 2000.

The materials business continues to be a cash generator for CKI; cost rationalization and efficiency improvements have further strengthened its position as a building block of the CKI strategy.



Green Island Cement's deep-water cement handling berth is one of our biggest competitive advantages.

### Resilient Cement Market

In the face of a severe contraction in regional cement consumption, lower cement prices and excess capacity, the Hong Kong cement market has shown remarkable resilience in the past year. Cement consumption in 1998 was 4.9 million tonnes, down 7.3 per cent. Average selling price was relatively stable year over year, despite sustained pressure from lower-priced imports throughout the year.

As explained in last year's annual report, the Hong Kong cement market has remained relatively stable given the well established import channels and specific quality requirements. At the lower end of the market, cement from Southern China has increased its market share, particularly in the bag cement segment. However, Green Island Cement remains the market leader despite a slight decline in market share to 36 per cent., and maintains its position as a low cost producer and most cost effective importer.

Construction activities in Hong Kong were slower in 1998 due to weaknesses in the private and infrastructure sectors. A large number of private construction projects have been postponed and scaled back. Infrastructure demand was also weak as several large civil projects are still in the design and planning stage. On the other hand, demand from public housing projects has increased significantly.

We have made further inroads into the environmental business, which will be discussed more fully in a later section.

The Philippine limestone quarry commenced full operation during 1998, and supplied 41 per cent. of the requirements at our Hong Kong cement plant. Given the high quality limestone, our products can be used by other industrial users, such as steel manufacturers. Trial shipments have been made to steel plants in Taiwan.

### Guangdong Cement Recovery

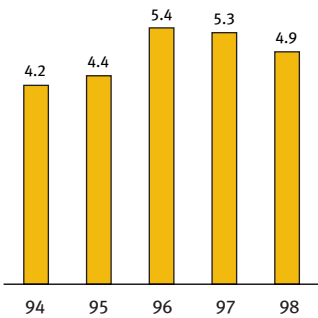
We took over operational control of the Yunfu Cement Plant in early 1998. Our initial objectives are to improve production quality, the receivable situation and integration with downstream operations. We have made satisfactory progress in all these areas.

The Guangdong cement market has become relatively more active due to increased construction activities in the province and government-led infrastructure spending. Cement prices have increased modestly, although we believe there is considerable room for improvement. Starting in late 1998, the government has led an effort to close down small, inefficient cement plants in the province, which will have a positive impact on the future capacity situation.



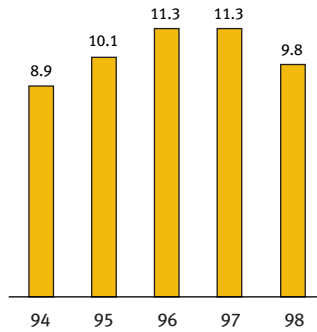
## Hong Kong Cement Consumption

million tonnes  
source: Hong Kong Government



## Hong Kong Concrete Production

million cu.m.  
source: Anderson Asia



Ready Mixed Concrete maintained its leadership position in the Hong Kong concrete market.

The Shantou clinker grinding joint venture commenced trial production in early 1999. The recovery of the Guangdong cement market will be beneficial to the initial operation of this plant.

### Stable Concrete Demand

All four businesses of Anderson Asia – Ready Mixed Concrete, Anderson Asphalt, Asia Stone and Bonntile Industries – enjoyed a satisfactory year in 1998.

Ready Mixed Concrete maintained its leadership position in the Hong Kong concrete market despite a slight decline in production volume. Concrete prices have remained relatively steady. Gross margins increased due to

savings in material cost. Our order book is strong going into 1999, mainly because of increased demand from the public sector.

Our PRC concrete operations saw a substantial increase in production volume primarily due to demand generated by the construction of Beijing Oriental Plaza. We are pursuing other concrete opportunities in China.

Our asphalt operation faced another challenging year in 1998 due to intense competition. On the back of our success with the Tsing Ma Bridge, we have developed a niche market in high

performance mastic asphalt paving. We have won the contract to supply mastic asphalt surfacing to the Jiangyin Bridge in Jiangsu Province – one of China's largest suspension bridges and also the fourth longest suspension bridge in the world. In addition to our Hebei operations, we have expanded into Shandong and Jiangsu Provinces.

We anticipate that the contract of the Lam Tei Quarry will be extended for another two years, and are actively seeking additional suitable quarry sites in Hong Kong and the Mainland.

Bonntile Industries, one of Hong Kong's largest spray coating contractors, enjoyed a successful year in 1998. We have repositioned our products in the local market, strengthened cost controls, and are planning to expand into the PRC market in 1999. The exclusive supply agreement with our Japanese supplier was renewed.



Every day from 7:30 am, CHIU Wai Kuen, senior supervisor at the shipping department of Ready Mixed Concrete, leads a team to coordinate and monitor our fleet of 246 mixer trucks. On any given day, Ready Mixed Concrete services over 100 construction sites out of its 11 batching plants in Hong Kong.

# Ready Mixed Concrete



Hongkong Electric's  
Lamma Power Station is one  
of the most efficient in Asia.





## CKI Energy

The Energy division grew its profits due to the inclusion of a full year contribution from Hongkong Electric and continued growth of our PRC power plants.

Profit Contribution  
up  
**22%**



## Our energy business is marked by stable earnings and solid returns.

CKI's energy division remains the highest contributor to profit. Comprising Hongkong Electric in Hong Kong, as well as numerous power plants in the Mainland, the energy business is marked by stable earnings and solid returns. Hongkong Electric – the sole supplier of energy to one of the most vibrant and dynamic cities in the world – is one of the main cash generators that powers the growth of the Group.

### Hongkong Electric

Hongkong Electric reported 1998 net profit, after Scheme of Control transfers, of \$4,967 million, an increase of 5.5 per cent. The core business, The Hongkong Electric Company, Limited (HEC), continued to show satisfactory profit growth of 6.6 per cent., but this increase was offset to some extent by a reduction in profit contribution from property sales.

Unit sales of 9,693 million kWh were recorded for 1998, representing a highly satisfactory increase of 6.8% over the previous year. A maximum demand of 2,316 MW was experienced during the year – a record high and an increase of five per cent. over last year. These increases reflect the continuing growth of HEC's commercial user base following the completion and occupation of new commercial premises

and also reflect the high temperatures experienced during the year.

With Hong Kong Island, HEC's main service area, being the commercial core of Hong Kong, commercial sales continued to dominate and accounted for 70 per cent. of HEC's total sales, up 5.9 per cent. from last year. Domestic sales, accounting for 25.2 per cent. of total sales, also showed a very healthy increase of 10.7 per cent. over last year. While industrial sales made up only a small portion of HEC's total sales, the decline experienced over recent years was halted.

Hongkong Electric announced in late 1998 that it would hold tariffs unchanged for 1999. Growth will come from further increases in the volume of electricity consumed as major infrastructure projects and commercial buildings reach completion.

### Zhuhai

The construction of the Zhuhai Power Plant is progressing smoothly. All project milestones have been achieved according to schedule. The first unit (700 MW) is scheduled to commence commercial operation by late 1999, and the second unit (700 MW) by mid-2000. As at the end of 1998, there were over 4,300 workers on site. Over 90 per cent. of the design work, 70 per cent. of the civil work,



The Lamma Power Station, the only power station operated by Hongkong Electric, has an installed capacity of 3,305 MW.

and 40 per cent. of the electrical and installation work were completed.

The financing status as at the middle of March 1999 was as follows:

- Equity contribution (US\$368 million) was completed.
- Drawdown of JEXIM loan was US\$559 million (Total loan amount: US\$670 million).
- Drawdown of local construction loan was Rmb 308 million (Total loan amount: Rmb 504 million).

### Shantou and Nanhai

The three Shantou plants achieved higher profits by successfully reducing production costs. Our plants have become an important power source in the Shantou area following improvements in the availability factor.

Both units of Nanhai Power Plant I are in operation, and both Nanhai Power Plant I and Nanhai Jiangnan Power Plant recorded satisfactory growth in output.



### Fushun, Siping and Qinyang

The Fushun Power Plants in Liaoning Province achieved higher profits in 1998 due to the implementation of tighter cost control and efficiency measures.

Unit 2 of the Henan Qinyang Power Plants commenced commercial operation during 1998. Power production has been steady. These plants supply power to a nearby aluminum plant as well as the local power grid.



The three Shantou Power Plants represent our first energy projects in China.

Two units of the Jilin Siping Power Plants commenced commercial operation during 1998. Construction of the third unit is ongoing, and is expected to be completed in April 1999. Our plants supply power to the provincial grid.



During 1998, we broke new ground in entering the water business by investing in the only two water plants in Yueyang, Hunan Province. The primary water source of these plants is the nearby Dongting Lake, China's largest lake. The geographical advantage of these plants has resulted in higher operating and cost efficiency.

# Yueyang Water Plants



The Guangzhou  
East South West Ring Road  
is our largest single  
investment in China.





## CKI Transportation

Transportation saw the highest growth as new projects came on stream.

Profit Contribution  
up  
**63%**

## The transportation division is the fastest growing among the three core businesses.

One of the fastest-growing sectors in infrastructure is transportation. Reflecting this trend, our transportation division reported the most significant growth in profit contribution for the year. Reliable and efficient transportation routes are the arteries of commerce and an essential component of a thriving economy. The upcoming completion of our Guangzhou East South West Ring Road will propel our transportation division to even faster levels of growth.



The Shen-Shan Highway (Eastern Section) reported a 30 per cent. increase in toll revenue in 1998.

### Guangdong Roads

Networked by optical fibre, the computerised toll, communication and traffic surveillance systems of the 140 km Shen-Shan Highway (Eastern Section) have been fully commissioned. The Shen-Shan Highway (Eastern Section) is one of China's two toll roads utilising a closed-system magnetic card toll collection system. This system, considered one of China's more technologically advanced, has significantly improved the toll road's safety and surveillance of toll collection. Toll revenue was up 30 per cent. in 1998.

The joint venture company operating the Shantou Bay Bridge project has been awarded the ISO 9002 quality assurance standard. The certification applies to the operation and management, as well as the electrical and mechanical maintenance of the toll crossing facilities. Our project is the first toll bridge in China to receive this standard from the Hong Kong Quality Assurance Agency.

The Nanhai Road Network saw a healthy increase in toll revenue.

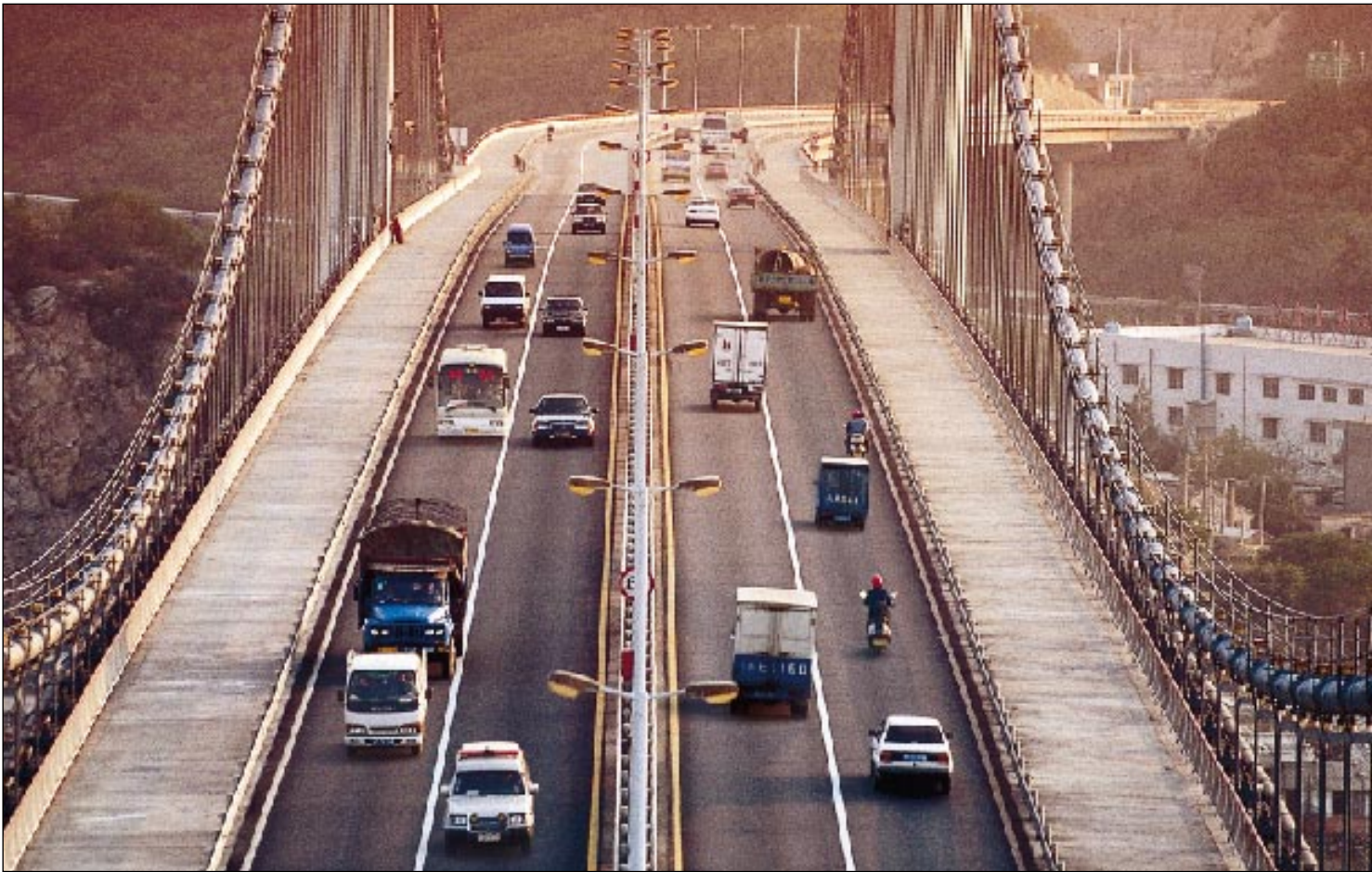
The Jiangmen Jianghe Highway opened for traffic in January 1999, three months ahead of schedule. The Jiangmen Jiangsha Highway saw a steady increase in toll revenue, and the Jiangmen Chaolian Bridge has been opened for trial operation.

Toll revenue of the Zengcheng Lixin Highway increased substantially after the installation of a computerised toll collection system.

The entire 19 km South-East section of the Guangzhou Ring Road was opened for trial operation in February 1999. This section was completed six months ahead of schedule and within budget. Construction of the 20 km South-West section is progressing satisfactorily, and the entire East South West section is expected to be completed in 2002.

The Guangzhou Ring Road is one of the province's most important toll road projects under construction. Over 6,000 construction workers are currently on site. This project also showcases some of China's most advanced construction technologies. The Ya Yi Sha Bridge, with a main span of 360 metres over the Pearl River, is the largest in the world of its design.





The Shantou Bay Bridge is one of the best performing transportation projects in our portfolio.

### Shenyang Second Ring Road

The construction of the Shenyang Second Ring Road was completed in 1997 within a construction period of eight months. Despite the tight schedule, construction has achieved high quality standards. The PRC-based main contractor has received an award in recognition of the management and quality standards of the project.

### Other Roads

The 100 km Hebei Tangshan Tangle Road, an existing road, began collecting toll in March 1998. A computerised toll system was installed in late 1998.

Toll revenue of the 114 km Zhumadian sections of the National Highway 107 increased significantly in 1998, despite major road repair and expansion works being carried out during the year.

Following an increase in toll rates and tightening of the monitoring of toll collection, toll revenue of the Hunan Changsha Bridges increased over the prior year.



In December 1997, a joint venture was established to operate the Changsha Wujialing and Wuyilu Bridges. Toll rates were increased by an average of 50 per cent. starting from April 1998, and tighter toll collection and monitoring procedures were implemented. As a result, 1998 toll revenue increased by 70 per cent. compared with 1997. An example of a win-win case for both CKI and our PRC partner.

# Changsha Bridges



# CKI and the Environment

**Environmental management is an integral part of good business.**



Hongkong Electric is committed to minimising the impact of its operations on the environment.

By taking a proactive approach to our environmental programs, we strive to minimize any potentially adverse impact of our operations on employees, customers, the general public and the natural environment. We are committed to continuous improvement in our environmental performance. Environmental management is an integral part of good business. High goals for environmental performance set the standard for operation of our plants, technological development and customer relations. Improvements in these areas result in less use of raw materials, longer lifetime for equipment, more efficient energy utilization, lower emissions and the development of new business opportunities.

## Hongkong Electric

As one of Hong Kong's two energy utilities, CKI's 36.1 per cent. – owned subsidiary Hongkong Electric recognises its responsibility to protect and preserve the environment of Hong Kong. Hongkong Electric gives very careful consideration to all aspects of environmental pollution.

Hongkong Electric has endeavoured to adopt new measures and devices to protect our environment. Over the past 10 years, Hongkong Electric has invested a total of HK\$4.8 billion in measures to improve the environment.

Energy is generated by fuel combustion, which can produce air pollutants. In view of this, Hongkong Electric has made every possible effort to ensure that the environment is carefully protected, and that pollution is kept to an absolute minimum.

Electrostatic precipitators (EPs) are used to clean furnace gas before it is discharged from our chimney stacks. Each boiler of the generating unit is equipped with an EP which extracts over 99 per cent. of fly ash (PFA) from the flue gas before emission.

Sulphur dioxide, another air pollutant, is released during the combustion of coal. By using low sulphur content coal, we have significantly reduced the amount of sulphur dioxide released during combustion. To further reduce sulphur dioxide emissions, newer generating units incorporate a flue gas desulphurisation system capable of removing at least 90 per cent. of the sulphur dioxide in flue gas.

## Green Island Cement

Green Island Cement is committed to the global trend of environmental consciousness. Our environmental program is good sense and good business, and we are looking forward to integrating our environmental efforts into our operations in the PRC.

Green Island Cement is a leader in the field of transforming potentially hazardous waste into cost effective raw materials. For example, we pioneered the use of fuel ash in cement production in Hong Kong and Southern China.

PFA, as described above, is the waste residue left over from the burning of coal in power stations. Previously, PFA was disposed of by dumping the material into lagoons. Green Island Cement introduced a method of utilising PFA in the cement production process, and now consumes a significant portion of the PFA produced in Hong Kong.

Green Island Cement incorporates PFA in the production of low alkaline cement, a product which has been widely used in Hong Kong. We first introduced PFA low alkaline cement under our Jade brand in 1993 to meet the Government's absolute limits of alkalinity found in concrete. Due to the unique set-up and technology at Green Island Cement's production facilities, low alkaline cement can be produced at a significant cost advantage.

In addition, Green Island Cement now utilises gypsum, a by-product of the gas desulphurisation process at Hongkong Electric, in the manufacture of cement.

Green Island Cement has pioneered a method to burn marine pollutant (MARPOL) – derived fuel in its cement kiln at Tap Shek Kok. MARPOL is a waste residue from the fuel tanks of ocean-going vessels, which can be a major pollutant if not treated properly. Our cement kilns, with their unique incineration properties, are an ideal environmentally-friendly way of disposing of this waste product.

At present, about 40 per cent. of the fuel used by Green Island Cement is waste-derived, mostly consisting of MARPOL. As an added incentive for our waste disposal programs, we receive payment from one of the SAR's waste treatment centres, thereby supplying us with subsidised environmentally-friendly fuel.

The use of MARPOL is a logical extension of our waste handling activities. By utilising waste materials in our cement production process, we are not only helping to preserve the environment, but are reducing our operating costs as well – creating a win-win situation for both CKI and Hong Kong as a whole.



**Green Island Cement is a leader in the field of transforming potentially hazardous waste into cost effective raw materials.**

By incorporating environmentally-friendly cost-saving measures in our business operations, CKI benefits from reduced costs and improved profit margins; while Hong Kong benefits from a cleaner, healthier environment.

In addition to these activities, Green Island Cement is heavily involved in a comprehensive range of waste management initiatives currently under the planning stage in Hong Kong and the Mainland. Our environmental efforts will begin a new, more exciting chapter as these projects materialise over time.



**Executive Committee:**  
(front row from left)  
**Edmond Ip, Victor Li, H.L. Kam**  
(back row from left)  
**Barrie Cook, Eric Kwan,**  
**Terry Tam, Tony Tsoi,**  
**George Magnus**

### Directors' Biographical Information

**LI Tzar Kuoi, Victor**, aged 34, has been the Chairman of the Company since its incorporation in May 1996. He has also been Deputy Chairman of Cheung Kong Holdings since January 1994 and the Managing Director of Cheung Kong Holdings since January 1999. He is also an executive director of Hutchison Whampoa and Hongkong Electric and a director of The Hongkong and Shanghai Banking Corporation Limited. He is a member of the Chinese People's Political Consultative Conference, the Commission on Strategic Development and the Business Advisory Group. He holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural Engineering.

**George Colin MAGNUS**, aged 63, has been Deputy Chairman of the Company since its incorporation in May 1996. He has also been an executive director of Cheung Kong Holdings since 1980 and Deputy Chairman of Cheung Kong Holdings since 1985. He is also the Chairman of Hongkong Electric and an executive director of Hutchison Whampoa. He holds a Master's degree in Economics.

**FOK Kin Ning, Canning**, aged 47, has been an Executive Director and Deputy Chairman of the Company since March 1997. He is the Group Managing Director of Hutchison Whampoa, the Chairman of Orange plc, the Deputy Chairman of Hongkong Electric and a director of Cheung Kong Holdings. He holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants.

**KAM Hing Lam**, aged 52, has been the Group Managing Director of the Company since its incorporation in May 1996. He has also been Deputy Managing Director of Cheung Kong Holdings since February 1993. He is also an executive director of Hutchison Whampoa and Hongkong Electric. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

**IP Tak Chuen, Edmond**, aged 46, has been an Executive Director of the Company since its incorporation in May 1996. He has also been an executive director of Cheung Kong Holdings since September 1993. He holds a Master of Science degree in Business Administration and a Bachelor of Arts degree in Economics.



**Frank John SIXT**, aged 47, has been an Executive Director of the Company since its incorporation in May 1996. He has also been a director of Cheung Kong Holdings since 1991. He is also the Group Finance Director of Hutchison Whampoa and an executive director of Hongkong Electric. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada.

**CHOW WOO Mo Fong, Susan**, aged 45, has been an Executive Director of the Company since March 1997. She is the Deputy Group Managing Director of Hutchison Whampoa, and also a director of Orange plc and Hongkong Electric. She is a solicitor and holds a Bachelor's degree in Business Administration.

**TSO Kai Sum**, aged 67, has been an Executive Director of the Company since March 1997. He is the Group Managing Director of Hongkong Electric. He has broad experience in property development and power generation. He holds a Bachelor of Science degree in Engineering and is also a Chartered Engineer.

**CHEONG Ying Chew, Henry**, aged 51, is an Independent Non-executive Director of the Company. He holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Operational Research and Management. He is a member of the Advisory Committee to the Securities and Futures Commission in Hong Kong and a member of the Board of the Hong Kong Futures Exchange Limited.

**LEE Pui Ling, Angelina**, aged 50, is an Independent Non-executive Director of the Company. She is a practising solicitor, has a Bachelor of Laws degree and is a Fellow of the Institute of Chartered Accountants in England and Wales. She is a director of certain other listed companies in Hong Kong and is active in public service. Her current public commitments include membership on a number of Hong Kong Government advisory and appeal boards.

## Senior Management's Biographical Information

### Head Office

**TAM Ngai Hung, Terry**, aged 45, Group Financial Controller, has been with the Cheung Kong Group since December 1994. He is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants.

**TSOI Tong Hoo, Tony**, aged 34, Senior Manager, Planning and Investment, has been with the Cheung Kong Group since July 1994. He is a Chartered Financial Analyst.

**YEUNG, Eirene**, aged 38, Company Secretary, has been with the Cheung Kong Group since August 1994. She is a solicitor of the High Court of the Hong Kong Special Administrative Region and of the Supreme Court of Judicature in England and Wales.

## Cheung Kong China Infrastructure

**KWAN Bing Sing, Eric**, aged 54, Group Chief Executive Officer of CKI China Infrastructure, joined the Company in 1996 and has been with the Cheung Kong Group since February 1994. He holds a Master's degree in Business Administration and is a Chartered Engineer.

**CHU Kee Hung**, aged 54, General Manager, Power Operation of Cheung Kong China Infrastructure, has been with the Cheung Kong Group since January 1994. He holds a Doctor of Philosophy degree in Mechanical Engineering and is a member of the American Society of Mechanical Engineers.

**LEE Chack Fan**, aged 53, General Manager, Roads and Bridges Development of Cheung Kong China Infrastructure, has been with the Cheung Kong Group since February 1994. He holds a Doctorate in Geotechnical Engineering and is a Chartered Engineer.

**YEUNG Yat Hong, Stephen**, aged 46, General Manager, Business Development of Cheung Kong China Infrastructure, joined Hutchison Whampoa in 1994 and has been with Cheung Kong China Infrastructure since March 1997. He holds a Master's degree in Business Administration and is a member of the Canadian Institute of Chartered Accountants.

**YUEN Ming Kai, Clement**, aged 52, General Manager, Roads and Bridges Operation of Cheung Kong China Infrastructure, has been with Cheung Kong China Infrastructure since January 1997. He holds a Bachelor's degree in Civil and Structural Engineering, and a Doctor of Philosophy degree in Geotechnical Engineering. He is a Chartered Engineer.

**CHAN Loi Shun, Dominic**, aged 36, Finance and Administration Manager of Cheung Kong China Infrastructure, joined Hutchison Whampoa in January 1992 and has been with the Cheung Kong Group since May 1994. He is an associate of the Hong Kong Society of Accountants and a fellow of the Association of Chartered Certified Accountants.

### Green Island Cement

**Barrie COOK**, aged 56, is the Group Chief Executive Officer of CKI Materials. Prior to this appointment he had been the Managing Director of Green Island Cement (Holdings) Ltd. since 1987. He holds a Bachelor of Science degree in Civil Engineering and is a Chartered Engineer, a fellow of the Institute of Management and a member of the Chartered Institute of Marketing.

He is the Chairman of the East Asian Cement Forum, the Hong Kong Construction Materials Association, the Hong Kong Cement Association and the Environment Committee of the Hong Kong General Chamber of Commerce. He is a member of the Hong Kong Government's Advisory Council on the Environment, the Chairman of the Hong Kong Government's Waste Reduction Committee and the Convenor of the Hong Kong Business Coalition on the Environment.

**LIU Kam Chuen, Derek**, aged 47, joined Green Island Cement in 1992 and has been the Managing Director of Green Island Cement since April 1998. He holds a Bachelor of Commerce degree and is an associate of the Institute of Chartered Accountants (Australia).

**YU Siu Lim, Gary**, aged 43, joined Green Island Cement in 1993 and has been an Executive Director of Green Island Cement since April 1998. He holds a Bachelor of Computer Science degree. Before joining Green Island Cement, he worked for over ten years with various companies of the Cheung Kong Group.

### Anderson Asia

**LEUNG Ying Wah, Lambert**, aged 52, re-joined Anderson Asia in July 1993 and has been the Managing Director of Anderson Asia since April 1998. Before re-joining Anderson Asia, he was with a leading investment bank in Hong Kong, prior to which he was with Anderson Asia for 14 years. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Society of Accountants, a fellow of the Institute of Quarrying (UK) and the past chairman of the Institute of Quarrying, Hong Kong Branch.

**John LAM**, aged 48, re-joined Anderson Asia as Deputy Managing Director in March 1998. He previously worked with Anderson Asia for nine years. Prior to re-joining Anderson Asia, he was with a leading civil engineering company in Hong Kong. He holds a Master's degree in Business Administration. He is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.

**Donald William JOHNSTON**, aged 56, joined Anderson Asphalt in 1988 and is now a Director of Anderson Asia and the General Manager of Anderson Asphalt. He has a Bachelor's degree in Civil Engineering, and is a member of the Institute of Engineers (Australia), a fellow of the Institute of Quarrying (UK) and the past chairman of the Institute of Quarrying, Hong Kong Branch.

## Financial Results

### Summary Consolidated Profit and Loss

HK\$ million	1998	1997	% Change
Turnover	3,291	3,314	(1)
Profit before taxation	3,126	2,696	16
Taxation	(273)	(283)	(4)
Profit after taxation	2,853	2,413	18
Minority interests	2	(2)	N/A
Profit attributable to shareholders	2,855	2,411	18

Turnover represents net sales from CKI Materials, return on investments and interest income received and receivable from infrastructure project investments in China, net of withholding tax, where applicable. The turnover has not included the turnover of associated companies and jointly controlled entities. In 1998, CKI Materials accounted for 72 per cent. (1997: 84 per cent.) of the Group's turnover. The decrease in turnover of the infrastructure materials business was offset by the growth of the transportation and energy businesses.

Profit before taxation increased by 16 per cent. due to the improved profit margins of CKI Materials, increased profit contribution from transportation and energy businesses in China and a full year contribution from Hongkong Electric.

Taxation mainly included taxation expenses of CKI Materials and the share of taxation expenses of Hongkong Electric.

Investment returns from the transportation and energy businesses are either not subject to PRC taxation or received after taxation, but interest income from certain infrastructure investments is subject to a withholding tax.

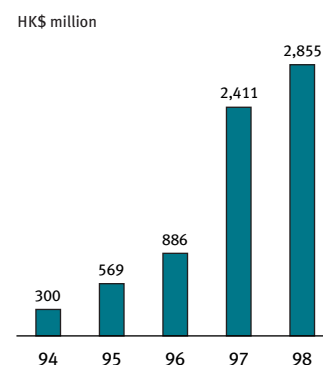
Profit attributable to shareholders increased to HK\$2,855 million, up 18 per cent. from 1997.

### Profit Mix

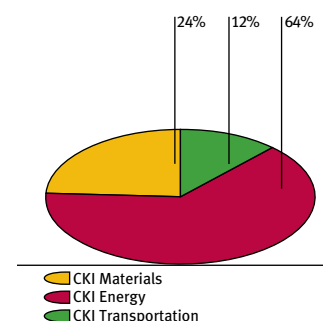
#### By Business Segment

Profit contribution represents profit contribution after taxation but before corporate overhead and net financing income/ expenses, net of attributable operating expenses. Relative profit contribution from each of the three business segments was 24 per cent., 64 per cent. and 12 per cent. (1997: 27 per cent., 64 per cent. and 9 per cent.) for CKI Materials, CKI Energy and CKI Transportation, respectively.

### Profit Attributable to Shareholders



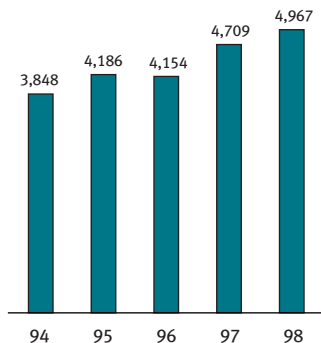
### 1998 Profit Contribution by Business Segment





### 1994-1998 Net Profit of Hongkong Electric

HK\$ million



#### Profit Mix continued

##### CKI Materials

Profit contribution from the infrastructure materials business increased by eight per cent., mainly due to higher profit margins as a result of productivity gains arising from strengthened management control and savings in material costs.

The Group experienced a slowdown in the Hong Kong cement market due to the regional economic downturn. However, prices have remained stable.

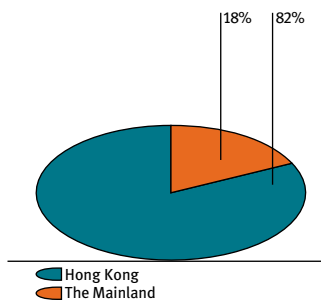
In 1998, Green Island Cement took over the management of the Yunfu Cement Plant in the Guangdong Province and expanded its environmental businesses in Hong Kong.

In 1998, Anderson Asia remained the market leader in the domestic concrete market. Even though sales volume decreased, profitability was maintained through the strengthening of management control and entry into the spray-coating market.

##### CKI Energy

CKI Energy posted a 22 per cent. increase in profit contribution over last year principally due to increased contribution from existing and new PRC projects, as well as a full year profit contribution from Hongkong Electric.

### 1998 Profit Contribution by Geographic Region



Profit attributable to shareholders of Hongkong Electric increased by 5.5 per cent. from HK\$4,709 million to HK\$4,967 million on back of a 6.8 per cent. increase in electricity sales. The Group's profit contribution from Hongkong Electric was HK\$1,794 million (1997: HK\$1,498 million), net of tax. The profit record of Hongkong Electric has been stable and its dividends provide stable recurrent cash flow to the Group. Hongkong Electric will recommend a final dividend of HK\$0.9 per share (with an optional scrip dividend proposal, which is subject to the approval of the shareholders of Hongkong Electric and the granting of the listing and permission to deal in the new shares by the Hong Kong Stock Exchange), to be paid in June 1999. Together with the interim dividend of HK\$0.535 per share paid in October 1998, the total dividend for 1998 will be HK\$1.435 (1997: HK\$1.360) per share, an increase of 5.5 per cent.

The power plant businesses in China showed a growth of 50 per cent. from 1997 as a result of a full year contribution from the Fushun Cogen Power Plants and additional contribution from new projects such as the Qinyang Power Plants and Siping Cogen Power Plants.

### CKI Transportation

Profit contribution from CKI Transportation increased 63 per cent. over that of last year, principally reflecting the increased number of PRC infrastructure projects generating revenue to the Group – in particular, the Shenyang Roads, National Highway 107 (Zhumadian Sections) and Changsha Wujialing and Wuyilu Bridges.

Investment returns from other road and bridge projects were in line with our expectations. The Shenyang roads and bridges were fully operational in 1998 and National Highway 107 (Zhumadian Sections) made a full year contribution. Upon capital injection to the Tangshan Tangle Road and Changsha Wujialing and Wuyilu Bridges in late 1997 and early 1998, contribution commenced accordingly.

### By Geographic Region

Profit contribution from Hong Kong and the Mainland was up 16 per cent. and 58 per cent., respectively. The 1998 relative profit contribution between Hong Kong and the Mainland was 82 per cent. and 18 per cent., respectively (1997: 86 per cent. and 14 per cent., respectively).

### Earnings Per Share

HK\$ million	1998	1997	% Change
Profit attributable to shareholders	2,855	2,411	18
Number of shares in issue, (1997: weighted average) million	2,254	2,089	8
Earnings per share	HK\$1.27	HK\$1.15	10

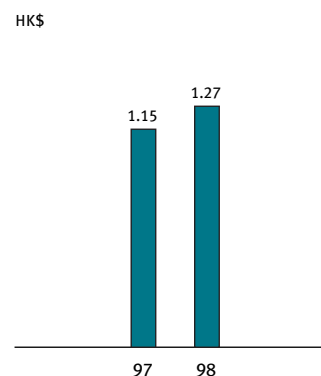
Earnings per share increased by 10 per cent. from HK\$1.15 in 1997 to HK\$1.27 in 1998.

### Analysis of PRC Infrastructure Investments

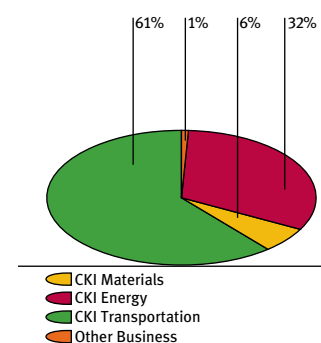
#### Business Segment

CKI Transportation was the largest business segment (61 per cent.) in terms of the Group's total committed investments in China as at the end of 1998. CKI Energy accounted for 32 per cent., while CKI Materials and water treatment plants accounted for 6 and 1 per cent., respectively.

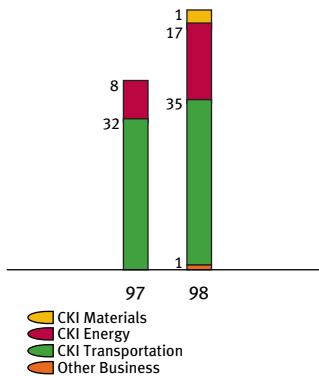
### Earnings Per Share



### 1998 Committed Investments in China by Business Segment



### Number of PRC Projects Generating Revenue



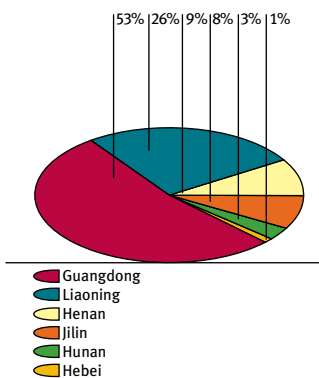
### Maturity

CKI's infrastructure businesses in China reported an increase of 58 per cent. in profit contribution. Our PRC portfolio is entering a mature phase with the majority of the projects contributing in 1998.

	Number of projects generating revenue	
	1998	1997
CKI Materials	1	–
CKI Energy	17	8
CKI Transportation	35	32
Other Business – Water	1	–
<b>Total</b>	<b>54</b>	<b>40</b>

At the end of 1998, there were a total of 54 infrastructure projects in the Mainland generating revenue to the Group (1997: 40). The projects generating revenue to the Group for the first time included the Yunfu Cement Plant, Qinyang Power Plants, Siping Cogen Power Plants, Changsha Wujialing and Wuyilu Bridges, Tangshan Tangle Road and Yueyang Water Plants.

### 1998 Profit Contribution of PRC Projects by Province

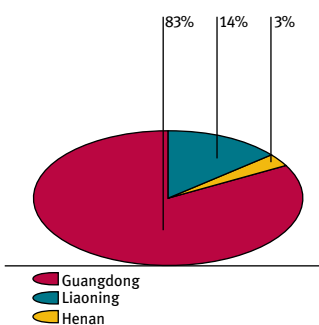


Except for the Guangzhou East South West Ring Road, Zhuhai Power Plant and Shantou Cement Grinding Plant, which are under construction, all other infrastructure projects generated revenue for the Group.

### Geographical Diversity

In 1998, projects in Guangdong, Liaoning and Henan accounted for 53 per cent., 26 per cent. and 9 per cent., respectively, of the total profit contribution from China (1997: 83 per cent., 14 per cent. and 3 per cent., respectively). Profit contribution came from Jilin (8 per cent.), Hunan (3 per cent.) and Hebei (1 per cent.) for the first time. As more projects are maturing, the geographical profit mix has become more evenly spread out to include the northern and central regions of China.

### 1997 Profit Contribution of PRC Projects by Province



As at the end of 1998, the Group's committed investments were spread out among 16 cities in China. The five cities in which the Group had invested the largest amounts were Shantou, Guangzhou, Nanhai, Zhuhai and Shenyang. No one city accounted for more than 18 per cent. of the Group's committed investments as at the end of 1998.



## Financial Position

### Summary Consolidated Balance Sheet

HK\$ million	1998	1997	% Change
Fixed assets	2,336	1,700	37
Associated companies	10,450	9,657	8
Jointly controlled entities	2,267	1,618	40
Infrastructure project investments	6,935	5,868	18
Other non-current assets	139	139	–
Current assets	2,835	3,686	(23)
Total assets	24,962	22,668	10
Current liabilities	1,272	1,223	4
Long term bank loan	3,100	3,100	–
Other long term liabilities and provisions	263	16	1,544
Total liabilities	4,635	4,339	7
Net assets	20,327	18,329	11

#### *Fixed assets*

Fixed assets are leasehold land and buildings, plant and machinery and other fixed assets – almost all attributable to CKI Materials. The increase was due to the additions of plant and machinery at the Yunfu Cement Plant, accounted for as a subsidiary of the Group.

#### *Associated companies*

Associated companies increased to HK\$10,450 million in 1998 (1997: HK\$9,657 million), due to share of current year undistributed profit of associated companies.

#### *Jointly controlled entities*

Jointly controlled entities are the Group's investments in the Shen-Shan Highway (Eastern Section), Shantou Bay Bridge and Guangzhou East South West Ring Road, in which the Group shares joint control and results of these entities. Both the Shen-Shan Highway (Eastern Section) and Shantou Bay Bridge are operational and generate revenue for the Group. The east-south section of the Guangzhou East South West Ring Road is operational and began generating revenue for the Group in early 1999. The full length is scheduled to commence operation in 2002.

#### *Infrastructure project investments*

Infrastructure project investments, which represent investments in other PRC infrastructure projects, increased by HK\$1,067 million in 1998 mainly due to capital injections into the Shenyang Roads, Jiangmen Jianghe Highway, Changsha Wujialing and Wuyilu Bridges, Qinyang Power Plants and Siping Cogen Power Plants during the year.

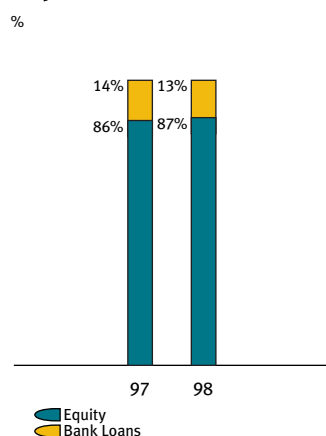
### Current assets

Current assets mainly comprise receivables of CKI Materials, receivables from infrastructure project investments and bank balances and cash. The majority of the returns from infrastructure projects are received after the calendar year end and upon completion of the project companies' audited accounts. All of the assured investment returns due from PRC infrastructure project investments at the end of 1997 were received during 1998.

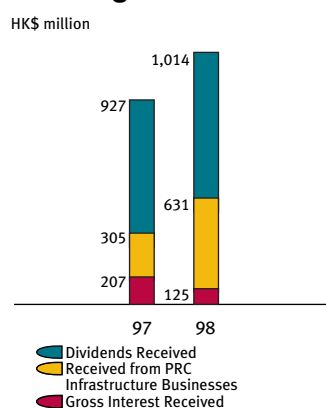
The decrease in total current assets was principally due to the decrease in cash balance from HK\$2,397 million in 1997 to HK\$1,331 million in 1998 for investment in infrastructure businesses and fixed assets.

### Capital Structure and Gearing Ratio

#### Capital Structure



#### Cash Inflow From Investments and Servicing of Finance



HK\$ million	1998		1997	
	Amount	Relative %	Amount	Relative %
Equity	20,327	87	18,329	86
Bank loans	3,100	13	3,100	14
Total capital employed	23,427	100	21,429	100

At the end of 1998, the ratio of total debts to total capitalisation was 13 per cent. (1997: 14 per cent.).

The Group's balance of debts, net of cash, was HK\$1,769 million at the end of 1998 (1997: HK\$703 million), and the net debt to equity ratio was 8.7 per cent. (1997: 3.8 per cent.).

### Interest Cover

HK\$ million	1998	1997	% Change
Net profit before net interest expenses and taxation	3,191	2,651	20
Interest expenses	190	158	20
Interest cover	17 times	17 times	-

The interest coverage for 1998 was 17 times, same as that in 1997.

### Cash and Treasury Management

#### Cash Flow

HK\$ million	1998	1997	% Change
Net cash flow from operating activities	706	769	(8)
Returns on investments and servicing of finance	812	707	15
Tax paid	(84)	(156)	(46)
Net cash flow before investing activities	1,434	1,320	9
Net cash outflow from investing activities	(2,749)	(3,817)	(28)
Net cash flow from financing activities	249	1,011	(75)
Decrease in cash balance	(1,066)	(1,486)	(28)

Cash flow from investments and servicing of finance increase by 15 per cent., mainly due to increased income received from infrastructure businesses in China amounting to HK\$631 million (1997: HK\$305 million) and dividends received from Hongkong Electric totaling HK\$1,014 million (1997: HK\$927 million).

Cash decreased mainly due to investment in the transportation and energy businesses.

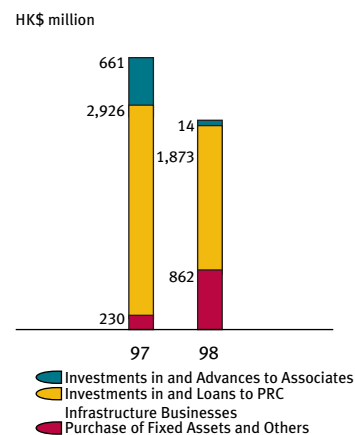
### Capital Expenditure Commitments

As at 31st December, 1998, the Group's outstanding contracted capital commitments amounted to HK\$1,261 million (1997: HK\$3,525 million), scheduled to be paid in accordance with the following timetable:

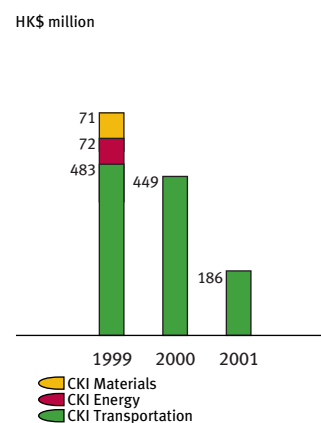
HK\$ million	1999	2000	2001	Total
CKI Energy	72	–	–	72
CKI Transportation	483	449	186	1,118
	555	449	186	1,190
Cement	65	–	–	65
Concrete, asphalt and aggregates	6	–	–	6
CKI Materials	71	–	–	71
<b>Total</b>	<b>626</b>	<b>449</b>	<b>186</b>	<b>1,261</b>

Over 98 per cent. of the contracted commitments are related to the PRC infrastructure investments. Except for the Guangzhou East South West Ring Road and Wuhan Huangjin (Golden) Bridge, all PRC infrastructure projects will be fully funded in 1999. Capital commitments can be fully funded by the Group's cash on hand, cash generated from operations and undrawn loan facilities.

### Cash Outflow From Investing Activities



### Capital Expenditure Commitments





### Treasury and Interest Rate Risk

The Group adopts a conservative approach to cash management and risk controls. The Group's treasury activities are centralised. Cash is generally placed in short term deposits denominated in either Hong Kong or U.S. dollars. Interest and currency swaps and other financial derivatives are used, where appropriate, for hedging purpose. The Group has no interest rate risk as the floating interest rate exposure of the outstanding HK\$3.1 billion in syndicated loans has been fully hedged by certain currency and interest rate swap transactions, which effectively convert the Hong Kong dollar denominated loans into U.S. dollar liabilities that bear fixed interest rates. The exchange risk of the U.S. liabilities is matched by U.S. dollar returns receivable from the Group's infrastructure investments in China.

### Foreign Exchange Risk

In terms of financial reporting, the Group's major foreign exchange exposure is to the Renminbi. The Group manages its Renminbi exchange risk through contractual commitments. Approximately 68 per cent. of the Group's committed investments in China as at the end of 1998 carried investment returns contractually denominated in either Hong Kong or U.S. dollars.

### Share Price

During 1998, the Company's share price decreased from HK\$21.90 on 31st December, 1997 to HK\$17.30 on 31st December, 1998, a decrease of 21 per cent. During the same period, the Hang Seng Index decreased by six per cent. During the year, the Company's market capitalisation decreased from HK\$49.4 billion to HK\$39.0 billion, a decrease of 21 per cent.

The Directors are pleased to present to shareholders the annual report together with the audited financial statements of the Company and of the Group for the year ended 31st December, 1998.

### **Principal Activities**

The Company's principal activities are the development, investment and operation of infrastructure businesses in Hong Kong, the Mainland and the Asia-Pacific region.

### **Results and Dividends**

Results of the Group for the year ended 31st December, 1998 are set out in the consolidated profit and loss statement on page 54.

The Directors recommend the payment of a final dividend of HK\$0.26 per share which, together with the interim dividend of HK\$0.12 per share paid on 13th October, 1998, makes a total dividend of HK\$0.38 per share for the year.

### **Fixed Assets**

Movements in the Group's fixed assets during the year are set out in note 8 to the financial statements on page 63.

### **Reserves**

Details of changes in the reserves of the Company and the Group are set out in note 19 to the financial statements on page 67.

### **Group Financial Summary**

Results, assets and liabilities of the Group for the last five years are summarised on page 4.

### **Properties**

Particulars of major properties held by the Group are set out in Appendix 5 on page 75.

### **Directors**

The Directors of the Company are listed on page 88. The Directors' biographical information is set out on page 30.

In accordance with the Company's bye-laws, the Directors of the Company (other than the Chairman and the Managing Director) retire in each year by rotation. Mr. George Colin Magnus and Mr. Frank John Sixt retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

### **Directors' Interests**

As at 31st December, 1998, the interests of the Directors in the shares of the Company and its associated corporations as required to be recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows :

**No. of Ordinary Shares**

Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Li Tzar Kuoi, Victor	–	–	–	1,912,109,945 (Note 1)	1,912,109,945
	Kam Hing Lam	100,000	–	–	–	100,000
Hutchison Whampoa	Li Tzar Kuoi, Victor	–	–	610,000 (Note 6)	1,944,547,978 (Note 2)	1,945,157,978
	George Colin Magnus	800,000	9,000	–	–	809,000
	Fok Kin Ning, Canning	875,089	–	–	–	875,089
	Lee Pui Ling, Angelina	35,000	–	–	–	35,000
Hongkong Electric	Li Tzar Kuoi, Victor	–	–	–	729,605,362 (Note 3)	729,605,362
	Lee Pui Ling, Angelina	8,800	–	–	–	8,800
Orange plc	Li Tzar Kuoi, Victor	–	–	250,000 (Note 6)	1,000,000 (Note 4)	1,250,000
	George Colin Magnus	–	–	–	25,000 (Note 7)	25,000
	Fok Kin Ning, Canning	24,390	–	–	–	24,390
	Chow Woo Mo Fong, Susan	14,634	–	–	–	14,634
Believewell Limited	Li Tzar Kuoi, Victor	–	–	–	1,000 (Note 5)	1,000
Queboton Limited	Li Tzar Kuoi, Victor	–	–	–	1,000 (Note 5)	1,000



Notes:

(1) The 1,912,109,945 shares in the Company comprise:

- (a) 1,906,681,945 shares are held by a subsidiary of Hutchison Whampoa Limited (“Hutchison Whampoa”). Certain subsidiaries of Cheung Kong (Holdings) Limited (“Cheung Kong Holdings”) hold more than one-third of the issued share capital of Hutchison Whampoa. Li Ka-Shing Unity Trustee Company Limited (“TUT”) as trustee of The Li Ka-Shing Unity Trust (the “LKS Unity Trust”) and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings. All issued and outstanding units in the LKS Unity Trust are held by Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and by another discretionary trust. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, his wife and daughter, and Mr. Li Tzar Kai, Richard. Mr. Li Tzar Kuoi, Victor, as a discretionary beneficiary of such discretionary trusts and a Director of the Company, is taken to be interested in those shares of Cheung Kong Holdings and in those shares of Hutchison Whampoa as held by the subsidiary of Cheung Kong Holdings and in those shares of the Company as held by the subsidiary of Hutchison Whampoa as aforesaid.
- (b) 3,603,000 shares are held by Pennywise Investments Limited (“Pennywise”) and 1,825,000 shares are held by Triumphant Investments Limited (“Triumphant”). Pennywise and Triumphant are companies controlled by TUT as trustee of the LKS Unity Trust. Mr. Li Tzar Kuoi, Victor is deemed to be interested in such shares of the Company held by Pennywise and Triumphant by virtue of his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above and as a Director of the Company.

(2) The 1,944,547,978 shares in Hutchison Whampoa comprise:

- (a) 1,936,547,978 shares are held by certain subsidiaries of Cheung Kong Holdings. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is taken to be interested in such shares in Hutchison Whampoa held by the subsidiaries of Cheung Kong Holdings by virtue of his deemed interests in the shares of Cheung Kong Holdings as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above; and
- (b) 8,000,000 shares are held by a unit trust. All issued and outstanding units of such unit trust are held by discretionary trusts. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, his wife and daughter, and Mr. Li Tzar Kai, Richard. Accordingly Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is deemed to be interested in such 8,000,000 shares in Hutchison Whampoa by virtue of his interests as described in this paragraph as a discretionary beneficiary of certain discretionary trusts.
- (3) The 729,605,362 shares in Hongkong Electric Holdings Limited (“Hongkong Electric”) are held by certain subsidiaries of the Company. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is taken to be interested in such shares in Hongkong Electric held by the subsidiaries of the Company by virtue of his deemed interests in the shares of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above.

- (4) The 1,000,000 shares in Orange plc, an associated company of Hutchison Whampoa, comprise:
- (a) 500,000 shares are held by a company controlled by TUT as trustee of the LKS Unity Trust. By virtue of being a Director of the Company and his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above, Mr. Li Tzar Kuoi, Victor is deemed to be interested in those shares of subsidiaries and associated companies of the Company and Hutchison Whampoa which are held by TUT (and companies it controls) as trustee of the LKS Unity Trust; and
  - (b) 500,000 shares are held by a company controlled by a unit trust. All issued and outstanding units of such unit trust are held by discretionary trusts. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is deemed to be interested in such 500,000 shares in Orange plc by virtue of his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 2(b) above.
- (5) These companies are associated companies of Hutchison Whampoa. By virtue of being a Director of the Company and his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above, Mr. Li Tzar Kuoi, Victor is deemed to be interested in those shares of subsidiaries and associated companies of the Company and Hutchison Whampoa which are held by TUT (and companies it controls) as trustee of the LKS Unity Trust.
- (6) These shares are beneficially owned by companies in which Mr. Li Tzar Kuoi, Victor is entitled to exercise or control the exercise of one-third or more of the voting power at its general meetings.
- (7) Mr. George Colin Magnus is a discretionary beneficiary of a family trust which owns a company which is interested in 25,000 shares in Orange plc.

Mr. Li Tzar Kuoi, Victor, by virtue of being a Director of the Company and his interests in the share capital of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above, is deemed to be interested in those shares of subsidiaries and associated companies of the Company held through the Company and in those shares of the subsidiaries and associated companies of Hutchison Whampoa held through Hutchison Whampoa under the provisions of the SDI Ordinance.

Apart from the above, as at 31st December, 1998 there was no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

No other contracts of significance to which the Company or a subsidiary was a party and in which a Director had a material interest subsisted at the balance sheet date or at any time during the year.

At no time during the year was the Company or subsidiary a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate.

None of the Directors has any service contract with the Company or any of its subsidiaries.

## Substantial Shareholders

In addition to the interests disclosed above in respect of the Directors, the Company was notified of the following interests in the issued ordinary share capital of the Company as at 31st December, 1998 as required to be recorded in the register maintained under Section 16(1) of the SDI Ordinance:

- (i) 1,906,681,945 shares of the Company are held by Ambervale Limited, a subsidiary of Hutchison Whampoa. Its interests are duplicated in the interests of Hutchison Whampoa in the Company described in (ii) below.
- (ii) Hutchison Whampoa is deemed to be interested in the 1,906,681,945 shares of the Company referred to in (i) above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Ambervale Limited.
- (iii) Cheung Kong Holdings is deemed to be interested in the 1,906,681,945 shares of the Company referred to in (ii) above as certain subsidiaries of Cheung Kong Holdings hold more than one-third of the issued share capital of Hutchison Whampoa.
- (iv) TUT as trustee of the LKS Unity Trust is deemed to be interested in those shares of the Company described in (iii) above as TUT and companies it controls as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings and in the 3,603,000 shares and 1,825,000 shares of the Company respectively held by Pennywise and Triumphant as Pennywise and Triumphant are companies controlled by TUT as trustee of the LKS Unity Trust.
- (v) Each of Mr. Li Ka-shing, Li Ka-Shing Unity Holdings Limited and Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust is deemed to be interested in the same block of shares TUT as trustee of the LKS Unity Trust is deemed to be interested in as referred to in (iv) above as all issued and outstanding units in the LKS Unity Trust are held by the Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and by another discretionary trust. More than one-third of the issued share capital of TUT and of the trustees of the said discretionary trusts are owned by Li Ka-Shing Unity Holdings Limited. Mr. Li Ka-shing owns more than one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited.



## Connected Transactions

The Group has from time to time conducted transactions with persons who are “connected persons” for the purposes of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The following transactions which are normally subject to the disclosure and/or shareholders’ approval requirements under Chapter 14 of the Listing Rules occurring during the financial year ended 31st December, 1998 will continue or will or may occur between the Group and the Hutchison Whampoa Group:

(i) Two term loan facility agreements were entered into in relation to Nanhai Power Plant I project in April 1995, one in respect of US\$40,000,000 (approximately HK\$309 million) and the other in respect of US\$90,000,000 (approximately HK\$696 million), and the borrower under such loans is the PRC project company undertaking the Nanhai Power Plant I. A shareholder support agreement (the “Shareholder Support Agreement”) was entered into between Cheung Kong Holdings, Hutchison Whampoa and Pennywise as obligors (the “Obligors”) and CEF (Capital Markets) Limited as agent for the lenders whereby each Obligor has undertaken, inter alia:

- (a) to procure Cheung Kong Hutchison Nanqiao Power Company Limited (the “Nanhai Foreign Party”), the foreign party to the PRC project company, to comply with its obligations under a construction and completion undertaking; and
- (b) to provide funds or assistance that the Nanhai Foreign Party may require in order to comply with its obligations under such undertaking in the following percentages:

Cheung Kong Holdings	68 per cent.
Hutchison Whampoa	23 per cent.
Pennywise	9 per cent.

and the maximum aggregate liability of the Obligors in respect of all claims for breaches of the provisions of the Shareholder Support Agreement shall not exceed the obligations of the borrower under the US\$40,000,000 facility and the liability of each Obligor shall be several and limited to the percentage set out against its name above.

The lenders in question have required the Shareholder Support Agreement to remain in place following the restructuring of the Company approved by the shareholders at the Special General Meeting of the Company held on 3rd March, 1997 (the “Cheung Kong Group Restructuring”). Pursuant to a deed of counter-indemnity given by the Company in favour of Cheung Kong Holdings, Hutchison Whampoa and Pennywise, the Company agreed with each of Cheung Kong Holdings, Hutchison Whampoa and Pennywise to meet all future funding obligations of each of them which may be required under the Shareholder Support Agreement and to counter-indemnify each of Cheung Kong Holdings, Hutchison Whampoa and Pennywise in respect of any sum provided by each of them and generally in respect of each of their liabilities and obligations under the Shareholder Support Agreement.

- (ii) A sponsors/shareholders' undertaking has been provided by each of Cheung Kong Holdings and Hutchison Whampoa in relation to the loan facilities in relation to the Zhuhai Power Plant. Pursuant to the sponsors/shareholders' undertaking, each of Cheung Kong Holdings and Hutchison Whampoa shall be severally liable for 50 per cent. of certain obligations of the foreign party (the "Zhuhai Foreign Party") to the PRC project company undertaking the Zhuhai Power Plant. The Zhuhai Foreign Party, which is an indirect wholly-owned subsidiary of the Company, has a 45 per cent. interest in the PRC project company. Pursuant to the deed of counter-indemnity referred to in paragraph (i) above, the Company has agreed with each of Cheung Kong Holdings and Hutchison Whampoa to meet all future funding obligations of each of them which may be required under such sponsors/shareholders' undertaking and to counter-indemnify each of Cheung Kong Holdings and Hutchison Whampoa in respect of any sum provided by each of them and generally in respect of each of their liabilities and obligations under such sponsors/shareholders' undertaking.
- (iii) Each of Cheung Kong Holdings, Hutchison Whampoa, Pennywise and Triumphant had given representations and warranties to the Company under the restructuring agreement dated 1st July, 1996 (the "Restructuring Agreement") entered into, among others, Cheung Kong Holdings, Hutchison Whampoa, Pennywise, Triumphant and the Company in relation to the ownership of certain shares and in relation to the companies in the Group, and undertakings to indemnify the Company against liabilities incurred as a result of breach of warranties given by each of them subject to certain limitations and matters disclosed in respect of the Restructuring Agreement. Under this arrangement, the Company will be indemnified in respect of certain breaches, which indemnity is for the benefit of the shareholders of the Company.
- (iv) Cheung Kong Holdings, Hutchison Whampoa, Pennywise and Triumphant had, pursuant to a deed of indemnity, agreed to indemnify the Company pro rata in the proportions of 94.22 per cent., 5.24 per cent., 0.36 per cent. and 0.18 per cent., respectively, in respect of Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the placing and new issue of shares by the Company pursuant to the prospectus of the Company dated 4th July, 1996 (the "Prospectus") in respect of the restructuring becomes unconditional. Under this arrangement, the Group will be indemnified in respect of estate duty, which indemnity is for the benefit of the shareholders of the Company.

In the opinion of the Directors of the Company, the transactions referred to above are in the ordinary and usual course of business of the Company, on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties, and are fair and reasonable so far as the shareholders of the Company are concerned, having regard to the circumstances in which they were entered into.

On 12th August, 1996, the Hong Kong Stock Exchange granted waivers (the “Waivers”) from strict compliance with the disclosure and shareholders’ approval requirements under Chapter 14 of the Listing Rules in respect of, inter alia, the abovementioned transactions (the “Transactions”) on the following bases:

- (1) the Transactions have been entered into or the terms of the respective agreements governing such Transactions are (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; and (iii) fair and reasonable so far as shareholders of the Company are concerned;
- (2) brief details of such Transactions as set out in Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in the 1996 annual report and each successive annual report; and
- (3) the independent non-executive directors of the Company shall review annually the Transactions and confirm in the 1996 annual report and each successive annual report that the Transactions are conducted in the manner as stated in condition (1) above or in accordance with the terms of the respective agreements governing such Transactions.

As a further condition of granting the Waivers, the Company is required to engage its auditors to provide the Board with a letter (the “Auditors’ Letter”) in respect of the Transactions occurring during the financial year ended 31st December, 1996. Where the Transactions will extend beyond one financial year, those requirements will apply for each successive financial year. The Auditors’ Letter is to be provided by the Company to the Hong Kong Stock Exchange.



The Auditors' Letter must state that :

- The Transactions received the approval of the Company's Board of Directors; and
- The Transactions have been entered into on normal commercial terms or in accordance with the terms of the agreement governing the Transactions, or where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties.

The Hong Kong Stock Exchange reserves the right to revoke or modify any waiver granted by the Waivers in the event of any change in the terms of the Transactions for which such waivers were granted (including any extension or renewal of the agreements evidencing such Transactions) or in the circumstances under which such waivers were granted. In any such case, the Company has to comply with provisions of Chapter 14 of the Listing Rules dealing with connected transactions unless it applies for and obtains a separate waiver from the Hong Kong Stock Exchange.

The Transactions have been reviewed by the Directors of the Company (including the independent non-executive directors). The Directors of the Company have confirmed that the Transactions have been entered into or the terms of the respective agreements governing such Transactions are (a) in the ordinary and usual course of business of the Company; (b) on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; and (c) fair and reasonable so far as the shareholders of the Company are concerned.

The independent non-executive directors of the Company have confirmed that for the year 1998 the Transactions were conducted in the manner as stated in condition (1) above or in accordance with the terms of the respective agreements governing such Transactions.

The auditors of the Company have also confirmed that for the year 1998 the Transactions received the approval of the Company's Board of Directors; and the Transactions have been entered into on normal commercial terms or in accordance with the terms of the agreement governing the Transactions, or where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties.

In view of the fact that the Waivers were only granted on the basis of the facts and circumstances described in the Prospectus and the original submission made by the Company prior to its listing, an application has been made to the Hong Kong Stock Exchange to confirm that such Waivers shall continue to be effective despite the change of circumstances which may result from the implementation of the Cheung Kong Group Restructuring. The Hong Kong Stock Exchange has indicated that such waiver shall continue to be effective on the same basis as referred to above.

### **Major Customers and Suppliers**

During the year, the Group's purchases attributable to the Group's five largest suppliers were less than 30 per cent. of the Group's purchases and 30.04 per cent. of the Group's sales recognised were attributable to the Group's five largest customers combined, with the largest customer accounting for 14.07 per cent. of the Group's sales.

Apart from the above, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5 per cent. of the Company's issued share capital) has any interest in the Group's five largest customers.

### Group's Liquidity and Financing

The Group's capital expenditure and investments in PRC infrastructure projects for the year were funded from cash on hand, internal cash generation and proceeds from the syndicated loans drawn in September 1997. As at the end of 1998, the Group's borrowings, net of cash, were HK\$1,769 million. Committed borrowing facilities available to the Group, but not drawn as at 31st December, 1998, amounted to HK\$700 million. The Group's solid recurring cash flow from operations and a conservatively low gearing ratio enable the Group to face the current economic situation with strong financial resources and capacity to grow.

### Treasury Policies

The Group adopts conservative treasury policies in cash management and risk control. The Group's treasury activities are centralised. Cash is generally placed in short term deposits denominated in either Hong Kong or U.S. Dollars.

The Group has fully hedged its floating interest rate exposure of the outstanding HK\$3.1 billion syndicated loans by entering into currency and interest rate swap transactions, which effectively convert the Hong Kong dollar-denominated loans into U.S. dollar liabilities that bear fixed interest rates. The U.S. dollars interest payments are also matched by the investment returns from our PRC infrastructure projects, the majority of which are denominated in U.S. dollars.

### Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws although there are no restrictions against such rights under the laws of Bermuda.

### Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### Employees

The Group, including its subsidiaries but excluding associated companies, employs a total of 2,409 employees. Employees' cost (excluding directors' emoluments) amounted to HK\$474.9 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Preferential subscription of 2,978,000 new shares of the Company had been given to its employees who had submitted the pink application forms to subscribe for shares of HK\$1.00 each in the Company at HK\$12.65 per share on the flotation of the Company. The Group does not have any share option scheme for employees.

### Donations

Donations made by the Group during the year amounted to HK\$30,363,250.

### Code of Best Practice

The Company has complied with Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by this annual report.

## Audit Committee

Pursuant to the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, an Audit Committee of the Company was established in December 1998 with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Society of Accountants. Subsequent to its formation, the Committee met once in 1999.

The Audit Committee is answerable to the Board and the principal duties of the Committee include the review and supervision of the Company’s financial reporting process and internal controls.

## Practice Note 19 to the Stock Exchange Listing Rules

The following information is disclosed in accordance with paragraph 3.7.1 of the Practice Note 19:

- (a) The Group has entered into a syndicated loan facility agreement of HK\$3.8 billion of which HK\$3.1 billion was drawn as at the end of 1998. The facility will mature in 2002. Under the provision of the loan agreement, it is an event of default if Hutchison Whampoa (the Company’s controlling shareholder) ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (b) A sponsors/shareholders’ undertaking referred to in paragraph (ii) of the Connected Transactions has been provided by Hutchison Whampoa, the Zhuhai Foreign Party and the other parties in relation to two loan facilities of the PRC project company undertaking the Zhuhai Power Plant. The two loans, in the amounts of US\$125,500,000 and US\$670,000,000, are repayable by installments with the final repayment due in 2008 and 2012 respectively. It is an event of default for both facilities if Cheung Kong Holdings and Hutchison Whampoa collectively own directly or indirectly less than 51 per cent. of the shareholding in the Zhuhai Foreign Party. Pursuant to the sponsors/shareholders’ undertaking, Hutchison Whampoa, together with the other parties, shall undertake certain obligations and inter alia, shall be severally liable for providing funds for cost overrun of the Zhuhai Power Plant, if any. The liabilities and obligations of Hutchison Whampoa have been counter-indemnified by the Company pursuant to the deed of counter-indemnity referred to in paragraph (ii) of the Connected Transactions. There is no breach in respect of all of the obligations under the sponsors/shareholders’ undertaking.

## Millennium Issue

The Group is aware of the importance of a Year 2000 compliance programme which is targeted to ensure all major systems, computer applications, software and hardware devices owned or developed by the Group will accurately calculate date data prior to, through and beyond year 2000. Some units of the Group have been modifying some of their computer and production systems to be Year 2000 compliant since 1997.

As mentioned in the 1998 Interim Report, a central programme office has been established by the Group in 1997 to monitor the Year 2000 compliance programme and to devise and implement remedial and contingency plans. Progress reports of the Year 2000 compliance programme have been submitted to the Executive Committee by the central programme office on a regular basis.

The Group has accomplished substantial progress of the Year 2000 compliance programme. Most of all major computer information systems have been reviewed and upgraded. The Group's target date for its major systems to be Year 2000 compliant is mid-1999, after that further testing and refinements may be required.

One of the issues of the Year 2000 programme is the Group's reliance upon and interface with third parties such as suppliers, customers, business partners, operators, and service providers. The Group has been actively assessing the commitment of such third parties in achieving Year 2000 compliance. Disruption to the Group's business operations may result due to the non-compliance of the systems of third parties. However, extensive contingency plans are being prepared with a view to responding to any interruption in speedy and organised manner.

Total costs for the Year 2000 compliance programme are estimated to be HK\$16 million, of which HK\$6 million was incurred as at 31st December, 1998. To complete the Year 2000 compliance programme, the Group expects to spend a further amount of HK\$10 million, of which HK\$2 million has been committed. Most of these costs will be recognised as expenses.

## Auditors

The financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu who retire and offer themselves for re-appointment.

On behalf of the Board

**Li Tzar Kuoi, Victor**

Chairman

Hong Kong, 18th March, 1999



**Deloitte Touche  
Tohmatsu****德勤·關黃陳  
方****Certified Public Accountants**26th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong**Report of the Auditors to the Members of Cheung Kong Infrastructure Holdings Limited**  
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 54 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective Responsibilities of Directors and Auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of Opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

Certified Public Accountants

Hong Kong, 18th March, 1999

for the year ended 31st December

HK\$ million	Note	1998	1997
<b>Turnover</b>	2	<b>3,291</b>	3,314
<b>Operating profit</b>		<b>1,122</b>	1,059
Share of results of associated companies		<b>1,971</b>	1,635
Share of results of jointly controlled entities		<b>33</b>	2
<b>Profit before taxation</b>	3	<b>3,126</b>	2,696
Taxation	4	<b>(273)</b>	(283)
<b>Profit after taxation</b>		<b>2,853</b>	2,413
Minority interests		<b>2</b>	(2)
<b>Profit attributable to shareholders</b>	5	<b>2,855</b>	2,411
Dividends	6	<b>(857)</b>	(721)
<b>Profit for the year retained</b>		<b>1,998</b>	1,690
Profit for the year retained by:			
The Company and subsidiaries		<b>1,186</b>	560
Associated companies		<b>779</b>	1,128
Jointly controlled entities		<b>33</b>	2
		<b>1,998</b>	1,690
<b>Earnings per share</b>	7	<b>HK\$1.27</b>	HK\$1.15

as at 31st December

HK\$ million	Note	Group		Company	
		1998	1997	1998	1997
Fixed assets	8	2,336	1,700	–	–
Subsidiaries	9	–	–	27,241	26,322
Associated companies	10	10,450	9,657	–	–
Jointly controlled entities	11	2,267	1,618	–	–
Infrastructure project investments	12	6,935	5,868	–	–
Other non-current assets	13	139	139	–	–
<b>Total non-current assets</b>		<b>22,127</b>	<b>18,982</b>	<b>27,241</b>	<b>26,322</b>
Current assets	14	2,835	3,686	1,360	1,692
Current liabilities	15	1,272	1,223	596	510
<b>Net current assets</b>		<b>1,563</b>	<b>2,463</b>	<b>764</b>	<b>1,182</b>
Bank loans	16	3,100	3,100	–	–
Deferred taxation	17	7	6	–	–
Minority interests		256	10	–	–
<b>Total long term liabilities</b>		<b>3,363</b>	<b>3,116</b>	<b>–</b>	<b>–</b>
<b>Net assets</b>		<b>20,327</b>	<b>18,329</b>	<b>28,005</b>	<b>27,504</b>
Representing:					
Share capital	18	2,254	2,254	2,254	2,254
Reserves	19	18,073	16,075	25,751	25,250
<b>Total shareholders' equity</b>		<b>20,327</b>	<b>18,329</b>	<b>28,005</b>	<b>27,504</b>

**Li Tzar Kuoi, Victor**

Director

18th March 1999

**Ip Tak Chuen, Edmond**

Director

for the year ended 31st December

HK\$ million	Note	1998	1997
<b>Net cash inflow from operating activities</b>	20(a)	<b>706</b>	769
Returns on investments and servicing of finance			
Interest received		125	207
Interest paid		(192)	(147)
Dividends received from a listed associated company		1,014	927
Dividends paid		(767)	(586)
Dividends paid to minority shareholders		(1)	–
Interest received from jointly controlled entities		45	15
Returns on investments received from infrastructure project investments		586	290
Finance lease charge received		2	1
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>812</b>	707
<b>Profits tax paid</b>		<b>(84)</b>	(156)
<b>Net cash inflow before investing activities</b>		<b>1,434</b>	1,320
Investing activities			
Purchase of fixed assets		(816)	(233)
Disposal of fixed assets		1	9
Purchase of marketable securities		(53)	–
Purchase of a subsidiary		–	(9)
Investments in jointly controlled entities		–	(219)
Loans to jointly controlled entities		(611)	(403)
Investments in infrastructure projects		(1,262)	(2,304)
Investments in associated companies		–	(599)
Advances to associated companies		(14)	(62)
Repayment from finance lease debtors		6	4
Deferred expenditure		–	(1)
<b>Net cash (outflow) from investing activities</b>		<b>(2,749)</b>	(3,817)
<b>Net cash (outflow) before financing</b>		<b>(1,315)</b>	(2,497)
Financing	20(b)		
Bank loans		400	3,100
Repayment of bank loans		(400)	(2,057)
Contributions from minority shareholders		249	3
Cheung Kong Group Restructuring and share issue expenses		–	(35)
<b>Net cash inflow from financing</b>		<b>249</b>	1,011
<b>Net (decrease) in cash and cash equivalents</b>		<b>(1,066)</b>	(1,486)
Bank and cash balances at 1st January		2,397	3,883
<b>Cash and cash equivalents at 31st December</b>		<b>1,331</b>	2,397
Representing:			
<b>Bank and cash balances at 31st December</b>		<b>1,331</b>	2,397



## 1. Principal Accounting Policies

### a) Basis of Preparation of Financial Statements

The financial statements are prepared under the historical cost convention, and in accordance with generally accepted accounting practices in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

### b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December together with the Group's interests in associated companies and jointly controlled entities on the basis set out in (e) and (f) below respectively.

Results of subsidiaries, associated companies and jointly controlled entities acquired or disposed of during the year are accounted for as from or up to the effective dates of acquisition or disposal.

### c) Goodwill

Goodwill represents the excess of costs of acquisition over the fair value of the Group's share of the net assets of subsidiaries and associated companies acquired and is eliminated against reserves in the year of acquisition.

### d) Subsidiaries

A subsidiary is a company in which the Group has a long-term equity interest of over 50 per cent. or the Group controls more than half of its voting power or the composition of its board of directors. Investments in subsidiaries are carried at cost less provision for any permanent diminution in value where appropriate.

### e) Associated Companies

An associated company is a company, other than a subsidiary, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

Investments in associated companies are stated in the consolidated balance sheet at the Group's share of their net assets, after attributing fair values to their underlying net assets at the date of acquisition. Income from associated companies is stated in the consolidated profit and loss statement at the Group's share of the post-acquisition results of the associated companies.

### f) Jointly Controlled Entities

A joint venture is a contractual arrangement whereby the venturers undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Jointly controlled entities are joint ventures which involve the establishment of a separate entity. The Group's interests in jointly controlled entities are included in the consolidated balance sheet at cost plus the Group's share of the post acquisition results of the jointly controlled entities less distribution and provision, where appropriate. Results from the jointly controlled entities are stated in the consolidated profit and loss statement at the Group's share of their post-acquisition results in accordance with the Statement of Standard Accounting Practice No. 21 "Accounting for Interests in Joint Ventures" issued by the Hong Kong Society of Accountants which became effective from 1st January, 1998.

The adoption of this statement has no effect on the Group's profit attributable to shareholders or reserves. However, the Group's share of results of jointly controlled entities are required to be disclosed separately and certain comparative figures have been reclassified to conform with the current year's presentation.

## 1. Principal Accounting Policies continued

### g) Infrastructure Project Investments

Investments in infrastructure projects which do not fall into the definition of subsidiaries, associated companies and jointly controlled entities are classified as infrastructure project investments if the Group's return to be derived therefrom is predetermined in accordance with the provisions of the relevant agreements and the venturers' share of net assets are not in proportion to their capital contribution ratios but is as defined in the contracts and in respect of which the Group is not entitled to share the assets at the end of the investment period.

The Group's interests in the infrastructure project investments are recorded at cost less amortisation over the respective contract period on a straight line basis upon commencement of operation of the projects or upon commencement of the Group's entitlement to income. Where the estimated recoverable amount of these investments falls below their carrying value, the carrying value is written down to the recoverable amount. Income from these investments is recognised when the Group's right to receive payment is established.

### h) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use.

Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is charged to the profit and loss statement in the period in which it is incurred.

Where the recoverable amount of an asset has declined below its recoverable amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present value.

Depreciation of fixed assets is calculated to write off their depreciable amount over their estimated useful lives using the straight line method, at the following rates per annum:

Land	Over the unexpired lease term of the land
Buildings	2% – 3-1/3% or over the unexpired lease term of the land, whichever the shorter
Plant and machinery	3-1/3% – 33-1/3%
Others	5% – 33-1/3%

When an asset is disposed of or retired, any gain or loss, representing the difference between the carrying value and the sales proceeds, if any, is included in the profit and loss statement.

### i) Inventories

Inventories are stated at the lower of cost, computed on a weighted-average or a first-in first-out basis, and net realisable value. Cost includes cost of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and conditions. Net realisable value is determined on the basis of anticipated sales proceeds less estimates of costs to completion and selling expenses.

**j) Contract Work**

When the outcome of a contract can be estimated reliably, revenue and costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity, that is the proportion that contract costs incurred for work performed to date bears to the estimated total contract costs at the balance sheet date.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

**k) Marketable Securities**

Marketable securities held as current assets are stated at the lower of cost or net realisable value.

**l) Revenue Recognition**

(i) Sales of goods

Revenue from sale of goods is recognised at the time when the goods are delivered or title to the goods passes to the customers. Revenue is arrived at after deduction of any sales returns and discounts and does not include sales taxes.

(ii) Contract revenue

Income from contract work is recognised according to the stage of completion.

(iii) Income from infrastructure project investments

Income from infrastructure project investments is recognised when the Company's right to receive payment is established and is calculated in accordance with the terms and conditions of the relevant contracts.

(iv) Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

**m) Foreign Currencies**

The profit and loss statement and cash flow statement of overseas subsidiaries, associated companies and jointly controlled entities are translated into Hong Kong dollars using average rates of exchange. Balance sheets are translated at closing rates.

Exchange differences arising on the translation at closing rates of the opening net assets and the profits for the year retained by overseas subsidiaries, associated companies and jointly controlled entities are taken to reserves.

Foreign currency transactions are translated into Hong Kong dollars at rates approximating those ruling at the relevant transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with in the profit and loss statement.

**n) Deferred Taxation**

Tax deferred or accelerated by the effects of timing differences is provided, using the liability method, to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

**1. Principal Accounting Policies** continued

**o) Operating Leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rental payable under operating leases is recorded in the profit and loss statement on a straight line basis over the lease term.

**p) Finance Leases**

Leases that substantially transfer all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases. The amounts due from the lessees under finance lease contracts are recorded as finance lease debtors. The finance lease debtors comprise the minimum lease payments under the finance lease contracts less gross earnings allocated to future accounting periods. Gross earnings from finance leases are recognised, on a straight line basis, over the terms of the respective leases.

**q) Deferred Expenditure**

Deferred expenditure, which represents pre-operating expenses incurred prior to commercial operation of the projects, is amortised on a straight line basis over a period of ten years commencing from the date of revenue contribution or commercial operation of the respective projects, whichever is the earlier.

**r) Retirement Benefits**

The Group operates defined contribution and defined benefit retirement schemes for its employees. The costs of defined contribution schemes are charged to the profit and loss statement as and when the contributions fall due. The costs of defined benefit schemes are charged against profit on a systematic basis with any surpluses and deficits allocated so as to spread them over the expected remaining service lives of the employees affected.

**s) Borrowing Costs**

Borrowing costs are expensed in the profit and loss statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the financing of the Group's infrastructure projects up to the commencement of revenue contribution or upon commencement of operation of the projects, whichever is the earlier.



## 2. Turnover

Turnover represents net sales from infrastructure materials businesses, return on investments and interest income received and receivable from infrastructure project investments, net of withholding tax, where applicable, and is analysed as follows:

HK\$ million	1998	1997
<b>Net sales from infrastructure materials businesses</b>	<b>2,361</b>	2,773
Income from infrastructure project investments		
Investment returns	822	430
Interest income, net of withholding tax where applicable	108	111
Sub-total	930	541
<b>Total</b>	<b>3,291</b>	3,314

Turnover is geographically analysed as follows:

HK\$ million	1998	1997
Hong Kong	2,119	2,680
The Mainland	1,172	634
<b>Total</b>	<b>3,291</b>	3,314

## 3. Profit before Taxation

HK\$ million	1998	1997
<b>Profit before taxation is arrived at after crediting:</b>		
Bank interest income	125	203
Finance lease income	2	1
Gain on disposal of fixed assets	6	–
Contract revenue	145	152
<b>and charging:</b>		
Interest on bank borrowings, wholly repayable within five years	190	158
Less: Interest capitalised	(78)	(50)
	112	108
Cost of inventories sold	1,120	1,372
Depreciation	175	143
Amortisation of costs deferred expenditure	2	2
Amortisation of costs of investment in infrastructure projects	223	105
Loss on disposal of fixed assets	–	12
Operating lease rental		
Land and buildings	40	23
Vessels	64	163
Directors' remuneration (note 22)	13	14
Auditors' remuneration	2	2

**3. Profit before Taxation** (continued)

Profit before taxation is geographically analysed as follows:

HK\$ million	1998	1997
Hong Kong	2,560	2,345
The Mainland	566	351
<b>Total</b>	<b>3,126</b>	2,696

**4. Taxation**

HK\$ million	1998	1997
<b>Company and Subsidiaries</b>		
Hong Kong profits tax - current	94	142
- deferred	1	2
	<b>95</b>	144
<b>Associated company</b>		
Hong Kong profits tax - current	178	139
<b>Total</b>	<b>273</b>	283

Hong Kong profits tax is provided for at the rate of 16.0 per cent. (1997: 16.5 per cent.) on the estimated assessable profits for the year less available tax relief for losses brought forward.

**5. Profit Attributable to Shareholders**

Profit attributable to shareholders dealt with in the financial statements of the Company amounted to HK\$1,358 million (1997: HK\$1,202 million).

**6. Dividends**

HK\$ million	1998	1997
Interim dividend paid of HK\$0.12 per share (1997: HK\$0.10)	271	225
Proposed final dividend of HK\$0.26 per share (1997: HK\$0.22)	586	496
<b>Total</b>	<b>857</b>	721

**7. Earnings Per Share**

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$2,855 million (1997: HK\$2,411 million) and on 2,254,209,945 shares (1997: weighted average number of 2,089,107,818 shares) in issue during the year.

## 8. Fixed Assets

HK\$ million	Medium term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings in the Mainland	Short term leasehold land and buildings in Hong Kong	Plant and machinery	Furniture, fixtures and others	Total
Cost						
At 1st January, 1998	845	10	90	1,462	251	2,658
Additions	6	261	–	486	63	816
Disposals	–	–	–	(7)	(18)	(25)
At 31st December, 1998	851	271	90	1,941	296	3,449
Accumulated depreciation						
At 1st January, 1998	163	2	82	586	125	958
Charge for the year	27	5	7	92	44	175
Disposals	–	–	–	(7)	(13)	(20)
At 31st December, 1998	190	7	89	671	156	1,113
Net book value						
<b>At 31st December, 1998</b>	<b>661</b>	<b>264</b>	<b>1</b>	<b>1,270</b>	<b>140</b>	<b>2,336</b>
At 31st December, 1997	682	8	8	876	126	1,700

## 9. Subsidiaries

HK\$ million	Company	
	1998	1997
Unlisted shares, at cost	22,757	22,757
Amounts due by subsidiaries	4,484	3,565
<b>At 31st December</b>	<b>27,241</b>	<b>26,322</b>

Particulars of the principal subsidiaries of the Group are set out in Appendix 1 on page 71.

## 10. Associated Companies

HK\$ million	Group	
	1998	1997
Share of net assets:		
Listed associated company	10,282	9,503
Unlisted associated companies	22	22
	10,304	9,525
Amounts due by unlisted associated companies	146	132
<b>At 31st December</b>	<b>10,450</b>	<b>9,657</b>
Market value of the Group's interest in the listed associated company	17,146	21,487

Particulars of the principal associated companies of the Group are set out in Appendix 2 on page 72.

An extract of the published financial statements of Hongkong Electric, a principal associated company of the Group, for the year ended 31st December 1998, is shown in Appendix 4 on page 74.

## 11. Jointly Controlled Entities

HK\$ million	Group	
	1998	1997
Registered capital	387	337
Shareholders' loans to jointly controlled entities	1,817	1,206
Share of undistributed post-acquisition results	63	75
<b>At 31st December</b>	<b>2,267</b>	<b>1,618</b>

Particulars of the Group's interests in the jointly controlled entities are set out in Appendix 3 on page 73.

## 12. Infrastructure Project Investments

HK\$ million	Group	
	1998	1997
Investments	7,381	6,091
Accumulated amortisation	(446)	(223)
<b>At 31st December</b>	<b>6,935</b>	<b>5,868</b>



### 13. Other Non-current Assets

Other non-current assets comprise the followings:

HK\$ million	Group	
	1998	1997
Deferred expenditure	130	132
Retention receivables	3	3
Finance lease debtors - non-current portion	6	4
<b>At 31st December</b>	<b>139</b>	<b>139</b>

Details of finance lease debtors are further shown below:

HK\$ million	Group	
	1998	1997
Total outstanding finance lease debtors	12	8
Less: Amounts due within one year included in current assets	(6)	(4)
	6	4
Cost of assets acquired for leasing under finance leases	26	17

### 14. Current Assets

HK\$ million	Group		Company	
	1998	1997	1998	1997
Inventories	163	148	–	–
Amounts due from customers for contract work	3	–	–	–
Debtors and prepayments	1,285	1,141	3	3
Dividend receivable	–	–	1,356	1,200
Marketable securities	53	–	–	–
Bank balances and cash	1,331	2,397	1	489
<b>Total</b>	<b>2,835</b>	<b>3,686</b>	<b>1,360</b>	<b>1,692</b>

As at 31st December 1998, the market value of the marketable securities which are listed overseas was HK\$55 million.

Details of inventories of the Group are further shown below:

HK\$ million	1998	1997
Raw materials	49	38
Work-in-progress	20	11
Stores, spare parts and operating supplies	80	79
Finished goods	9	15
Sub-total	158	143
Completed properties for resale	5	5
<b>Total</b>	<b>163</b>	<b>148</b>

Details of amounts due from customers for contract work are as follows:

HK\$ million	1998	1997
Costs plus recognised profits less recognised losses	76	26
Progress billings	(73)	(26)
Due from customers	3	–

## 15. Current Liabilities

HK\$ million	Group		Company	
	1998	1997	1998	1997
Creditors and accruals	620	671	10	14
Provision for taxation	66	56	–	–
Proposed dividends	586	496	586	496
<b>Total</b>	<b>1,272</b>	<b>1,223</b>	<b>596</b>	<b>510</b>

## 16. Bank Loans

The syndication loans are unsecured and bear interest based on Hong Kong Interbank Offered Rate plus a spread. The syndication loans, which are due in 2002, are guaranteed by the Company. The Group entered into certain currency and interest rate swap transactions which effectively converted the Hong Kong dollar bank loans into U.S. dollar liabilities which bear interest at fixed interest rates.

## 17. Deferred Taxation

Deferred tax has been provided in respect of material timing differences arising from depreciation allowances claimed for taxation purposes in excess of depreciation charges in the financial statements. The potential deferred tax liabilities (assets) which have not been provided for are as follows:

HK\$ million	1998	1997
Depreciation allowances in excess of related depreciation charge	63	53
Unutilised tax losses	(20)	(4)
<b>Net potential liabilities unprovided</b>	<b>43</b>	<b>49</b>

The Group does not expect the unprovided potential deferred tax liabilities to crystallise in the foreseeable future.

## 18. Share Capital

HK\$ million	1998	1997
<b>Authorised:</b>		
4,000,000,000 shares of HK\$1 each	4,000	4,000
<b>Issued and fully paid:</b>		
2,254,209,945 shares of HK\$1 each	2,254	2,254

## 19. Reserves

HK\$ million	Group			Total
	Share premium	Contributed surplus	Retained profit	
At 1st January, 1998	3,836	8,177	4,062	16,075
Profit for the year retained	–	–	1,998	1,998
<b>At 31st December, 1998</b>	<b>3,836</b>	<b>8,177</b>	<b>6,060</b>	<b>18,073</b>

The retained profit of the Group included the Group's share of the undistributed retained profit of its associated companies and jointly controlled entities amounting to HK\$1,907 million (1997: HK\$1,128 million) and HK\$63 million (1997: HK\$75 million) respectively.

HK\$ million	Company			Total
	Share premium	Contributed surplus	Retained profit	
At 1st January, 1998	3,836	20,810	604	25,250
Profit for the year retained	–	–	501	501
<b>At 31st December, 1998</b>	<b>3,836</b>	<b>20,810</b>	<b>1,105</b>	<b>25,751</b>

Contributed surplus of the Company arose when the Company issued shares in exchange for the shares of subsidiaries and associated companies being acquired pursuant to the IPO Reorganisation in July 1996 and the Cheung Kong Group Restructuring in March 1997, and represents the difference between the value of net assets of the companies acquired and the nominal value of the Company's shares issued. Under the Company Act of 1981 of Bermuda (as amended), the contributed surplus is available for distribution to the shareholders.

Total distributable reserves of the Company amounted to HK\$21,915 million as at 31st December, 1998 (1997: HK\$21,414 million).

## 20. Notes to Consolidated Cash Flow Statement

### (a) Reconciliation of profit before taxation to net cash inflow from operating activities

HK\$ million	1998	1997
Profit before taxation	3,126	2,696
Share of results of associated companies	(1,971)	(1,635)
Share of results of jointly controlled entities	(33)	(2)
Income from infrastructure project investments	(930)	(541)
Interest income	(125)	(203)
Interest expenses	112	108
Finance lease income	(2)	(1)
Depreciation	175	143
Amortisation of deferred expenditure	2	2
Amortisation of costs of investment in infrastructure projects	223	105
(Gain)/loss on disposal of fixed assets	(6)	12
(Increase) in inventories	(15)	(4)
Increase in amounts due on contract work	(3)	–
Decrease/(increase) in debtors and prepayments	202	(45)
(Decrease)/increase in creditors and accruals	(49)	134
<b>Net cash inflow from operating activities</b>	<b>706</b>	<b>769</b>

**20. Notes to Consolidated Cash Flow Statement** (continued)

(b) Analysis of changes in financing during the year

HK\$ million	Share capital and premium	Contributed surplus	Bank loans	Minority interests	Total
At 1st January, 1998	6,090	8,177	3,100	10	17,377
Net cash inflow from financing	–	–	–	249	249
Minority's share of loss	–	–	–	(2)	(2)
Dividend paid to minority	–	–	–	(1)	(1)
<b>At 31st December, 1998</b>	<b>6,090</b>	<b>8,177</b>	<b>3,100</b>	<b>256</b>	<b>17,623</b>

**21. Retirement Scheme**

The Group provides defined contribution retirement schemes for its eligible employees with the exception of a subsidiary which provides a defined benefit scheme. Contributions to the defined contribution schemes are made by either the employer only at 10 per cent. of the employees' monthly basic salary or by both the employer and the employees each at 10 per cent. of the employees' monthly basic salary. Contributions to the defined benefit scheme are made by the employees at either 5 per cent. or 7 per cent. on the employees' salary and contributions made by the employer are based on the recommendations of an independent actuary according to the periodic actuarial valuation of the scheme.

The latest actuarial valuation of the defined benefit scheme was completed as at 1st January, 1999 by Joseph K. L. Yip, F.S.A., a fellow member of the Society of Actuaries, of The Watson Wyatt Hong Kong Limited. The actuarial method adopted was Attained Age Funding Method and the main assumptions used were the long term average annual rate of investment return on the scheme assets at 9 per cent. per annum and the long term average annual salary increases at 7 per cent. per annum.

The net asset value of the defined benefit scheme's assets as at 31st December, 1998 was HK\$92 million and the latest actuarial valuation showed that the scheme's assets covered 67 per cent. of the actuarial accrued liabilities at the valuation date. The Group's future annual contribution is designed to fund the shortfall over a period of time and the employer funding rates have been increased effective 1st January, 1998 and are subject to annual actuarial review.

Forfeited contributions and earnings for the year under the defined contribution schemes amounting to HK\$1 million (1997: HK\$2 million) have been used to reduce the existing level of contributions. The Group's costs on employees retirement schemes for the year amounted to HK\$35 million (1997: HK\$22 million).

## 22. Remuneration of Directors and Senior Executives

### (a) Directors' Remuneration

The following table shows the remuneration of the Company's Directors:

HK\$ million	1998	1997
Salaries, benefits in kind and fees	7	5
Contribution to retirement schemes	–	–
Bonuses	6	9
<b>Total</b>	<b>13</b>	<b>14</b>

The Directors' remuneration for the year included fees of HK\$500,000 (1997: HK\$500,000) of which HK\$100,000 (1997: HK\$100,000) was paid to the Non-executive Directors of the Company.

The table below shows the number of Directors whose remuneration was within the following bands:

Remuneration band	1998	1997
Nil - HK\$1,000,000	7	7
HK\$2,000,001 - HK\$2,500,000	–	1
HK\$2,500,001 - HK\$3,000,000	1	–
HK\$3,000,001 - HK\$3,500,000	1	–
HK\$4,500,001 - HK\$5,000,000	–	1
HK\$6,000,001 - HK\$6,500,000	1	1

### (b) Senior Executives' Remuneration

Of the five individuals with the highest emoluments in the Group, one (1997: two) is Director whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other four (1997: three) individuals are as follows:

HK\$ million	1998	1997
Salaries and benefits in kind	13	9
Contributions to retirement schemes	1	1
Bonuses	7	11
<b>Total</b>	<b>21</b>	<b>21</b>

The four (1997: three) individuals with the highest emoluments are within the following bands:

Remuneration band	1998	1997
HK\$4,000,001 - HK\$4,500,000	1	–
HK\$4,500,001 - HK\$5,000,000	1	–
HK\$5,000,001 - HK\$5,500,000	1	–
HK\$6,000,001 - HK\$6,500,000	1	1
HK\$7,000,001 - HK\$7,500,000	–	1
HK\$7,500,001 - HK\$8,000,000	–	1



### 23. Commitments

(a) The Group's capital commitments outstanding at 31st December and not provided for in the financial statements are as follows:

HK\$ million	Contracted but not provided for		Authorised but not contracted for	
	1998	1997	1998	1997
Investments in jointly controlled entities	795	227	–	–
Infrastructure investments in the Mainland	449	3,221	–	–
Plant and machinery	17	77	250	134
<b>Total</b>	<b>1,261</b>	<b>3,525</b>	<b>250</b>	<b>134</b>

(b) At the balance sheet date, the Group had commitments under operating leases payable in the following year as follows:

HK\$ million	Land and buildings	
	1998	1997
Leases expiring:		
within one year	8	7
in the second to fifth years inclusive	16	17
<b>Total</b>	<b>24</b>	<b>24</b>

### 24. Material Related Party Transactions

During the year, the Group advanced HK\$611 million (1997: HK\$403 million) into jointly controlled entities by way of shareholders' loans, bringing the total outstanding loan balances to HK\$1,817 million as at the end of 1998 (1997: HK\$1,206 million). These shareholders' loans bear interest with reference to Hong Kong dollar prime rate and United States dollar prime rate. The loans have no fixed term of repayment.

### 25. Ultimate Holding Company

The Directors consider that the Company's ultimate holding company is Hutchison Whampoa, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Hong Kong Stock Exchange.

### 26. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

### 27. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 18th March 1999.

## Appendix 1

The table below shows the subsidiaries of the Group which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

As at 31st December, 1998	Number	Share capital issued Par value per share	Proportion of nominal value of issued capital held by the Group	Principal activities
<b>Incorporated in Hong Kong</b>				
Anderson Asia (Holdings) Limited	2 ordinary 65,780,000 non-voting deferred	HK\$0.5 HK\$0.5	100 –	Investment holding
Anderson Asphalt Limited	36,000 ordinary	HK\$100	100	Production and laying of asphalt and investment holding
Anderson Asia Concrete Limited	800,000 ordinary	HK\$1	100	Investment holding
Asia Stone Company, Limited	33,000,000 ordinary	HK\$1	100	Quarry operation and manufacture of aggregates
Cheung Kong China Infrastructure Limited	2 ordinary	HK\$1	100	Investment holding and investment in infrastructure projects in China
China Cement Company (International) Limited	1,000,000 ordinary	HK\$1	70	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK\$2	100	Manufacturing, sale and distribution of cement and property investment
Green Island Cement (Holdings) Limited	101,549,457 ordinary	HK\$2	100	Investment holding
Ready Mixed Concrete (H.K.) Limited	50,000,000 ordinary	HK\$1	100	Production and sale of concrete and investment holding
Cheung Kong Infrastructure Finance Company Limited	2 ordinary	HK\$1	100	Finance

Note (1) The shares of all the above subsidiaries are indirectly held by the Company.

Note (2) The principal place of operation of the above companies are in Hong Kong except Cheung Kong China Infrastructure Limited whose place of operation is the Mainland.

## Appendix 2

The table below shows the associated companies of the Group which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of all associated companies would, in the opinion of the directors, result in particulars of excessive length.

As at 31st December, 1998	Number	Share capital issued Par value per share	Approximate share of equity shares held by the Group (per cent.)	Principal activities
<b>Incorporated and operating in Hong Kong</b>				
Hongkong Electric Holdings Limited*	2,020,334,691 ordinary	HK\$1	36	Electricity generation and distribution
<b>Incorporated and operating in the Philippines</b>				
Lazi Bay Resources Development Inc.	1,000,000 ordinary 77,000,000 preferred	1 Peso 1 Peso	40 100	Operating limestone reserves
Lo-Oc Limestone and Development Corporation	19,100,000 ordinary	1 Peso	28	Development of limestone reserves

\* Listed on the Hong Kong Stock Exchange

The above associated companies were not audited by Deloitte Touche Tohmatsu.

### Appendix 3

Particulars of the Group's interests in the jointly controlled entities whose place of incorporation and principal place of operation are in the Mainland are as follows:

Name of Jointly Controlled Entities	Percentage of Interest held by the Group	Profit Sharing Percentage	Principal Activities
Guangdong Shantou Bay Bridge Co. Ltd.	30%	30%	Construction and operation of Shantou Bay Bridge
Guang Dong Shenzhen-Shantou Highway (East) Co., Ltd.	33.5%	33.5%	Construction and operation of Shenzhen-Shantou Highway (Eastern Section)
Guangzhou E-S-W Ring Road Co., Ltd.	44.5%	Under construction*	Construction and operation of Guangzhou East South West Ring Road

* 1st year of operation - 10th year	:	45%
11th - 20th year	:	37.5%
Thereafter	:	32.5%

**Appendix 4****Extracts of the published financial statements of Hongkong Electric for the year ended 31st December, 1998**

The following is a summary of the audited consolidated profit and loss account and balance sheet of Hongkong Electric, a principal associated company of the Company, for the year ended 31st December 1998, as extracted from the 1998 published financial statements of Hongkong Electric.

**Consolidated Profit and Loss Account**

for the year ended 31st December

HK\$ million	1998	1997
<b>Turnover</b>	<b>9,257</b>	8,065
<b>Operating profit</b>	<b>5,483</b>	4,661
Share of profit of associate	7	298
<b>Profit before taxation</b>	<b>5,490</b>	4,959
Taxation		
The Company and its subsidiaries	(494)	(429)
Associate	–	(3)
<b>Profit after taxation</b>	<b>4,996</b>	4,527
<b>Scheme of Control transfers</b>		
(To) / From:		
Development Fund	(2)	218
Rate Reduction Reserve	(27)	(36)
<b>Profit attributable to shareholders</b>	<b>4,967</b>	4,709
Dividends	(2,899)	(2,748)
Retained profit for the year	<b>2,068</b>	1,961
Earnings per share	<b>HK\$2.46</b>	HK\$2.33

**Consolidated Balance Sheet**

as at 31st December

HK\$ million	1998	1997
Fixed Assets	<b>37,645</b>	35,011
Associate	<b>90</b>	89
Other Investments	<b>168</b>	168
Current Assets	<b>1,156</b>	931
Current Liabilities	<b>(5,523)</b>	(5,403)
	<b>33,536</b>	30,796
Share Capital	<b>2,020</b>	2,020
Reserves	<b>19,253</b>	17,185
Shareholders' Funds	<b>21,273</b>	19,205
Long-Term Liabilities	<b>11,861</b>	11,161
Rate Reduction Reserve	<b>62</b>	92
Development Fund	<b>340</b>	338
	<b>33,536</b>	30,796



## Appendix 5

Location	Lot Number	Group's Interest	Approximate floor/site area attributable to the Group (sq. m.)	Existing Usage	Lease Term
14-18 Tsing Tim Street, Tsing Yi	TYTL 98	100%	3,355	I	Medium
7 Tin Wan Praya Road, Aberdeen	AIL 409	100%	3,528	I	Short
TMTL 201 Tap Shek Kok	TMTL 201	100%	152,855	I	Medium
Certain units of Harbour Centre Tower 2, 8 Hok Cheung Street, Hunghom	KML113	100%	5,712	C	Medium

I : Industrial    C : Commercial

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of the Company will be held at the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hunghom, Kowloon, Hong Kong on Thursday, 13th May, 1999 at 12:15 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements, the Group Managing Director's Report and the Reports of the Directors and Auditors for the year ended 31st December, 1998.
2. To declare a final dividend.
3. To elect Directors.
4. To appoint Auditors and authorise the Directors to fix their remuneration.
5. To consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

### Ordinary Resolutions

- (i) "THAT a general mandate be and is hereby unconditionally given to the Directors to issue and dispose of additional shares not exceeding twenty per cent. of the existing issued share capital of the Company at the date of the said Resolution until the next Annual General Meeting."
- (ii) "THAT:-
  - (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$1.00 each in the capital of the Company in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
  - (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed ten per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution, and the said approval shall be limited accordingly; and
  - (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:-
    - (1) the conclusion of the next Annual General Meeting of the Company;
    - (2) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and
    - (3) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting."

(iii) “THAT the general mandate granted to the Directors to issue and dispose of additional shares pursuant to Ordinary Resolution (i) set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution (ii) set out in the notice convening this meeting, provided that such amount shall not exceed ten per cent. of the aggregate nominal amount of the issued share capital of the Company at the date of the said Resolution.”

By Order of the Board

**Eirene Yeung**

Company Secretary

Hong Kong, 18th March, 1999

Notes:

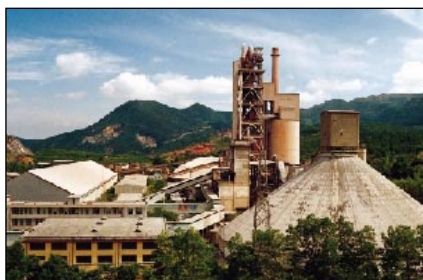
1. Any Member entitled to attend and vote at the meeting is entitled to appoint proxy to attend and vote in his stead. A proxy need not be a Member of the Company.
2. The Register of Members will be closed from Thursday, 6th May, 1999 to Thursday, 13th May, 1999, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Branch Registrars, Central Registration Hong Kong Limited, Hopewell Centre, 17th Floor, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Wednesday, 5th May, 1999.
3. Concerning item 5(i) above, the Directors wish to state that they have no immediate plans to issue any new shares of the Company. Approval is being sought from the Members as a general mandate for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).
4. Concerning item 5(ii) above, the Directors are not aware of any consequences which may arise under the Takeover Code as a result of any repurchase of shares of the Company. The Explanatory Statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own shares, as required by the Listing Rules, will be set out in a separate letter from the Company to be enclosed with the 1998 Annual Report.

## Green Island Cement, Hong Kong



- Origins date back to 1887
- Hang Seng constituent stock prior to privatisation in 1987
- Annual production capacity: 1.5 million tonnes (clinker), 2.5 million tonnes (cement grinding)
- Only integrated cement producer in Hong Kong
- Over 35% Hong Kong market share
- Largest road and marine cement tanker fleet in Southern China
- Only producer of high early strength and low alkaline cement in Hong Kong

## Yunfu Cement Plant, Guangdong



Location	Yunfu, Guangdong Province
Total capacity	680,000 tonnes per annum
Joint venture contract date	1997
Joint venture contract expiring	2031
Operational status	Operational
Total project cost	HK\$654 million
CKI's interest	HK\$435 million
Interest in JV	67%

## Shantou Cement Grinding Plant, Guangdong



Location	Shantou, Guangdong Province
Total capacity	600,000 tonnes
Joint venture contract date	1993
Joint venture contract expiring	2027
Operation commencing	1999
Total project cost	HK\$258 million
CKI's interest	HK\$245 million
Interest in JV	95%

## Siquijor Limestone Quarry, Philippines



Location	Siquijor, Philippines
Total capacity	5 million tonnes per annum
Joint venture contract date	1995
Joint venture expiring	2020
Operational status	Operational
Total project cost	HK\$131 million
CKI's interest	HK\$130 million
Interest in JV	40%

## Ready Mixed Concrete, Anderson Asia, Hong Kong



- Annual capacity: 4.7 million cubic meters
- One of Hong Kong's largest concrete producers
- 11 strategically-located batching plants throughout Hong Kong
- Over 240 mixer trucks
- Only commercial producer of high performance and strength concrete (100+ MPa) since 1997
- Leader in product innovation

## Anderson Asphalt, Anderson Asia, Hong Kong



- Annual capacity: 1.2 million tonnes
- Founded in 1977
- One of Hong Kong's largest asphalt producers
- Supplied to 8 of the new airport's 11 major projects
- Specially designed mastic asphalt for Tsing Ma Bridge and Jiangyin Bridge
- Operates in Hebei, Shandong and Jiangsu provinces in China

## Asia Stone, Anderson Asia, Hong Kong



- Annual capacity: 2 million tonnes
- Origins date back to 1968
- One of Hong Kong's four contract quarries
- Sole distributorship of two PRC quarries in Hong Kong
- Aggregates mainly for in-house purpose

## Bonntile, Anderson Asia, Hong Kong



- Annual capacity: 1.5 million square metres
- Established in 1973
- Exterior wall spray-coating system specialist
- Sole distributor in 1998 for Hong Kong, Macau and the Mainland for a leading Japanese spray-coating manufacturer



## Hongkong Electric, Hong Kong



CKI shareholding: 36.1% as at the end of 1998
Installed capacity: 3,305 MW
Exclusive right to generate and distribute electricity to Hong Kong Island
Over 100 years of profitable operation since 1890
Scheme of Control renewed to 2008
1998 net profit: HK\$ 4,967 million

## Siping Cogen Power Plants, Jilin



Location	Siping, Jilin Province
Total capacity	200 MW
Joint venture contract date	1997
Joint venture expiring	2018
Operational status/Operation commencing	Operational/1999
Total project cost	HK\$1,610 million
CKI's interest	HK\$725 million
Interest in JV	45%

## Shantou Chenghai Power Plant, Guangdong



Location	Shantou, Guangdong Province
Total capacity	75 MW
Joint venture contract date	1993
Joint venture expiring	2010
Operational status	Operational
Total project cost	HK\$320 million
CKI's interest	HK\$192 million
Interest in JV	60%

## Shantou Chaoyang Power Plant, Guangdong



Location	Shantou, Guangdong Province
Total capacity	90 MW
Joint venture contract date	1993
Joint venture expiring	2010
Operational status	Operational
Total project cost	HK\$383 million
CKI's interest	HK\$230 million
Interest in JV	60%

## Shantou Tuopu Power Plant, Guangdong



Location	Shantou, Guangdong Province
Total capacity	114 MW
Joint venture contract date	1993
Joint venture expiring	2010
Operational status	Operational
Total project cost	HK\$485 million
CKI's interest	HK\$291 million
Interest in JV	60%

## Nanhai Jiangnan Power Plant, Guangdong



Location	Nanhai, Guangdong Province
Total capacity	121 MW
Joint venture contract date	1994
Joint venture expiring	2004
Operational status	Operational
Total project cost	HK\$232 million
CKI's interest	HK\$84 million
Interest in JV	36.4%

## Nanhai Power Plant I, Guangdong



Location	Nanhai, Guangdong Province
Total capacity	400 MW
Joint venture contract date	1994
Joint venture expiring	2012
Operational status	Operational
Total project cost	HK\$1,766 million
CKI's interest	HK\$227 million
Interest in JV	30%

## Zhuhai Power Plant, Guangdong



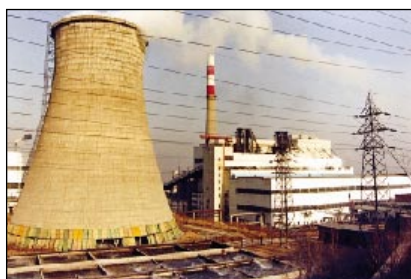
Location	Zhuhai, Guangdong Province
Total capacity	1,400 MW
Joint venture contract date	1995
Joint venture expiring	2019
Operation commencing	1999/2000
Total project cost	HK\$9,493 million
CKI's interest	HK\$1,284 million
Interest in JV	45%

## Qinyang Power Plants, Henan



Location	Qinyang, Henan Province
Total capacity	110 MW
Joint venture contract date	1997
Joint venture expiring	2017
Operational status	Operational
Total project cost	HK\$457 million
CKI's interest	HK\$224 million
Interest in JV	49%

## Fushun Cogen Power Plants, Liaoning



Location	Fushun, Liaoning Province
Total capacity	150 MW
Joint venture contract date	1997
Joint venture expiring	2017
Operational status	Operational
Total project cost	HK\$690 million
CKI's interest	HK\$414 million
Interest in JV	60%

## Shen-Shan Highway (Eastern Section), Guangdong



Location	Lufeng/Shantou, Guangdong Province
Road type	Expressway
Length	140 km
No. of lanes	Dual two-lane
Joint venture contract date	1993
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$2,619 million
CKI's interest	HK\$877 million
Interest in JV	33.5%

## Shantou Bay Bridge, Guangdong



Location	Shantou, Guangdong Province
Road type	Bridge
Length	11km
No. of lanes	Dual three-lane
Joint venture contract date	1993
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$665 million
CKI's interest	HK\$200 million
Interest in JV	30%

## Guangzhou East South West Ring Road, Guangdong



Location	Guangzhou, Guangdong Province
Road type	Expressway
Length	39 km
No. of lanes	Dual three-lane
Joint venture contract date	1997
Joint venture expiring	2032
Operation commencing	1999/2002
Total project cost	HK\$4,220 million
CKI's interest	HK\$1,875 million
Interest in JV	44.4%

## Nanhai Road Network, Guangdong



Location	Nanhai, Guangdong Province
Road type	Class 1 road
Length	140 km
No. of lanes	Dual two/three-lane
Joint venture contract date	1996
Joint venture expiring	2020-2024
Operational status/Operation commencing	Operational/1999
Total project cost	HK\$2,552 million
CKI's interest	HK\$1,394 million
Interest in JV	49% - 64.4%

## Jiangmen Jiangsha Highway, Guangdong



Location	Jiangmen, Guangdong Province
Road type	Class 1 highway
Length	21 km
No. of lanes	Dual two-lane
Joint venture contract date	1996
Joint venture expiring	2026
Operational status	Operational
Total project cost	HK\$207 million
CKI's interest	HK\$103 million
Interest in JV	50%

## Jiangmen Jianghe Highway, Guangdong



Location	Jiangmen, Guangdong Province
Road type	Expressway
Length	20 km
No. of lanes	Dual two-lane
Joint venture contract date	1996
Joint venture expiring	2028
Operation commencing	1999
Total project cost	HK\$421 million
CKI's interest	HK\$211 million
Interest in JV	50%



## Jiangmen Chaolian Bridge, Guangdong



Location	Jiangmen, Guangdong Province
Road type	Bridge
Length	2 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiring	2028
Operation commencing	1999
Total project cost	HK\$130 million
CKI's interest	HK\$65 million
Interest in JV	50%

## Zengcheng Lixin Road, Guangdong



Location	Zengcheng, Guangdong Province
Road type	Class 1 highway
Length	30 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiring	2022
Operational status	Operational
Total project cost	HK\$200 million
CKI's interest	HK\$102 million
Interest in JV	51%

## Shenyang Da Ba Road and South-West Elevated Sections, Liaoning



Location	Shenyang, Liaoning Province
Road type	Class 1 highway
Length	23 km
No. of lanes	Dual three-lane
Joint venture contract date	1996 & 1997
Joint venture expiring	2027
Operational status	Operational
Total project cost	HK\$1,509 million
CKI's interest	HK\$785 million
Interest in JV	52%

## Shenyang Changqing Bridge, Liaoning



Location	Shenyang, Liaoning Province
Road type	Bridge
Length	3 km
No. of lanes	Dual three-lane
Joint venture contract date	1996
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$269 million
CKI's interest	HK\$146 million
Interest in JV	54.2%



## Shenyang Gongnong Bridge, Liaoning



Location	Shenyang, Liaoning Province
Road type	Bridge
Length	1 km
No. of lanes	Dual three-lane
Joint venture contract date	1996
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$121 million
CKI's interest	HK\$65 million
Interest in JV	54.2%

## Shenyang Shensu Expressway, Liaoning



Location	Shenyang, Liaoning Province
Road type	Class 1 highway
Length	12 km
No. of lanes	Dual three-lane
Joint venture contract date	1996
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$395 million
CKI's interest	HK\$214 million
Interest in JV	54.2%

## Tangshan Tangle Road, Hebei



Location	Tangshan, Hebei Province
Road type	Class 2 highway
Length	100 km
No. of lanes	Dual one-lane
Joint venture contract date	1997
Joint venture expiring	2022
Operational status	Operational
Total project cost	HK\$187 million
CKI's interest	HK\$95 million
Interest in JV	51%

## National Highway 107 (Zhumadian Sections), Henan



Location	Zhumadian, Henan Province
Road type	Class 2 highway
Length	114 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiring	2024
Operational status	Operational
Total project cost	HK\$461 million
CKI's interest	HK\$304 million
Interest in JV	66%

## Changsha Wujialing and Wuyilu Bridges, Hunan



Location	Changsha, Hunan Province
Road type	Bridge
Length	5 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiring	2022
Operational status	Operational
Total project cost	HK\$465 million
CKI's interest	HK\$206 million
Interest in JV	44.2%

## Yueyang Water Plants, Hunan



Location	Yueyang, Hunan Province
Total capacity	400,000 tonnes per day
Joint venture contract date	1998
Joint venture expiring	2016
Operational status	Operational
Total project cost	HK\$140 million
CKI's interest	HK\$69 million
Interest in JV	49%

## General Terms

### Anderson Asia

Anderson Asia (Holdings) Limited

### Anderson Asphalt

Anderson Asphalt Limited

### Asia Stone

Asia Stone Company, Limited

### Bonntile Industries

Bonntile Industries (H.K.) Limited

### BVI

the British Virgin Islands

### Cheung Kong China Infrastructure

Cheung Kong China Infrastructure Limited

### Cheung Kong Group

Cheung Kong Holdings, Hutchison Whampoa, CKI and Hongkong Electric and their respective subsidiaries and associated companies

### Cheung Kong Group Restructuring

The reorganisation involving Cheung Kong Holdings, Hutchison Whampoa, CKI and Hongkong Electric pursuant to which the transactions relating to CKI were completed on 10th March, 1997 which resulted in the Company becoming an 84.6 per cent. subsidiary of Hutchison Whampoa and acquiring a 35.01 per cent. holding in Hongkong Electric. Details of the transactions had been set out in the circulars dated 15th February, 1997 issued by Cheung Kong Holdings, Hutchison Whampoa and the Company to their respective shareholders.

### Cheung Kong Holdings

Cheung Kong (Holdings) Limited

### Company or CKI

Cheung Kong Infrastructure Holdings Limited

### Directors

Directors of the Company

### Green Island Cement

Green Island Cement (Holdings) Limited

### Group

CKI and its subsidiaries

### HK\$

the lawful currency of Hong Kong

### Hongkong Electric

Hongkong Electric Holdings Limited

### Hong Kong Stock Exchange

The Stock Exchange of Hong Kong Limited

### Hutchison Whampoa

Hutchison Whampoa Limited

### Hutchison Whampoa Group

Hutchison Whampoa and its subsidiaries and associated companies

### IPO

the initial public offering of the Company on the Hong Kong Stock Exchange on 17th July, 1996

per cent.  
percentage

### PRC

the People's Republic of China

### Rmb

the lawful currency of the PRC

### US\$

the lawful currency of the United States of America

## Technical Terms

### aggregates

rock, generally granite, which has been crushed into different sizes for use in the construction industry

### clinker

a semi-finished product in the cement production process

### GDP

gross domestic product

### GNP

gross national product

### installed capacity

the highest level of output (generally expressed in MW) which a power plant is designed to be able to maintain indefinitely without causing damage to the plant

### km

kilometre(s)

### MPa

mega pascal(s), a unit of measurement of compressive strength

### MW

megawatt(s), equal to 1,000 kilowatt

### offtake contract

a contract signed between an electricity generating company and an electricity transmission company or a local power bureau which specifies a certain minimum amount of electricity to be purchased by the electricity

transmission company or the local power bureau over a certain period of time at a pre-agreed price or profit, subject only to the occurrence of certain limited event specified in the contract

### turnkey contract

a contract for construction and engineering projects whereby the contractor agrees to build and equip a factory, power plant or other projects to the extent where the purchaser can commence operation; such contracts generally reduce the purchaser's risk by making the contractor directly responsible for the work of any subcontractor

## Financial terms

### earnings per share

profit attributable to shareholders divided by the number of shares or weighted average number of shares in issue during the year, whichever appropriate

### interest cover

net profit before net interest income/expenses and taxation divided by gross interest expenses

### net debt to equity

total bank loans net of bank and cash balances divided by shareholders' equity

### profit contribution

operating profit after taxation but before corporate overhead and net interest income/expenses, net of attributable operating expenses

### total debt to total capitalisation

total bank loans divided by the sum total of shareholders' equity and total bank loans

### Directors

**LI Tzar Kuoi, Victor** Chairman  
**George Colin MAGNUS** Deputy Chairman  
**FOK Kin Ning, Canning** Deputy Chairman  
**KAM Hing Lam** Group Managing Director  
**IP Tak Chuen, Edmond** Executive Director  
**Frank John SIXT** Executive Director  
**CHOW WOO Mo Fong, Susan** Executive Director  
**TSO Kai Sum** Executive Director  
**CHEONG Ying Chew, Henry** Independent Non-executive Director  
**LEE Pui Ling, Angelina** Independent Non-executive Director

### Solicitors

Woo, Kwan, Lee & Lo

### Auditors

Deloitte Touche Tohmatsu

### Bankers

Standard Chartered Bank  
Canadian Imperial Bank of Commerce  
Banque Nationale de Paris  
HSBC

### Company Secretary

**Eirene YEUNG**

### Registered Office

Clarendon House, Church Street,  
Hamilton HM11, Bermuda

### Principal Place of Business

12th Floor, Cheung Kong Center,  
2 Queen's Road Central, Hong Kong

### Internet Address

<http://www.cki.com.hk>

### Principal Share Registrars and Transfer Office

Butterfield Corporate Services Limited,  
Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda

### Branch Share Registrars and Transfer Office

Central Registration Hong Kong Limited,  
Rooms 1712-1716, 17th Floor, Hopewell Centre,  
183 Queen's Road East, Hong Kong

### Share Listing

The Company's shares are listed on The Stock Exchange of Hong Kong Limited. The stock codes are:  
The Stock Exchange of Hong Kong Limited – 1038;  
Reuters – 1038.HK;  
Bloomberg – 1038 HK.

### Investor Relations

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