

CHEUNG KONG INFRASTRUCTURE 1996

ANNUAL REPORT



長江基建





Cheung Kong Infrastructure Holdings Limited (CKI) is a comprehensive infrastructure company whose businesses were previously controlled by Cheung Kong (Holdings) Limited (Cheung Kong Holdings), a leading property and investment holding company in Hong Kong. CKI was separately listed on the Hong Kong Stock Exchange on 17th July, 1996.

CKI's business focus is the development, investment and operation of infrastructure businesses in Hong Kong, the PRC and the Asia-Pacific region. Its main businesses are conceptually categorised as follows: Transportation, Energy and Infrastructure Materials. The Transportation and Energy businesses are carried out by Cheung Kong China Infrastructure Limited (Cheung Kong China Infrastructure), while the Infrastructure Materials businesses are conducted through Green Island Cement (Holdings) Limited (Green Island Cement) and Anderson Asia (Holdings) Limited (Anderson Asia). All are leaders in their respective markets and wholly-owned by CKI.

As at 31st December, 1996, CKI had invested and committed to invest HK\$6,593 million in 32 infrastructure projects in the PRC, and had a market capitalisation of HK\$28 billion.

Following a reorganisation of the Cheung Kong Group in March 1997, CKI acquired a controlling shareholding in Hongkong Electric Holdings Limited (Hongkong Electric), a Hong Kong-listed power company supplying electricity to Hong Kong Island and Lamma Island. Also, CKI became a subsidiary of Hutchison Whampoa Limited (Hutchison Whampoa), a Hong Kong-listed conglomerate. As at the end of March 1997, CKI's market capitalisation was HK\$49 billion.

*CKI aims to be the market-leading company
dedicated to the growth and development of
infrastructure businesses in Hong Kong, the
PRC and the Asia-Pacific region.*

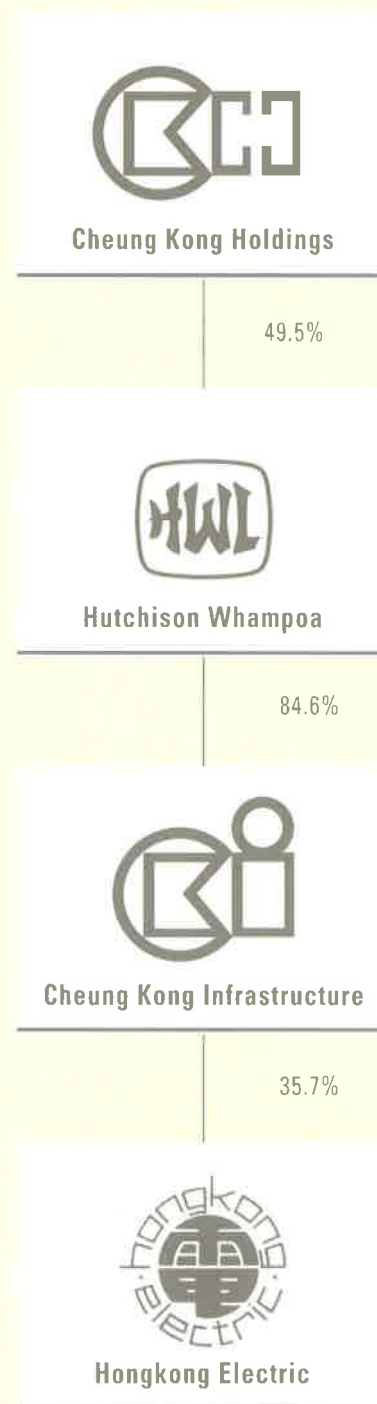
In March 1997, the Cheung Kong Group completed a reorganisation which resulted in the Company becoming an 84.6 per cent. subsidiary of Hutchison Whampoa and acquiring a 35.01 per cent. holding in Hongkong Electric (35.7 per cent. as at the end of March 1997).

The role of infrastructure within the Cheung Kong Group is more distinct. Hutchison Whampoa will continue to focus on its infrastructure businesses of telecommunications and ports. Hongkong Electric will expand its electricity generating and distribution businesses in Hong Kong to meet future demand and pursue investment opportunities in the Asia Pacific region. CKI will continue to develop its infrastructure businesses of transportation and energy in the PRC, and infrastructure materials businesses in Hong Kong, the PRC and the Asia-Pacific region.

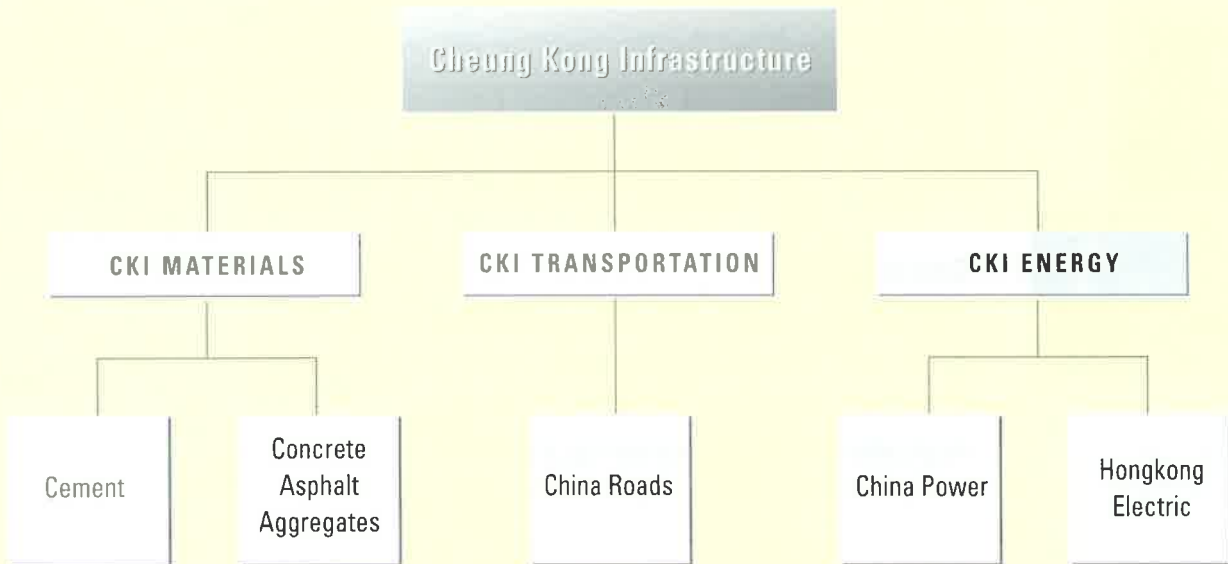
As a result of this reorganisation, CKI is a stronger infrastructure company. The sponsorship of the Cheung Kong Group will continue, which is important in business dealings in China where the Cheung Kong name is well recognised. CKI will benefit from Hutchison Whampoa's diversified business exposure and Hongkong Electric's more than 100 years of electricity generation and distribution experience. After the purchase of Hongkong Electric, CKI has become a larger power company with interests in power plants with a total installed capacity of 5,305 MW. In addition, the acquisition of Hongkong Electric has substantially increased CKI's recurring income and capital base, and consequently the financing capacity for capturing growth opportunities, particularly in China.

CHEUNG KONG GROUP STRUCTURE

As at the end of March 1997



CHEUNG KONG INFRASTRUCTURE GROUP STRUCTURE



CORPORATE HIGHLIGHTS**Largest Hong Kong IPO in 1996**

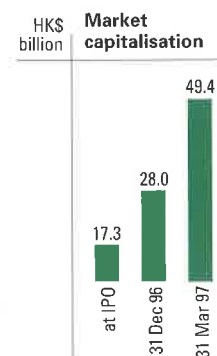
On 17th July, 1996, CKI was listed on the Hong Kong Stock Exchange. The HK\$4,178 million new issue was over 20 times over-subscribed and widely distributed internationally.

**Deal of the Year**

The Company's initial public offering was selected as Deal of the Year by *Institutional Investor*. The new listing was described by the international financial publication as "the most prominent, prestigious and successful."

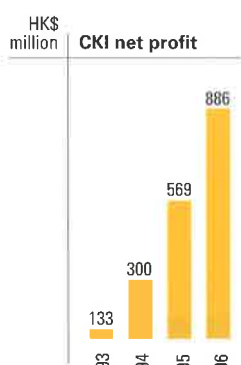
CKI is the largest Hong Kong-listed comprehensive infrastructure company

In terms of market capitalisation, CKI ranks as the largest comprehensive infrastructure company listed on the Hong Kong Stock Exchange. As at the end of 1996, CKI ranked as the 19th largest company listed on the Hong Kong Stock Exchange. (As at the end of March 1997, CKI ranked as the 14th largest.)

**A high investor profile**

Since the IPO, CKI has attracted considerable investor attention. Institutional investors and stock analysts have visited the Group's infrastructure projects in China, and cement and concrete operations in Hong Kong. Also, regular meetings between senior management and institutional investors and stock analysts were held.





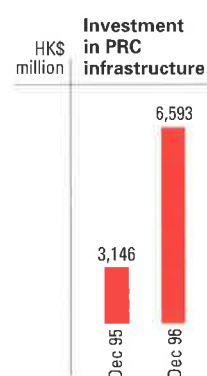
OPERATION HIGHLIGHTS

CKI's net profit grew 56 per cent. in 1996.

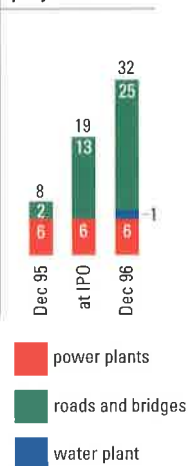
The Company's net profit increased from HK\$569 million in 1995 to HK\$886 million in 1996, an increase of 56 per cent. Earnings per share also went up 36 per cent.

CKI is one of the largest investors in China's infrastructure sector.

As at the end of 1996, the Group invested and committed to invest HK\$6,593 million in 32 infrastructure projects in the PRC. (37 projects as at the end of March 1997.)



Number of PRC infrastructure projects



The number of CKI's infrastructure projects in the PRC increased from eight at the end of 1995 and 19 at the IPO in July 1996 to 32 at the end of 1996.

The Group has signed 13 additional projects since July 1996. The new projects are located in Guangzhou, Jiangmen and Shenyang, in which the Group is actively developing new project clusters.

Signing of the Nanhai Road Network

The Nanhai Road Network, comprising 11 roads and bridges, represents the Group's commitment to Nanhai, where it has invested in two power plants and Hutchison Whampoa also operates a container terminal in the city.





Guangzhou East-South Ring Road joint venture

Together with a subsidiary of Hopewell Holdings Limited, the Group signed a supplementary agreement in July 1996 for the construction and operation of the Guangzhou East-South Ring Road, an important transportation link surrounding Guangzhou.

Landmark financing concluded

In September 1996, the HK\$9.4 billion project financing for the 1,400 MW Zhuhai Power Plant was completed. It marked the first limited-recourse loan extended by the Export-Import Bank of Japan to a PRC infrastructure project. The financing is considered a breakthrough in PRC infrastructure financing, and was selected by *Infrastructure Finance* as one of 1996's 10 most creative deals.



Major initiatives in central and western China

One of the major policies of the PRC government is to promote trade and investment in central and western China. In October 1996, the Group sent a delegation to participate in a major conference held in Zhengzhou, Henan Province. A number of agreements and letters of intent were signed at this conference.

Shenyang Roads and Bridges in Liaoning Province

In November 1996, the Group signed nine road and bridge projects in Shenyang, Liaoning Province, an important industrial hub in northeastern China.





Opening of the Shen-Shan Highway

The Eastern Section of the Shen-Shan Highway (140 km) commenced operation in November 1996. The entire 286km length of the combined Eastern and Western Sections is now fully operational.

Development of a new cluster in Jiangmen

In 1996, the Group signed two road projects in Jiangmen, Guangdong Province, a rapidly growing city in the west of the Pearl River Delta. (In January 1997, the Group signed another bridge project in the city.)



CKI's cement and concrete businesses posted a record year.

The Group's cement and concrete businesses recorded profit contribution growth of 40 per cent. in 1996, the highest profit in the companies' history. The growth was primarily driven by the favourable market environment and improving profit margins, a result of the innovative use of raw materials, new product introductions and productivity gains.

Quality and productivity awards

During 1996, the Group's cement and concrete businesses won numerous quality and productivity awards. Anderson Asia won the Hong Kong Industry Department's Quality Award, the Hong Kong Productivity Council's Productivity Award and the French Golden Europe Award for Quality. Green Island Cement won the Environmental Performance Award from the Private Sector Committee on the Environment.





Victor Li, Chairman

“ 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. ”

To our shareholders

I am pleased to report that 1996 was an outstanding year for Cheung Kong Infrastructure Holdings Limited, in terms of net profit, earnings per share and dividend. Our net profit was HK\$886 million, 56 per cent. over that of last year. The results were better than the profit forecast of not less than HK\$728 million made during the initial public offering in July.

The Board of Directors is recommending a final dividend of HK\$0.16 per share for 1996, substantially higher than the final dividend of HK\$0.08 per share indicated in the initial public offering prospectus.* This dividend payment reflects our intention to reward shareholders in a meaningful manner while retaining appropriate cash to fund future growth. The proposed dividend will be paid on 16th May, 1997 following approval at the Annual General Meeting.

Our first year as a publicly listed company was a year of many solid achievements:

- Addition of 24 PRC infrastructure projects and

investment of HK\$3.3 billion in 1996.

- Investments in 25 toll roads and bridges and 2,200 MW of power plants in China at the end of 1996.
- The completion of the HK\$9.4 billion limited recourse financing for the Zhuhai Power Plant,
- Record profit achieved by the infrastructure materials businesses, which received prestigious quality and productivity awards from the Hong Kong Productivity Council and Hong Kong Industry Department, as well as international awards from Europe,
- We are the largest Hong Kong-listed comprehensive infrastructure company with a market capitalisation of HK\$28 billion at the end of 1996 (HK\$45 billion as of 18th March, 1997).

The results for 1996 reflect our success. Additions to our infrastructure portfolio continued at a rapid pace. At the end of 1996, the Group committed to invest an aggregate

* This increase should be viewed in the context that the number of shares entitled to the 1996 final dividend has been increased to 2,254 million shares, following the issue of 886 million new shares to Hutchison Whampoa for the purchase of 35.01% of Hongkong Electric.

HK\$6.6 billion in 32 projects, which ranks us as one of the largest infrastructure investors in China. Profit contribution from the infrastructure businesses increased 51 per cent. from last year. The infrastructure materials businesses posted a 40 per cent. increase in profit contribution, and maintained their market leading positions in Hong Kong.

Our business is infrastructure, and the challenge is to capture opportunities in China's infrastructure sector. With an average GDP growth of 12 per cent. from 1991 to 1995, China is one of the world's fastest-growing economies. It has also been one of the world's most popular destinations for foreign direct investment during the same period. This rapid growth gives rise to an urgent, massive demand for infrastructure investment.

According to the World Bank's estimate in 1996, China needs US\$750 billion, or 7.4 per cent. of its GDP, for infrastructure over the next ten years. China has acknowledged the importance of private sector participation, and has formulated policies to encourage foreign investors to take an active role.

We are responding to this challenge with enthusiasm and confidence. 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 our experience and knowledge gained from many years of operating in the same businesses in Hong Kong. Today, we have established a solid track record, an excellent reputation and strong relationships across China.

The infrastructure business in China 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.

Looking to the future, the reorganisation of the Cheung Kong Group, which took effect from March 1997, highlights the importance of infrastructure within a streamlined group structure. With the acquisition of Hongkong Electric Holdings Limited, our power portfolio has expanded significantly. Today, we have interests in power plants with a total installed capacity of 5,305 MW. Also, our financing capacity will increase, with an enhanced recurring income and capital base. Given a favourable operating environment, strong fundamental strengths, sound financial position and competent management, we will aggressively pursue infrastructure projects in China.

I would like to offer my sincere thanks to the staff of CKI for their hard work. 1996 was an eventful and successful year for the Company. Our efforts have set us firmly on the route to another successful year in 1997.

LI Tzar Kuoi, Victor, Chairman
Hong Kong, 20th March, 1997

“ Our business is infrastructure, and the challenge is to capture opportunities in China's infrastructure sector. ”



H.L. KAM, Group
Managing Director

“ Already, CKI is the largest Hong Kong-listed infrastructure company. As at the end of 1996, CKI ranked as the 19th largest company listed on the Hong Kong Stock Exchange in terms of market capitalisation. ”

I am pleased to report that 1996 was a most successful year for Cheung Kong Infrastructure Holdings Limited, with substantially higher profits and impressive progress achieved in all of our main businesses. Our 1996 results have demonstrated that investing in infrastructure can be rewarding, and underline our commitment to becoming a leader in the infrastructure business. We believe a dedicated group will be more productive and efficient in the allocation of management and financial resources.

Already, CKI is the largest Hong Kong-listed comprehensive infrastructure company. As at the end of 1996, CKI ranked as the 19th largest company listed on the Hong Kong Stock Exchange in terms of market capitalisation.

The Group's net profit grew 56 per cent. to HK\$886 million, and earnings per share increased by 36 per cent. to HK\$0.75 per share. A detailed analysis of the Group's financial performance is contained in the Financial Review from pages 50 to 56.

REVIEW OF OUR BUSINESSES

A detailed commentary of the Group's operations is contained in the Operation Review from pages 22 to 49. However, I would like to comment on several significant operational highlights:

Record Year for Cement and Concrete

The cement and concrete businesses posted a 40 per cent. increase in profit contribution in 1996, a record year for Green Island Cement and Anderson Asia. The profits increase far outpaced gains in volume and price, which reflected improving productivity, effective cost control and product innovation. Both companies received numerous Hong Kong and international awards for their achievements in productivity and innovation.

We are particularly proud of our progress in product innovation. Low alkaline cement, a product unique to Green Island Cement, has captured a 14 per cent. market share, only three years after its introduction. Anderson

Asia remains Hong Kong's only supplier of 100 MPa high strength concrete, which has gained increasing acceptance in the local construction industry.

Expansion of PRC Infrastructure Portfolio

At the time of the initial public offering, the Group had invested in 19 infrastructure projects. By the end of 1996, the total number of projects had increased to 32. While project negotiation is a time-consuming process, the Group has many projects in the pipeline in various stages of negotiation. We anticipate a number of these projects will progress to the contract stage in the near term. By March 1997, the number of the Group's PRC infrastructure projects reached 37.

Emergence of New Project Clusters

In addition to Nanhai and Shantou, project clusters are being developed in Jiangmen, Guangdong Province and Shenyang, Liaoning Province. Selected cities of high economic growth will continue to be identified for investments.

Evolution of Business Scope

Through our project development effort in 1996, we have expanded the scope of our business. First, extension of our existing businesses has provided growth opportunities. For example, heat generation is an important by-product of power plants in northern China. In early 1997, we signed contracts to invest in several heat and electricity co-generation plants in northern China. Secondly, we have identified new businesses, such as water supply and sanitation, gas supply, etc. Negotiation for

water and gas plants in several of our existing clusters is underway.

OUR COMPETITIVE STRENGTHS

China's demand for infrastructure is so enormous that no single private company can hold a dominating position. All infrastructure companies actively pursuing investments in China are, in fact, complementing each others' efforts. For example, CKI will not, and cannot, participate in a road that connects all of China. Rather, we will be participating in sections of it. Investments by other companies in roads connecting to our sections will only enhance the value of our investments by increasing traffic flow.

However, I believe there are several characteristics which set CKI apart from other infrastructure companies. I will illustrate our strengths by discussing, what I believe to be, the key success factors in the infrastructure business:

Project Flow

A good flow of projects is primarily a function of a company's credibility and project development skills. The reputation of the Cheung Kong Group has been instrumental in identifying the right partners and securing their confidence in forming partnerships. CKI is one of several companies within the Cheung Kong Group actively engaged in business in China. The Group's wide spread, favourable reputation and the sharing of market information within the Group help to ensure a steady project flow.

Financing Capacity

Infrastructure is a capital intensive business. The favourable equity markets have provided significant funds for many infrastructure companies. However, sustainable infrastructure financing relies on a combination of internally-generated funds, and debt and equity financing. With a total cash position of HK\$3.8 billion and no net debt at the end of 1996, our financial position is strong.

Another source of infrastructure funding is project financing. In this field, the Group has firmly established itself as an innovative leader. In the past two years, the Group completed limited-recourse financing for two power plants in China, including the HK\$9.4 billion Zhuhai Power Plant, which was considered by *Infrastructure Finance* as one of 1996's 10 most creative deals.

Management

Infrastructure is often perceived to be a business without a human face – what could be more mundane than roads, bridges and power plants! Throughout this annual report, we have

profiled various members of our senior management team. Our intention is to showcase the people behind the physical structures – the people who really make the businesses perform.

Our management comprises sizeable project development and on-site teams. We have four separate project development teams working on new projects in four regions in China. At every project cluster, we have on-site management teams working alongside our joint venture partners. All of our managers have relevant qualifications and extensive working experience in China. We believe strong management presence represents a competitive strength.

1997 AND BEYOND

In March 1997, the Cheung Kong Group completed a reorganisation which resulted in the Company acquiring a 35.01 per cent interest in Hongkong Electric. (35.7 per cent. as at the end of March 1997.) Also, the Company is now an 84.6 per cent. subsidiary of Hutchison Whampoa.



H.L. KAM (seated middle), Group Managing Director, has been guiding the Group's infrastructure initiatives in China since 1993.

The acquisition of Hongkong Electric, the most important addition to our power portfolio, paves the way for CKI to become a stronger infrastructure company. Hongkong Electric possesses the characteristics which fit our investment criteria: secure, attractive investment returns, solid track record, strong cash flow, foreign exchange protection, well positioned geographically, stable operating environment and growth potential.

*“ The key ingredients are in place –
a good flow of new projects, strong
financing capacity and
competent management. ”*

Our interests in power plants have increased to a total installed capacity of 5,305 MW. Also, the acquisition will substantially strengthen our recurring income and capital base, which will in turn enhance our financing capacity for pursuing growth opportunities.

The growth momentum of the infrastructure businesses in China is particularly encouraging. We are in discussions for roads and bridges with a total length of over 1,000 km and power plants with a total installed capacity of over 2,000 MW. We are confident that some of these projects will progress to the contract stage in the near term.

The key ingredients are in place – a good flow of new projects, strong financing capacity and competent management. I am confident that impressive growth in all of our businesses can be sustained in 1997 and beyond.

ACKNOWLEDGMENTS

The year in review has been both an exciting and dynamic time for CKI. I wish to thank all of our business partners, our staff, and our shareholders for their support and contributions during the year. Together, we can look forward to many more years of continued success.

H.L. KAM, *Group Managing Director*
Hong Kong, 20th March, 1997

**Executive Committee**

(From left) Terry TAM,
Edmond IP,
George MAGNUS,
Victor LI, H.L. KAM
and Tony TSOI

DIRECTORS

LI Tzar Kuoi, Victor, aged 32, has been the Chairman of the Company since its incorporation in May 1996. He has also been Deputy Managing Director of Cheung Kong Holdings since January 1993 and Deputy Chairman of Cheung Kong Holdings since January 1994. He is also an executive director of Hutchison Whampoa and a director of Hongkong Electric and The Hongkong and Shanghai Banking Corporation Limited. He holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural Engineering.

George C. MAGNUS, aged 61, 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 45, was appointed as an Executive Director and

Deputy Chairman of the Company on 10th 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 50, 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 a director of Hongkong Electric. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

IP Tak Chuen, Edmond, aged 44, 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 J. SIXT, aged 45, 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 1991. He is also an executive director of Hutchison Whampoa. 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 43, was appointed as an Executive Director of the Company on 10th March, 1997. She is an executive 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 65, was appointed as an Executive Director of the Company on 20th 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 49, is a 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 48, is a 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.

LEE Yeh Kwong, Charles, aged 60, OBE, JP, resigned on 12th March, 1997 as a Non-executive Director of the Company and from all other positions within the Group in order to devote his fullest attention to his position as a member of the Legislative Council of the Special Administrative Region Government.

SENIOR MANAGEMENT

Head Office

TAM Ngai Hung, Terry, aged 43, is Finance Manager of the Company, and 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, with 20 years of experience in finance and accounting.

TSOI Tong Hoo, Tony, aged 32, is Senior Manager, Planning and Investment. Prior to joining the Company in November 1996, he was with an investment banking firm. He is a Chartered Financial Analyst and has over 10 years of experience in finance and investment.

YEUNG, Eirene, aged 36, is the Company Secretary, and has been with the Cheung Kong Group since August 1994. She is a solicitor of the Supreme Court of Hong Kong and of the Supreme Court of Judicature in England and Wales.

Cheung Kong China Infrastructure

KWAN Bing Sing, Eric, aged 52, is the General Manager of Cheung Kong China Infrastructure. He joined Hutchison Whampoa in February 1994 and has been with the Cheung Kong Group since April 1994. He holds a

	Number	Average age	Average years of relevant experience
General Manager	6	50	24+
Project Manager	13	41	16+
Finance Manager	10	36	14+
Operation Manager	7	41	15+

PRC INFRASTRUCTURE MANAGEMENT

Master's degree in Business Administration and is a Chartered Engineer with over 25 years of experience in management, business development, marketing and project

management of power and telecommunication projects in Hong Kong and the PRC.

CHU Kee Hung, aged 52, is General Manager, Power Operation of Cheung Kong China Infrastructure. He 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 with over 20 years of experience in project development, design, construction, operations and management of power supply projects in the United States, Hong Kong and the PRC.

LEE Chack Fan, aged 51, is General Manager, Roads and Bridges Development of Cheung Kong China Infrastructure. He has been with the Cheung Kong Group since February 1994. He holds a Doctorate in Geotechnical Engineering and is a Chartered Engineer with over 20 years of experience in operation, project management and business development of infrastructure projects.

MAK Poon Wing, Rupert, aged 49, is General Manager, Power Development of Cheung Kong China Infrastructure. He joined Hutchison Whampoa in 1992, and has been with the Cheung Kong Group since August 1994. He holds a Doctor of Philosophy degree in Mechanical Engineering and is a Chartered Engineer with over 20 years of experience in

design construction, operation, project management and business development of power supply projects in the United Kingdom, Hong Kong and the PRC.

YEUNG Yat-Hong, Stephen, aged 44, is General Manager, Business Development of Cheung Kong China Infrastructure. He 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, with over 20 years of experience in accounting, treasury, corporate finance, business development and project management in Canada, Hong Kong and the PRC.

YUEN Ming Kai, Clement, aged 50, is General Manager, Roads and Bridges Operation of Cheung Kong China Infrastructure. He 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 with over 20 years of experience in design, construction, project management and business development of civil engineering and infrastructure projects in Canada, Hong Kong and the PRC.

CHAN Loi Shun, Dominic, aged 34, is Finance Manager of Cheung Kong China Infrastructure. He 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 with 12 years of

experience in finance and accounting.

Green Island Cement

Barrie COOK, aged 54, has been with Green Island Cement since 1983 and has been the Managing Director of Green Island Cement since 1987. He holds a Bachelor of Science degree in Civil Engineering, is a Chartered Engineer, a fellow of the Institute of Management, a member of the Chartered Institute of Marketing and a member of the Hong Kong Institute of Engineers. He is the Chairman of the Hong Kong Cement Association Ltd., the Hong Kong PFA Association Ltd. 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.

LIU Kam Chuen, Derek, aged 45, has been the Deputy Managing Director of Green Island Cement since January 1992. He holds a Bachelor of Commerce degree and is an associate of the Institute of Chartered Accountants (Australia). He is a founding board member of the South China Cement Manufacturers Association. He has extensive experience in investment banking and property development.

Raymond James NORBURY, aged 48, has been the Technical Director of Green Island Cement since 1992. He holds a Bachelor of Engineering degree in Chemical Engineering. Before joining Green Island Cement, Mr. Norbury gained wide experience in the cement industry in Australia.

YU Siu Lim, Gary, aged 40, has been the Director of International Business Development of Green Island Cement since January 1993. He

holds a Bachelor of Computer Science degree. Before joining Green Island Cement, he worked for over ten years with various companies in the Cheung Kong Group.

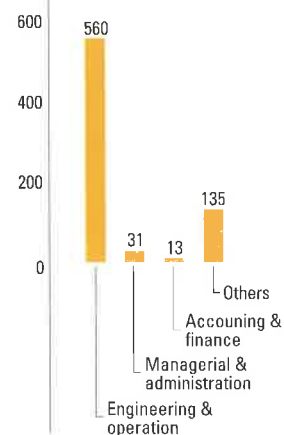
Anderson Asia

CHOW Tsun Wing, aged 67, joined Asia Stone Company Limited in 1971 and became the Managing Director of Anderson Asia in 1984. He is a Chartered Engineer (UK), a member of the European Federation of National Engineering Associations, a member of the Institute of Mechanical Engineers (UK), a Registered Professional Engineer, HK, a fellow of the Institute of Quarrying (UK) and a fellow of The Hong Kong Institution of Engineers.

LEUNG Ying Wah, Lambert, aged 50, re-joined Anderson Asia as Director and General Manager in July 1993. Prior to 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 chairman of the Institute of Quarrying, Hong Kong Branch.

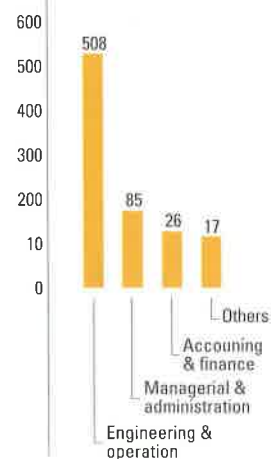
Donald William JOHNSTON, aged 54, joined Anderson Asphalt in 1988. He has a Bachelor's degree in Civil Engineering. Prior to joining Anderson Asia, he had more than 20 years' experience in the asphalt industry in Australia. He is now a Director of Anderson Asia and the General Manager of Anderson Asphalt Limited. He is a member of the Institute of Engineers (Australia) and a fellow of the Institute of Quarrying (UK).

Total number of employees at the end of 1996: 739



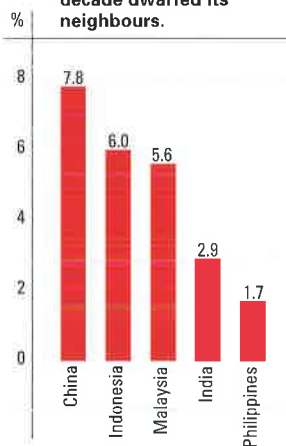
GREEN ISLAND CEMENT

Total number of employees at the end of 1996: 636



ANDERSON ASIA

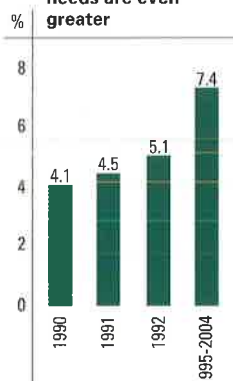
China's economic performance in the last decade dwarfed its neighbours.



AVERAGE ANNUAL GNP GROWTH: 1985-1994

Source: *The World Development Report 1996*, The World Bank

Future infrastructure needs are even greater



INFRASTRUCTURE SPENDING AS A % OF CHINA'S GDP

Source: *Infrastructure Development in East Asia and Pacific, 1995*, The World Bank

Long term economic growth in developing countries depends on adequate, efficient infrastructure: accessible roads and bridges to link cities, reliable energy production to drive industrial production and clean water to lower health costs.

A recent World Bank study reveals a strong correlation between economic growth and infrastructure investments. For every 1 per cent. growth in per capita GDP, infrastructure investments need to increase by about 1 per cent. For a country with an average GDP growth of 12 per cent. from 1991 to 1995, China's demand for infrastructure investment is enormous. Furthermore, high economic growth rates are expected to sustain in the near future.

Over the next decade, the World Bank projects that China needs to invest about US\$750 billion in infrastructure, equivalent to about 7.4 per cent. of the mainland's GDP, which is considerably higher than the 4-5 per cent. level in 1990-1992. The required investment is massive in both absolute terms and as a share of GDP.

In the face of such enormous demand for infrastructure investment, China is prepared to let the private sector play a key role in its infrastructure development. Almost 20 years of market-oriented reform has transformed China from a state-dominated system to a thriving economy characterised by a steadily rising standard of living. China has acknowledged that infrastructure can be run like a business. Infrastructure can be provided as a service and respond to consumer demands. Private sector involvement in management, financing and

ownership can create a competitive environment which will ultimately improve efficiency and quality, and broaden variety.

To attract private capital, long term, mutually-beneficial partnerships must be forged between government and the private sector. Such partnerships should, ideally, produce sustainable economic growth, eliminate wealth inequality and protect the environment, while offering profitable investment returns to private investors.

The Chinese government has made significant progress in creating a suitable investment environment for private sector involvement. Considering where China has come from, the achievements have been phenomenal. However, certain constraints still exist:

- There are expectation gaps in investment returns and risk assessment between government and investors. What is an acceptable rate of return? Who should bear what risks?
- The government decision-making and approval process are often perceived to be complex, and the lead time can be long.

These situations are not unique to China; most developing countries have to manage between perception and reality, and balance between government objectives and investors' expectations. Host countries tend to perceive lower risks and compare return rates of infrastructure projects to those of regulated utilities. Private investors typically seek sizeable risk premiums for investing in projects with relatively long payback periods in developing countries.

DEMOGRAPHICS OF CKI'S MAJOR CLUSTERS

	Guangzhou	Shantou	Zhuhai	Nanhai	Jiangmen	Shenyang
Population (million)	6.4	4.0	0.6	1.0	3.7	6.6
Land area (square kilometre)	7,434	2,064	1,583	1,151	9,500	12,980
GDP (Rmb billion)	98	20	17	14	28	56
No. of telephone lines (thousand)	1,261	431	154	160	298	584
Water consumption per capita (ton)	208	89	200	74	60	70
Electricity consumption (million kWh)	9,145	1,476	1,378	2,167	960	7,258
Electricity consumption per capita (kWh)	431	407	525	256	365	159
Paved road length (km)	1,404	300	202	950	88	1,747
Contracted foreign direct investment (US\$ million)	7,097	1,332	1,273	646	914	1,819
Utilised foreign direct investment (US\$ million)	1,814	698	513	173	540	407
Export (US\$ million)	17,211	2,104	1,488	NA	1,930	765

Source: Urban Statistical Yearbook of China 1995

Managing such expectation gaps is a delicate balancing exercise between government and the private sector – a complex task for a country which has to learn and formulate policies at the same time.

Behind the exciting potential for investment in infrastructure, these are some of the constraints. However, one can turn constraints into opportunities.

The formula is neither hi-tech nor based on management theories. It is the ability to provide China with a total package of capital, credibility, experience and expertise:

- Infrastructure is a capital-intensive business. Ready access to large pools of capital is preferred over vague promise of capital raising plans.

- The credibility of investors offers comfort to the host government and may accelerate negotiations.

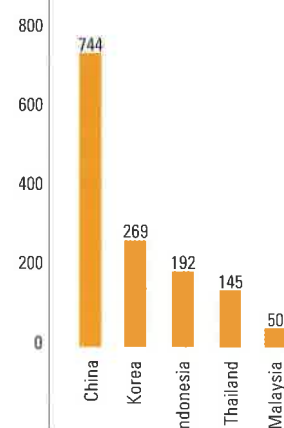
- Experience in doing business in China is a prerequisite, especially in transactions involving a complex approval process.

- China needs more than just roads and power plants, it needs more efficient, high quality ones. Investors should be able to play more than the role of a passive investor.

The numbers add up to a truly great market. While the constraints represent formidable barriers to entry, the private sector is responding to this challenge with enthusiasm. The successful companies will be those which can build lasting, mutually beneficial relationships with China.

This is CKI's market. This is CKI's opportunity.

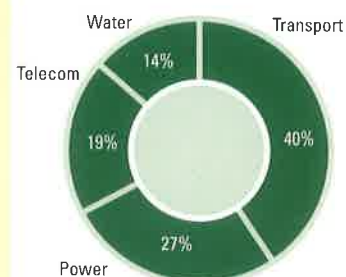
US\$ billion **China needs US\$750 billion over next 10 years.**



INFRASTRUCTURE INVESTMENT IN SELECTED ASIAN COUNTRIES: 1995-2004

Source: Infrastructure Development in East Asia and Pacific, 1995, The World Bank

In the face of increasing demand, private sector participation is needed.



CHINA'S INFRASTRUCTURE EXPENDITURE: 1995-2004

Source: Infrastructure Development in East Asia and Pacific, 1995, The World Bank



Eric KWAN, General Manager, Cheung Kong China Infrastructure, oversees our infrastructure efforts in China and has been instrumental in the negotiation and financing of the 1,400 MW Zhuhai Power Plant

As a relatively new sector, one can hardly be too rigid on what one should or should not do in China's infrastructure sector. However, we have identified the following characteristics in our projects, which we feel are a fair representation of our strategy:

CLUSTERING

We prefer to have multiple projects – hence multiple relationships – in a city. By entering into working relationships with local governments of emerging economies at an early stage, we aim to become a partner in the total development of the city, not just a mere investor in individual projects.

There are obvious economies of scale in the negotiation process and establishment of on-site management teams. Also, a key consideration is the risk management aspect, as we are often viewed by the host city as an important, visible partner.

There are opportunities to leverage the reputation and relationships of the Cheung Kong Group. For example, the opportunity to invest in the toll roads and bridges in Jiangmen and Shenyang arose from the prior relationships of Hutchison Whampoa and Cheung Kong Holdings in these cities, respectively.

SECURITY

Investing in a developing country with an evolving regulatory and legal environment, we strive hard to manage our risks.

Clustering our investments in selected high-growth cities is a way to reduce our risks. We also build various risk protection mechanisms into our joint venture contracts.

One can be prudent in making assumptions and thorough in covering diverse scenarios, but no future projections are completely foolproof. Therefore, we take a prudent approach in structuring the return mechanism.

All but two (the Shen-Shan Highway and Shantou Bay Bridge) of our projects have assured minimum returns and foreign exchange protection built into the contracts. The assured minimum returns form a floor – not a ceiling – on the return structure, and are generally supported by existing cash flow or projected cash flow generated from the projects themselves. Returns are denominated in foreign currency to safeguard against currency exchange fluctuations.

MATURITY

Infrastructure projects are often characterised by a lack of immediate cash flow. We prefer to invest in completed or partially completed projects, due to the limited completion and cost overrun risks. Of the 32 projects at the end of 1996, 16 were operational and 25 were revenue generating.

This is not to say that we avoid uncompleted projects. Investment merits are evaluated individually. For example, the Zhuhai Power Plant is being undertaken as a greenfield project. With sound project fundamentals and a capable, credible turnkey contractor, we feel

	Shantou	Nanhai	Jiangmen	Shenyang
CKI	Power, roads, cement	Power, roads	Roads	Power, roads
HWL	Ports	Ports	Ports	
CKH	Property			Hotel

CHEUNG KONG GROUP'S INVESTMENTS

CKI — Cheung Kong Infrastructure
HWL — Hutchison Whampoa
CKH — Cheung Kong Holdings

the Zhuhai Power Plant is a most secure project.

SEGMENTATION

We recognise that China is, in fact, many countries in one. Across China, there is wide diversity in economic and social conditions, geography, culture, and demand and supply equations; which all have a profound impact on how we conduct our business. As such, we organise our project development efforts by dividing the country into four regions, with the intention of adapting to local conditions as much as possible.

The coastal provinces will remain an important investment destination, given their proximity to Hong Kong, more advanced economic development and more extensive experience with foreign investment.

On the other hand, we believe central and western China is a large potential market. After many years of falling behind its coastal neighbours in terms of economic development, the interior provinces – home to over 50 per cent. of China's population and a wide range of important natural resources – have recently made strong initiatives to attract foreign investment. The central government is also supportive of faster economic growth in China's interior. We foresee increased activity of the Group in this region.

Other than geographic segmentation, we also separate our businesses by industry type. For example, our power investments range from small diesel plants to the large coal-fired Zhuhai Power Plant. We have invested in intra-city

roads as well as a key section of the National Trunk Highway System.

MANAGEMENT

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.

Operation contracts are generally awarded by the joint venture companies to the PRC partners for day-to-day management. Teams of managers from Hong Kong are seconded by the Group to work on-site at the joint venture companies in the PRC, responsible 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.

One of the unique features of our management team is its strong qualifications and relevant experience. All of the general managers have professional qualifications in their respective fields and have over 20 years of relevant experience. More importantly, all of our senior managers have years of experience doing business in China.

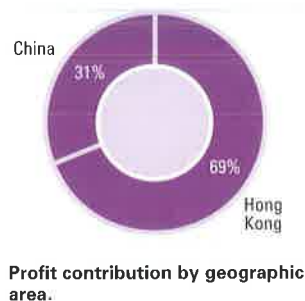
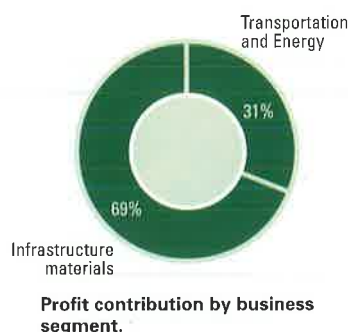


Our view of China

Project security is a most important investment criterion



“ We aim to become a partner in the total development of the city, not just a mere investor in individual projects.”



The following section (from pages 22 to 49) reports our activities during 1996 and provides a brief outlook for future prospects. The Group's activities are divided into three main groups: transportation, energy and infrastructure materials.

The first chart on the left shows the profit contribution by line of business, and the second chart by geographic area. Infrastructure materials accounted for the majority of profit contribution in 1996. Hong Kong was the major geographic contributor as the infrastructure materials businesses are primarily conducted in Hong Kong.

Relative profit contribution is expected to change in 1997. While the transportation and energy businesses in the PRC will grow significantly in absolute terms, the acquisition of Hongkong Electric will raise the profit contribution from the energy sector and from Hong Kong. The growth trend of the infrastructure materials businesses is expected to continue, though their relative contribution will decrease.

Over the longer term, the contribution of the transportation and energy businesses is expected to increase substantially in both absolute terms and as a percentage of total contribution.

A more detailed description of Hongkong Electric and its impact on the Group is contained in the Subsequent Events section on page 90.

PRC INFRASTRUCTURE PROJECT SUMMARY

(As at the end of 1996)

Power

Shantou Chenghai Power Plant
Shantou Chaoyang Power Plant
Shantou Tuopu Power Plant
Nanhai Jiangnan Power Plant
Nanhai Power Plant I
Zhuhai Power Plant

Total power

Roads and Bridges

Shantou Bay Bridge
Shen-Shan Highway (Eastern Section)
Nanhai Road Network (2 roads & 5 bridges)
Nanhai Road Network (4 bridges)
Guangzhou East-South Ring Road
Shenyang Roads (4 roads)
Shenyang Roads (3 roads & 2 bridges)
Jiangmen Jiangsha Highway
Jiangmen Jianghe Highway

Total roads and bridges

Water

Dongguan Qiaotou Zhen Water Plant

Total power, roads and bridges, and water

Scale
(MW)

Revenue
Commencing

Operational
Status

CKI's Interest
(HK\$ million)

Interest
in JV

JV Expiration
Date

75

1995

Operational

192

60%

2010

90

1995

Operational

230

60%

2010

114

1995

Operational

291

60%

2010

121

1995

Operational

84

36.4%

2004

400

1996 (Unit 1)

1997 (Unit 2)

227

30%

2012

1,400

2000

Construction

1,284

45%

2019

2,200

2,308

(km)

11.3

1994

Operational

183

30%

2028

140.0

1994

Operational

846

33.5%

2028

87.9

1996

Operational

797

49%

2020-2022

49.8

1996

1999

597

64.4%

2023-2024

19.4

1999

1999

700

37.5%

2029

17.4

1997

1997

411

52%

2027

15.0

1996

1998

424

54.2%

2028

20.9

1996

Operational

103

50%

2026

20.3

1996

1999

210

50%

2028

382.0

4,271

(tonne)

50,000

1997

Operational

14

35%

2017

6,593

Transportation

As at the end of 1996, the Group's interests in the transportation sector comprised the Nanhai Road Network (11 road and bridge projects), Shen-Shan Highway (Eastern Section), Shantou Bay Bridge, Shenyang Roads (9 road and bridge projects), Jiangmen Roads (Jiangsha and Jianghe Highway) and Guangzhou East-South Ring Road. The Group had interests in a total length of 382 km of roads and bridges at the end of 1996

“ We have, on the ground,
teams of managers working alongside our
Chinese partners in the areas of general
management, finance and operation.”



YUEN Ming Kai, Clement, General Manager, Roads and Bridges Operation, has a PhD degree in Geotechnical Engineering and was formerly the head of an international engineering consulting firm.



The Shen-Shan Highway's on-site management (from left) HUI Wai Ching, Colin; WONG Pun Nam; ZHAO Song and CHUNG Chi Ming



Computerised toll collection at the Shantou Bay Bridge. Every vehicle is recorded on videotape.

LEE Chack Fan, General Manager, Roads and Bridges Development, has a PhD degree in Geotechnical Engineering, and has over 20 years of experience in advising large engineering projects in China.



“ We have four project development teams responsible for four distinct regions: Southern, Eastern, Northeastern, and Central and Western China. ”

The Jiangsha Highway enjoys steady traffic flow.



The Shenyang Roads are a key transportation link in the heavily industrialised city.

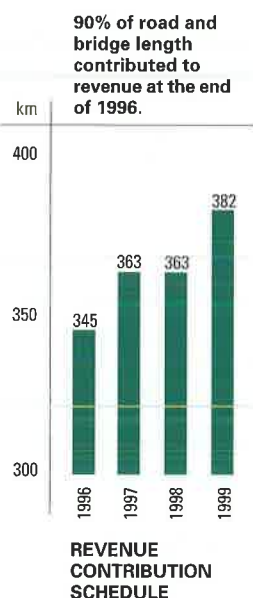


The Shantou Bay Bridge is already a landmark of the city.



The Nanhai Road Network's and Jiangmen Roads' on-site management (from left) WONG Kwok Wai, Allan; CHAN Ying Kam; CHAN Kin Wai, Morris; and TSUI King Chung, Bob.





As at the end of 1996, the Group's interests in the transportation sector comprised the Nanhai Road Network (11 road and bridge projects), Shen-Shan Highway (Eastern Section), Shantou Bay Bridge, Shenyang Roads (9 road and bridge projects), Jiangmen Roads (Jiangsha and Jianghe Highway) and Guangzhou East-South Ring Road. The Group had interests in a total length of 382 km of roads and bridges at the end of 1996.

Of the 25 road and bridge projects, 10 were operational and 20 made revenue contribution during 1996.

NANHAI ROAD NETWORK

The Nanhai Road Network represents our commitment to this rapidly growing Guangdong city. Located west of Guangzhou in the heart of the Pearl River Delta, Nanhai is one of China's richer cities, with total vehicle ownership of over 280,000 units in a population of just over one million.

Comprising 11 roads and bridges, the Nanhai Road Network forms an integral part of the city's transportation system. Seven of the projects are operational, and four are under construction. Two of the bridges under construction are expected to become operational by the third quarter of 1997, ahead of schedule. We will be entitled to a share of the early toll revenue.

We contributed capital of HK\$1,394 million in August 1996, and began to receive income from all 11 projects immediately. In December 1996,

two of the projects successfully obtained toll rate increases. Applications for toll rate increases for two additional projects have been submitted.



SHEN-SHAN HIGHWAY (EASTERN SECTION)

The 140 km Shen-Shan Highway (Eastern Section) forms half of a 286 km main artery connecting two of China's five Special Economic Zones: Shenzhen and Shantou. It is a key link of the eastern coastal corridor and part of the National Trunk Highway System.

The Eastern Section commenced operation in November 1996. At present, the entire 286 km length of the Eastern and Western Sections is operational, and the traveling time between Shenzhen and Shantou has been reduced from about eight hours to less than four hours. The traffic flow at this early stage has been encouraging.



Connected to the Shen-Shan Highway, the Shantou Bay Bridge is the world's longest suspension bridge of its kind.

SHANTOU BAY BRIDGE



Connecting to the northern end of the Shen-Shan Highway is the Shantou Bay Bridge, which has been operational since December 1995. The 2.5 km bridge is the world's longest suspension bridge of its kind. Since the opening of the Shen-Shan Highway, traffic flow has grown significantly.

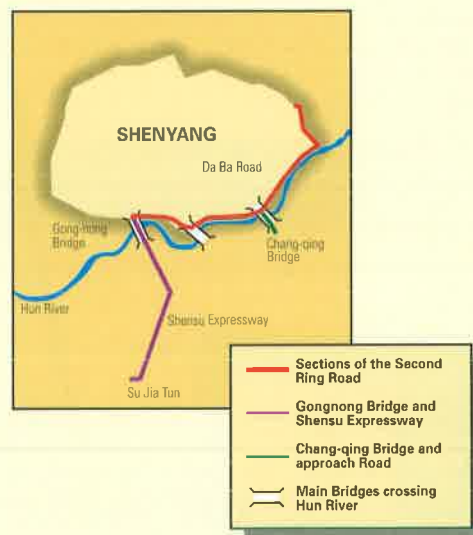
To the north, the Shantou Bay Bridge will connect to the Shan-Chao-Fen Highway (currently under planning), which will form an important link between eastern Guangdong and Fujian. Both the Shen-Shan Highway and Shantou Bay Bridge are expected to benefit from increasing foreign investment in Fujian.

SHENYANG ROADS

Shenyang, Liaoning Province's largest city, is an important industrial hub in northeastern China, with a population of over six million. Liaoning is home to many of China's large industrial enterprises and natural resources. Prior to the Group's investment, Cheung Kong Holdings had invested in a hotel project in Shenyang. The Group's investment in the nine Shenyang road and bridge projects

represents our first infrastructure investment outside of Guangdong.

The nine road and bridge projects primarily comprise major sections of the city's outer ring road, two of Shenyang's three bridges over the Hun River and their approach roads. All of the roads and bridges are existing key sections of the city's transportation network. Construction is underway to upgrade these roads and bridges by widening, renovating and building interchanges and toll stations.



Our joint venture partner is responsible for the turnkey construction of the roads and bridges, subject to a guaranteed completion date. Of the nine projects, four are expected to commence operation by December 1997 and the remaining five by July 1998.



The Nanhai Road Network represents our commitment to this rapidly growing city. This is the toll station at the Nanhai Jiangshi Highway.

JIANGMEN ROADS

At the end of 1996, the Group's investment in Jiangmen comprised the Jiangsha Highway and Jianghe Highway. In January 1997, we added the Chaolian Bridge.

Jiangmen, located in the west of the Pearl River Delta, is a key city in western Guangdong and home to over three million overseas Chinese. The Cheung Kong Group's first investment in Jiangmen was the container terminal operated by Hutchison Whampoa.

The Jiangsha Highway, connecting Jiangmen and Heshan, is operational, and recorded an average daily traffic flow of over 13,000 vehicles during 1996. The Jianghe Highway, linking Jiangmen and Gonghe, is expected to commence operation by March 1999. Our joint venture partner is responsible for the construction of the highway at a fixed price with a guaranteed completion date.



GUANGZHOU EAST-SOUTH RING ROAD

In July 1996, the Group, together with a subsidiary of Hopewell Holdings Limited, entered into a supplementary agreement to invest in the Guangzhou East-South Ring Road. The supplementary agreement came further to an original contract signed between Hopewell and the PRC partner.

Total project cost is HK\$1,866 million, and the target completion date is 1999.



PROSPECTS

Contribution from roads and bridges is expected to be higher in 1997. A full year's contribution will be received from the Nanhai Road Network. The Jiangmen Roads and most of the Shenyang Roads will supply a full year's contribution. Following the completion of the entire length of the Shen-Shan Highway, both the Eastern Section of the highway and Shantou Bay Bridge will be direct beneficiaries. We are actively negotiating for additional projects across China, with the total length of roads and bridges under negotiation being in excess of 1,000 km.

Comprising 11 roads and bridges, the Nanhai Road Network forms an integral part of the city's transportation system. This is the Nanhai Xiqiao Bridge.



Energy

As at the end of 1996, the Group had investments in six power plants with a total installed capacity of 2,200 MW. The three Shantou power plants – Shantou Chenghai, Chaoyang and Tuopu – and the Nanhai Jiangnan Power Plant have been operational since January

1995. One of the two units of Nanhai Power Plant I commenced operation during 1996, and the Zhuhai Power Plant is scheduled for operation in 2000.



MAK Poon Wing, Rupert, General Manager, Power Development, has a PhD degree in Mechanical Engineering and over 20 years of experience in the power industry in the United Kingdom, Hong Kong and the PRC.

“Our power expertise and experience is a huge advantage in negotiating projects in China.”

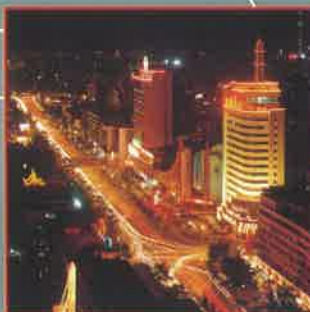
Zhuhai Power Plant on-site management (from left) KO Koon Hung, Anthony; MA King Huen, Anthony and HO Kwok Hung, Edward.



Generating units of the Shantou-Tuopu Power Plant.

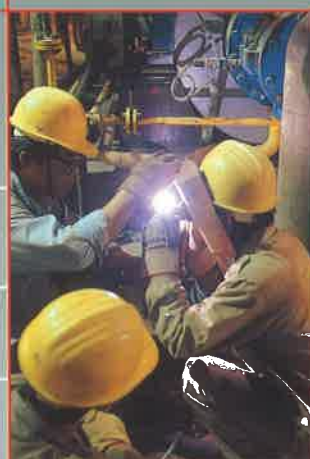


The control room
of Nanhai Power
Plant I.



Our power plants
form the
backbone of
Shantou's power
supply.

The Shantou
Tuopu Power
Plant enjoys
secure returns.



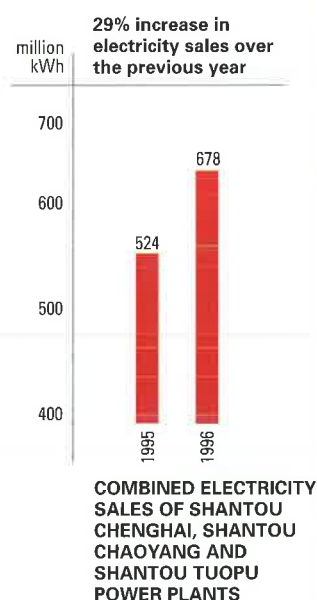
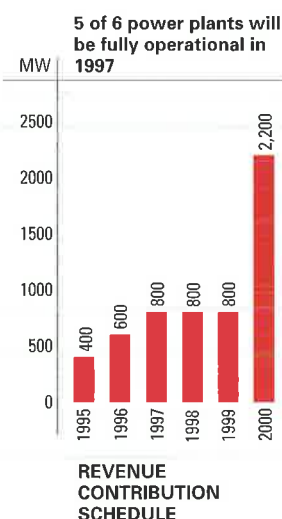
Our operational
expertise in
power is an
important
strength.



CHU Kee Hung, General Manager, Power
Operation, has a PhD degree in Mechanical
Engineering, and over 20 years of
experience in the power industry in the
U.S., Hong Kong and the PRC.

“ Our on-site staff work closely
with our joint venture partners in
monitoring the performance of the
power plants. ”





As at the end of 1996, the Group had investments in six power plants with a total installed capacity of 2,200 MW. The three Shantou power plants – Shantou Chenghai, Chaoyang and Tuopu – and the Nanhai Jiangnan Power Plant have been operational since January 1995. One of the two units of Nanhai Power Plant I commenced operation during 1996, and the Zhuhai Power Plant is scheduled for operation in 2000.

SHANTOU POWER PLANTS

Shantou is a Special Economic Zone located in eastern Guangdong. For the past three years, Shantou's GDP growth averaged over 20 per cent.

The Group holds a 60 per cent. interest in the Shantou Chenghai, Shantou Chaoyang and Shantou Tuopu oil-fired power plants, with a combined capacity of 279 MW. The three power plants represented about 40 per cent. of Shantou's municipal power grid power supply in 1996.

The three power plants have been operational since January 1995 and enjoy secure take-or-pay offtake agreements with the local power bureau. In addition to the offtake agreements, other layers of protection are provided by local financial institutions. The Shantou power

plants are representative of the maturity and security of the Group's infrastructure projects.

Combined electricity sales of the three power plants increased 29 per cent. in 1996 over the previous year.

NANHAI POWER PLANT I

One of Guangdong's more economically vibrant cities, Nanhai is one of Guangdong's "four little tigers" (the others are Zhongshan, Dongguan and Shunde). Nanhai's power supply has consistently lagged behind demand, with the shortfall supplied by the provincial power grid.

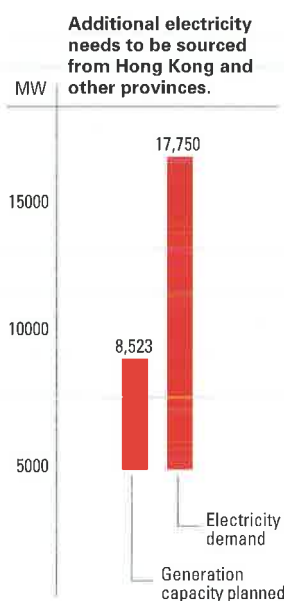
Currently under construction is Nanhai Power Plant I, a 400 MW plant in which the Group has a 30 per cent. interest. One of the two generating units (200 MW) commenced operation in November 1996, and the second unit is due to be completed by mid- 1997. Power generated from this plant is intended to primarily supply Nanhai.

NANHAI JIANGNAN POWER PLANT

The Group also has a 36.4 per cent. interest in the 121 MW coal- and oil-fired Nanhai Jiangnan Power Plant. The performance of this power plant has been stable since the commencement of the joint venture in January 1995.

*Unit 1 of Nanhai
Power Plant I
commenced
operation in
November 1996.
Unit 2 is
scheduled for
completion
in 1997.*





FORECAST GUANGDONG'S ELECTRICITY SUPPLY AND DEMAND 1996 – 2000

Source: Electric Power Bureau of Guangdong (forecast as of 1995)

ZHUHAI POWER PLANT

The Group's highest profile power project to date is the Zhuhai Power Plant. Comprising two 700 MW units, we believe the Zhuhai Power Plant is the largest single thermal power plant currently under construction in China. A detailed description of the project and its financing follows, beginning with an introduction of the two key players:

Guangdong Electric Power Holding Company (GEPH), the Group's joint venture partner in this project, is under the supervision of the Guangdong government and is the sole electricity distributor in the province. GEPH is also the electricity offtaker, operator and fuel supplier of the project.

A Mitsubishi consortium, comprising Mitsubishi Heavy Industries Ltd. and Mitsubishi Corporation, is the turnkey contractor of the project. The consortium has undertaken to complete the project on a full turnkey, fixed price and guaranteed completion timing basis. The Mitsubishi consortium is a world class power equipment manufacturer, and has a longstanding relationship with the Cheung Kong Group, having supplied seven of Hongkong Electric's eight existing generating units.

As the Zhuhai Power Plant will be connected to the provincial grid, an analysis of Guangdong's power supply and demand situation is necessary to understand the operating environment. Based on an official estimate of 14 per cent. for the average annual growth rate of electricity demand from 1996 to 2000, Guangdong needs an additional 17,750 MW of generation capacity. Based on government

estimates made in 1995, GEPH had plans to build new power plants with a generating capacity of 8,523 MW in the same period. A shortage will gradually emerge, and electricity will need to be purchased from other sources, such as Hong Kong and other provinces.

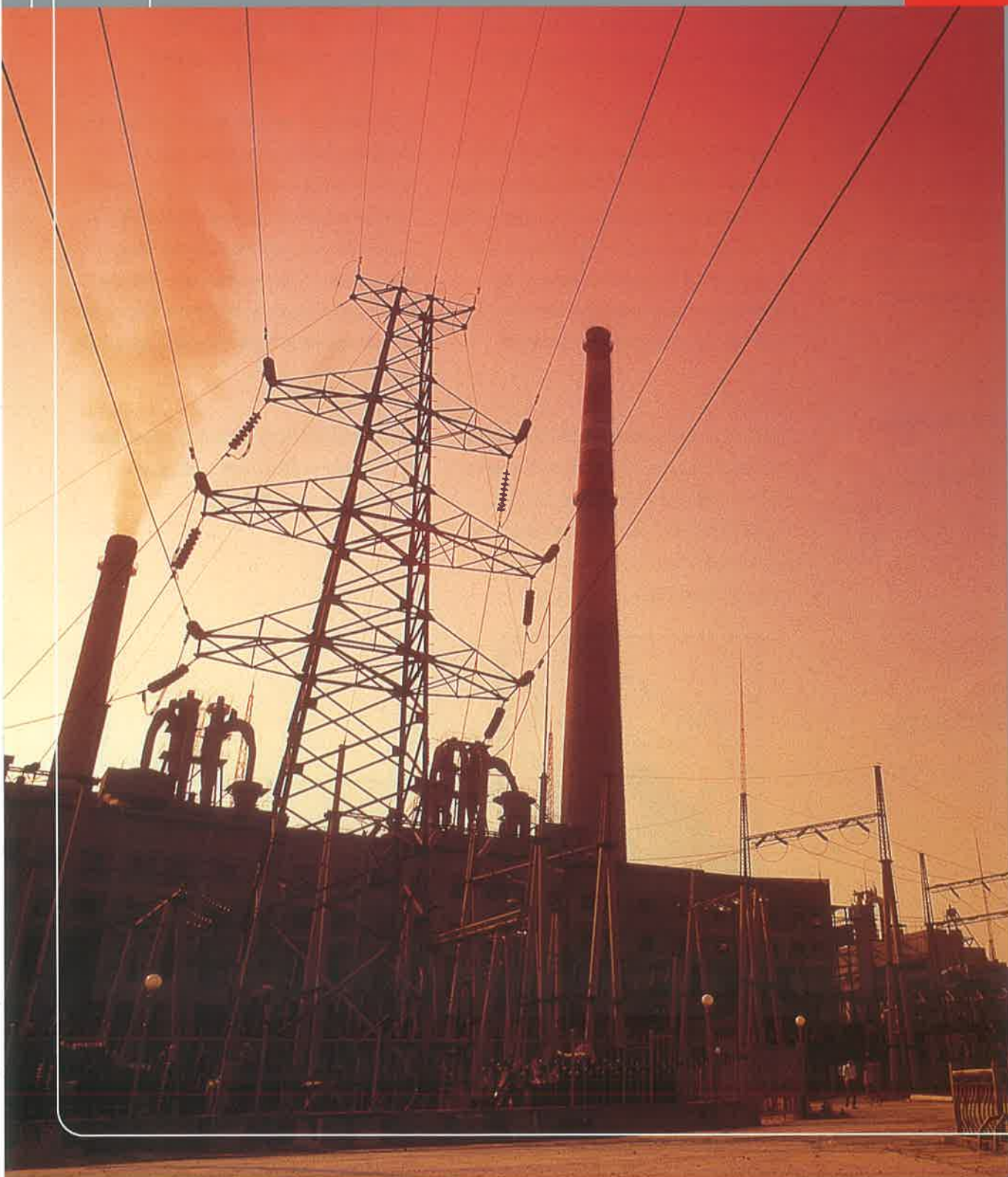
Against this background, the Zhuhai Power Plant was conceived and planned in the early 1990s. The two major hurdles were various government approvals and a massive financing package.

Approvals were obtained from the State Council (September 1995), Ministry of Foreign Trade and Economic Cooperation (December 1995) and State Administration of Exchange Control, Guangdong (October 1996). In addition, various letters of comfort and letters of confirmation were received from government authorities regarding foreign exchange, land administration, tax and environmental protection.

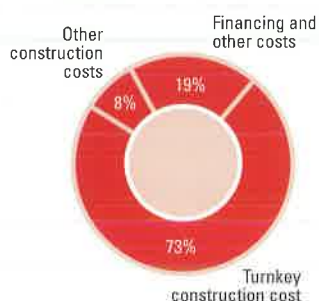
The financing of the Zhuhai Power Plant is considered a breakthrough in PRC project financing. It is China's largest project financing on a limited-recourse basis, without guarantees from either the PRC government or financial institutions. The financing was completed in September 1996.

Anchoring the financing are 16-year US\$670 million export credit facilities, provided as to 60 per cent. by the Export-Import Bank of Japan (JEXIM) and 40 per cent. by The Bank of Tokyo-Mitsubishi, Ltd. The JEXIM facilities are the export credit agency's first limited-recourse

The Shantou power plants represent the stability and maturity of the Group's power investments.

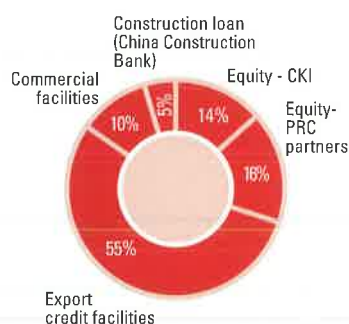


Total project cost: US\$1,222 million



ZHUHAI POWER PLANT PROJECT COST

A landmark project financing transaction



ZHUHAI POWER PLANT FINANCING STRUCTURE

project financing in China. More significantly, the financing marks a shift in the attitude of export credit agencies and commercial banks towards financing infrastructure projects in China.

The turnkey construction contract took effect in November 1996, and the Mitsubishi consortium has undertaken to complete construction within 42 months. At present, the construction of the Zhuhai Power Plant is well underway. Site formation has been completed, and other civil work is in various stages of completion.

PROSPECTS

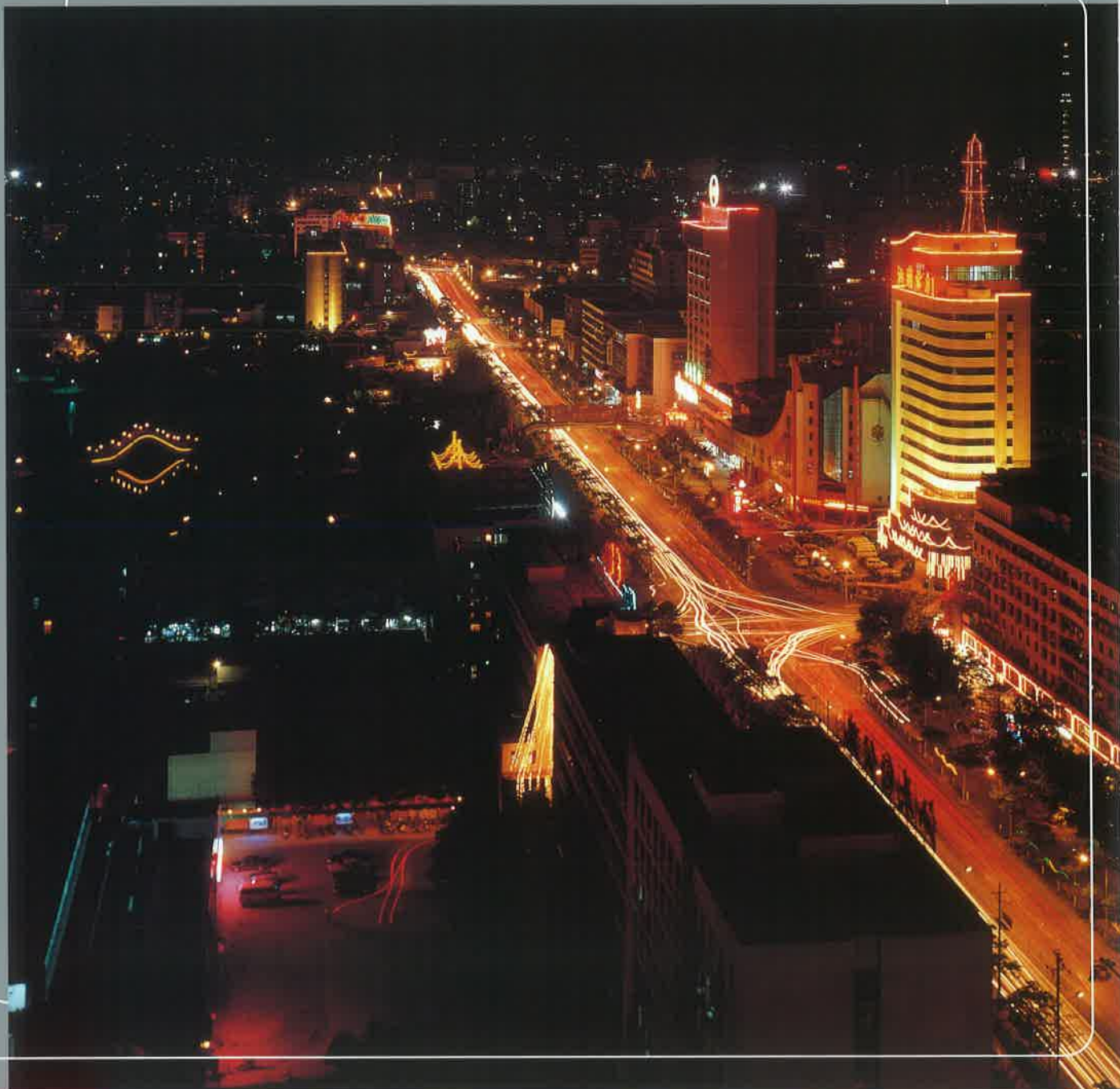
The Group's power plants are characterised by their secure returns. Contribution from power plants is expected to increase in 1997 from organic growth and new power projects. The three Shantou power plants and Nanhai Jiangnan Power Plant are expected to

continue to enjoy secure returns. As Nanhai Power Plant I is expected to commence full commercial operations during 1997, contribution will increase accordingly.

In January 1997, we invested in three heat and electricity co-generation power plants in Fushun, Liaoning Province, bringing our total installed capacity at the time to 2,350 MW. In March 1997, we purchased the controlling shareholding of Hongkong Electric. Both the Fushun power plants and Hongkong Electric are operational, and will make revenue contribution in 1997.

We are negotiating for additional power plants in other parts of China, with total capacity amounting to over 2,000 MW.





Our three Shantou power plants represent about 40 per cent. of the power supply of Shantou's municipal power grid.

Infrastructure Materials

Green Island Cement is the only integrated cement manufacturer in Hong Kong, and has over 100 years of operating history. Anderson Asia is one of Hong Kong's leaders in the production and delivery of concrete, the production and laying of asphalt, and the quarrying and selling of aggregates.

Barrie COOK, Managing Director of Green Island Cement since 1987, is Chairman of the Hong Kong Cement Association and an industry spokesperson, particularly on environmental issues.



Green Island Cement's brand names are well known in Hong Kong and southern China.



Ready-mixed concrete enjoyed record production in 1996.

“ **Green Island Cement** is a leader in transforming waste products into cost effective raw materials. It makes good sense and good business. ”



“In addition to being the market leader,
we offer advanced technology, high quality
and innovative products.”

T.W. CHOW, Managing Director of Anderson Asia since 1984, is a Chartered Engineer and respected industrywide for his commitment to quality and productivity.

Anderson Asia
directors:
(from left)
Don JOHNSTON,
T.W. CHOW and
Lambert LEUNG.



Green Island
Cement enjoys a
market leading
position in Hong
Kong.



Green Island
Cement
directors: (from
left) Derek LIU,
Barrie COOK
and Gary YU.



Hong Kong's asphalt
market saw a
substantial production
increase. Anderson
Asphalt is a market
leader in the local
asphalt market.





The Group's interests in infrastructure materials, through its wholly-owned subsidiaries Green Island Cement and Anderson Asia, comprise an integrated infrastructure materials manufacturer involved in the production, distribution and sale of cement, concrete, asphalt and aggregates. Both Green Island Cement and Anderson Asia are market leaders in their respective business areas and have long histories of operation.

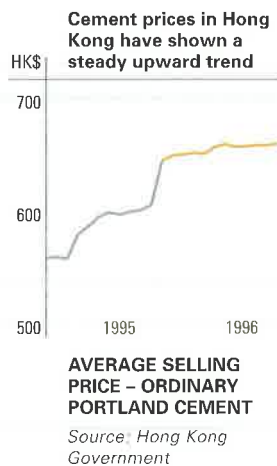
Green Island Cement is the only integrated cement manufacturer in Hong Kong, with a kiln capacity of about 1.5 million tonnes of clinker and a cement grinding capacity of about 2.5 million tonnes per annum. Green Island Cement also imports clinker for subsequent processing and cement for sale in Hong Kong and China.

Anderson Asia is one of Hong Kong's leaders in the production and delivery of concrete, the production and laying of asphalt, and the quarrying and selling of aggregates. Its activities are conducted through three principal subsidiaries: Ready Mixed Concrete (H.K.) Limited (RMC), Anderson Asphalt Limited and Asia Stone Company, Limited. Anderson Asia has a concrete production capacity of about 4.7 million cubic metres per annum, an asphalt production capacity of about 0.8 million tonnes per annum and an aggregates quarrying capacity of about 2 million tonnes per annum.

1996 was a record year in profit contribution for both Green Island Cement and Anderson Asia. We have maintained our market leading positions, and have achieved impressive results in product quality, productivity and innovation.



Our concrete batching plant at Chek Lap Kok is the world's fastest single production line, with an actual production rate of over 300m³/hour



GREEN ISLAND CEMENT

In 1996, not only did Green Island Cement achieve record sales and profit contribution, but more gratifying was the fact that our commitment to the global trend of environmental consciousness was recognized with an Environmental Performance Award from the Private Sector Committee on the Environment.

Green Island Cement is a signatory to the International Chamber of Commerce Charter on Sustainable Development, and has demonstrated its commitment to the concept of sustainable development through its waste handling and disposal activities, as well as the unique selection of raw materials for manufacturing. These initiatives help preserve the environment, produce a better quality product and reduce our operating cost.

We are a leader in the field of transforming waste products into cost effective raw materials in the cement manufacturing process. For example, we pioneered the use of pulverised fuel ash (PFA) in cement production in Hong Kong and southern China. PFA is the waste ash residue left over from the burning of coal in power plants. Previously, PFA was disposed of by dumping into lagoons. We now consume virtually all of the PFA in Hong Kong produced by the two electric utilities, having safely disposed of over 400,000 tons in 1996.

In February 1997, Green Island Cement was licensed to burn a MARPOL-derived fuel (Marine Pollutant) in its cement kiln. We also utilize synthetic gypsum, a by-product of the gas desulphurisation process at Hongkong Electric's

Lamma Power Station, in the manufacture of cement. A number of other environmental programs are being examined, and these activities will be extended to our operations in China.

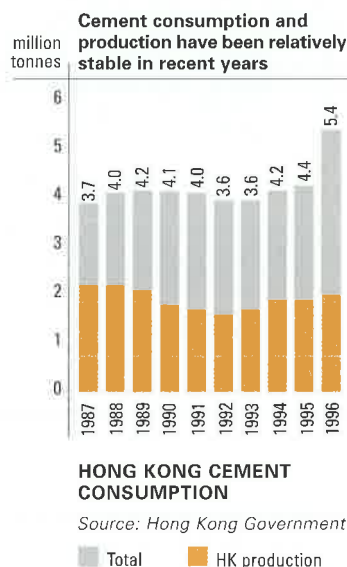
Hong Kong Market

Cement consumption in Hong Kong during 1996 reached 5.4 million tonnes, an increase of 20 per cent over the previous year. This increase reflected the buoyant construction sector and a shift in market demand towards higher strength concrete, and consequently higher cement content. The average price increase during 1996 for cement in Hong Kong was approximately 11 per cent.

The level of cement imports into Hong Kong increased at a slightly faster rate than consumption growth at 21 per cent. In mid-1996, price competition was experienced at the lower end of the bag cement market, as a portion of Guangdong's surplus production was sold to Hong Kong. As a result, Green Island Cement's overall market share showed a decline to 44 per cent from 47 per cent. Despite the market share decline, our profit increased, due to a change in product mix to higher profit margin cement.

Hong Kong's cement market has experienced a relatively stable demand pattern in recent years, with consumption at about four to six million tonnes per annum. The key success factor in the local cement market is yield improvement.

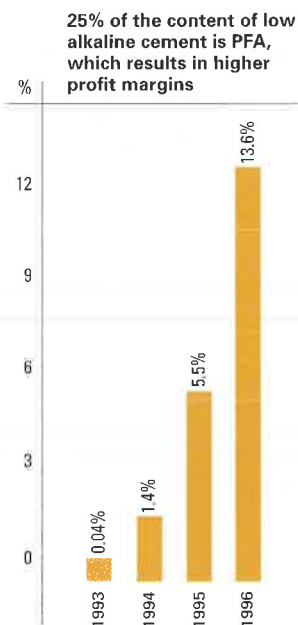
Our success in low alkaline cement, a





Green Island Cement's Tap Shek Kok production facility is one of the most technologically advanced in Asia.

OUR INFRASTRUCTURE MATERIALS OPERATIONS IN SOUTHERN CHINA



**GREEN ISLAND CEMENT'S
LOW ALKALINE CEMENT
MARKET SHARE IN HONG KONG**

Source: Green Island Cement

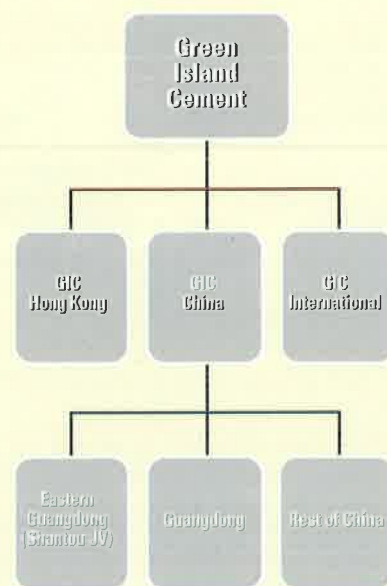
proprietary product, is an example of yield improvement. This product, which utilizes PFA as a key component, was first introduced in 1993 with a 0.04 per cent. market share. In 1996, low alkaline cement consumption increased to 13.6 per cent. of the local cement market, and has become the preferred product for civil engineering and foundation works. Low alkaline cement is a high profit margin product due to the use of PFA as a major raw material.

China Market

The initial focus of Green Island Cement's PRC expansion effort will be southern China, where we have experience in exporting our products and enjoy high brand awareness. We will be pursuing joint venture opportunities in Guangdong, particularly cement production plants.

We have a 60 per cent. interest in a Shantou joint venture, where a 600,000 tonne per annum clinker grinding facility is under construction. Site formation and jetty construction is well advanced, and commissioning is expected in early 1998.

Together with our existing downstream cement and concrete facilities, we have plans to establish an integrated infrastructure materials operation. Over time, we will expand outside of Guangdong.



**Green Island Cement
Corporate Structure**



*Our cement
production plant
benefits from
convenient
access to
strategic
waterfront
facilities.*

International Activities

Our limestone export facility at Siquijor, in the southern Philippines, is expected to be commissioned in July 1997. The facility can handle Panamax-sized vessels and is capable of exporting in excess of eight million tonnes of limestone per annum. The facility will serve our Hong Kong operations and regional customers.

ANDERSON ASIA

Anderson Asia achieved record profit in 1996, riding on higher production volumes and improved profit margins.

A major highlight of 1996 was the recognition of the industry for our achievements in quality and productivity. In particular, the prestigious awards received from the Hong Kong Productivity Council and Hong Kong Industry Department are evidence of our dedication to quality and productivity.

Concrete

Concrete demand remained buoyant in 1996 with an estimated total production of over 11 million cubic metres, 12 per cent. above that of 1995. RMC remained one of the market leaders, and enjoyed record production, whether measured by yearly, monthly or daily production. Our profit growth outpaced volume growth, as profit margins improved.

We continue to promote the use of high strength concrete, and remain the only commercial producer of 100 MPa and over concrete in Hong Kong. High strength concrete has greater durability and decreases the size of columns and slabs, thereby increasing useable

floor area. We continue to devote substantial resources to developing higher efficiency concrete plants. For example, we are manufacturing our own admixture to reduce cost, improve quality and achieve higher strength.

In 1996, two new concrete batching plants were commissioned in Guangzhou and Shenzhen, and we now have more than 50 mixer trucks in China.

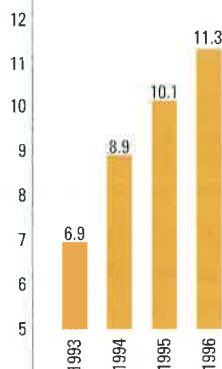
We entered into an agreement to supply concrete to the Zhuhai Power Plant. Concrete supply arrangements with the Group's other infrastructure projects are being pursued.

Asphalt

The asphalt market in Hong Kong grew substantially in 1996, up 97 per cent. Our production reached a record high, and we maintained our market share of about one-third of the general commercial market. A project of note was the mastic surfacing of the Tsing Ma Bridge, only one of the few projects of its type in Asia.

A joint venture was formed in 1996 in Beijing, with two plants commissioned. During the past year, we completed the paving of a road project in Fengnan, Hebei Province within a record time. We are also examining the possibility of establishing additional asphalt plants in other cities in China.

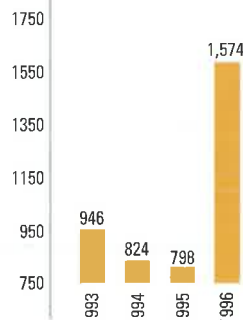
million cu.m. **Steady growth in concrete production**



CONCRETE PRODUCTION IN HONG KONG

Source: Anderson Asia

'000 tonnes **Substantial increase in asphalt consumption in 1996**



ASPHALT PRODUCTION IN HONG KONG

Source: Anderson Asia

Aggregates

We operate one of the five contract quarries in Hong Kong. Over 70 per cent. of production was supplied for in-house concrete and asphalt operations. As the products were mainly sold internally, selling price remained steady.

PROSPECTS

The Airport Core Programme (ACP) has been Hong Kong's highest profile construction project in recent years. Our cement and concrete businesses have both benefited from this huge project. However, the real impact of the ACP on the cement and concrete industry should be viewed in the context of the following statistics.

From 1992 to 1996, the ACP consumed a total of 6.3 million cubic metres of concrete, which represented about 14 per cent. of Hong Kong's total concrete market during the same period. Given the enormous total investment, the ACP's cement and concrete consumption is disproportionately low. Had the same investment amount been spent on conventional infrastructure projects, cement and concrete consumption would have been five to seven times higher. We expect demand for infrastructure materials to continue to be strong as several major infrastructure projects are set to begin following the completion of the ACP.

Another driving force for the infrastructure materials businesses is projected population increase. The government projects that Hong Kong's population will increase from its current figure of 6.3 million to 8.1 million by the year 2011, principally from net migration. With the increased housing needs generated from this

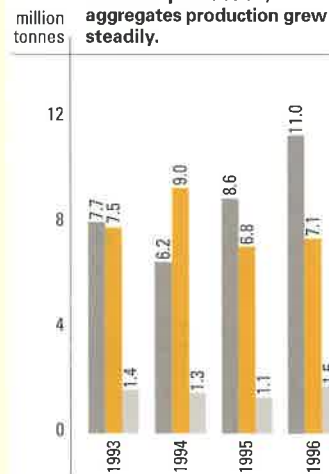
population boom, we are optimistic that construction activities will remain active in the near term.

We expect cement consumption in Hong Kong to grow steadily in 1997. Our concrete and asphalt operations are entering 1997 with a healthy order book. With the local construction industry remaining buoyant, we expect higher production and profit contribution.

The Group's infrastructure materials businesses were developed through acquisitions and joint ventures. Each of these businesses and their respective market leadership positions were subsequently strengthened through the injection of capital and management expertise, the establishment of a clear strategic direction and the sponsorship of a strong parent.

Through selective acquisitions and joint ventures in Hong Kong and China, we believe our formula for success will continue.

Used mainly for in-house concrete production, aggregates production grew steadily.

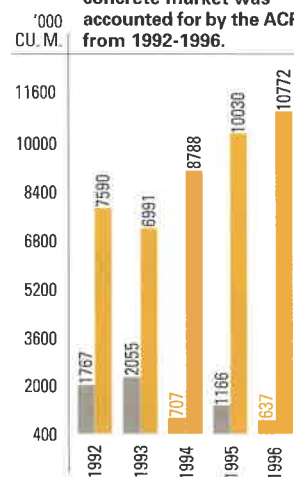


AGGREGATES AND SAND CONSUMPTION IN HONG KONG

Source: Anderson Asia

Local supply
Imported aggregates
Imported sand

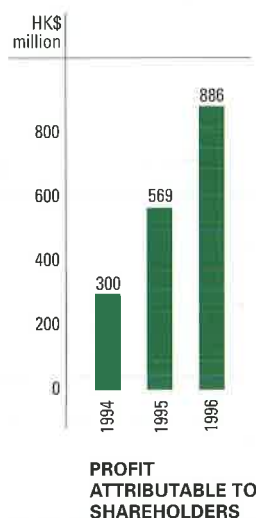
Only 14% of the total concrete market was accounted for by the ACP from 1992-1996.



AIRPORT CORE PROGRAMME

Source: Anderson Asia

ACP HK Total



PROFIT AND LOSS

Summary Consolidated Profit and Loss

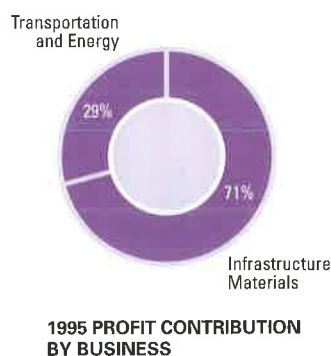
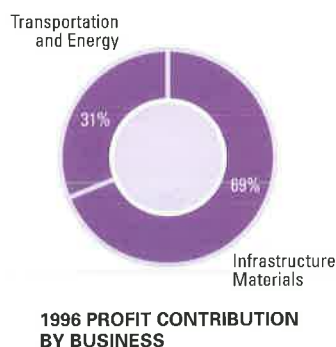
<i>HK\$ million</i>	1996	1995	% Change
Turnover	3,041	2,339	30
Profit before taxation	971	597	63
Taxation	(87)	(29)	200
Profit after taxation	884	568	56
Minority interests	2	1	100
Profit attributable to shareholders	886	569	56

Turnover increased by 30 per cent. mainly due to the growth of the infrastructure materials businesses. Profit before taxation grew by 63 per cent., higher than the growth of turnover, which reflects higher profit margins achieved by the infrastructure materials businesses, and increased profit contribution from the transportation and energy businesses.

The effective tax rate of the Group increased from 5 per cent. in 1995 to 9 per cent. in 1996. Investment returns from the transportation and energy businesses are either not subject to PRC taxation or received after taxation, but interest income from certain joint ventures is subject to a withholding tax. Profit attributable to shareholders increased to HK\$886 million, up 56 per cent. from 1995.

Profit Mix

Profit contribution before corporate overheads and net interest income from the transportation and energy businesses increased by 51 per cent. from last year. The infrastructure materials businesses posted a 40 per cent. increase in profit contribution. In 1996, the relative profit contribution of the infrastructure materials, and transportation and energy businesses was 69 per cent. and 31 per cent., respectively (1995: 71 per cent. and 29 per cent.).



PRC Infrastructure

	Total number of projects		Number of projects generating revenue	
	1996	1995	1996	1995
Roads and bridges	25	2	20	2
Power plants	6	6	5	4
Water plant	1	—	—	—
Total	32	8	25	6

At the end of 1996, the Group invested in 25 road and bridge projects in China, up from two at the end of 1995. The additional projects were the 11 roads and bridges in Nanhai, Guangzhou East-South Ring Road, two roads in Jiangmen, and nine roads and bridges in Shenyang. At the end of 1996, 10 roads and bridges were operational and 20 projects contributed revenue to the Group.

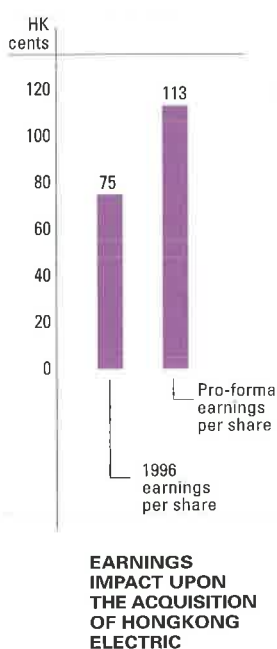
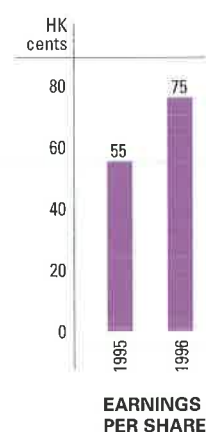
With the exception of the Shantou Bay Bridge and Shen-Shan Highway (Eastern Section), in which the Group shares profit in proportion to the capital contribution ratio, the Group is entitled to receive assured minimum returns in foreign currency and has the right to share excess profits from all of its transportation joint ventures.

At the end of 1996, the Group invested in six power plant projects in China, the same as a year ago. Except for Unit 2 of Nanhai Power Plant I and the Zhuhai Power Plant, the other four power plants and Unit 1 of Nanhai Power Plant I were operational and generated revenue to the Group during 1996.

Infrastructure Materials

Both Green Island Cement and Anderson Asia posted record profits in 1996. Green Island Cement's performance was attributable to an overall market volume growth of 16 per cent., an average cement market price increase of 11 per cent. and an increase in the market share of high profit margin products.

In 1996, all three major operating units of Anderson Asia, Ready Mixed Concrete, Anderson Asphalt and Asia Stone, posted record sales.



Earnings Per Share

	1996	1995	% Change
Profit attributable to shareholders (HK\$ million)	886	569	56
Weighted average number of shares in issue (million)	1,185	1,026	15
Earnings per share	HK\$0.75	HK\$0.55	36

Earnings per share increased by 36 per cent. to HK\$0.75 per share. The significant increase in earnings per share is mainly attributable to profit growth resulting from the record performance of the infrastructure materials businesses and increased contribution from the transportation and energy businesses.

Pro-forma Earnings Per Share

With the purchase of Hongkong Electric as described in note 24 (a) to the financial statements, an analysis of the impact on the Company's earnings per share is prepared below:

HK\$ million	1996
Attributable profit of the Group	886
Attributable profit of Hongkong Electric	1,453
Pro-forma attributable profit	2,339
Pro-forma weighted average number of shares (million)	2,071
Pro-forma earnings per share	HK\$1.13
Representing an increase of	51%

Assuming the purchase of Hongkong Electric and the issue of the shares of the Company to Hutchison Whampoa had been in effect throughout the year ended 31st December, 1996, the pro-forma earnings per share would have increased by 51 per cent.

Dividends

Dividend per share declared for 1996 was HK\$0.16 per share. As indicated in the IPO Prospectus, the Directors recommended a final dividend for 1996 of not less than HK\$0.08 per share.

Following the acquisition of Hongkong Electric in March 1997, the number of shares entitled to the Company's final dividend for 1996 increased from 1,368,000,000 shares to 2,254,209,945 shares, after the issue of 886,209,945 shares to Hutchison Whampoa. On 14th March, 1997, the Company further acquired 14,822,500 shares of Hongkong Electric in the open market and therefore increased its shareholding in Hongkong Electric from 35.01 per cent to 35.7 per cent.

The Company is entitled to Hongkong Electric's final dividend for 1996 totalling approximately HK\$560 million, which will be received in May 1997, at HK\$0.775 per Hongkong Electric share.

Actual Profit as Compared with the IPO Forecast

Profit attributable to shareholders was HK\$886 million, higher than the profit forecast of not less than HK\$728 million as stated in the IPO Prospectus. The favourable difference is mainly attributable to the following factors:

- the better than expected performance of Green Island Cement and Anderson Asia, resulting from higher turnover and profit margins;
- the higher contribution from the transportation and energy businesses, principally the earlier than forecast capital contribution of the Nanhai Road Network, and increased contribution from new projects (Jiangmen Roads and Shenyang Roads) after the IPO, but before the end of 1996;
- the higher than forecast interest income due to additional IPO proceeds from over-allotment and better than forecast interest rate; and
- the general provision for contingency contained in the IPO forecast is not required.

CASH FLOW**Summary Consolidated Cash Flow**

<i>HK\$ million</i>	1996	1995	% Change
Net cash inflow from operating activities	943	537	76
Returns on investments and servicing of finance	280	66	324
Taxation paid	(48)	(3)	1,500
Net cash inflow before investing activities	1,175	600	96
Net cash (outflow) from investing activities	(3,310)	(113)	2,829
Net cash inflow /(outflow) from financing activities	5,722	(264)	2,267
Increase in cash and bank balances	3,587	223	1,509

The increase in operating cash flow in 1996 was due to the increased profitability of the Group. The increased cash outflow reflects the investment in the transportation and energy projects. Cash increased due to the net proceeds of the IPO and the capitalisation of the HK\$1,800 million loan made by the Cheung Kong Group just prior to the IPO.

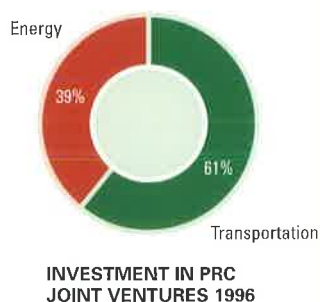
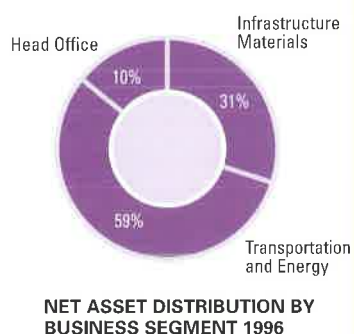
FINANCIAL POSITION**Summary Consolidated Balance Sheet**

<i>HK\$ million</i>	1996	1995
Fixed assets	1,627	1,664
Associated companies	95	(8)
Joint ventures	4,901	1,784
Other non-current assets	147	83
Current assets	4,589	962
Total assets	11,359	4,485
Current liabilities	(3,000)	(450)
Long-term liabilities and provisions	(9)	(2,188)
Total liabilities	(3,009)	(2,638)
Net assets	8,350	1,847

Fixed assets are leasehold land and buildings, plant and machinery and other fixed assets almost all attributable to the infrastructure materials businesses.

Associated companies increased to HK\$95 million in 1996 as a result of Green Island Cement's investment in the development and operation of a limestone quarry in the Philippines.

Joint ventures, which represent the cost of investment in and amounts due from PRC joint ventures, increased by HK\$3,117 million in 1996 due to the addition of transportation and energy projects.



Other non-current assets are principally deferred pre-operating expenditure in respect of the transportation and energy businesses, which are amortised over a period of ten years upon the commencement of operation. The increase in deferred expenditure is in line with the increase in the transportation and energy businesses.

Current assets increased by HK\$3,627 million mainly due to the increase in the cash balance of HK\$3,587 million from 1995.

Current liabilities increased by HK\$2,550 million, principally reflecting the term loan of HK\$2,055 million in June 1996 and accrual for 1996 final dividends.

Long-term liabilities, which represent principally shareholders' loans, were fully repaid upon the completion of the IPO Reorganisation in July 1996.

Capital Structure and Gearing Ratio

<i>HK\$ million</i>	1996		1995	
	Amount	Relative %	Amount	Relative %
Equity	8,350	80	1,847	100
Term loan	2,055	20	—	—
Total capitalisation	10,405	100	1,847	100

At the end of 1996, the ratio of total debts to total capitalisation was 20 per cent. If the cash balance is taken into account, the Group had a net cash balance of HK\$1,828 million at the end of 1996. The interest coverage for 1996 was 14 times.

Use of Proceeds of the IPO

<i>HK\$ million</i>	
IPO net proceeds	4,178
Investment in PRC infrastructure projects	
Transportation	2,176
Energy	855
	3,031
Others	77
Cash balance of the unused proceeds	1,070

As at 31st December, 1996, the cash balance was HK\$3,883 million, which comprises the cash balance of the unused proceeds, the capitalisation of the loan made by the Cheung Kong Group and the net cash inflow arising from operation of the Group.

Analysis of Capital Expenditure Commitments

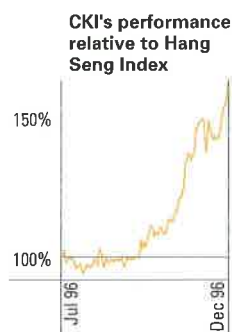
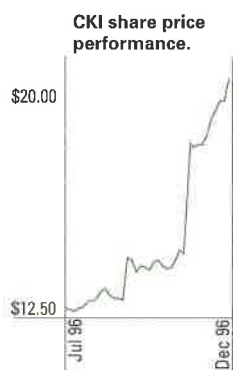
As at 31st December, 1996, the Group's outstanding capital commitments amounted to HK\$2,157 million with the following timetable:

<i>HK\$ million</i>	1997	1998	1999	Total
Transportation	1,118	282	21	1,421
Energy	500	—	—	500
Water	14	—	—	14
PRC Infrastructure	1,632	282	21	1,935
Cement	165	—	—	165
Concrete, asphalt and aggregates	57	—	—	57
Infrastructure materials	222	—	—	222
Total	1,854	282	21	2,157

Almost 90 per cent. of the commitments are related to the PRC infrastructure businesses. Over 85 per cent. of the commitments will be paid in 1997 because the majority of the PRC infrastructure projects will be completed within one year.

SHARE PRICE

During 1996, the Company's share price increased from the issue price of HK\$12.65 on 17th July, 1996 to HK\$20.50 on 31st December, 1996, an increase of 62 per cent. During the same period, the Hang Seng Index increased by 32 per cent. During the year, the Company's market capitalisation increased from HK\$17.3 billion to HK\$28.0 billion, an increase of 62 per cent.



The Directors have pleasure in presenting to shareholders the annual report together with the audited financial statements of the Company and of the Group for the year ended 31st December, 1996.

PRINCIPAL ACTIVITIES

The principal activities of the Company focus on infrastructure development, investment and management, mainly in power plants, toll roads and toll bridges in the PRC, as well as for its infrastructure materials businesses in cement, concrete, asphalt and aggregates in Hong Kong, the PRC and throughout the region.

RESULTS AND DIVIDENDS

Results of the Group for the year ended 31st December, 1996 are set out in the consolidated profit and loss statement on page 70.

The Directors recommend the payment of a final dividend of HK\$0.16 per share for the year.

FIXED ASSETS

Movements in the Group's fixed assets during the year are set out in note 9 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of changes in the share capital of the Company and the reserves of the Company and the Group are set out in note 18 and note 19 to the financial statements.

GROUP FINANCIAL SUMMARY

Results, assets and liabilities of the Group for the last five years are summarised on page 68.

PROPERTIES

Particulars of major properties held by the Group are set out in Appendix 3 on page 89.

DIRECTORS

The Directors of the Company are listed on pages 14 to 15. The Directors' biographical information is set out on pages 14 to 15.

In accordance with the Company's bye-laws, the Directors of the Company (other than the Chairman and the Managing Director) retire in every year by rotation.

Mr. Fok Kin Ning, Canning, Mrs. Chow Woo Mo Fong, Susan, Mr. Tso Kai Sum and Mr. Cheong Ying Chew, Henry retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

DIRECTORS' INTERESTS

As at 31st December, 1996, 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 Interest	Family Interest	Corporate Interest	Other Interest	Total
Company	Li Tzar Kuoi, Victor	—	—	—	1,025,900,000 (Note 1 and Note 6)	1,025,900,000
	Kam Hing Lam	100,000	—	—	—	100,000
Cheung Kong Holdings	Li Tzar Kuoi, Victor	150,000	100,000	—	771,705,406 (Note 2)	771,955,406
	George C. Magnus	10,000	—	—	—	10,000
	Kam Hing Lam	10,000	—	—	—	10,000
	Lee Pui Ling, Angelina	20,000	—	—	—	20,000
Hutchison	Li Tzar Kuoi, Victor	—	—	500,000 (Note 8)	1,648,964,000 (Note 3)	1,649,464,000
	George C. Magnus	6,000	—	—	(Note 7)	6,000
	Lee Yeh Kwong, Charles (Note 9)	607,491	—	—	—	607,491
	Lee Pui Ling, Angelina	35,000	—	—	—	35,000
Beautiland Company Limited	Li Tzar Kuoi, Victor	—	—	—	15,000,000 (Note 4)	15,000,000
Jabrin Limited	Li Tzar Kuoi, Victor	—	—	—	2,000 (Note 4)	2,000
Kobert Limited	Li Tzar Kuoi, Victor	—	—	—	75 (Note 4)	75
Tsing-Yi Realty, Limited	Li Tzar Kuoi, Victor	—	—	—	945,000 (Note 4)	945,000
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 1,025,900,000 shares in the Company comprise:-

- (a) 966,689,000 shares held by a subsidiary of Cheung Kong Holdings. 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 referred to in Note 2 and in those shares of the Company as held by Cheung Kong Holdings' subsidiary as aforesaid.
- (b) 53,783,000 shares held by a subsidiary of Hutchison Whampoa. Certain subsidiaries of Cheung Kong Holdings hold more than one-third of the issued share capital of Hutchison Whampoa. Mr. Li Tzar Kuoi, Victor by virtue of his deemed interest in the shares of Cheung Kong Holdings as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above is deemed to be interested in such shares of the Company held by the subsidiary of Hutchison Whampoa.

- (c) 3,603,000 shares held by Pennywise Investments Limited ("Pennywise") and 1,825,000 shares 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 interest as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above and as a Director of the Company.
- 2) The 771,705,406 shares in Cheung Kong Holdings are held by TUT as trustee of the LKS Unity Trust and by companies controlled by TUT as trustee of the LKS Unity Trust. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is taken to be interested in such shares in Cheung Kong Holdings as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above.
- 3) The 1,648,964,000 shares in Hutchison Whampoa comprise:
- (a) 1,640,964,000 shares 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 held by a unit trust and by a company controlled by such 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 interest as described in Note 1(a) above and in this paragraph as a discretionary beneficiary of certain discretionary trusts.
- 4) These companies are subsidiaries of Cheung Kong Holdings. Accordingly, Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is deemed to be interested in those shares of these companies which are held by TUT (and companies it controls) as trustee of the LKS Unity Trust by virtue of his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above.
- 5) These companies are associated companies of Cheung Kong Holdings. 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, Mr. Li Tzar Kuoi, Victor is deemed to be interested in those shares of these companies which are held by TUT (and companies it controls) as trustee of the LKS Unity Trust.
- 6) Mr. Li Tzar Kuoi, Victor, by virtue of his interests in the share capital of the Company as described in Note 1(a) and Note 1(b) above and as Director of the Company is deemed to be interested in those shares of the subsidiaries and associated companies of the Company held through the Company and in those shares of the subsidiaries and associated companies of Cheung Kong Holdings held through Cheung Kong Holdings under the provisions of the SDI Ordinance.
- 7) Mr. George Colin Magnus who is also a director of Hutchison Whampoa holds options to purchase ordinary shares in Hutchison Whampoa pursuant to its Senior Executive Share Option Scheme.
- 8) These shares are beneficially owned by a company 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.

Apart from the above, as at 31st December, 1996 there is 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 a subsidiary 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.

9) Mr. Lee Yeh Kwong, Charles resigned as a Director of the Company with effect from 12th March, 1997.

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, 1996 as required to be recorded in the register maintained under Section 16(1) of the SDI Ordinance:-

- (i) 966,689,000 shares of the Company are held by Cheung Kong China Enterprises Limited, a wholly-owned subsidiary of Cheung Kong Holdings. Its interests are duplicated in the interests of Cheung Kong Holdings in the Company described in (ii) below.
- (ii) Cheung Kong Holdings is deemed to be interested in the 966,689,000 shares of the Company referred to in (i) above as it is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Cheung Kong China Enterprises Limited and in the 53,783,000 shares of the Company held by a subsidiary of Hutchison Whampoa as certain subsidiaries of Cheung Kong Holdings hold more than one-third of the issued share capital of Hutchison Whampoa.
- (iii) TUT as trustee of the LKS Unity Trust is deemed to be interested in those shares of the Company described in (ii) 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.
- (iv) 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 (iii) 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 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 on 31st December, 1996 will continue or will or may occur between the Group and the Cheung Kong Group:

- (i) Under the terms of the restructuring agreement (the "Restructuring Agreement") dated 1st July, 1996 entered into, among others, Cheung Kong Holdings, Hutchison Whampoa, Pennywise, Triumphant and the Company, the Cheung Kong Group provided the Group with electronic data processing and support and company secretarial, personnel and general office administrative services and the Cheung Kong Group has been

paid by the Company in respect of such services a fee of HK\$180,000 per month commencing from the date of listing of the Company to 31st December, 1996. Thereafter, such fee is subject to adjustment annually. This arrangement can be terminated by either party giving six months' notice of termination to the other. The sum of HK\$180,000 is, and every subsequent adjustment will be, based on the estimated costs of the Cheung Kong Group in providing such services.

- (ii) The Restructuring Agreement provides, inter alia, that in the event that within two years from the date on which the shares of the Company were listed, (a) in respect of any of the PRC joint ventures involved in the Company's 11 toll road and toll bridge projects in Nanhai Municipality, Guangdong Province (the "Nanhai Road Network"), the approvals of the relevant government authorities for the transfer contracts and the amendment of the terms of the relevant PRC joint venture contracts and articles of association for undertaking the relevant projects concerned have not been obtained or (b) in respect of the PRC joint venture involved in the Zhuhai Power Plant, the investment verification certificate certifying that the registered capital has been paid up as required by law and a business licence with valid effect for the whole of the joint venture period have not been obtained, then the Company shall be entitled to require Cheung Kong Holdings (in the case of the Nanhai Road Network) or Cheung Kong Holdings and Hutchison Whampoa (in a 50 to 50 proportion in the case of Zhuhai Power Plant), within six months thereafter, to purchase from the Company all of its direct and indirect interests in such PRC joint venture (1) in the case of the Nanhai Road Network, for a consideration in cash equal to the value of such interests based on the valuation of such projects referred to in the business valuation (the "Business Valuation") as mentioned in the prospectus of the Company dated 4th July, 1996 (the "Prospectus") at a discount to the same extent of the discount to the adjusted net asset value of the Group represented by the price of the shares of the Company under the placing and new issue (the "Share Offer") of shares by the Company as mentioned in the Prospectus in respect of the proposed restructuring (the "Restructuring") for the spin-off of the Company, and (2) in the case of Zhuhai Power Plant, for a consideration equivalent to the aggregate of (aa) the consideration in cash equal to the value of such interests based on the valuation of such projects referred to in the Business Valuation in the Prospectus at a discount to the same extent of the discount to the adjusted net asset value of the Group represented by the price of the shares of the Company under the Share Offer and (bb) the amount contributed by the Group to such project. Under this arrangement, the Company has the option to require Cheung Kong Holdings or Cheung Kong Holdings and Hutchison Whampoa as the case may be, to buy back any interests in the PRC joint venture relating to the Nanhai Road Network or Zhuhai Power Plant in respect of which approvals or other legal documents cannot be obtained by a certain date. Any decision by the Company to exercise or not to exercise such option will only be made by the independent non-executive Directors of the Company and with advice from an independent financial adviser and a circular containing such decision and advice will be sent to shareholders of the Company.

However, the waiver granted for the buy back option in respect of the interests of the Company in PRC joint venture involved in the Nanhai Road Network referred to above is no longer in effect for such buy back option has lapsed for the reason that the approvals of the relevant government authorities for the transfer contracts and the amendment of the terms of the relevant PRC joint venture contracts and articles of association for undertaking the relevant projects concerned have been obtained.

- (iii) Under the terms of the Restructuring Agreement, the Cheung Kong Group was to provide the Group with an aggregate gross floor area of approximately 455 square metres on 14th Floor, China Building, 29 Queen's Road Central, Hong Kong, currently rented by the Cheung Kong Group, as the Group's headquarters. The Cheung Kong Group was to charge the Group HK\$270,030 per month for the provision of such premises commencing from the date of listing of the Company to 31st December, 1996. Thereafter, such fee is subject to adjustment annually. This arrangement can be terminated by either party giving six months' notice of termination to the other. The sum of HK\$270,030 is, and every subsequent adjustment will be, based on rent and other charges payable by the Cheung Kong Group.
- (iv) Since 1985, Anderson Asia, a wholly-owned subsidiary of the Company, has been granted a licence in respect of the property situated at the Northern Portion of the Reclaimed Land, Extension to the Remaining Portion of Marine Lot No. 293, North Point, Hong Kong, for an aggregate land area of approximately 792 square metres for open storage. The property is currently licensed on normal commercial terms from Pako Wise

Limited, a wholly-owned subsidiary of the Cheung Kong Group. The licence for the premises is for a period of one year at a monthly licence fee of HK\$93,500 exclusive of rates and utility charges and expired on 31st December, 1996. The Cheung Kong Group has renewed the licence on normal commercial terms.

- (v) A subsidiary of the Company, Ready Mixed Concrete (H.K.) Limited has been granted a licence by Glass Bead Limited, a wholly-owned subsidiary of Cheung Kong Group in respect of part of the property situated at Yau Tong Marine Lot No. 69, 8 Tung Yuen Street, Sam Ka Tsuen, Yau Tong, Kowloon for an aggregate gross floor area of approximately 1,590 square metres as a concrete batching plant on normal commercial terms. The licence for the property is for a period of nine years and five months from 1st December, 1991 to 30th April, 2001. The licence fee, exclusive of rates and utility charges, will be revised every two years, with the forthcoming revision on 1st May, 1998. With effect from 1st May, 1996, the monthly licence fee was revised to HK\$500,000.
- (vi) 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 joint venture company. 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 undertakes, inter alia:-
 - (a) to procure Cheung Kong Hutchison Nanqiao Power Company Limited (the "Foreign Party"), the foreign party to the PRC joint venture, to comply with its obligations under a construction and completion undertaking; and
 - (b) to provide funds or assistance that the 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. Pursuant to a deed of counter-indemnity entered into between the Company, 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.

- (vii) A sponsors/shareholders' undertaking has been provided by each of Cheung Kong Holdings and Hutchison Whampoa in relation to a loan facility 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 to the PRC joint venture undertaking the Zhuhai Power Plant. The foreign party, which is an indirect wholly-owned subsidiary of the Company, has a 45 per cent. interest in the PRC joint venture. Pursuant to the deed of counter-indemnity referred to in paragraph (vi) 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.

- (viii) The Group has entered into a loan facility of HK\$2.4 billion for the repayment of existing shareholders' loans and for general working capital purposes. The banks in questions have required such loan facility to be guaranteed by Cheung Kong Holdings. Pursuant to the deed of counter-indemnity referred to in paragraph (vi) above, the Company has agreed to indemnify Cheung Kong Holdings for any liability arising under such guarantee.
- (ix) Each of Cheung Kong Holdings, Hutchison Whampoa, Pennywise and Triumphant has given representations and warranties to the Company under the Restructuring Agreement in relation to 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.
- (x) 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 Share Offer becomes unconditional.

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 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 (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 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 this 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 this annual report and each successive annual report that the Transactions are conducted in the manner as stated in (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 Transaction) or in the

circumstances under which such waivers were granted. In any such case, the Company have 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 Transaction have been reviewed by the Directors of the Company (including the independent Non-executive Directors). The Directors of the Company have confirmed that the Transaction have been entered into on the terms of the respective agreements governing such transaction 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 1996 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 1996 the Transactions received the approval of the Company's Board of Directors; and that 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 26 per cent. of the Group's purchases were attributable to the Group's five largest suppliers combined with the largest supplier accounting for 6 per cent. of the Group's purchases and 39 per cent. of the Group's sales recognised were attributable to the Group's five largest customers combined with the largest customer accounting for 19 per cent. of the Group's sales. 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 suppliers or five largest customers.

GROUP'S LIQUIDITY AND FINANCING

As at 31st December, 1996, cash balances of HK\$3,883 million were maintained against bank borrowings of HK\$2,055 million.

TREASURY POLICIES

Cash balances are placed with banks in short term deposits pending utilisation. As the majority of the Group's investments in the PRC are denominated in US dollars, the Group may consider borrowing in US dollars to match the funding requirements.

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 subsidiary companies but excluding associated companies, employs a total of 1,421 employees. Employees' cost (excluding directors' emoluments) amounted to HK\$363.7 million. The Group ensures that the pay levels of its employees are competitive and 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.

COMMUNITY RELATIONS

Donations made by the Group during the year amounted to HK\$110,800, including a donation of HK\$103,800 made to the Community Chest on the flotation of the Company.

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.

AUDITORS

The financial statements for the year have been audited by Messrs. Kwan Wong Tan & Fong who retire and offer themselves for re-appointment.

On behalf of the Board

LI Tzar Kuoi, Victor, *Chairman*

Hong Kong, 20th March, 1997

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of the Company will be held at the Ballroom, 1st Floor, The Harbour Plaza, 20 Tak Fung Street, Hunghom, Kowloon, Hong Kong on Thursday, 15th May, 1997 at 12:15 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements, the Managing Director's Report and the Reports of the Directors and Auditors for the year ended 31st December, 1996.
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, 20th March, 1997

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, 8th May, 1997 to Thursday, 15th May, 1997, 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, 7th May, 1997.
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 1996 Annual Report.

CONSOLIDATED PROFIT AND LOSS STATEMENT

for the year ended 31st December

<i>HK\$ million</i>	1996	1995	1994	1993	1992
Turnover	3,041	2,339	1,918	1,439	1,277
Operating profit	971	597	311	137	172
Share of results of associated companies	—	—	1	(1)	(1)
Profit before taxation	971	597	312	136	171
Taxation	(87)	(29)	(12)	(3)	1
Profit after taxation	884	568	300	133	172
Minority interests	2	1	—	—	—
Profit attributable to shareholders	886	569	300	133	172
Dividends	(361)	—	—	—	—
Profit for the year retained	525	569	300	133	172

CONSOLIDATED NET ASSETS

as at 31st December

<i>HK\$ million</i>	1996	1995	1994	1993	1992
Fixed assets	1,627	1,664	2,156	1,643	1,544
Associated companies	95	(8)	(4)	9	(1)
Joint ventures	4,901	1,784	1,273	508	—
Other non-current assets	147	83	66	52	29
Current assets	4,589	962	611	558	427
Total assets	11,359	4,485	4,102	2,770	1,999
Current liabilities	(3,000)	(450)	(434)	(217)	(85)
Long-term liabilities	(9)	(2,188)	(2,390)	(2,008)	(1,502)
Total liabilities	(3,009)	(2,638)	(2,824)	(2,225)	(1,587)
Net assets	8,350	1,847	1,278	545	412

PER SHARE DATA

<i>HK\$</i>	1996	1995	1994	1993	1992
Earnings per share	0.75	0.55	0.29	0.13	0.17
Dividend per share	0.16	—	—	—	—

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)



Kwan Wong Tan & Fong
Certified Public Accountants
關黃陳方會計師行

We have audited the financial statements on pages 70 to 87 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 Company's and the Group's circumstances, 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 the Company's and the Group's affairs as at 31st December, 1996 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KWAN WONG TAN & FONG

Certified Public Accountants

Hong Kong, 20th March, 1997

CONSOLIDATED PROFIT AND LOSS STATEMENT

for the year ended 31st December

<i>HK\$ million</i>	<i>Note</i>	1996	1995
Turnover	3	3,041	2,339
Profit before taxation	4	971	597
Taxation	5	(87)	(29)
Profit after taxation		884	568
Minority interests		2	1
Profit attributable to shareholders	6	886	569
Dividends	7	(361)	—
Profit for the year retained		525	569
Profit for the year retained by:			
The Company and subsidiary companies		525	569
Earnings per share	8	HK\$0.75	HK\$0.55

BALANCE SHEET

as at 31st December

HK\$ million	Note	Group		Company
		1996	1995	1996
Fixed assets	9	1,627	1,664	—
Subsidiary companies	10	—	—	8,158
Associated companies	11	95	(8)	—
Joint ventures	12	4,901	1,784	—
Other non-current assets	13	147	83	—
Total non-current assets		6,770	3,523	8,158
Stocks and work-in-progress	14	142	130	—
Debtors and prepayments		564	536	—
Dividend receivable		—	—	480
Bank balances and cash		3,883	296	49
Total current assets		4,589	962	529
Bank loans	15	2,055	—	—
Creditors and accruals		515	286	11
Amount due to a fellow subsidiary		—	139	—
Provision for taxation		69	25	—
Proposed dividends		361	—	361
Total current liabilities		3,000	450	372
Net current assets		1,589	512	157
Long-term loans	16	—	2,177	—
Deferred taxation	17	4	9	—
Minority interests		5	2	—
Total long-term liabilities		9	2,188	—
Net assets		8,350	1,847	8,315
Representing:				
Share capital	18	1,368	—	1,368
Reserves	19	6,982	1,847	6,947
Total shareholders' equity		8,350	1,847	8,315

LI Tzar Kuoi, Victor

Director

20th March, 1997

IP Tak Chuen, Edmond

Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December

HK\$ million	Note	1996	1995
Net cash inflow from operating activities	20 (a)	943	537
Returns on investments and servicing of finance			
Interest received		159	10
Interest paid		(54)	(9)
Returns on investments received from joint ventures		173	62
Finance lease charge received		2	3
Net cash inflow from returns on investments and servicing of finance		280	66
Profits tax paid		(48)	(3)
Net cash inflow before investing activities		1,175	600
Investing activities			
Purchase of fixed assets		(168)	(170)
Disposal of fixed assets		8	481
Increase in investments in joint ventures		(3,031)	(399)
Decrease/(increase) in amounts due from joint ventures		9	(12)
Increase in investments in associated companies		(94)	—
Decrease in finance lease debtors		9	4
Increase in deferred expenditure		(43)	(17)
Net cash (outflow) from investing activities		(3,310)	(113)
Net cash (outflow)/inflow before financing		(2,135)	487
Financing	20 (b)		
Issue of new shares for cash		4,326	—
IPO Reorganisation and share issue expenses		(148)	—
Repayment of long term loans		(2,177)	(201)
Loan from Cheung Kong Group		1,800	—
Capital contributions from minority shareholders		5	—
Bank loans		2,055	—
Repayment to a fellow subsidiary company		(139)	(63)
Net cash inflow/(outflow)from financing		5,722	(264)
Net increase in cash and cash equivalents		3,587	223
Bank and cash balances at 1st January		296	73
Cash and cash equivalents at 31st December		3,883	296
Representing:			
Bank and cash balances at 31st December		3,883	296

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 28th May, 1996 as a wholly-owned subsidiary company of Cheung Kong Holdings. In preparing for the listing of the Company's shares on the Hong Kong Stock Exchange, the Company and its subsidiary companies now comprising the Group were reorganised in July 1996 (the "IPO Reorganisation"), pursuant to the terms of the restructuring agreement as set out in the prospectus of the Company dated 4th July, 1996 (the "IPO Prospectus"). The Company has been a listed company on the Hong Kong Stock Exchange since 17th July, 1996 after completion of the placing and new issue of shares as more fully described in the IPO Prospectus.

For accounting purpose, the Group has been treated as a continuing entity and accordingly the consolidated financial statements have been prepared on the basis as if the present group structure had been in existence throughout the two years ended 31st December, 1996, and also incorporate the Group's interest in associated companies set out in note 2(e) below. Results of subsidiary companies acquired after the IPO Reorganisation are included as from their respective dates of acquisition.

2. PRINCIPAL ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable Hong Kong Accounting Standards 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 subsidiary companies made up to 31st December together with the Group's interests in associated companies on the basis set out in (e) below.

Results of subsidiary and associated companies 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 subsidiary and associated companies acquired and is eliminated against reserves in the year of acquisition.

d) Subsidiary Companies

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

2. PRINCIPAL ACCOUNTING POLICIES *continued***e) Associated Companies**

An associated company is a company other than a subsidiary company in which the Group has a long-term equity interest of over 20 per cent. 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. Income from associated companies is stated in the consolidated profit and loss statement at the Group's share of post-acquisition results of the associated companies.

f) Joint Ventures

Sino-foreign joint ventures established in the PRC in respect of which the partners' profit-sharing ratios and asset entitlement upon termination or dissolution of the joint ventures are in proportion to their capital contribution ratios as defined in the joint venture contracts are classified and accounted for as subsidiary companies (where the Group controls the composition of the board of directors) or associated companies (where the Group exercises significant influence over their management).

Sino-foreign joint ventures established in the PRC in respect of which the partners' profit-sharing ratios and share of net assets upon their termination or dissolution are not in proportion to their capital contribution ratios but are as defined in the joint venture contracts and in respect of which the Group is not entitled to share the assets of the joint ventures at the end of the joint venture period are classified as investments under Joint Ventures and carried at cost less amortisation over the contract period upon commencement of operation.

g) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation.

Depreciation of fixed assets is calculated to write off their carrying values 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%
Plant, machinery and equipment	3-1/3% - 33-1/3%
Others	5% - 33-1/3%

In previous years, no depreciation was provided on land held on long leases which are defined as leases having a lease term of over 50 years. With effect from 1st January, 1996, the Group amortises its land held on long leases over the remaining unexpired terms of the leases in accordance with the requirements of Statement of Standard Accounting Practice No. 17 for Property, Plant and Equipment, issued by the Hong Kong Society of Accountants.

h) Stocks

Stocks 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 materials purchased and in the case of work-in-progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimates of costs to completion and selling expenses.

2. PRINCIPAL ACCOUNTING POLICIES *continued*

i) **Contracts Work-in-progress**

Contracts work-in-progress are stated at cost plus attributable profits less foreseeable losses and progress payments received and receivable. Cost comprises cost of materials, direct labour, other direct and indirect expenses.

j) **Revenue Recognition**

(i) Sale 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 contracts is recognised according to the stages of completion.

(iii) Returns from joint ventures

Returns from joint ventures are recognised on an accrual basis in accordance with the terms and conditions of the joint venture contracts.

(iv) Interest income

Interest income is recognised on an accrual basis.

k) **Foreign Currencies**

The profit and loss and cash flow statements of overseas subsidiary and associated companies 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 subsidiary and associated companies 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 in the normal course of trading and on translation of monetary assets and liabilities are dealt with in the profit and loss statement.

l) **Deferred Taxation**

Deferred taxation is accounted for at the current rate of taxation in respect of material timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to crystallise in the foreseeable future.

m) **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 are recorded in the profit and loss statement on a straight line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES *continued*

n) 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 over the terms of the respective leases.

o) 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 10 years commencing from the date of commercial operation of the respective projects.

p) 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.

3. TURNOVER

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

<i>HK\$ million</i>	1996	1995
PRC Infrastructure	375	184
Infrastructure Materials	2,666	2,155
Total	3,041	2,339

Turnover is geographically analysed as follows:

<i>HK\$ million</i>	1996	1995
Hong Kong	2,624	2,028
The PRC	417	311
Total	3,041	2,339

4. PROFIT BEFORE TAXATION

<i>HK\$ million</i>	1996	1995
Profit before taxation is stated after crediting:		
Bank interest income	163	10
Finance lease income	2	3
and charging:		
Interest on bank and other borrowings, wholly repayable within five years	62	9
Depreciation and amortisation	289	183
Operating lease rental		
Land and buildings	23	19
Vessels	118	174
Directors' remuneration (note 22)	10	—
Auditors' remuneration	2	2

Profit before taxation is geographically analysed as follows:

<i>HK\$ million</i>	1996	1995
Hong Kong	749	449
The PRC	222	148
Total	971	597

5. TAXATION

<i>HK\$ million</i>	1996	1995
The Group:		
Hong Kong		
Profits tax	91	26
Deferred tax	(5)	1
Overseas income tax	1	2
Total	87	29

Hong Kong profits tax is provided at the rate of 16.5 per cent. (1995: 16.5 per cent.) on the estimated assessable profits for the year after setting off available tax relief from losses brought forward. Overseas taxation is provided for at the applicable rates of taxation in the relevant foreign jurisdiction on the estimated assessable income for the year.

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders dealt with in the financial statements of the Company amounts to HK\$484 million.

7. DIVIDENDS

As stated in the IPO Prospectus, no interim dividend was declared by the Company. A final dividend of HK\$0.16 per share (1995: nil) was proposed and payable on 2,254,209,945 shares in issue, after taking into account the issue of 886,209,945 new shares of the Company to Hutchison Whampoa for the purchase of 707,295,862 shares in Hongkong Electric after the year end (note 24(a)).

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$886 million (1995: HK\$569 million) and on the weighted average number of 1,184,977,077 shares (1995: 1,026,000,000 shares) in issue and deemed to have been issued during the year. The shares issued under the IPO Reorganisation in July 1996 were deemed to have been in issue since 1st January, 1995.

9. FIXED ASSETS

HK\$ million	Long term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings in the PRC	Short term leasehold land and buildings in Hong Kong	Plant and machinery	Furnitures, fixtures and others	Total
Cost						
At 1st January, 1996	833	11	90	1,231	177	2,342
Additions	3	—	—	120	47	170
Disposals	—	(1)	—	(21)	(10)	(32)
At 31st December, 1996	836	10	90	1,330	214	2,480
Accumulated depreciation						
At 1st January, 1996	112	1	66	424	75	678
Charge for the year	26	—	8	115	35	184
Disposals	—	—	—	(4)	(5)	(9)
At 31st December, 1996	138	1	74	535	105	853
Net book value						
At 31st December, 1996	698	9	16	795	109	1,627
At 31st December, 1995	721	10	24	807	102	1,664

10. SUBSIDIARY COMPANIES

<i>HK\$ million</i>	1996
Unlisted shares, at cost	4,014
Amounts due by subsidiary companies	4,144
At 31st December	8,158

Particulars of the subsidiary companies which, in the opinion of the Directors, significantly affect the results or net assets of the Group are set out in Appendix 1 on page 88.

11. ASSOCIATED COMPANIES

<i>HK\$ million</i>	1996	1995
Share of net assets (liabilities) of unlisted associated companies	25	(9)
Amounts due by unlisted associated companies	70	1
At 31st December	95	(8)

Particulars of the associated companies which, in the opinion of the Directors, significantly affect the results or net assets of the Group are set out in Appendix 2 on page 89.

12. JOINT VENTURES

<i>HK\$ million</i>	1996	Group 1995
Cost of investments	4,658	1,627
Amortisation	(126)	(22)
	4,532	1,605
Amounts due by joint ventures	369	179
At 31st December	4,901	1,784

The cost of investments represents contributions to joint ventures by way of registered capital or shareholders' loans which carry interest or returns. Amounts due by joint ventures include principally returns receivable from the joint ventures.

13. OTHER NON-CURRENT ASSETS

Other non-current assets comprise the following:

	Group	
<i>HK\$ million</i>	1996	1995
Deferred expenditure, net of amortisation of HK\$1 million (1995: nil)	133	70
Retention receivables	12	7
Finance lease debtors - non-current portion	2	6
At 31st December	147	83

Details of finance lease debtors are further shown below:

	Group	
<i>HK\$ million</i>	1996	1995
Total outstanding finance lease debtors	6	15
Less: Amounts due within one year included in current assets	(4)	(9)
	2	6
Cost of assets acquired for leasing under finance leases	31	44

14. STOCKS AND WORK-IN-PROGRESS

	Group	
<i>HK\$ million</i>	1996	1995
Raw materials	33	16
Work-in-progress	9	20
Finished goods	10	3
Stores, spare parts and operating supplies	76	86
Sub-total	128	125
Contracts work-in-progress		
Costs plus attributable profits less foreseeable losses	35	37
Less: Progress payments received and receivable	(26)	(37)
Sub-total	9	—
Completed properties for resale	5	5
Total	142	130

15. BANK LOANS

The loans are unsecured and bear interest based on Hong Kong Interbank Offer Rate plus a spread. The loans, which are due 18 months after its drawdown date, are guaranteed by Cheung Kong Holdings against which the Company has provided a counter-indemnity.

16. LONG-TERM LOANS

Long-term loans represent loans due to shareholders as at 31st December, 1995 which have been fully repaid upon the IPO Reorganisation.

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	1996	1995
Depreciation allowances in excess of related depreciation	98	97
Unutilised tax losses	(2)	(35)
Net potential liabilities unprovided	96	62

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

18. SHARE CAPITAL

HK\$ million	1996
Authorised:	
2,000,000,000 shares of HK\$1 each	2,000
Issued and fully paid:	
1,368,000,000 shares of HK\$1 each	1,368

The Company was incorporated on 28th May, 1996 with an initial authorised share capital of HK\$100,000 divided into 100,000 shares of HK\$1 each. On 1st July, 1996, the authorised share capital was increased from HK\$100,000 to HK\$2,000,000,000 by the creation of an additional 1,999,900,000 shares of HK\$1 each.

On 29th May, 1996, 100,000 shares of HK\$1 each were issued as initial capital. On 12th July, 1996, 1,025,900,000 shares were issued at par as consideration for the acquisition of the interests in subsidiary and associated companies pursuant to the IPO Reorganisation. Pursuant to the IPO in July 1996, 342 million shares were issued at HK\$12.65 per share for proceeds of approximately HK\$4,178 million, net of expenses.

19. RESERVES

HK\$ million	Group			Total
	Share premium	Contributed surplus	Revenue reserves	
At 1st January, 1996	—	—	1,847	1,847
Reserves arising from the				
IPO Reorganisation	—	774	—	774
Premium on issue of shares	3,984	—	—	3,984
IPO Reorganisation and share				
issue expenses	(148)	—	—	(148)
Profit for the year retained	—	—	525	525
At 31st December, 1996	3,836	774	2,372	6,982

During the year, the Group's associated companies remained either dormant or were not yet operational and hence no results were shared by the Group.

HK\$ million	Company			Total
	Share premium	Contributed surplus	Revenue reserves	
Reserves arising from the				
IPO Reorganisation	—	2,988	—	2,988
Premium on issue of shares	3,984	—	—	3,984
IPO Reorganisation and share				
issue expenses	(148)	—	—	(148)
Profit for the year retained	—	—	123	123
At 31st December, 1996	3,836	2,988	123	6,947

Contributed surplus of the Company arose when the Company issued shares in exchange for the shares of subsidiary and associated companies being acquired pursuant to the IPO Reorganisation, 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 distributable to the shareholders.

Total distributable reserves of the Company amounted to HK\$3,111 million as at 31st December, 1996.

20. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

<i>HK\$ million</i>	1996	1995
Profit before taxation	971	597
Returns from joint ventures	(289)	(133)
Interest income	(249)	(61)
Interest expenses	62	9
Finance lease income	(2)	(3)
Depreciation and amortisation	289	183
Loss on disposal of fixed assets	15	—
Increase in stocks and work-in-progress	(12)	(7)
Increase in debtors, prepayments and retention receivable	(29)	(108)
Increase in creditors and accruals	187	60
Net cash inflow from operating activities	943	537

- (b) Analysis of changes in financing during the year

<i>HK\$ million</i>	Share capital and premium	Bank and other loans	Amount due to a fellow subsidiary company	Minority interests	Total
At 1st January, 1996	—	2,177	139	2	2,318
Net cash inflow/(outflow) from financing	4,178	1,678	(139)	5	5,722
Shares issued upon IPO Reorganisation	1,026	—	—	—	1,026
Capitalisation of the loan (note (c))	—	(1,800)	—	—	(1,800)
Minority's share of loss	—	—	—	(2)	(2)
At 31st December, 1996	5,204	2,055	—	5	7,264

- (c) Major non-cash transaction

During the year, a loan of HK\$1,800 million made by Cheung Kong Group was capitalised pursuant to the IPO Reorganisation.

21. RETIREMENT SCHEME

The Group provides defined contribution retirement schemes for its employees with the exception of a subsidiary company which provides a defined benefit scheme. Contributions to the defined contribution schemes are made by either the employer only or both the employer and the employees at 10% on the employees' salary. Contributions to the defined benefit scheme are made by the employees at either 5% or 7% 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 in July, 1995 by Mr. Joseph K. L. Yip, a fellow member of the Society of Actuaries, of The Wyatt Company (HK) Limited. The actuarial method adopted was Attained Age Funding Method and the main assumptions used included the annual rate of investment return on the scheme assets at 10% and the annual salary increases at 8%.

The market value of the defined benefit scheme's assets as at 1st July, 1995 was HK\$99 million and the latest actuarial valuation shows that the scheme's assets covered 106% of the value of benefits accrued to the members, allowing for future increases in salaries of the members.

Forfeited contributions and earnings for the year under the defined contribution schemes amounting to HK\$1 million (1995: HK\$1 million) have been used to reduce the existing level of contributions. The Group's costs on employees retirement schemes for the year amount to HK\$18 million (1995: HK\$15 million).

22. REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES**(a) Directors' Remuneration**

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

<i>HK\$ million</i>	1996	1995
Salaries, benefits in kind and fees	2	—
Contributions to retirement schemes	—	—
Bonuses	8	—
Total	10	—

The Directors' remuneration for the year included fees payable of HK\$240,000 (1995: HK\$40,000) of which HK\$95,000 (1995: HK\$20,000) was payable to Non-executive Directors of the Company.

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

<i>Remuneration band</i>	1996	1995
Nil - HK\$1,000,000	5	8
HK\$1,500,001 - HK\$2,000,000	1	—
HK\$3,500,001 - HK\$4,000,000	1	—
HK\$4,000,001 - HK\$4,500,000	1	—

22. REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES *continued*

(b) Senior Executives' Remuneration

Of the five individuals with the highest emoluments, one (1995: nil) is a Director whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other four (1995: five) individuals are as follows:

<i>HK\$ million</i>	1996	1995
Salaries and benefits in kind	10	10
Contributions to retirement schemes	1	1
Bonuses	12	11
Total	23	22

The four (1995: five) individuals with the highest emoluments are within the following bands:

<i>Remuneration band</i>	1996	1995
HK\$2,500,001 - HK\$3,000,000	—	1
HK\$3,000,001 - HK\$3,500,000	—	1
HK\$3,500,001 - HK\$4,000,000	1	—
HK\$4,500,001 - HK\$5,000,000	—	1
HK\$5,000,001 - HK\$5,500,000	1	—
HK\$5,500,001 - HK\$6,000,000	—	2
HK\$6,000,001 - HK\$6,500,000	1	—
HK\$6,500,001 - HK\$7,000,000	1	—

23. COMMITMENTS

(a) Capital commitments outstanding at 31st December not provided for in the financial statements are as follows:

	Contracted but not provided for		Authorised but not contracted for	
<i>HK\$ million</i>	1996	1995	1996	1995
Investments in infrastructure and related projects in				
the PRC	2,023	1,527	—	—
the Philippines	59	—	31	80
	2,082	1,527	31	80
Plant and equipment	75	19	248	124
Total	2,157	1,546	279	204

23. COMMITMENTS *continued*

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

<i>HK\$ million</i>	Land and buildings		Others	
	1996	1995	1996	1995
Leases expiring:				
within one year	7	9	56	16
in the second to fifth years inclusive	13	5	—	—
after the fifth year	2	7	—	—
Total	22	21	56	16

24. SUBSEQUENT EVENTS

- (a) On 6th January, 1997, Cheung Kong Holdings, Hutchison Whampoa and the Company (collectively as "the Parties") entered into an agreement to reorganise pursuant to which certain transactions ("Transactions") were to be implemented. Details of the Transactions had been set out in the circulars dated 15th February, 1997 issued by the Parties to their respective shareholders.

On 3rd March, 1997, the Special General Meeting of the Company was duly convened and the Ordinary Resolutions as set out in the Notice of the Special General Meeting were duly passed and approved. The Transactions were completed on 10th March, 1997 and, as a result of which,

- (i) the Group acquired from Hutchison Whampoa 707,295,862 shares in Hongkong Electric, representing approximately 35.01 per cent of the issued capital of Hongkong Electric based on the price of HK\$26.50 per share, for a consideration of approximately HK\$18,743 million, satisfied by the issue to Hutchison Whampoa of 886,209,945 new shares of HK\$1.00 each in the Company at HK\$21.15 per share credited as fully paid and ranking pari passu in all respects with the existing shares of the Company;
 - (ii) Cheung Kong Holdings transferred its entire holding of 966,689,000 shares in the Company to Hutchison Whampoa; and
 - (iii) the authorised share capital of the Company was increased from HK\$2,000,000,000 to HK\$4,000,000,000 by the creation of an additional 2,000,000,000 shares of HK\$1.00 each, such shares to rank pari passu in all respects with the existing issued shares of the Company.
- (b) On 14th March, 1997, the Group acquired in the open market 14,822,500 shares in Hongkong Electric by cash at an average price of HK\$27.19 and thereby increasing its shareholding in Hongkong Electric from 35.01 per cent. to 35.7 per cent.

25. ULTIMATE HOLDING COMPANY

The Directors consider that the Company's ultimate holding company as at 31st December, 1996 was Cheung Kong Holdings. With effect from 10th March, 1997, after the completion of the Transactions as disclosed in note 24(a)(i) and (ii), the Directors consider that the Company's ultimate holding company is Hutchison Whampoa. Cheung Kong Holdings and Hutchison Whampoa are 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 20th March, 1997.

APPENDIX 1

PRINCIPAL SUBSIDIARY COMPANIES

As at 31st December, 1996	Number	Share capital issued Par value per share	Effective percentage of equity interest held by the Group	Principal activities
INCORPORATED IN HONG KONG				
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 the PRC
China Cement Company (Hong Kong) Limited	597,200,000 ordinary	HK\$1	100	Manufacturing, sale and distribution of cement and property investment
China Cement Company (International) Limited	2 ordinary	HK\$1	100	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK\$2	100	Investment holding 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
Sukvit Investments Limited	2 ordinary 10,000 non-voting deferred	HK\$1 HK\$1	100	Investment holding
INCORPORATED IN THE BRITISH VIRGIN ISLANDS				
Cheung Kong Infrastructure (BVI) Limited	1,682,215 ordinary	HK\$0.1	100	Investment holding
Daredon Assets Limited	1 ordinary	US\$1	100	Fund investment

Note (1) Except for Cheung Kong Infrastructure (BVI) Limited which is a direct subsidiary company of the Company, the shares of all other subsidiary companies are indirectly held by the Company.

Note (2) The principal place of operation of the above companies were in Hong Kong except the following:

Name	Place of Operation
Cheung Kong Infrastructure (BVI) Limited	PRC and Hong Kong
Cheung Kong China Infrastructure Limited	PRC
Daredon Assets Limited	Asia Pacific

APPENDIX 2

PRINCIPAL ASSOCIATED COMPANIES

<i>As at 31st December, 1996</i>	Number	Share capital issued Par value per share	Approximate share of equity shares held by the Group (per cent.)	Principal activities
INCORPORATED AND OPERATING IN THE PHILIPPINES				
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

+ Not audited by Kwan Wong Tan & Fong.

APPENDIX 3

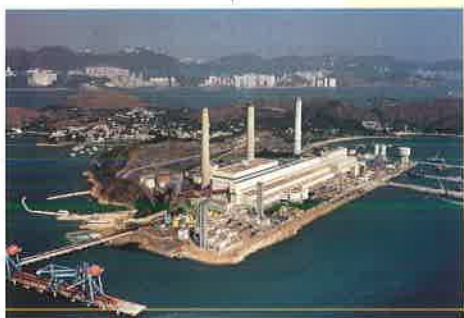
SCHEDULE OF MAJOR PROPERTIES

<i>Location</i>	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	Long
7 Tin Wan Praya Road, Aberdeen	AIL 409	100%	3,528	I	Short
TMTL 201 Tap Shek Kok	TMTL 201	100%	152,855	I	Long
Certain units of Harbour Centre Tower 2, 8 Hok Cheung Street, Hunghom	KML 113	100%	5,712	C	Long

I : industrial C : commercial

HONGKONG ELECTRIC**Background**

Following a reorganisation of the Cheung Kong Group in March 1997, CKI acquired a 35.01 per cent. holding in Hongkong Electric (35.7 per cent. as at the end of March 1997)



Hongkong Electric commenced its electricity generating operations on 1st December, 1890 when the first electric street lights were switched on in Hong Kong. At present, the Lamma Island power station, the only power station operated by Hongkong Electric, has an installed capacity of 2,955 MW, of which 2,150 MW is provided by seven coal-fired generators and 805 MW by seven gas turbines.

Impact on CKI

The acquisition of Hongkong Electric will have a significant positive impact on CKI:

- The combined power portfolio has increased to a total installed capacity of 5,305 MW;
- CKI can leverage on Hongkong Electric's more than 100 years of experience in power generation and distribution; and
- CKI will have a larger recurring income stream and cash flow, and stronger financial position. CKI's net income and earnings per share will be significantly higher in 1997.



After the purchase of Hongkong Electric, CKI is a stronger infrastructure company. With stronger operating capability and financing capacity, CKI will be even more committed in pursuing infrastructure opportunities.

In this annual report, unless the context otherwise requires, the following expressions have the following meanings:

GENERAL TERMS

Anderson Asia

Anderson Asia (Holdings) Limited

BVI

the British Virgin Islands

Cheung Kong China Infrastructure

Cheung Kong China Infrastructure Limited

Cheung Kong Group

Cheung Kong Holdings together with its subsidiary and associated companies

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 together with its subsidiary and associated companies

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

IPO

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

km

kilometre (s)

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

kW

kilowatt(s), equal to 1,000 watts, a unit of electric power

kWh

kilowatt hour(s), a unit of measurement of electric energy consumption, which is equal to the work done by one kilowatt of electric power in one hour

MPa

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

MW

megawatt(s), equal to 1,000 kW

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

PFA

pulverised fuel ash, a waste product of power generation by coal-fired power plants

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 weighted average number of shares in issue during the year

interest cover

net profit before net interest expense and taxation divided by interest expense

profit contribution

operating profit before corporate overheads and net interest income

total debts 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 C. MAGNUS, *Deputy Chairman*

FOK Kin Ning, Canning, *Deputy Chairman*

KAM Hing-Lam, *Group Managing Director*

IP Tak Chuen, Edmond, *Executive Director*

Frank J. SIXT, *Executive Director*

CHOW Woo Mo Fong, Susan, *Executive Director*

TSO Kai Sum, *Executive Director*

CHEONG Ying Chew, Henry

LEE Pui Ling, Angelina

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

Kwan Wong Tan & Fong

BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

Canadian Imperial Bank of Commerce

COMPANY SECRETARY

Eirene YEUNG

REGISTERED OFFICE

Clarendon House, Church Street,
Hamilton HM 11, Bermuda

PRINCIPAL PLACE OF BUSINESS

14th Floor, China Building,
29 Queen's Road Central, Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Corporate Services Limited,
65 Front Street, Hamilton, Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Central Registration Hong Kong Limited,
Shops 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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Infrastructure Holdings Limited, please contact:
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Telephone: (852) 2826-3986 or
Facsimile: (852) 2530-5317