Cheung Kong Infrastructure Holdings Limited
Solid Foundations for Growth

The theme of this year's annual report – Solid Foundations for Growth – summarises our past achievements and sets the stage for our future prospects. With our sights firmly set on the vast Asian infrastructure market, especially China, we have positioned ourselves as a growth-oriented, market-leading company. As the uncertain economic situation in 1997 has illustrated, growth and market leadership are best achieved when supported by firm foundations. Throughout this report, we have profiled the key pillars which will carry us into 1998 and beyond …

Cheung Kong Infrastructure Holdings Limited
Contents 1997 Annual Report

Year at a Glance

	1997	% change
Profit attributable to shareholders (HK$ million)	2,411	+172%
Earnings per share (HK$)	1.15	+53%
Dividend per share (HK$)	0.32	+100%

Acquisition of Hongkong Electric

One of the most significant events of the year was the acquisition of the controlling interest in Hongkong Electric, which has expanded our power portfolio, and strengthened our financial position and recurring cash flow – fuelling our growth in China.

No. of Projects Doubled 66

The number of PRC infrastructure projects increased to 66 as at the end of 1997, from 32 a year ago.

Hang Seng Index Constituent Stock

One year after the IPO, we were included in the Hang Seng Index as a constituent stock.

A- S&P Credit Rating

We were assigned an "A-"rating by Standard & Poor's, the highest rating among Hong Kong-listed diversified infrastructure companies.

Cheung Kong Infrastructure (CKI) is firmly committed to the fast-growing Asian infrastructure industry.

We are a member of the Cheung Kong Group.

Comprising four Hong Kong-listed companies – Cheung Kong Holdings, Hutchison Whampoa, Cheung Kong Infrastructure and Hongkong Electric, the Cheung Kong Group accounted for 18 per cent. of the market capitalisation of the Hang Seng Index as at the end of 1997.

We are the largest Hong Kong-listed diversified infrastructure company.

Market capitalisation at the end of 1997 was HK$49 billion.

We are one of the largest investors in China's infrastructure sector.

Total committed investments in China at the end of 1997 totalled HK$10.9 billion.

We are the major shareholder of one of Asia's leading power utilities.

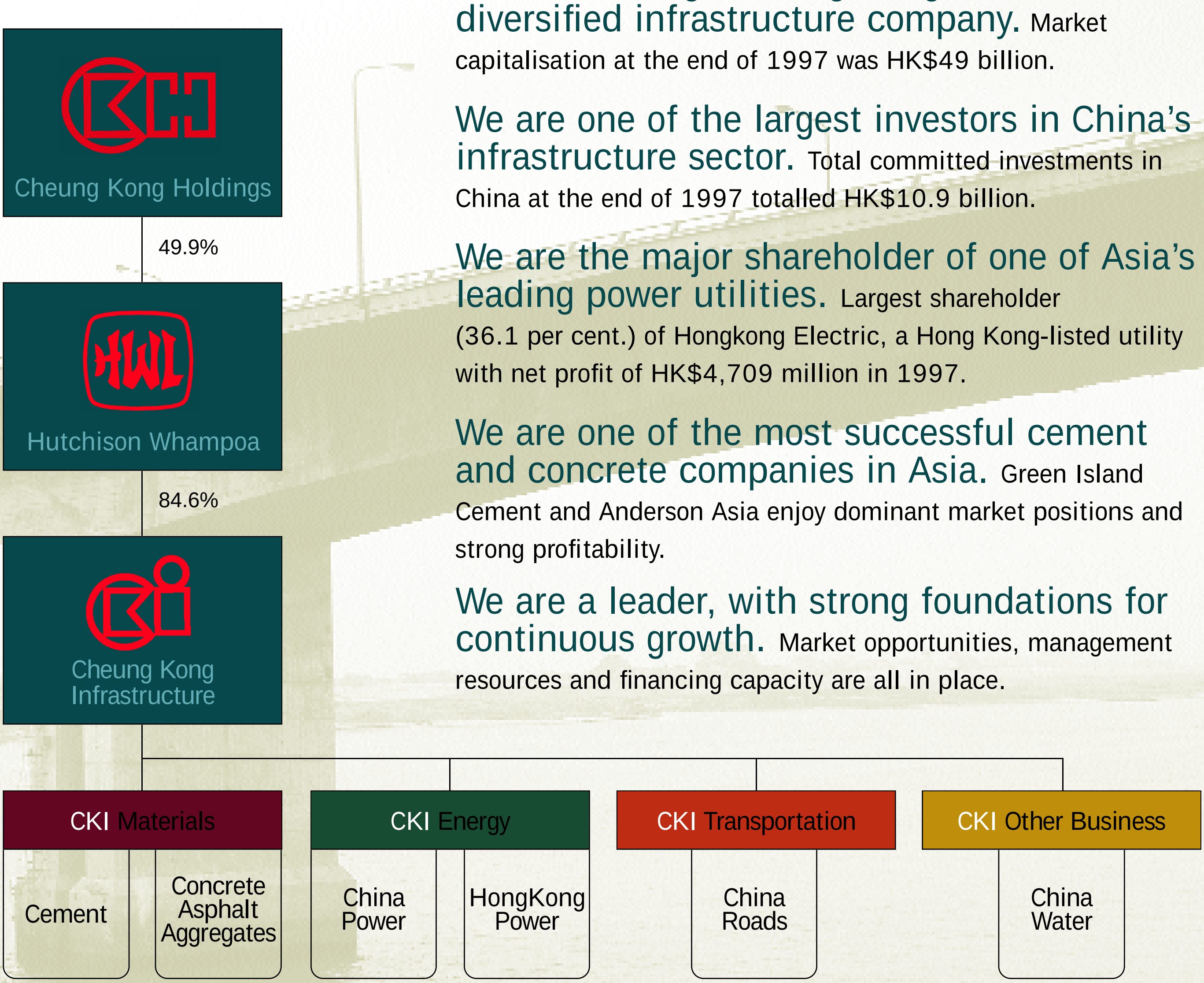
Largest shareholder (36.1 per cent.) of Hongkong Electric, a Hong Kong-listed utility with net profit of HK$4,709 million in 1997.

We are one of the most successful cement and concrete companies in Asia.

Green Island Cement and Anderson Asia enjoy dominant market positions and strong profitability.

We are a leader, with strong foundations for continuous growth.

Market opportunities, management resources and financing capacity are all in place.



Consolidated Profit and Loss Summary

for the year ended 31st December

HK$ million	1997	1996	1995	1994	1993
Turnover	3,346	3,041	2,339	1,918	1,439
Operating profit	1,061	971	597	311	137
Share of results of associated companies	1,635	–	–	1	(1)
Profit before taxation	2,696	971	597	312	136
Taxation	(283)	(87)	(29)	(12)	(3)
Profit after taxation	2,413	884	568	300	133
Minority interests	(2)	2	1	–	–
Profit attributable to shareholders	2,411	886	569	300	133
Dividends	(721)	(361)	–	–	–
Profit for the year retained	1,690	525	569	300	133

Consolidated Balance Sheet Summary

as at 31st December

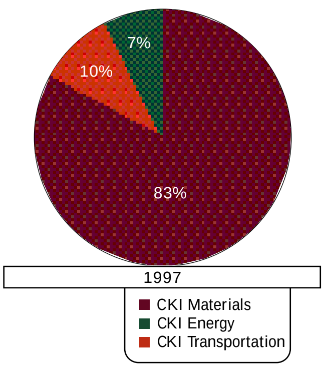
HK$ million	1997	1996	1995	1994	1993
Fixed assets	1,700	1,627	1,664	2,156	1,643
Associated companies	9,657	95	(8)	(4)	9
Joint ventures	7,373	4,532	1,605	1,228	507
Other non-current assets	139	147	83	66	52
Current assets	3,799	4,958	1,141	656	559
Total assets	22,668	11,359	4,485	4,102	2,770
Current liabilities	(1,223)	(3,000)	(450)	(434)	(217)
Long term liabilities	(3,116)	(9)	(2,188)	(2,390)	(2,008)
Total liabilities	(4,339)	(3,009)	(2,638)	(2,824)	(2,225)
Net assets	18,329	8,350	1,847	1,278	545

Per Share Data

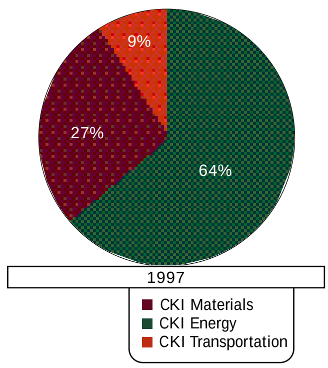
HK$	1997	1996	1995	1994	1993
Earnings per share	1.15	0.75	0.55	0.29	0.13
Dividend per share	0.32	0.16	N/A*	N/A*	N/A*
Net book value per share	8.13	6.10	1.80	1.25	0.53

* Not applicable as the Company was listed in 1996.

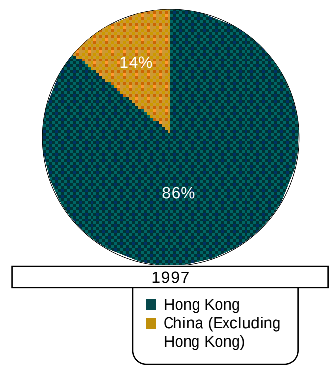
Turnover
by Business Segment



Profit Contribution
by Business Segment

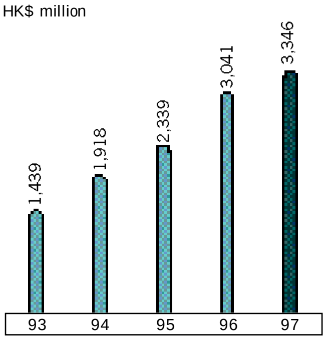


Profit Contribution
by Geographic Region



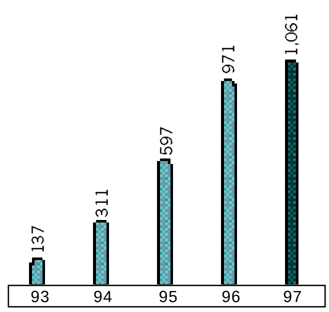
Turnover
up 10%

HK$ million

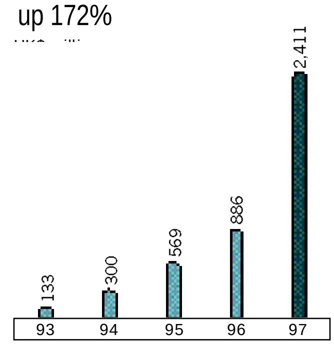


Operating Profit
up 9%

HK$ million

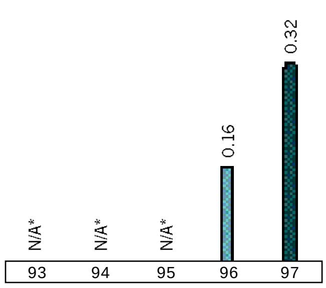


Profit Attributable to Shareholders
up 172%



Dividend Per Share

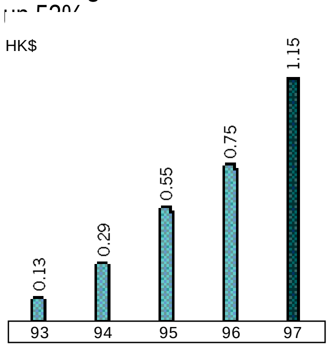
HK$



* Not applicable as the Company was listed in 1996.

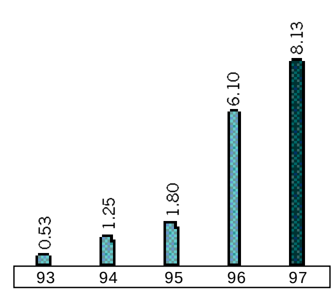
Earnings Per Share

HK$



Net Book Value Per Share

HK$



Cheung Kong Infrastructure
Business Portfolio

CKI Materials

Guangdong Province
Yunfu Cement Plant and downstream cement and concrete operations in Shenzhen, Guangzhou, Zhuhai and Dongguan

Shantou Cement Grinding Plant

Hong Kong
Green Island Cement

Anderson Asia
- Ready Mixed Concrete
- Anderson Asphalt
- Asia Stone
- Bonntile Industries

Philippines
Siquijor Limestone Quarry

CKI Energy

Guangdong Province
Shantou Chenghai Power Plant

Shantou Chaoyang Power Plant

Shantou Tuopu Power Plant

Nanhai Jiangnan Power Plant

Nanhai Power Plant 1

Zhuhai Power Plant

Liaoning Province
Fushun Cogen Power Plant

Henan Province
Qinyang Jianghuai Power Plant

Jilin Province
Siping Cogen Power Plant

Hong Kong
Hongkong Electric

CKI Transportation

Guangdong Province
Shen-Shan Highway (Eastern Section)

Shantou Bay Bridge

Guangzhou East South West Ring Road

Nanhai Road Network

Jiangmen Jiangsha Highway

Jiangmen Jianghe Highway

Jiangmen Chaolian Bridge

Zengcheng Lixin Road

Liaoning Province
Shenyang Da Ba Road and South-west Elevated Sections

Shenyang Changqing Bridge

Shenyang Gongnong Bridge

Shenyang Shensu Expressway

Hebei Province
Tangshan Jingtang Port Expressway

Tangshan Tangle Road

Henan Province
National Highway 107 (Zhumadian Sections)

Hubei Province
Yichang Yiling Yangtze Bridge

Wuhan Huangjin (Golden) Bridge

Hunan Province
Changsha Wujialing and Wuyilu Bridges

As at the end of March 1998


Legend
CKI Materials
CKI Energy
CKI Transportation
Other Business

CKI's strategy is to develop successful project clusters in selected high growth areas in China.

The largest city in Northeastern China with a population of 6.7 million, Shenyang City in Liaoning Province symbolises the challenges and opportunities arising from enterprise reform. With an average GDP growth of 13 per cent. from 1992 to 1996, Shenyang's growth exceeded the national average of 12 per cent.

CKI in China

1997 saw our presence in China expand from two to seven provinces. Two aspects of our expansion are readily apparent from the map on the next page: our projects now span seven connecting provinces from Jilin Province in the north to Guangdong Province in the south; and we have a visible presence in inland China. In this section, we will look at the demographics and business dynamics of the different regions, and our strategy in expanding in these regions.

Northeastern China

Comprising Liaoning, Jilin and Heilongjiang provinces, Northeastern China has historically been characterised by a high concentration of large-scale state-owned enterprises.

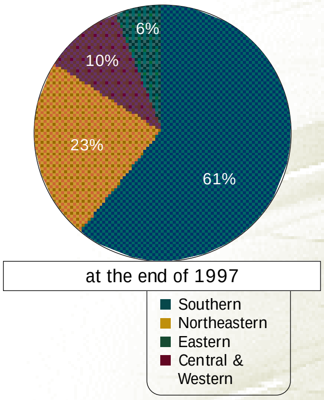
This region is at the heart of China's enterprise reform.

One of the most important central government initiatives in recent years has been enterprise reform, which aims to transform state-owned enterprises into market-oriented entities. A large number of state-owned enterprises are being vigorously restructured, and state assets and employees are being reallocated. We believe enterprise reform is set to give rise to attractive infrastructure opportunities in this region.

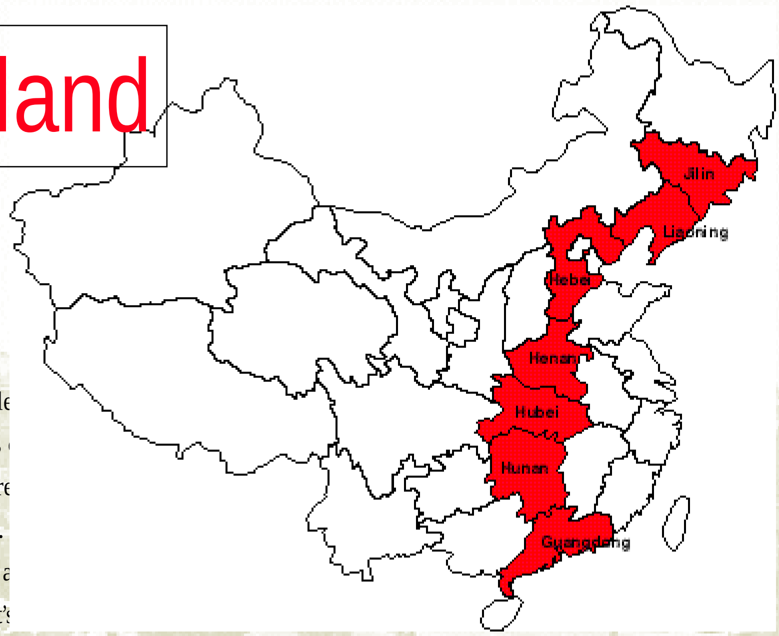
Coal mine in Central China (above)

Three Gorges Dam Project (bottom)

Geographically Diversified
CKI Committed Investments by Region



Going Inland



In a recent government survey of the economic strength of major cities, Shenyang ranked fifth. As the city's economic conditions are being revitalised, its needs for infrastructure development rise correspondingly.

At the invitation of the Shenyang government, we invested HK$1.2 billion to help construct the Shenyang Second Ring Road. With our investment, the ring road project was comple in eight months, and is the largest infrastructure in Northeastern China.

We are confident a the central government's commitment to enterprise reform, and believe Northeastern China will be a major beneficiary in the long term.

Central and Western China

Central and Western China, comprising 19 interior Southern China in economic development. A variety of reasons – history, geography, government policy and lack of infrastructure – explains the gap between interior and coastal China. While the gap has narrowed in recent years, the economy of Central and Western China is still behind that of its coastal neighbours.

One of the more important objectives in recent central government long-range planning is to reduce the economic disparity among different regions. To this end, the central government has made substantial efforts to speed up the development of Central and Western China by implementing economically favourable policies, promoting foreign investment and spearheading large infrastructure projects in this region.

The completion of the Beijing-Kowloon Railway and the construction of the Three Gorges Dam, for example, have strengthened the infrastructure Central and Western China.

An important asset of the Central and Western region is its rich natural resources, including fuel sources and minerals. For example, more than 95 per cent. of China's coal reserve is located in Central and Western China. Better infrastructure is needed to link the rich resources in interior China with the heavy users in coastal China and export markets.

Top 10 Economically Strongest Chinese Cities

1	Shanghai
2	Beijing
3	Guangzhou
4	Tianjin
5	Shenyang
6	Wuhan
7	Nanjing
8	Dalian
9	Shenzhen
10	Hangzhou

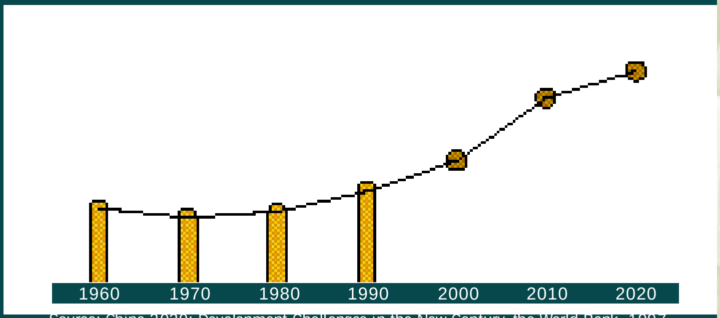
Source: State Statistical Bureau,1998

The Urbanisation of China.

One of the driving forces behind China's infrastructure development is its urbanisation. According to a recent study by the World Bank (China 2020: Developing Challenges in the New Century), the share of the work force engaged in agriculture dropped from 70 per cent. to about 50 per cent. during the 18-year period from 1978 to 1995. It took the United States 50 years and Japan 60 years to achieve a similar demographic shift. However, China's shift out of agriculture did not lead to immediate migration into cities. Cities' share of the population increased from 18 per cent. in 1978 to just 29 per cent. in 1995. Starting from a modest base, this upward trend is forecast to accelerate over the next 25 years. The urban share of population is expected to exceed 50 per cent. by the year 2020.

The implication is clear: China needs more cities. Market forces will provide the impetus in some cases, but government policies are also important. The recent Ninth Five-Year Plan (1996-2000) emphasises the need to guide the sustained development of more towns and cities. Infrastructure, on a massive scale, is needed to link increasing populations with growing economic activities.

Urban Share
of China's Population



Source: China 2020: Development Challenges in the New Century, the World Bank, 1997

Resource Rich
Natural Resources Located in Central and Western China

Coal	95%
Oil	56%
Natural gas	78%
Nickel	99%
Lead	74%
Zinc	79%
Copper	89%

Source: Development of Central and Western Region China Yearbook 1996

Yantian Port, Guangdong Province (above)

We have been encouraged by the investment opportunities in Central and Western China. We are one of the few Hong Kong-based investors who have made substantial investments in Central and Western China. During 1997, we added seven projects in Henan, Hunan and Hubei in Central and Western China.

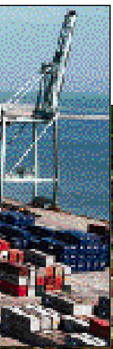
The geographical characteristics of these new projects are worth noting: the power plant in Henan supplies primarily to aluminum producers – a resource rich in that province; the bridges in Hunan are across a river running through the provincial capitol; and the bridge in Hubei is located in a city which serves as the transportation hub for the construction of the Three Gorges Dam.

We will continue to seek out projects with sound fundamentals in Central and Western China. Given the pace of development, we are optimistic about increasing our presence in this region.

Inland Disparity
Central and Western China as a Percentage of Total China

1996 figures	
Land area	86%
Population	62%
GDP	45%
Fixed asset investment	35%
Foreign direct investment	13%
Import	11%
Export	13%

Source: Development of Central and Western Region China Yearbook 1997



Downtown Shantou at night. (top)

Guangzhou's commercial district. (left)

Eastern China

Eastern China comprises the prosperous region along China's east coast. Some of the most important Chinese cities are located in this region, such as Shanghai, Beijing and Tianjin. This region is characterised by fertile land, good transportation access, heavy concentration of light industrial enterprises and thriving private sector investment.

In 1997, we entered into contracts for two road projects in Tangshan City, Hebei Province. Given Eastern China's geographical and economic advantages, it will continue to be an important destination for foreign investment.

Southern China

Guangdong made the first step in leading China's economic reform by opening its doors to the market-oriented economy. We crossed the threshold with our first infrastructure investment in the province about five years ago. As at the end of 1997, Guangdong was the largest recipient of our committed investments in China, with HK$6.6 billion (61 per cent. of the Group's total).

Since our first investment in Guangdong, we have witnessed the transformation of its economy. From being a low-cost, low value-added assembler, Guangdong has become an integrated manufacturing base for a large number of Hong Kong manufacturers. Production now draws from the best of Guangdong (efficient production) and Hong Kong (marketing and financial skills), and the result is increased competitiveness for both manufacturers and exporters.

To facilitate this transformation, huge investment in Guangdong's infrastructure is required, including better roads, more efficient container terminals and more reliable electricity supply. Foreign investors, particularly from Hong Kong, have expanded their focus to the infrastructure sector in recent years.

During 1997, we added four projects in Guangdong. We are encouraged by Guangdong's growth prospects, and believe it will remain one of our key investment destinations.

Regionalised Development

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. Accordingly, we organise our project development effort by dividing the country in different regions, with the intention of adapting to local conditions as much as possible.

Guangdong Ranked Number One in the Country in these Categories

1996 figures
Total GDP
Industrial production
Fixed asset investment
Retail sales of consumer goods
Export
Bank deposit
Bank loan
Government revenue

Source: Guangdong Statistical Yearbook 1997

The key pillars of our solid foundations are in place.

Victor Li, Chairman

To our shareholders

We are pleased to report that Cheung Kong Infrastructure Holdings Limited achieved another year of satisfactory growth in 1997. Net profit was HK$2,411 million, 172 per cent. over that of last year. Earnings per share were HK$1.15, up 53 per cent. Solid growth in profit contribution was recorded in all of the three core businesses of Infrastructure Materials, Energy and Transportation:

- Infrastructure Materials +16%
- Energy +1,091%
- Transportation +90%

The Board of Directors is recommending a final dividend of HK$0.22 per share. Together with the interim dividend of HK$0.10 per share, this will bring the total dividend for the year to HK$0.32 per share, a 100 per cent. increase from the HK$0.16 per share paid in respect of last year. The proposed dividend will be paid on 15th May, 1998 following approval at the Annual General Meeting, to shareholders whose names appear on the register of members on 14th May, 1998.

Both our PRC and Hong Kong businesses enjoyed a good year in 1997. CKI Materials enjoyed another record year, and Hongkong Electric Holdings Limited ("Hongkong Electric") continued its steady growth. In last year's annual report, we identified that one of the Company's goals is to capture more opportunities in China's rapidly growing infrastructure sector. We are glad to report that tangible results were achieved in China during the past year which will serve as solid foundations for future growth. Let us take a look at our major achievements in 1997:

- We maintained the momentum of our infrastructure investment in China. As at end 1997, the number of PRC infrastructure projects increased to 66. During 1997, the Group committed to invest HK$4.3 billion in PRC infrastructure projects, bringing the total amount of committed investment to HK$10.9 billion.

- We are one of the largest investors in the infrastructure sectors of Hong Kong and the Mainland. In addition to Hong Kong, our projects now span seven connecting provinces in the Mainland from Jilin Province in the north to Guangdong Province in the south. We have interests in over 700 km of toll roads and 5,965 MW of power plants in Hong Kong and the Mainland.
- CKI Materials maintained market leadership in Hong Kong, and both the cement and concrete operations achieved record profits.
- We acquired the controlling interest in Hongkong Electric. As a result, our power portfolio has expanded significantly. More importantly, our financing capacity has been enhanced with a larger capital base and quality recurring income.
- With a net debt to equity ratio of 3.8 per cent. and cash on hand of HK$2.4 billion as at the end of 1997, we have the financial capacity and flexibility to propel our growth plans and to capture strategic opportunities.

Also during the year, the Company was included as a constituent stock in the Hang Seng Index about one year after listing on the Hong Kong Stock Exchange, and received a credit rating of "A-" from Standard & Poor's.

Prospects

The regional financial turmoil has had a limited impact on the infrastructure business in Hong Kong and the Mainland, the two principal markets in which we operate. We are confident about the business prospects of these two markets, in particular that the governments of Hong Kong and the Mainland have recently announced plans to significantly increase infrastructure spending. Higher infrastructure spending in Hong Kong will benefit CKI Materials, and possibly present other investment opportunities. Infrastructure development remains a priority sector for the PRC government. In the face of increasing demand for infrastructure investment, private participation will continue to be an important source of funding.

The key pillars of our solid foundations are in place. The performance of the businesses of Hongkong Electric and CKI Materials will continue to provide the stability and cash flow, while the opportunities in the infrastructure business in Hong Kong and the Mainland will underpin our growth prospects. We are optimistic that our existing businesses and carefully-selected growth opportunities will continue to generate quality earnings and cash flow.

I would like to thank the Board of Directors and all employees for their support and hard work.

Li Tzar Kuoi, Victor
Chairman
Hong Kong, 19th March, 1998

Our Solid Business Position Ensures Ample Growth Capacity.

1997 Results

Our net profit in 1997 was HK$2,411 million, an improvement of 172 per cent. over the previous year. All of the three core businesses recorded solid growth. Our Transportation division, up 90 per cent., benefited from increased contribution from toll road investments in China. The acquisition of the controlling interest in Hongkong Electric Holdings Limited (Hongkong Electric) significantly boosted profit contribution of the Energy division by 1,091 per cent. We have also expanded our power portfolio in China during the year. After a good performance in 1996, CKI Materials continued satisfactory growth last year with a 16 per cent. increase in profit contribution.

Acquisition of Hongkong Electric

One of the Group's most significant events in the past year was the acquisition of the controlling interest in Hongkong Electric. The transaction was announced in January, and completed in March 1997. In view of the current uncertain economic situation, the rationale behind this acquisition has become increasingly more apparent.

We described in last year's annual report that infrastructure is a capital intensive business and that sustainable infrastructure financing must rely on a combination of internally-generated cash, debt and equity. The addition of Hongkong Electric has significantly enhanced our cash flow and financing capacity. Hongkong Electric reported net profit of HK$4,709 million in 1997. We enjoy sizeable cash flow from Hongkong Electric given its stable dividend (average dividend payout ratio of approximately 56 per cent. in the last five years). Following the issue of equity to finance this acquisition, our already solid balance sheet has become even stronger with increased debt financing capacity. The strong financing capacity is a key driver for our growth in China's infrastructure sector, which is long term, capital intensive in nature.

In addition, the operational benefits are substantial as Hongkong Electric's over 100 years of experience is readily available for our power development efforts in China.

Continued Growth in China

During 1997 we committed to invest HK$4.3 billion in new PRC infrastructure projects, doubling the number of PRC projects to 66 as at the end of 1997. Looking forward, we remain optimistic about the operating environment in China's infrastructure sector.

At the meeting of the Ninth National People's Congress held recently, China reaffirmed its commitment to developing the country's infrastructure, outlining government policies and economic strategies that will create new investment opportunities. As private participation in infrastructure development in China is an important source of funding, attracting large-scale private capital will continue to be a key PRC government priority. We have been at the forefront of the development of private investment in China's infrastructure sector, and will strive to maintain our leading position.

In last year's annual report, we identified the key success factors in the infrastructure business. As we have earned another year in experience, we have found that our success in the past year was attributable to the same unique strengths:

H. L. Kam, Group Managing Director

Strong Name Recognition

We have expanded our presence in China from two to seven provinces in the past year. The geographical expansion reflects the breadth and depth of our project development initiatives. Already we have developed a reputation in the infrastructure field as a group with the ability to bring in capital in a timely manner and to add value by providing operational expertise. We have been increasingly looked upon as a preferred joint venture partner across China. Our involvement not only raises the profile of the cities in which we invest, but also serve as an endorsement of the cities' growth potential.

Strong name recognition is most effective when coupled with a professional project development effort. The ability to identify, negotiate and execute different types of businesses in different parts of China reflects the skill and professionalism of our project development team.

Executive Committee:
(from left) Edmond Ip, H. L. Kam, George Magnus, Victor Li, Tony Tsoi and Terry Tam.

Diversified Infrastructure Financing

1997 was an unusual year for PRC infrastructure financing. As the Hong Kong stock market appreciated to record levels in mid-year, the potential of acquiring assets in China with equity issues as a currency was regarded a popular investment theme. Infrastructure projects, particularly toll roads, were favourable acquisition targets for numerous companies. Our result-oriented performance in the past year has demonstrated that the market is so enormous that a large number of players could not only co-exist, but flourish.

The regional financial turmoil in the second half of 1997 has magnified the importance of a diversified source of financing. Given the steady dividend from Hongkong Electric and strong cash flow of CKI Materials, our internal cash generating ability can satisfy a meaningful portion of our planned investments in China.

At the end of 1997, our net debt to equity ratio was 3.8 per cent. and we had cash on hand of HK$2.4 billion. Interest cover in 1997 was 17 times. Even assuming a conservative gearing ratio, our debt capacity is substantial.

Also a People Business

Infrastructure is more than just acquiring power plants and toll roads: effective management yields operational improvements. We continue to place heavy emphasis on management, both at the head office in Hong Kong and on-site at our projects in China. We now have over 35 on-site project managers. These managers, all Hong Kong-recruited, have extensive experience in doing business in China, and work closely with our joint venture partners on the ground to improve the performance of the projects.

In this annual report, we have profiled a special group from each division. Through their work, you will gain insights into how we manage our businesses and capitalise on new opportunities.

New Infrastructure

In addition to our three core businesses, we have a dedicated team actively seeking out a variety of other infrastructure opportunities. In 1997, we entered the water treatment business in China. The economics of water treatment are similar to power generation.

At present, we are actively examining investment opportunities in the gas, waste management and aviation sectors. We will initially look for opportunities in existing project clusters, and then move on to new cities.

Optimistic Outlook for Materials

The new airport at Chek Lap Kok fuelled a construction boom previously unseen in Hong Kong, of which Green Island Cement and Anderson Asia were beneficiaries. The record profit contribution of this division in the past several years was, to a considerable extent, attributable to the new airport project. Indeed, the majority of the new airport contracts have been completed, but the good news is that we are about to enter another cycle that is just as exciting.

The Hong Kong government has recently announced plans to significantly increase the housing supply. These plans include increasing the land supply, streamlining government approval procedures and developing essential infrastructure. The government's commitment and the overall direction of the housing market are clear. Coupled with the government's planned spending on infrastructure, the construction industry is poised to enter a growth phase. As the market leaders, Green Island Cement and Anderson Asia are well positioned to play a key role in this exciting period of expansion.

Share Price Performance

1997 was a turbulent year for the Hong Kong stock market. Our share price increased seven per cent. during the year (the Hang Seng Index declined 20 per cent. during the same period). The Company was one of the six stocks in the 33-stock Hang Seng Index which posted positive gains during 1997. The Company's market capitalisation increased 76 per cent. to HK$49.4 billion as at the end of 1997.

Excellent Prospects for the Future

Overall, we can expect further progress in the year ahead. Hongkong Electric and CKI Materials will continue to generate stable, quality cash flow. We have developed a visible presence across China, which will pave the way for additional investment opportunities. Also, our solid business position ensures ample growth capacity. I feel confident that the Group is in a position to go from strength to strength.

Acknowledgments

T. W. Chow, Managing Director of Anderson Asia, will retire at the end of March 1998. T. W. spent over 25 years managing Anderson Asia, growing the company into a widely respected leader in the industry. His dedication and loyalty are much appreciated. Raymond Norbury, Technical Director of Green Island Cement, retired in early 1998. He was instrumental in the technical improvements at the Tap Shek Kok plant and the development of the Philippine limestone quarry. We thank them for their contribution.

Both T. W. and Ray have agreed to remain as advisors to the Group so that we can continue to make use of their knowledge and experience.

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

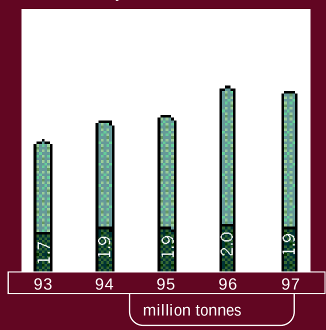
H. L. Kam

Group Managing Director

Hong Kong, 19th March, 1998

Cement and concrete form the foundations of cities, nations and economies.

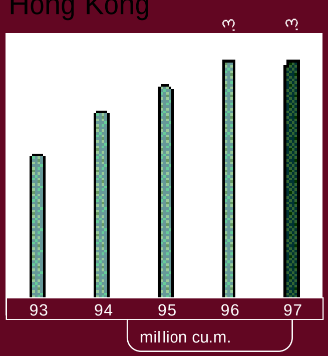
Hong Kong Cement Consumption



Source: Hong Kong Government

Comprising two market leading companies, CKI Materials is one of Asia's most successful cement, concrete, asphalt and aggregates operators. Green Island Cement is Hong Kong's only integrated cement producer and also its largest distributor. Anderson Asia is one of Hong Kong's leading producers of concrete, asphalt and aggregates. The projected increase in housing supply and infrastructure spending in Hong Kong will have a significant positive impact on this division.

Concrete Production in Hong Kong



Source: Anderson Asia

Anderson Asia's

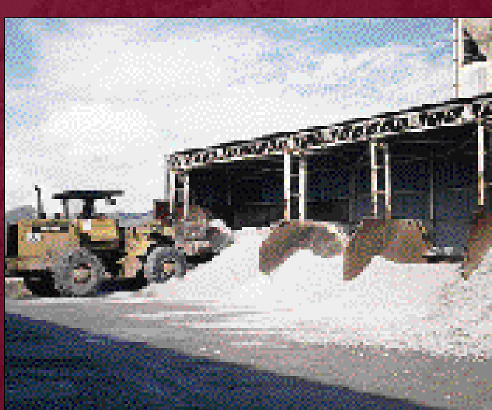
Lam Tei Quarry, Hong Kong

CKI Materials
1997 Highlights

Ready Mixed Concrete, Anderson Asia (below and right)

Anderson Asia won the 1997 Hong Kong Management Association Quality Award - Certificate of Merit

Anderson Asphalt, Hong Kong



Asia Stone's quarry at Lam Tei, Hong Kong

Anderson Asia won the 1997 World Quality Commitment Award

K. K. Choi (left), Green Island Cement, receiving the PSCE Environmental Performance Award at the 1997 Hong Kong Awards for Industry

Shantou Cement Plant - under construction

Cement plant at Tap Shek Kok, Hong Kong (left and above)

Guangdong Yunfu Cement Plant (top left) and signing ceremony (above)

Siquijor Limestone Quarry, Philippines

CKI Materials
1997 Profit Contribution
up 16%.

Green Island Cement's senior management: (from left) Barrie Cook, Managing Director, Green Island Cement, Derek Liu, Deputy Managing Director, Gary Yu, Director of International Business Development.

Stable Cement Demand

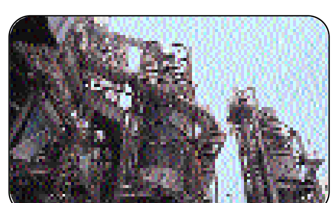
Hong Kong cement consumption was relatively flat at 5.3 million tonnes in 1997, a slight decline of one per cent. from the record high of a year ago. Average selling price was stable year over year, despite downward pressure experienced towards the end of the year.

While 1997 saw a decline of demand from the Airport Core Programme which is near completion, local construction activities, particularly from the public sector, remained active.

Green Island Cement remains the market leader in Hong Kong despite a slight decline in market share of one per cent. to 42 per cent. To maintain overall market stability in Hong Kong and ensure equilibrium in the cement market in Guangdong Province, we have led an effort to increase imports of lower-priced bag cement from China. Bag cement is a lower margin product, representing about 12 per cent. of the overall Hong Kong market. As a result, cement imports from China increased by 52 per cent. in 1997, largely at the expense of imports from Japan and Korea.

In the bulk cement market, we have maintained our market leading position and remain the lowest-cost, most efficient producer and distributor. Our unit cost of production decreased as productivity continued to improve and the prices of some of the raw materials, such as limestone imports from Japan, decreased due to currency depreciation. Despite the concession in market share, Green Island Cement's profit contribution increased from last year.

The recent financial uncertainty in the region has caused distress among regional cement companies. Given the local market's specific quality requirements and well-established import channels, cement imports from the region are not likely to rise significantly. Green Island Cement, in addition to being a manufacturer, is also the most cost effective cement importer, and we are well positioned to maintain our leading position in imported cement. The weakness in the regional market may present corporate activities which can strengthen our existing position and open new markets.



Green Island Cement is the market leader in Hong Kong and is expanding to Southern China.

Given the projected higher spending in public housing and infrastructure, we are optimistic about the cement and concrete markets in Hong Kong.

Optimistic Future

Traditionally, cement demand in Hong Kong has been relatively stable with a fairly even distribution among residential, commercial and infrastructure users. In 1998, we expect to see a slowdown in the private residential and commercial sectors, while public residential demand will continue to be strong. The government's commitment to increasing Hong Kong's housing supply will lead to a substantial increase in cement consumption in the next several years, most notably from the year 2000 onwards.

With respect to infrastructure, we anticipate a consolidation in 1998 as the construction works of the Airport Core Programme come to an end. However, several major new projects are already in the design stage. For example, the West Rail is in an advanced design stage and scheduled to commence construction by the end of 1999. We expect these new projects will have a positive impact on cement consumption beginning from 1999.

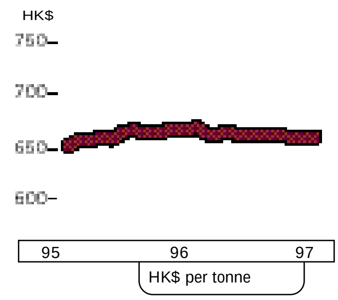
Guangdong Cement

The Shantou clinker grinding joint venture is expected to commence operation towards the end of 1998. This joint venture will benefit from the lower-than-budgeted price of imported clinker.

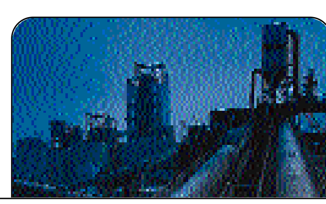
In early 1997, Green Island Cement entered into a contract to form a joint venture with Guangdong International Trust and Investment Corporation (GITIC) regarding the Yunfu Cement Plant, as well as certain downstream cement and concrete operations in Guangdong Province.

The Yunfu Cement Plant, located in Yunfu City in Guangdong Province, is a rotary-kiln production facility with an annual capacity of 680,000 tonnes. This cement plant, commissioned by a French company in 1992, is one of the largest producers of high quality cement in Guangdong Province. We have assumed operational control of the cement plant, and believe there are possible areas for operational improvements, including higher production efficiency and integration with our distribution operations.

Average Selling Price – Ordinary Portland Cement

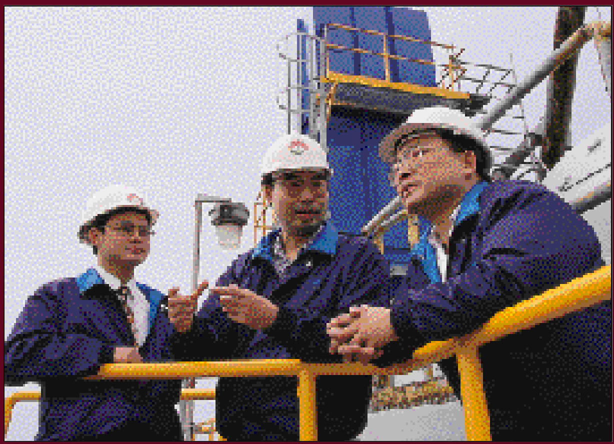


Source:
Hong Kong Government



We believe the timing of our entry into the Guangdong market is prudent, and will continue to pursue opportunities elsewhere in China.

Environmental Business.



(From left) Michael Wong, Senior Environmental Engineer, K. K. Choi, Plant Manager, Peter Leung, General Manager, Environmental and Engineering

Green Island Cement has identified the environmental business in Hong Kong and the Mainland as a key growth area. Green Island Cement employs, on a large scale, recycled materials as raw materials for cement making. For a number of years, we have been converting almost all of the fly ash generated as a waste product from the two power utilities in Hong Kong in our cement making process. Our Jade brand, a blended cement utilising fly ash, was launched in 1992 as a premium low alkali cement and has been well received by the market. It was extensively used in the construction of the Chek Lap Kok airport.

In 1997, 24.3 per cent. of the raw materials in cement production were industrial by-products or waste material, which included 429,000 tonnes of fly ash. The fly ash collected from Hongkong Electric's Lamma Power Station increased by 37 per cent. over the previous year. In 1997, we were granted a chemical waste disposer license for the disposal of marine pollutants (MARPOL), which are converted into fuel at our cement plant. In 1997, 19,000 tonnes were received, which represented 14 per cent. of total fuel consumed.

These activities are in line with our dedication to the concept of sustainability which has been recognised with the Award for Environmental Performance by the Private Sector Committee on the Environment in both 1996 and 1997.

The Guangdong cement market has declined substantially from its peak in 1993. The over-expansion in production capacity, particularly in the low-end shaft kiln sector, has precipitated a sharp drop in market prices. Cement prices have since remained at distressed levels due to the absence of co-ordination and market leadership.

However, towards the end of 1997, we witnessed a modest rebound in prices and volume. While it is premature to determine the timing of a full recovery, we believe the Guangdong cement market is at the trough of the cycle. The consolidation of the industry has strengthened the position of the market leaders, and will be positive for cement pricing in the long term. We believe our entry at the market bottom is prudent, and will continue to pursue opportunities elsewhere in China.

Trial shipment from the Philippine limestone quarry started in late 1997. Full operation is expected to commence in 1998.

Our concrete business enjoyed another record year in 1997, and has a strong order book in 1998.

Record Concrete Production

All three businesses of Anderson Asia – Ready Mixed Concrete, Anderson Asphalt and Asia Stone – enjoyed a satisfactory year in 1997.

Ready Mixed Concrete enjoyed record concrete production volumes in 1997. Given our strong order book, we are optimistic about our prospects in 1998.

One of the biggest achievements in 1997 was our involvement in the new Chek Lap Kok airport. We are the largest concrete supplier to the airport projects, and have delivered over 1.2 million cubic metres to date. In particular, we supplied over 600,000 cubic metres of concrete for the construction of the passenger terminal building, which is the single largest building in the world. There are several airport-related projects still underway, and the project will be mostly completed during 1998.

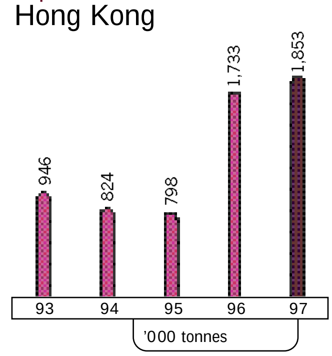
Ready Mixed Concrete's operations in Guangdong Province, including batching plants in Shenzhen, Guangzhou and Zhuhai, were injected into the joint venture with GITIC in 1997. One of the major projects is the supply of concrete to the Zhuhai Power Plant, in which the Group has a 45 per cent. interest.

Anderson Asphalt made successful inroads into China, with the completion of contracts supplying asphalt to two expressways in Hebei Province. We have also completed contracts to several key new airport projects, including the Lantau Link, North Lantau Expressway and Kwai Chung Viaduct. The Tsing Ma Bridge, one of Hong Kong's newest landmarks, uses mastic asphalt supplied by Anderson Asphalt.

As the majority of Asia Stone's products are for internal use, its 1997 performance was stable.

In October 1997, Bonntile Industries, one of Hong Kong's largest spray coating contractors primarily serving the local construction industry, was acquired by Anderson Asia. We will continue to examine other suitable acquisition opportunities.

Asphalt Production in Hong Kong



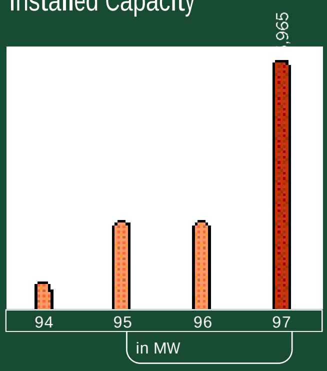
Source: Anderson Asia

Anderson Asia's senior management: (from left) Lambert Leung, Director and General Manager, Anderson Asia, K. C. Ng, General Manager, Asia Stone, S. P. Yap, General Manager, Ready Mixed Concrete, D. W. Johnston, General Manager, Anderson Asphalt, John Lam, Deputy Managing Director, Anderson Asia T. W. Chow, Managing Director, Anderson Asia

For detailed information on individual businesses, please refer to the companion booklet to this annual report: Business Overview.

In today's advanced society, energy is the commodity that powers the progress of the world.

CKI Energy
Installed Capacity



Supplying power to one of the world's most important and sophisticated financial centres, Hongkong Electric is a key participant in the continuing growth and prosperity of Hong Kong. At the same time, China's ever-growing need for power is fuelling the substantial role of foreign investment. CKI Energy's business serves – and will grow with – the power needs of Hong Kong and the Mainland, two of Asia's strongest economies.

Shantou Tuopu Power Plant,
Guangdong Province

CKI Energy
1997 Highlights

Hongkong Electric, Lamma Island

Shantou Tuopu Power Plant

Liaoning Fushun Cogen Power Plant (above) and signing ceremony (right)

Henan Qinyang Jianghuai Power Plant (top) and signing ceremony (above)

Guangdong Nanhai Power Plant I

Hongkong Electric, Lamma Power Station
(below and bottom)

Jilin Siping Cogen Power Plant (left) and
signing ceremony (above)

Guangdong Zhuhai Power Plant - under construction

CKI Energy
1997 Profit Contribution
up 1,091%.

Power Professionals.

(From left) Leung Siu Wing, Fan Sze Yung and Bernard Lun
Senior Project Managers, Power Development

While entrepreneurial skills and personal connections are considered important in doing business in China, we strongly believe in a professional project development effort. Our PRC project development teams are grouped by industry and geographical area. With dedicated professionals, we believe we can better identify and evaluate project merits with market intelligence and local knowledge. Here we profile the members of our power development team, who have a combined 55 years of experience in the power industry.

Hongkong Electric

Hongkong Electric commenced its electricity generation business in 1890. At present, the Lamma Power Station, the only power station operated by Hongkong Electric, has an installed capacity of 3,305 MW. Hongkong Electric generates and distributes electricity to Hong Kong Island, Ap Lei Chau and Lamma Island through the Scheme of Control, which has been extended to the year 2008.

The inclusion of Hongkong Electric's financial results, from March 1997, accounted for the majority of the 1,091 per cent. increase in profit contribution of the energy division. Hongkong Electric's net profit, after tax and Scheme of Control transfers, was HK$4,709 million, an increase of 13.4 per cent. over 1996.

Although 1997 was the wettest year on record in Hong Kong, Hongkong Electric was still able to register a 2.3 per cent. increase in electricity sales and a new maximum demand record of 2,205 MW, up 4.1 per cent. from last year.

Various practical procedures have been implemented to improve the environment. Over the past 10 years, Hongkong Electric has invested a total of HK$4,457 million on measures to improve the environment.

Hongkong Electric International Limited (HEI) was formed in January 1997 to spearhead Hongkong Electric's international investment activities, and the US$21 million investment in Thailand is progressing and is expected to produce a return in the year 2000. HEI is actively evaluating several other projects outside Hong Kong on a prudent basis, bearing in mind the regional economic situation, and investments will only be made in those which promise a good return at minimum risk.

Hongkong Electric, through its wholly-owned Associated Technical Services Limited (ATS), provides a comprehensive range of power generation and distribution consultancy services, including feasibility studies, design, inspection, supervision and training. ATS currently provides consultancy services to the Zhuhai Power Plant.

During the year, our power portfolio increased 171 per cent. to 5,965MW.

New China Plants

During the year, we expanded our power portfolio outside Hong Kong and Guangdong Province to three different provinces. The first was a 150 MW power facility in Fushun City, Liaoning Province – a heat and electricity co-generation plant that is already in operation. Fushun City, with a population of 2.2 million, is the one of the largest cities in Liaoning Province. Profit contribution from this plant commenced from June 1997.

We signed contracts for a power plant in Qinyang City, Henan Province in September 1997. With a combined installed capacity of 110 MW, the operational plant supplies electricity primarily to our joint venture partner, a major aluminium producer in the city. Profit contribution commenced in January 1998. Discussions are underway with our joint venture partner regarding another existing power plant.

In October 1997, we made our first investment in the northeastern province of Jilin. The heat and electricity co-generation power plant in Siping City comprises several units with a combined installed capacity of 200 MW. A power purchase agreement was signed with the Jilin Provincial Power Grid and a heat purchase agreement was signed with Siping City. Profit contribution commenced in March 1998.

CKI Energy's senior management:
(from left)
K.H. Chu, General Manager, Power Operation,
Eric Kwan, General Manager, Cheung Kong China Infrastructure

Shantou and Nanhai

Output from the three power plants in Shantou City recorded satisfactory growth.

The Nanhai Jiangnan Power Plant performed satisfactorily. The second unit of Nanhai Power Plant I commenced operations during the year. Both units of the 400 MW plant are now operational.

Zhuhai

In September 1997, a major milestone was reached regarding the 1,400 MW Zhuhai Power Plant: the first draw-down of the limited-recourse loan extended by the Import and Export Bank of Japan was effected. Twelve months after the contract signing, the joint venture was able to satisfy a lengthy list of conditions precedent (numbering over 100) in the complex loan agreements. A second draw-down was effected in December 1997. Over US$100 million of the US$670 million loan has been drawn down. The favourable terms of this loan should be viewed more positively in light of the unstable interest rate environment – interest rates are fixed at 5.95 per cent. for 16 years.

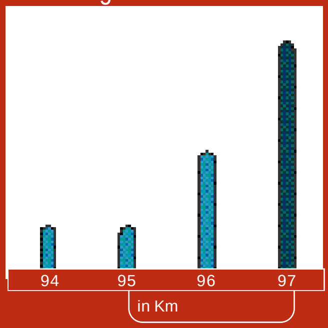
The construction of the power plant is progressing well. As at the end of 1997, approximately 15 per cent. of the construction was completed as scheduled.

Our power portfolio ranges from small diesel to mega-size coal-fired plants, and from cogen to dedicated plants.

For detailed information on individual businesses, please refer to the companion booklet to this annual report: Business Overview.

Reliable, established transportation routes are the arteries of commerce.

CKI Transportation
Road Length



The development of toll roads in China will rise rapidly to keep up with the country's economic growth. With over 700 km of toll roads and bridges in China, CKI Transportation's portfolio comprises a variety of road types: ranging from a section of the National Trunk Highway System to city roads and ring roads.

Shantou Bay Bridge,
Guangdong Provice

CKI Transportation
1997 Highlights

Hebei Tangshan Jingtang Port Expressway (right) and signing ceremony (below)

Liaoning Shenyang Changqing Bridge (bottom)

Liaoning Shenyang Second Ring Road opening ceremony (right)

Guangdong Jiangmen Jiangsha Highway

Hunan Changsha Wuyilu Bridge (right) and Wujialing and Wuyilu Bridge signing ceremony (above)

Guangzhou East South West Ring Road – under construction

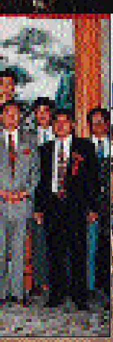
Guangdong Zengeheng Lixin Road (below) and signing ceremony (bottom)

Guangdong Shantou Bay Bridge (below and right)

Signing ceremony – Hubei Yichang Yiling Yangtze Bridge

Xiqiao Bridge of the Nanhai Road Network

Sanshan West Bridge of the Nanhai Road Network



National Highway 107 (Zhumadian Sections, top) and signing ceremony (above)

CKI Transportation
1997 Profit Contribution
up 90%.

In-house Engineering.

(From left) K.C. Lo, toll system, Edward Lai, software engineering, Jia Yu Lin, bridge and tunnel specialist (consultant), and John Pang, civil engineering and team head

In all of our projects involving construction, the joint venture company awards turnkey contracts (fixed price, fixed completion timing) to PRC-based construction groups. This is to eliminate cost overrun and completion risks. However, we participate actively during the construction phase to ensure the project is completed on time, within budget and according to specifications.

A dedicated engineering group has been established to provide technical support to our transportation projects. This team participates at the negotiation stage to provide assessment from an engineering perspective. Toll collection specialists review the hardware and software of the toll systems. Civil engineers assist in monitoring construction progress. Ongoing support and regular reviews are undertaken to ensure the quality of our assets.

We believe our engineering group adds significant value to the construction and operation of our projects in China.

Guangdong Projects

In its first year of operation, the Shen-Shan Highway (Eastern Section) performed satisfactorily. All 13 toll stations are operational, and the communication systems along the entire length commenced operation. Sales of pre-paid tickets at the Shantou Bay Bridge have been well received by customers, and benefit the project's cash flow. We expect continued improvement for both projects.

Within the transportation portfolio, the Nanhai Road Network was the largest contributor to our profit contribution in 1997.

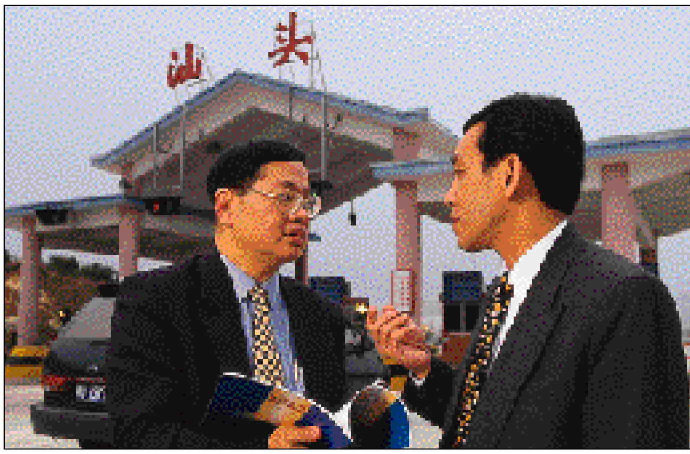
The Jiangmen Jiangsha Road showed steady improvement in 1997. The Jiangmen Jianghe Road and Jiangmen Chaolian Bridge are expected to be completed in late 1998 and mid-1999, respectively. The Zengcheng Lixin Road is an upgrading of an existing road near Guangzhou City. We are in the process of installing a computerised toll collection system.

Our largest single infrastructure investment in China is the Guangzhou East South West Ring Road. The details regarding the Guangzhou East South West Ring Road were finalised, and approvals from relevant government departments were received in March 1998. This project is regarded as one of Guangzhou's 10 major infrastructure projects by the Guangzhou government. The contract was originally signed in 1992 between Hopewell Holdings Limited and Guangzhou Freeway Company. The Group, Hopewell Holdings Limited and Guangzhou Freeway Company entered into a supplemental agreement regarding the South East portion in 1996. Subsequently, details regarding the South West section were finalised, and cooperation terms were amended to combine the two sections into a single, integrated project.

This project represents our largest single infrastructure investment in China, and the construction is on schedule. A 6 km section of the ring road has been operational since

During the year we doubled our road length to over 700 km, covering six provinces in China.

September 1997, and the entire length of the ring road is expected to be operational by the year 2001.



CKI Transportation's senior management: (from left) C.F. Lee, General Manager, Road and Bridges Development Clement Yuen, General Manager, Roads and Bridges Operation

Shenyang Second Ring Road

The largest infrastructure project in Shenyang, the Shenyang Second Ring Road – comprising Da Ba Road and South-west Elevated Sections, Changqing Bridge, Gongnong Bridge and Shensu Expressway – opened for traffic in November, ahead of schedule. Through the city's relationship with the Cheung Kong Group (Cheung Kong Holdings owns a hotel currently under construction in Shenyang), we were invited to participate in this project in late 1996. Over 50,000 workers were mobilised to work on this project, and it was completed in eight months.

Three Gorges Concept

The Three Gorges Dam is the largest infrastructure project under construction in China. The damming of the Yangtze River in November 1997 attracted global attention. We also participated in this historic event by signing contracts to build the Yichang Yiling Yangtze Bridge two days before the damming. Yichang City serves as the primary transportation and materials handling hub for the Three Gorges Dam project. We view the Yiling Yangtze Bridge as the starting point of CKI Transportation's "Three Gorges Concept" as we continue to identify projects along the Yangtze River Basin.

We have invested in a key section of the National Trunk Highway System, strategically-located bridges, city roads and ring roads.

Hebei, Henan and Hunan

The Group added projects to its portfolio in Hebei, Henan and Hunan provinces, in Central and Eastern China.

The Tangshan Jingtang Port Expressway, in Hebei Province, connects Tangshan City, an important industrial city known for its coal and ceramics industries, with Jingtang Port, a major sea port of the province jointly developed by the inland cities of Tangshan City and Beijing. The expressway is pending government approvals and expected to open in mid-1998. We have also formed a joint venture regarding an existing road, which runs parallel to the new expressway.

The Zhumadian sections of National Highway 107, a main artery connecting the northern and southern regions of China, is an existing road in Henan Province. This is a major transportation route for numerous coal mines in the province and other adjacent provinces. Profit contribution commenced in September 1997.

The Wujialing Bridge and Wuyilu Bridge in Changsha City, Hunan Province, are operational. With the Xianjiang River running through the city, Changsha City is divided into the east and west banks, and the two bridges form an important part of Changsha City's road network. Profit contribution commenced in February 1998.

For detailed information on individual businesses, please refer to the companion booklet to this annual report: Business Overview.

Directors' Biographical Information

Li Tzar Kuoi, Victor, aged 33, 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 is a member of the Chinese People's Political Consultative Conference, the Commission on Strategic Development and the Business Advisory Group. He holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural Engineering.

George C. Magnus, aged 62, 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 46, has been an Executive Director and Deputy Chairman of the Company since March 1997. He is the Group Managing Director of Hutchison Whampoa, the Chairman of Orange plc, the Deputy Chairman of Hongkong Electric and a director of Cheung Kong Holdings. He holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants.

Kam Hing Lam, aged 51, 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 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 September 1993. He holds a Master of Science degree in Business Administration and a Bachelor of Arts degree in Economics.

Frank J. Sixt, aged 46, has been an Executive Director of the Company since its incorporation in May 1996. He has also been a director of Cheung Kong Holdings since 1991. He is also the Group Finance Director of Hutchison Whampoa and a director of Hongkong Electric. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada.

Chow Woo Mo Fong, Susan, aged 44, has been an Executive Director of the Company since March 1997. She is the Deputy Group Managing Director of Hutchison Whampoa, and also a director of Orange plc and Hongkong Electric. She is a solicitor and holds a Bachelor's degree in Business Administration.

Tso Kai Sum, aged 66, has been an Executive Director of the Company since March 1997. He is the Group Managing Director of Hongkong Electric. He has broad experience in property development and power generation. He holds a Bachelor of Science degree in Engineering and is also a Chartered Engineer.

Cheong Ying Chew, Henry, aged 50, is an Independent Non-executive Director of the Company. He holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Operational Research and Management. He is a member of the Advisory Committee to the Securities and Futures Commission in Hong Kong and a member of the Board of the Hong Kong Futures Exchange Limited.

Lee Pui Ling, Angelina, aged 49, is an Independent Non-executive Director of the Company. She is a practising solicitor, has a Bachelor of Laws degree and is a Fellow of the Institute of Chartered Accountants in England and Wales. She is a director of certain other listed companies in Hong Kong and is active in public service. Her current public commitments include membership on a number of Hong Kong Government advisory and appeal boards.

Senior Management's Biographical Information

Head Office

Tam Ngai Hung, Terry, aged 44, Group Financial Controller, has been with the Cheung Kong Group since December 1994. He is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants.

Tsoi Tong Hoo, Tony, aged 33, Senior Manager, Planning and Investment, has been with the Cheung Kong Group since July 1994. He is a Chartered Financial Analyst.

Yeung, Eirene, aged 37, Company Secretary, has been with the Cheung Kong Group since August 1994. She is a solicitor of the High Court of Hong Kong Special Administrative Region and of the Supreme Court of Judicature in England and Wales.

Cheung Kong China Infrastructure

Kwan Bing Sing, Eric, aged 53, is the General Manager of Cheung Kong China Infrastructure and will become the Group Chief Executive Officer of the China Infrastructure division on 1st April, 1998. He joined Hutchison Whampoa in February 1994 and has been with the Cheung Kong Group since April 1994. He holds a Master's degree in Business Administration and is a Chartered Engineer.

Chu Kee Hung, aged 53, General Manager, Power Operation of Cheung Kong China Infrastructure, has been with the Cheung Kong Group since January 1994. He holds a Doctor of Philosophy degree in Mechanical Engineering and is a member of the American Society of Mechanical Engineers.

Lee Chack Fan, aged 52, General Manager, Roads and Bridges Development of Cheung Kong China Infrastructure, has been with the Cheung Kong Group since February 1994. He holds a Doctorate in Geotechnical Engineering and is a Chartered Engineer.

Yeung Yat-Hong, Stephen, aged 45, 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.

Yuen Ming Kai, Clement, aged 51, General Manager, Roads and Bridges Operation of Cheung Kong China Infrastructure, has been with Cheung Kong China Infrastructure since January 1997. He holds a Bachelor's degree in Civil and Structural Engineering, and a Doctor of Philosophy degree in Geotechnical Engineering. He is a Chartered Engineer.

Chan Loi Shun, Dominic, aged 35, is Finance and Administration 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.

Green Island Cement

Barrie Cook, aged 55, has been with Green Island Cement since 1983 and has been the Managing Director of Green Island Cement since 1987. He will become the Group Chief Executive Officer of the Infrastructure Materials division on 1st April, 1998. 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 46, has been Deputy Managing Director of Green Island Cement since January 1992. He will become the Managing Director of Green Island Cement on 1st April, 1998. 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.

Yu Siu Lim, Gary, aged 42, 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 68, joined Asia Stone Company Limited in 1971 and became the Managing Director of Anderson Asia in 1984. He will retire from his present office on 1st April, 1998 and remain as an advisor to the Group. 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 51, re-joined Anderson Asia as Director and General Manager in July 1993. He will become the Managing Director of Anderson Asia on 1st April, 1998. Before re-joining Anderson Asia, he was with a leading investment bank in Hong Kong, prior to which he was with Anderson Asia for 14 years. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Society of Accountants, a fellow of the Institute of Quarrying (UK) and the chairman of the Institute of Quarrying, Hong Kong Branch.

John Lam, aged 47, re-joined Anderson Asia as Deputy Managing Director in March 1998. Prior to re-joining Anderson Asia, he was with a leading civil engineering company in Hong Kong. He also worked with Anderson Asia for nine years. He holds a Master's Degree in Business Administration. He is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.

Donald William Johnston, aged 55, joined Anderson Asphalt in 1988. Before joining Anderson Asphalt, he had acquired extensive commercial and engineering experience in Australia and the Pacific Rim. He is now a Director of Anderson Asia and the General Manager of Anderson Asphalt. He has a Bachelor's degree in Civil Engineering, is a member of the Institute of Engineers (Australia) and is a fellow of the Institute of Quarrying (UK).

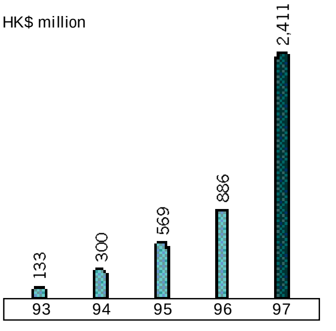
Financial Results

Summary Consolidated Profit and Loss

HK$ million	1997	1996	% Change
Turnover	3,346	3,041	10
Profit before taxation	2,696	971	178
Taxation	(283)	(87)	225
Profit after taxation	2,413	884	173
Minority interests	(2)	2	N/A
Profit attributable to shareholders	2,411	886	172

Profit Attributable to Shareholders

HK$ million



Turnover represents net sales from CKI Materials and returns on investments and interest income received and receivable from PRC joint ventures net of withholding tax, where applicable. In 1997, CKI Materials accounted for 83 per cent. (1996: 88 per cent.) of the Group's turnover. The 10 per cent. increase in the Group's 1997 turnover was mainly due to the growth of CKI Energy and CKI Transportation.

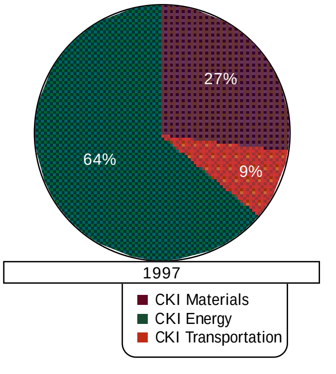
Profit before taxation increased by 178 per cent., reflecting the higher profit margin of CKI Materials, increased profit contribution from PRC joint ventures and share of results of Hongkong Electric, despite increased interest expenses and corporate overhead.

Taxation includes taxation expense of CKI Materials and share of taxation of Hongkong Electric.

Investment returns from our PRC joint ventures are either not subject to PRC taxation or received after taxation, but interest income from certain joint ventures is subject to withholding tax.

Profit attributable to shareholders increased to HK$2,411 million, up 172 per cent. from 1996.

1997 Profit Contribution by Business Segment

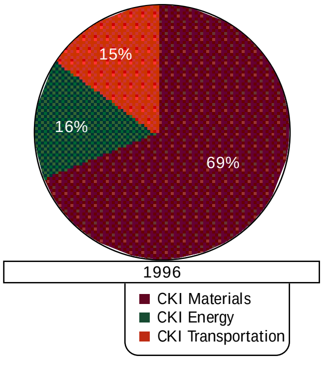


Profit Mix

By Business Segment

Profit contribution represents profit contribution after taxation but before corporate overhead and net interest income/expenses, net of attributable operating expenses. The 1997 relative profit contribution of CKI Materials, CKI Energy and CKI Transportation were 27 per cent. 64 per cent. and 9 per cent., respectively (1996: 69 per cent. 16 per cent. and 15 per cent., respectively), reflecting the inclusion of the results of Hongkong Electric since March 1997.

1996 Profit Contribution by Business Segment



CKI Materials

Both Green Island Cement and Anderson Asia posted record profit in 1997.

As compared with 1996, Green Island Cement's sales volume decreased by 3.7 per cent. Despite the decrease in volume, the gross profit margin increased in 1997 due to productivity gains and lower cost of production. Cement demand in Hong Kong showed a 1 per cent. decline to 5.30 million tonnes in 1997, from 5.36 million tonnes in 1996.

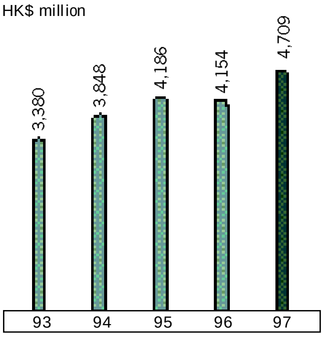
Profit Mix continued

In 1997, Green Island Cement formed a joint venture with Guangdong International Trust and Investment Corporation regarding the Yunfu Cement Plant and certain downstream cement and concrete distribution operations in Guangdong Province. Capital contribution was made in full in early 1998.

Anderson Asia's concrete production increased by 6.6 per cent. over 1996, which marked a new production record with improvement in profit margin.

Anderson Asphalt's Hong Kong operations experienced tight market conditions because of increased competition. Cost control measures have been introduced to strengthen our position.

Net Profit
of Hongkong Electric



CKI Energy

CKI Energy posted a 1,091 per cent. increase in profit contribution over last year principally due to the inclusion of the results of Hongkong Electric.

Hongkong Electric's profit attributable to shareholders increased by 13.4 per cent. from HK$4,154 million to HK$4,709 million. The Group's profit contribution from Hongkong Electric, was HK$1,498 million, net of tax. Hongkong Electric will recommend a final dividend of HK$0.855 per share, to be paid in May 1998. Together with the interim dividend of HK$0.505 per share paid in October 1997, total dividend for 1997 would be HK$1.36 per share, an increase of 10.6 per cent. over the HK$1.23 per share paid in 1996.

The power plant businesses in China showed modest growth from the past year. The electricity production of the three power plants in Shantou was steady in 1997. The second unit of the Nanhai Power Plant 1 commenced operation during the year.

Investment returns from the Liaoning Fushun Cogen Power Plant commenced from June 1997. No contribution was recorded in 1997 from the Zhuhai Power Plant (scheduled completion in 2000), Henan Jianghai Power Plant (capital contribution made in January 1998) and Jilin Siping Cogen Power Plant (90 per cent. of the capital contribution made in March 1998).

CKI Transportation

The profit contribution of CKI Transportation increased 90 per cent. over that of last year principally reflecting the increased number of PRC joint ventures.

The performance of the Shen-Shan Highway (Eastern Section) and Shantou Bay Bridge, operational throughout the year, was better than last year, due to higher traffic volume.

The investment returns from the Nanhai Road Network, three Jiangmen road projects and Guangdong Zengcheng Lixin Road were in line with our expectation. Interest income was received from certain projects of the Shenyang Second Ring Road in 1997. Investment returns commenced on National Highway 107 (Zhumadian Sections), an operational road, from September 1997.

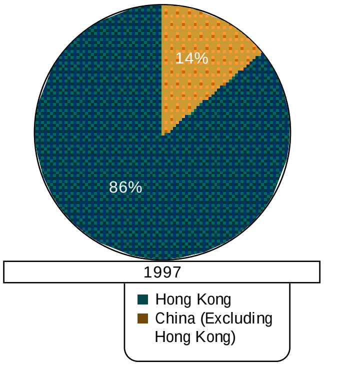
Capital contributions regarding the Hebei Tangshan Tangle Road and Hunan Changsha Wujialing and Wuyilu Bridges were injected in early 1998. Investment returns commenced accordingly.

No capital injection has been made for Hebei Tangshan Jingtang Port Expressway and Hubei Yichang Yiling Yangtze Bridge as the projects are pending relevant government approvals.

By Geographic Region

The 1997 relative profit contribution between Hong Kong and the Mainland were 86 per cent. and 14 per cent., respectively (1996: 69 per cent. and 31 per cent., respectively). While the profit contribution from PRC joint ventures increased, the inclusion of the results of Hongkong Electric raised the contribution from Hong Kong significantly.

1997 Profit Contribution by Geographic Region



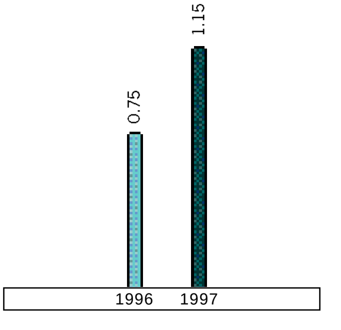
Earnings Per Share

HK$ million	1997	1996	% Change
Profit attributable to shareholders	2,411	886	172
Weighted average number of shares in issue (million)	2,089	1,185	76
Earnings per share	HK$1.15	HK$0.75	53

Earnings per share increased by 53 per cent. from HK$0.75 in 1996 to HK$1.15 in 1997. The increase in the weighted average number of shares was due to the issue of 886,209,945 of the Company's shares to Hutchison Whampoa to acquire the controlling interest in Hongkong Electric in March 1997.

Earnings Per Share

HK$

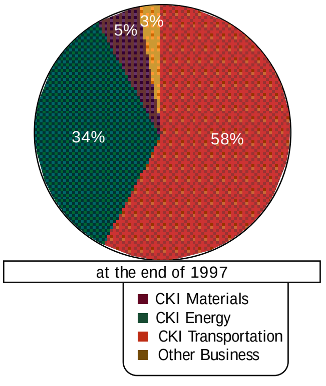


Returns on Shareholders' Equity

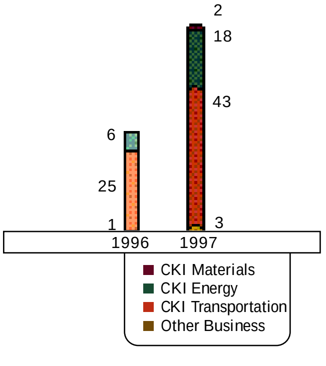
HK$ million	1997	1996	% Change
Profit attributable to shareholders	2,411	886	172
Average shareholders' equity	13,340	5,099	162
Returns on average shareholders' equity	18%	17%	6

Return on shareholders' equity increased from 17 per cent. in 1996 to 18 per cent. in 1997.

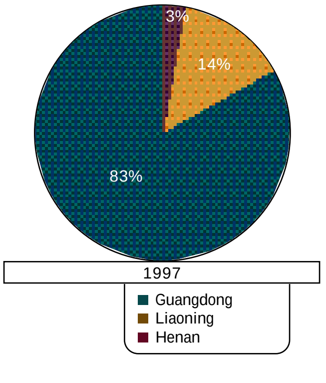
CKI Committed Investments in China
by Business Segment



Number of PRC Projects



1997 Profit Contribution of PRC Projects by Province



Analysis of PRC Infrastructure Projects

Business Segment

CKI Transportation (58 per cent.) was the largest business segment in terms of the Group's total committed investments in China as at the end of 1997. CKI Energy accounted for 34 per cent., while CKI Materials and water treatment plants accounted for five and three per cent., respectively.

Maturity

	Total number of projects		Number of projects generating revenue	
	1997	1996	1997	1996
CKI Materials	2	–	–	–
CKI Energy	18	6	8	5
CKI Transportation	43	25	32	20
Other Business – Water	3	1	–	–
Total	66	32	40	25

At the end of 1997, the Group invested in 43 road and bridge projects in China, up from 25 as at the end of 1996. Of the 43 projects, 32 projects contributed revenue to the Group. The additional projects were the Jiangmen Chaolian Bridge and Zhencheng Lixin Road in Guangdong Province, certain roads in the Shenyang Second Ring Road, the Tangshan Jingtang Port Expressway and Tangshan Tangle Road in Hebei Province, National Highway 107 (Zhumadian Sections) in Henan Province, the Yichang Yilin Yangtze Bridge in Hubei Province and the Changsha Wujialing and Wuyilu Bridges in Hunan Province.

At the end of 1997, the Group had invested in 18 power plant projects in China, up from six in 1996. Of the 18 projects, eight projects contributed revenue to the Group. The additional projects were Fushun Power Plant in Liaoning Province, Jianghuai Power Plant in Henan Province and Siping Power Plant in Jilin Province.

During 1997, the Group invested in three water treatment projects in China. No capital contribution was made in the past year as the projects are pending relevant government approvals.

Geographical Diversity

While almost all of the profit contribution from China was attributable to projects in Guangdong Province in 1996, the proportion was reduced to approximately 83 per cent. as the Group further diversified its investment portfolio in other regions of China.

In terms of the Group's committed investments in China as at the end of 1997, Southern China was the largest recipient, with 61 per cent.

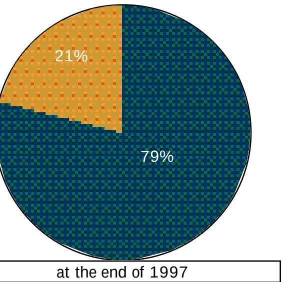
As at the end of 1997, the Group's committed investments were diversified among 15 cities in China. The five cities in which the Group had invested the largest amount were Shantou, Nanhai, Zhuhai, Shenyang and Guangzhou. No one city accounted for more than 18 per cent. of the Group's committed investments as at the end of 1997.

Investment Returns

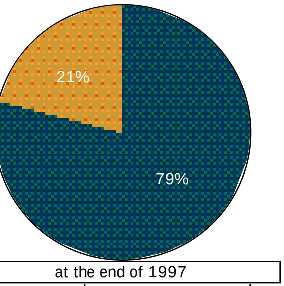
With the exception of the Shantou Bay Bridge, Shen-Shan Highway (Eastern Section), Guangzhou East South West Ring Road and CKI Materials' joint ventures in China, in which the Group shares profit in proportion to the capital contribution ratio, the Group is entitled to receive assured minimum returns denominated in foreign currency (either Hong Kong or U. S. dollars) and has the right to share excess profits from its joint ventures under certain circumstances.

As at the end of 1997, 79 per cent. of the committed investments in China had an assured minimum return mechanism. Also, 79 per cent. of the committed investments in China carried investment returns contractually denominated in Hong Kong or U. S. dollars as at the end of 1997.

CKI Committed Investments in China with Assured Minimum Return



CKI Committed Investments in China with Foreign Currency-Denominated Return



Financial Position

Summary Consolidated Balance Sheet

HK$ million	1997	1996	% Change
Fixed assets	1,700	1,627	4
Associated companies	9,657	95	10,065
Joint ventures	7,373	4,532	63
Other non-current assets	139	147	(5)
Current assets	3,799	4,958	(23)
Total assets	22,668	11,359	100
Current liabilities	(1,223)	(3,000)	(59)
Long term bank loan	(3,100)	–	N/A
Other long term liabilities and minority interests	(16)	(9)	78
Total liabilities	(4,339)	(3,009)	44
Net assets	18,329	8,350	120

Fixed assets

Fixed assets are leasehold land and buildings, plant and machinery and other fixed assets which are almost all attributable to CKI Materials.

Associated companies

Associated companies increased to HK$9,657 million in 1997 as a result of the acquisition of the controlling interest in Hongkong Electric during the year. Pursuant to the Cheung Kong Group Restructuring completed in March 1997, the Group issued 886,209,945 shares to Hutchison Whampoa to acquire 707,295,862 shares of Hongkong Electric, representing 35.01 per cent. of its issued share capital.

During the year, the Group further acquired 22,309,500 shares, representing 1.1 per cent. of Hongkong Electric's issued share capital, in the open market at an average price of HK$26.74 per share, and thereby increased the holding from 35.01 per cent. to 36.11 per cent.

Goodwill in the amount of HK$10,411 million, representing the excess of the cost of the acquisition of the shares in Hongkong Electric over the fair value of the Group's share of its net assets, was eliminated against reserves during the year.

Joint ventures

Joint ventures excluding joint ventures classified as subsidiaries and associated companies, which represent the cost of investment in PRC joint ventures, net of accumulated amortisation, increased by HK$2,841 million in 1997 due to the addition of projects. The amortisation of investment in joint ventures is made on a straight line basis to write off the cost of investment over the joint venture period from the commencement of operation. During 1997, 36 and 64 per cent. of the Group's paid investments in joint ventures were attributable to CKI Energy and CKI Transportation, respectively.

Other non-current assets

Other non-current assets are principally deferred pre-operating expenditure in respect of CKI Energy and CKI Transportation, which are amortised over a period of 10 years upon the commencement of operation.

Current assets

Current assets comprised receivables of CKI Materials and PRC joint ventures. The majority of the assured investment returns of PRC joint ventures are received after the calendar year end and upon the completion of the joint ventures' audited accounts. Generally, the majority of the assured investment returns for the year are received during the first quarter of the following year. The assured investment returns due from PRC joint ventures for 1996 were received in full during 1997.

The decrease in total current assets was principally due to the decrease in cash balance from HK$3,883 million in 1996 to HK$2,397 million in 1997.

Current liabilities

Current liabilities decreased by HK$1,777 million, principally reflecting the repayment of the bank loan of HK$2,055 million in September 1997.

Long term bank loan

Long term bank loan represented the syndication loan drawn in 1997.

The short term bank loans of HK$2,055 million as at the end of 1996 were fully repaid during the year. In September 1997, a syndicate of banks granted the Company loan facilities in the amount of HK$3,800 million for a period of five years, of which HK$3,100 million was drawn as at the end of 1997. The syndicated loans bear interest rates with reference to the Hong Kong Interbank Offered Rate. During the year, the Group entered into certain currency and interest rate swap transactions which effectively converted the Hong Kong dollar-denominated bank loans into U. S. dollar liabilities which bear interest rates with reference to LIBOR or U. S. dollar fixed interest rates. The U.S. dollar interest payments will be matched by the U.S. dollar income from the Group's PRC joint ventures.

Capital Structure and Gearing Ratio

HK$ million	1997 Amount	1997 Relative %	1996 Amount	1996 Relative %
Equity	18,329	86	8,350	80
Short term bank loan	-	-	2,055	20
Long term bank loan	3,100	14	-	-
Total capital employed	21,429	100	10,405	100

As at the end of 1997, the ratio of total debt to total capitalisation was 14 per cent., 6 per cent. lower than that as at the end of 1996, mainly as a result of the acquisition of the controlling interest in Hongkong Electric, which substantially increased the capital base of the Group.

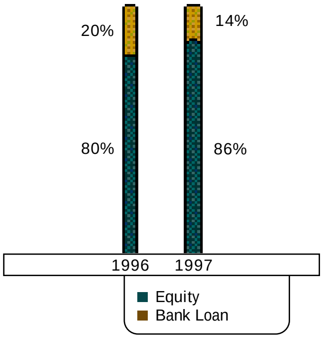
If the cash balance of HK$2,397 million was taken into account, the Group had net debt of HK$703 million as at the end of 1997, and the net debt to equity ratio was 3.8 per cent. There was a net cash balance of HK$1,828 million as at the end of 1996.

Interest Cover

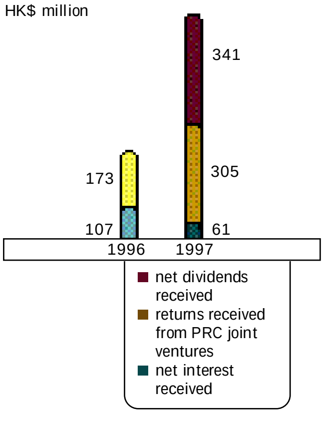
HK$ million	1997	1996	% Change
Profit before net interest expenses and taxation	2,651	870	205
Interest expenses	158	62	155
Interest cover	17 times	14 times	21

The interest coverage for 1997 was 17 times, higher than that in 1996.

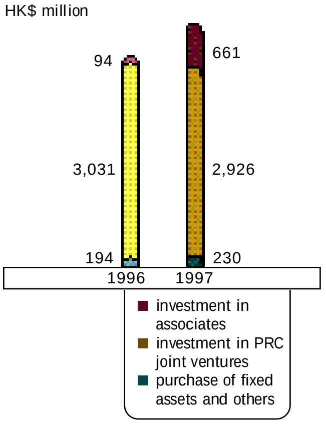
Capital Structure



Cash Inflow from Investments and Servicing of Finance



Cash Outflow from Investing Activities



Cash and Treasury Management

Cash Flow

HK$ million	1997	1996	%Change
Net cash flow from operating activities	769	952	(19)
Returns on investments and servicing of finance	707	280	153
Tax paid	(156)	(48)	225
Net cash flow before investing activities	1,320	1,184	12
Net cash outflow from investing activities	(3,817)	(3,319)	15
Net cash flow from financing activities	1,011	5,722	(82)
(Decrease) increase in cash balance	(1,486)	3,587	(141)

Cash flow from investments and servicing of finance increased by 153 per cent., increase mainly due to increased income received from PRC joint venture projects amounting to HK$305 million and dividends received from Hongkong Electric totalling HK$927 million.

Cash outflow from investing activities increased mainly due to increased investments in PRC joint ventures and Hongkong Electric. The Company spent HK$597 million to purchase 22,309,500 shares of Hongkong Electric in the open market subsequent to the Cheung Kong Group Restructuring in March 1997.

Use of IPO Proceeds

There was a balance of HK$1,070 million of the IPO proceeds brought forward from last year, and it was fully utilised during 1997.

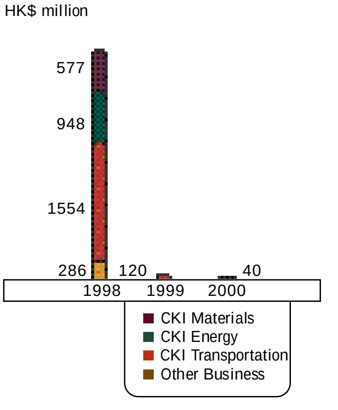
HK$ million	
Cash balance of the unused IPO proceeds brought forward	1,070
Investment in	
CKI Energy	570
CKI Transportation	500
Total	1,070

Capital Expenditure Commitments

As at the end of 1997, the Group's outstanding capital commitments amounted to HK$3,525million and are expected to be paid in accordance with the following timetable:

HK$ million	1998	1999	2000	Total
CKI Materials	577	–	–	577
CKI Energy	948	–	–	948
CKI Transportation	1,554	120	40	1,714
Other Business – Water	286	–	–	286
Total	3,365	120	40	3,525

Capital Expenditure Commitments



Approximately 97 per cent. of the commitments were attributable to the PRC joint ventures, and approximately 95 per cent. of the commitments will be paid in 1998. The capital commitments can be fully funded by the Group's cash on hand, cash from operations and undrawn loan facilities.

Treasury and Interest Rate Risk

The Group adopts a conservative approach to cash management and its treasury activities are centralised. Cash is generally placed in short term deposits denominated in either Hong Kong or U. S. dollars.

In September 1997, CKI arranged a HK$3.8 billion floating-rate syndicated loan, of which HK$3.1 billion was drawn as at the end of 1997. The Group was not adversely affected by the recent turmoil in the regional financial markets as it fully hedged the Hong Kong dollar interest rate risk of the syndicated loan by entering into currency and interest rate swap transactions, which effectively fixed interest rates for the the drawn loan amount at an all-in cost of approximately 6.5 per cent. per annum.

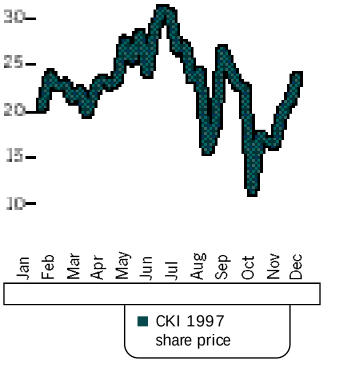
Foreign Exchange Risk

In terms of financial reporting, the Group's major foreign exchange exposure is to the Renminbi. The Group manages its Renminbi exchange risk through contractual commitments. Approximately 79 per cent. of the Group's committed investments in China as at the end of 1997 carried investment returns contractually denominated in either Hong Kong or U. S. dollars.

Share Price

During 1997, the Company's share price increased from HK$20.50 on 31st December, 1996 to HK$21.90 on 31st December, 1997, an increase of seven per cent. During the same period, the Hang Seng Index decreased by 20 per cent. During the year, the Company's market capitalisation increased from HK$28.0 billion to HK$49.4 billion, an increase of 76 per cent.

CKI
Share Price



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, 1997.

Principal Activities

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

Results and Dividends

Results of the Group for the year ended 31st December, 1997 are set out in the consolidated profit and loss statement on page 60.

The Directors recommend the payment of a final dividend of HK$0.22 per share which, together with the interim dividend of HK$ 0.10 per share paid on 15th October, 1997, makes a total dividend of HK$ 0.32 per share for the year.

Fixed Assets

Movements in the Group's fixed assets during the year are set out in note 8 to the financial statements on page 68.

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 16 and note 17 to the financial statements on page 71 and page 72 respectively.

Group Financial Summary

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

Properties

Particulars of major properties held by the Group are set out in Appendix 4 on page 81.

Directors

The Directors of the Company are listed on page 85. The Directors' biographical information is set out on page 38.

In accordance with the Company's bye-laws, the Directors of the Company (other than the Chairman and the Managing Director) retire in each year by rotation. Mr. Ip Tak Chuen, Edmond and Mrs. Lee Pui Ling, Angelina retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' Interests

As at 31st December, 1997, the interests of the Directors in the shares of the Company and its associated corporations as required to be recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows :-

No. of Ordinary Shares

Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Li Tzar Kuoi, Victor	-	-	-	1,912,109,945 (Note 1)	1,912,109,945
	Kam Hing Lam	100,000	-	-	-	100,000
Hutchison Whampoa	Li Tzar Kuoi, Victor	-	-	610,000 (Note 5)	1,942,547,978 (Note 2)	1,943,157,978
	George C. Magnus	1,000,000	9,000	-	-	1,009,000
	Fok Kin Ning, Canning	175,000	-	-	-	175,000
	Lee Pui Ling, Angelina	35,000	-	-	-	35,000
Hongkong Electric	Li Tzar Kuoi, Victor	-	-	-	729,605,362 (Note 3)	729,605,362
	Lee Pui Ling, Angelina	8,800	-	-	-	8,800
Orange plc	Li Tzar Kuoi, Victor	-	-	250,000 (Note 5)	1,000,000 (Note 4)	1,250,000
	George C. Magnus	-	-	-	25,000 (Note 6)	25,000
	Fok Kin Ning, Canning	24,390	-	-	-	24,390
	Chow Woo Mo Fong, Susan	14,634	-	-	-	14,634
Believewell Limited	Li Tzar Kuoi, Victor	-	-	-	1,000 (Note 4)	1,000
Queboton Limited	Li Tzar Kuoi, Victor	-	-	-	1,000 (Note 4)	1,000

Notes:

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

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

(b) 3,603,000 shares are held by Pennywise Investments Limited ("Pennywise") and 1,825,000 shares are held by Triumphant Investments Limited ("Triumphant"). Pennywise and Triumphant are companies controlled by TUT as trustee of the LKS Unity Trust. Mr. Li Tzar Kuoi, Victor is deemed to be interested in such shares of the Company held by Pennywise and Triumphant by virtue of his 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 1,942,547,978 shares in Hutchison Whampoa comprise:-

(a) 1,934,547,978 shares are held by certain subsidiaries of Cheung Kong Holdings. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is taken to be interested in such shares in Hutchison Whampoa held by the subsidiaries of Cheung Kong Holdings by virtue of his deemed interests in the shares of Cheung Kong Holdings as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above; and

(b) 8,000,000 shares are held by a company controlled by a unit trust. All issued and outstanding units of such unit trust are held by discretionary trusts. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, his wife and daughter, and Mr. Li Tzar Kai, Richard. Accordingly Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is deemed to be interested in such 8,000,000 shares in Hutchison Whampoa by virtue of his interest as described in this paragraph as a discretionary beneficiary of certain discretionary trusts.

(3) The 729,605,362 shares in Hongkong Electric Holdings Limited ("Hongkong Electric") are held by certain subsidiaries of the Company. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is taken to be interested in such shares in Hongkong Electric held by the subsidiaries of the Company by virtue of his deemed interests in the shares of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above.

(4) These companies are associated companies of Hutchison Whampoa. By virtue of being a Director of the Company and his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above, Mr. Li Tzar Kuoi, Victor is deemed to be interested in those shares of subsidiaries and associated companies of the Company and Hutchison Whampoa which are held by TUT (and companies it controls) as trustee of the LKS Unity Trust.

(5) These shares are beneficially owned by companies in which Mr. Li Tzar Kuoi, Victor is entitled to exercise or control the exercise of one-third or more of the voting power at its general meetings.

(6) Mr. George C. Magnus is a discretionary beneficiary of a family trust which owns a company which is interested in 25,000 shares in Orange plc.

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

Mr. Fok Kin Ning, Canning who is also director of Hutchison Whampoa holds options to purchase ordinary shares in Hutchison Whampoa pursuant to its Senior Executive Share Option Scheme.

Apart from the above, as at 31st December, 1997 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 subsidiary a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate.

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

Substantial Shareholders

In addition to the interests disclosed above in respect of the Directors, the Company was notified of the following interests in the issued ordinary share capital of the Company as at 31st December, 1997 as required to be recorded in the register maintained under Section 16(1) of the SDI Ordinance:-

(i) 1,906,681,945 shares of the Company are held by Ambervale Limited, a subsidiary of Hutchison Whampoa. Its interests are duplicated in the interests of Hutchison Whampoa in the Company described in (ii) below.

(ii) Hutchison Whampoa is deemed to be interested in the 1,906,681,945 shares of the Company referred to in (i) above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Ambervale Limited.

(iii) Cheung Kong Holdings is deemed to be interested in the 1,906,681,945 shares of the Company referred to in (ii) above as certain subsidiaries of Cheung Kong Holdings hold more than one-third of the issued share capital of Hutchison Whampoa.

(iv) TUT as trustee of the LKS Unity Trust is deemed to be interested in those shares of the Company described in (iii) above as TUT and companies it controls as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings and in the 3,603,000 shares and 1,825,000 shares of the Company respectively held by Pennywise and Triumphant as Pennywise and Triumphant are companies controlled by TUT as trustee of the LKS Unity Trust.

(v) Each of Mr. Li Ka-shing, Li Ka-Shing Unity Holdings Limited and Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust is deemed to be interested in the same block of shares TUT as trustee of the LKS Unity Trust is deemed to be interested in as referred to in (iv) above as all issued and outstanding units in the LKS Unity Trust are held by the Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and by another discretionary trust. More than one-third of the issued share capital of TUT and of the trustees of the said discretionary trusts are owned by Li Ka-Shing Unity Holdings Limited. Mr. Li Ka-shing owns more than one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited.

Connected Transactions

The Group has from time to time conducted transactions with persons who are “connected persons” for the purposes of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The following transactions which are normally subject to the disclosure and/or shareholders’ approval requirements under Chapter 14 of the Listing Rules occurring during the financial year ended 31st December, 1997 occurred between the Group and the Cheung Kong Group for the period from 1st January, 1997 to 10th March, 1997 before the restructuring (the “Cheung Kong Group Restructuring”) of the Company approved by the shareholders at the Special General Meeting of the Company held on 3rd March, 1997 and completed on 10th March, 1997 and occurred between the Group and the Hutchison Whampoa Group throughout the course of the financial year ending 31st December, 1997 :-

(i) Pursuant to the terms of the restructuring agreement dated 1st July, 1996 (the "Restructuring Agreement") entered into, among others, Cheung Kong Holdings, Hutchison Whampoa, Pennywise, Triumphant and the Company, it was agreed, inter alia, that in the event that within two years from the date on which the shares of the Company were listed, 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 and Hutchison Whampoa (in a 50 to 50 proportion), within six months thereafter, to purchase from the Company all of its direct and indirect interests in such PRC joint venture 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 contained in appendix IV to 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 pursuant to the Prospectus in respect of the restructuring and (bb) the amount contributed by the Group to such project. Under this arrangement, the Company has the option to require Cheung Kong Holdings and Hutchison Whampoa to buy back any interests in the PRC joint venture relating to the 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 the PRC joint venture involved in the Zhuhai Power Plant referred to above is no longer in effect for such buy back option has lapsed for the reason that 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 been obtained.

(ii) Two term loan facility agreements were entered into in relation to the 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 undertaking the Nanhai Power Plant I. A shareholder support agreement (the "Shareholder Support Agreement") was entered into between Cheung Kong Holdings, Hutchison Whampoa and Pennywise as obligors (the "Obligors") and CEF (Capital Markets) Limited as agent for the lenders whereby each Obligor has undertaken, inter alia:-

(a) to procure Cheung Kong Hutchison Nanqiao Power Company Limited (the "Nanhai Foreign Party"), the foreign party to the PRC joint venture, to comply with its obligations under a construction and completion undertaking; and

(b) to provide funds or assistance that the Nanhai Foreign Party may require in order to comply with its obligation 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 Cheung Kong Group Restructuring. Pursuant to a deed of counter-indemnity given by the Company in favour of Cheung Kong Holdings, Hutchison Whampoa and Pennywise, the Company agreed with each of Cheung Kong Holdings, Hutchison Whampoa and Pennywise to meet all future funding obligations of each of them which may be required under the Shareholder Support Agreement and to counter-indemnify each of Cheung Kong Holdings, Hutchison Whampoa and Pennywise in respect of any sum provided by each of them and generally in respect of each of their liabilities and obligations under the Shareholder Support Agreement.

(iii) 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 (the "Zhuhai Foreign Party") to the PRC joint venture undertaking the Zhuhai Power Plant. The Zhuhai Foreign Party, which is an indirect wholly-owned subsidiary of the Company, has a 45 per cent. interest in the PRC joint venture. Pursuant to the deed of counter-indemnity referred to in paragraph (ii) 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.

(iv) 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 (ii) above, the Company has agreed to indemnify Cheung Kong Holdings for any liability arising under such guarantee.

The loan facility was fully repaid on 29th September, 1997 and the guarantee provided by Cheung Kong Holdings was released by the banks forthwith.

(v) Each of Cheung Kong Holdings, Hutchison Whampoa, Pennywise and Triumphant had 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. Under this arrangement, the Company will be indemnified in respect of certain breaches, which indemnity is for the benefit of the shareholders of the Company.

(vi) 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. Under this arrangement, the Group will be indemnified in respect of estate duty, which indemnity is for the benefit of the shareholders of the Company.

After the Cheung Kong Group Restructuring was approved by the shareholders at the Special General Meeting of the Company held on 3rd March, 1997 and completed on 10th March, 1997, Hutchison Whampoa continued to be a connected person of the Company in its capacity as a substantial shareholder of the Company and items (i), (ii), (iii), (v) and (vi) which are transactions normally subject to the disclosure and/or shareholders approval requirements under Chapter 14 of the Listing Rules occurring during the financial year ended 31st December, 1997 will continue or will or may occur between the Group and Hutchison Whampoa Group.

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

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

(1) the Transactions have been entered into or the terms of the respective agreements governing such Transactions are (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; and (iii) fair and reasonable so far as shareholders of the Company are concerned;

(2) brief details of such Transactions as set out in Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in the 1996 annual report and each successive annual report; and

(3) the independent non-executive directors of the Company shall review annually the Transactions and confirm in the 1996 annual report and each successive annual report that the Transactions are conducted in the manner as stated in condition (1) above or in accordance with the terms of the respective agreements governing such Transactions.

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

The Auditors' Letter must state that :

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

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

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

The independent non-executive directors of the Company have confirmed that for the year 1997 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 1997 the Transactions received the approval of the Company's Board of Directors; and the Transactions have been entered into on normal commercial terms or in accordance with the terms of the agreement governing the Transactions, or where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties.

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

Major Customers and Suppliers

During the year, the Group's purchases attributable to the Group's five largest suppliers were less than 30 per cent. of the Group's purchases and 34 per cent. of the Group's sales recognised were attributable to the Group's five largest customers combined with the largest customer accounting for 16 per cent. of the Group's sales.

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

Group's Liquidity and Financing

As at 31st December, 1997, cash balances of HK$2,397 million were maintained against bank borrowings of HK$3,100 million. The Group's liquidity position remains strong with a comfortably low gearing ratio.

Treasury Policies

The Group raised a five-year Hong Kong dollar syndicated loan of HK$3.8 billion in September 1997 of which HK$3.1 billion was drawn down as at year end. The loan proceeds were subsequently swapped into LIBOR or fixed rate U.S. dollars, thus avoiding the interest rate volatility in the Hong Kong dollar market and matching the investment returns from our PRC joint ventures, the majority of which are denominated in U.S. dollars.

Pre-emptive Rights

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

Purchase, Sale or Redemption of Shares

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

Employees

The Group, including its subsidiaries but excluding associated companies, employs a total of 1,580 employees. Employees' cost (excluding directors' emoluments) amounted to HK$442.9 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Preferential subscription of 2,978,000 new shares of the Company had been given to its employees who had submitted the pink application forms to subscribe for shares of HK$1.00 each in the Company at HK$12.65 per share on flotation of the Company.

The Group does not have any share option scheme for employees.

Donations

Donations made by the Group during the year amounted to HK$15,000.00.

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.

Millennium Issue

The Group is positively addressing the financial and operating systems risks posed by the year 2000. Through the establishment of a central programme office to ensure a consistent process and application of practice. Measures taken include problem identification and evaluation, systems and software/hardware conversion, replacement and upgrading, and software and equipment manufacturers liaison and compliance. The programme targets to resolve 90 per cent. of the identified problem areas by the end of 1998 with all problems cleared by the second quarter of 1999.

Auditors

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

On behalf of the Board

Li Tzar Kuoi, Victor
Chairman
Hong Kong, 19th March, 1998

Deloitte Touche Tohmatsu

Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Central
Hong Kong

Report of the Auditors to the Shareholders of Cheung Kong Infrastructure Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 60 to 79 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 affairs of the Company and the Group as at 31st December, 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 19th March, 1998

for the year ended 31st December

HK$ million	Note	1997	1996
Turnover	2	3,346	3,041
Operating profit		1,061	971
Share of results of associated companies		1,635	–
Profit before taxation	3	2,696	971
Taxation	4	(283)	(87)
Profit after taxation		2,413	884
Minority interests		(2)	2
Profit attributable to shareholders	5	2,411	886
Dividends	6	(721)	(361)
Profit for the year retained		1,690	525
Profit for the year retained by:			
The Company and subsidiary companies		562	525
Associated companies		1,128	–
		1,690	525
Earnings per share	7	HK$1.15	HK$0.75

as at 31st December

HK$ million	Note	Group 1997	Group 1996	Company 1997	Company 1996
Fixed assets	8	1,700	1,627	–	–
Subsidiary companies	9	–	–	26,322	8,158
Associated companies	10	9,657	95	–	–
Joint ventures	11	7,373	4,532	–	–
Other non-current assets	12	139	147	–	–
Total non-current assets		18,869	6,401	26,322	8,158
Stocks and work-in-progress	13	148	142	–	–
Debtors and prepayments		1,254	933	3	–
Dividend receivable		–	–	1,200	480
Bank balances and cash		2,397	3,883	489	49
Total current assets		3,799	4,958	1,692	529
Bank loans	14	–	2,055	–	–
Creditors and accruals		671	515	14	11
Provision for taxation		56	69	–	–
Proposed dividends		496	361	496	361
Total current liabilities		1,223	3,000	510	372
Net current assets		2,576	1,958	1,182	157
Bank loans	14	3,100	–	–	–
Deferred taxation	15	6	4	–	–
Minority interests		10	5	–	–
Total long term liabilities		3,116	9	–	–
Net assets		18,329	8,350	27,504	8,315
Representing:					
Share capital	16	2,254	1,368	2,254	1,368
Reserves	17	16,075	6,982	25,250	6,947
Total shareholders' equity		18,329	8,350	27,504	8,315

Li Tzar Kuoi, Victor
Director
19th March 1998

Ip Tak Chuen, Edmond
Director

for the year ended 31st December

HK$ million	Note	1997	1996
Net cash inflow from operating activities	18(a)	769	952
Returns on investments and servicing of finance			
Interest received		207	159
Interest paid		(147)	(54)
Dividends received from a listed associated company		927	–
Dividends paid		(586)	–
Returns on investments received from joint ventures		305	173
Finance lease charge received		1	2
Net cash inflow from returns on investments and servicing of finance		707	280
Profits tax paid		(156)	(48)
Net cash inflow before investing activities		1,320	1,184
Investing activities			
Purchase of fixed assets		(233)	(168)
Disposal of fixed assets		9	8
Purchase of a subsidiary company	18(b)	(9)	–
Investments in joint ventures		(2,926)	(3,031)
Investments in associated companies		(661)	(94)
Repayments from finance lease debtors		4	9
Deferred expenditure		(1)	(43)
Net cash (outflow) from investing activities		(3,817)	(3,319)
Net cash (outflow) before financing		(2,497)	(2,135)
Financing	18(c)		
Bank loans		3,100	2,055
Repayment of bank loans		(2,057)	–
Repayment of long term loans		–	(2,177)
Loan from Cheung Kong Holdings		–	1,800
Repayment to a fellow subsidiary company		–	(139)
Capital contributions from minority shareholders		3	5
Cheung Kong Group Restructuring and share issue expenses		(35)	–
Issue of new shares for cash		–	4,326
IPO Reorganisation and share issue expenses		–	(148)
Net cash inflow from financing		1,011	5,722
Net (decrease) increase in cash and cash equivalents		(1,486)	3,587
Bank and cash balances at 1st January		3,883	296
Cash and cash equivalents at 31st December		2,397	3,883
Representing:			
Bank and cash balances at 31st December		2,397	3,883

1. Principal Accounting Policies

a) Basis of Accounting

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

b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its 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.

e) Associated Companies

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

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

f) Joint Ventures

Sino-foreign joint ventures established in China 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 as associated companies (where the Group exercises significant influence over their management).

Sino-foreign joint ventures established in China 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 at the end of the joint venture period are classified as investments under Joint Ventures and carried at cost less amortisation over the respective contract period on a straight line basis upon commencement of operation of the joint ventures.

1. Principal Accounting Policies continued

g) Fixed Assets and Depreciation

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

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

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

Land	Over the unexpired lease term of the land
Buildings	2% - 3-1/3%
Plant, machinery and equipment	3-1/3% - 33-1/3%
Others	5% - 33-1/3%

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

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 attributable production overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimates of costs to completion and selling expenses.

i) Contracts Work-in-progress

Contracts work-in-progress is stated at cost plus estimated attributable profits, less foreseeable losses and progress payments received and receivable. Cost comprises direct materials, labour and overheads attributable to bringing the contracts work-in-progress to its present location and condition.

The estimated attributable profits are recognised on the basis of work done when contracts have progressed to the point where a profitable outcome can prudently be foreseen. Anticipated losses are fully provided for on contracts when they are identified.

j) Revenue Recognition

(i) Sales of goods

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

(ii) Contract revenue

Income from long-term contracts is recognised according to the stage of completion.

(iii) Income from joint ventures

Income from joint ventures is recognised when the Company’s right to receive payment is established and is calculated in accordance with the terms and conditions of the joint venture contracts.

(iv) Interest income

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

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 therefrom are dealt with in the profit and loss statement.

l) Deferred Taxation

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

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.

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, on a straight line basis, 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 ten 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.

q) Borrowing Costs

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

2. Turnover

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

HK$ million	1997	1996
Net sales from Infrastructure Materials	2,773	2,666
Income from joint ventures		
Investment returns	381	289
Interest income, net of withholding tax where applicable	192	86
Sub-total	573	375
Total	3,346	3,041

Turnover is geographically analysed as follows:

HK$ million	1997	1996
Hong Kong	2,680	2,624
The Mainland	666	417
Total	3,346	3,041

3. Profit before Taxation

HK$ million	1997	1996
Profit before taxation is arrived at after crediting:		
Bank interest income	203	163
Finance lease income	1	2
and charging:		
Interest on bank and other borrowings,		
wholly repayable within five years	158	62
Less: Interest capitalised	(50)	–
	108	62
Depreciation	143	184
Amortisation of deferred expenditure	2	1
Amortisation of investment costs in joint ventures	135	104
Loss on disposal of fixed assets	12	15
Operating lease rental		
Land and buildings	23	23
Vessels	163	118
Directors' remuneration (note 20)	14	10
Auditors' remuneration	2	2

Profit before taxation is geographically analysed as follows:

HK$ million	1997	1996
Hong Kong	2,345	749
The Mainland	351	222
Total	2,696	971

4. Taxation

HK$ million		1997	1996
Company and Subsidiaries			
Hong Kong profits tax	– current	142	91
	– deferred	2	(5)
PRC income tax		–	1
		144	87
Associated company			
Hong Kong profits tax – current		139	–
Total		283	87

Hong Kong profits tax is provided for at the rate of 16.5 per cent. (1996: 16.5 per cent.) on the estimated assessable profits for the year less available tax relief for losses brought forward. PRC income tax was charged on the estimated assessable profits of operating activities in the Mainland, calculated at the rates applicable.

5. Profit Attributable to Shareholders

Profit attributable to shareholders dealt with in the financial statements of the Company amounted to HK$1,202 million (1996: HK$484 million).

6. Dividends

HK$ million	1997	1996
Interim dividend paid of HK$0.10 per share (1996: nil)	225	–
Proposed final dividend of HK$0.22 per share (1996: HK$0.16)	496	361
Total	721	361

7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK$2,411 million (1996: HK$886 million) and on the weighted average number of 2,089,107,818 shares (1996: 1,184,977,077 shares) in issue during the year.

8. Fixed Assets

HK$ million	Long term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings in the Mainland	Short term leasehold land and buildings in Hong Kong	Plant and machinery	Furnitures, fixtures and others	Total
Cost							
At 1st January, 1997	836	–	10	90	1,330	214	2,480
Reclassification	(836)	837	–	–	(2)	1	–
Additions	–	8	–	–	178	51	237
Disposals	–	–	–	–	(44)	(15)	(59)
At 31st December, 1997	–	845	10	90	1,462	251	2,658
Accumulated depreciation							
At 1st January, 1997	138	–	1	74	535	105	853
Reclassification	(138)	138	–	–	–	–	–
Charge for the year	–	25	1	8	75	34	143
Disposals	–		–	–	(24)	(14)	(38)
At 31st December, 1997	–	163	2	82	586	125	958
Net book value							
At 31st December, 1997	–	682	8	8	876	126	1,700
At 31st December, 1996	698	–	9	16	795	109	1,627

9. Subsidiary Companies

	Company	
HK$ million	1997	1996
Unlisted shares, at cost	22,757	4,014
Amount due by subsidiary companies	3,565	4,144
At 31st December	26,322	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 78.

10. Associated Companies

HK$ million	Group 1997	Group 1996
Share of net assets:		
Listed associated company	9,503	–
Unlisted associated companies	22	25
	9,525	25
Amounts due by unlisted associated companies	132	70
At 31st December	9,657	95
Market value of listed associated company	21,487	N/A

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 79.

Pursuant to the Cheung Kong Group Restructuring completed on 10th March, 1997, the Company issued 886,209,945 new shares at $21.15 per share credited as fully paid to Hutchison Whampoa as consideration for the acquisition of 707,295,862 shares of Hongkong Electric, representing 35.01 per cent. of its issued share capital. During the year, the Group further acquired 1.1 per cent. interests in the open market by purchasing 22,309,500 shares of Hongkong Electric for cash at an average price of $26.74 per share and thereby increased its holding from 35.01 per cent. to 36.11 per cent. Goodwill in the amount of $10,411 million, representing the excess of the cost of acquisition of the shares of Hongkong Electric over the fair value of the Group's share of its net assets, was eliminated against reserves during the year (note 17).

An extract of the published financial statements of Hongkong Electric for the year ended 31st December, 1997, a principal associated company of the Group, is set out in Appendix 3 on page 80.

11. Joint Ventures

HK$ million	Group 1997	Group 1996
Cost of investments	7,634	4,658
Accumulated amortisation	(261)	(126)
At 31st December	7,373	4,532

The cost of investments represents contributions to joint ventures by way of registered capital or interest-bearing shareholders' loans. Interest expense in the amount of HK$50 million on related borrowings to finance investments in joint ventures was capitalised during the year as cost of investments. Receivables from joint ventures are classified as current assets and included in debtors and prepayments. 1996 receivables from joint ventures have been reclassified in accordance with the current year's presentation.

12. Other Non-current Assets

Other non-current assets comprise the followings:

HK$ million	Group 1997	Group 1996
Deferred expenditure, net of amortisation of HK$2 million (1996: HK$1 million)	132	133
Retention receivables	3	12
Finance lease debtors – non-current portion	4	2
At 31st December	139	147

Details of finance lease debtors are further shown below:

HK$ million	Group 1997	Group 1996
Total outstanding finance lease debtors	8	6
Less : Amounts due within one year included in current assets	(4)	(4)
	4	2
Cost of assets acquired for leasing under finance leases	17	31

13. Stocks and Work-in-progress

HK$ million	Group 1997	Group 1996
Raw materials	38	33
Work-in-progress	11	9
Stores, spare parts and operating supplies	79	76
Finished goods	15	10
Sub-total	143	128
Contracts work-in-progress		
Costs plus attributable profits less foreseeable losses	26	35
Less: Progress payments received and receivable	(26)	(26)
Sub-total	–	9
Completed properties for resale	5	5
Total	148	142

14. Bank Loans

The short term bank loans of HK$2,055 million outstanding as at 31st December, 1996 were fully repaid during the year. New syndicated bank loans facilities of $3,800 million were arranged for a period of five years, of which $3,100 million was drawn down as at 31st December, 1997. The syndicated loans are unsecured and bear interest based on Hong Kong Interbank Offered Rate plus a spread. The syndicated loans, which are due in 2002, are guaranteed by the Company. During the year, the Group entered into certain currency and interest rate swap transactions which effectively converted the Hong Kong dollar bank loans into U.S. dollar liabilities which bear interest with reference to LIBOR or at fixed interest rate.

15. 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:-

	Group	
HK$ million	1997	1996
Depreciation allowances in excess of related depreciation charge	53	98
Unutilised tax losses	(4)	(2)
Net potential liabilities unprovided	49	96

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

16. Share Capital

HK$ million	1997	1996
Authorised:		
4,000,000,000 shares of HK$1 each	4,000	2,000
Issued and fully paid:		
2,254,209,945 shares of HK$1 each	2,254	1,368

Pursuant to the Cheung Kong Group Restructuring completed on 10th March, 1997, 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, ranking pari passu in all respects with the existing shares of the Company. On the same day, 886,209,945 new shares of HK$1.00 each in the Company were issued to Hutchison Whampoa at a price of HK$21.15 per share credited as fully paid as consideration for the acquisition of 707,295,862 shares in Hongkong Electric, representing approximately 35.01 per cent. of the issued capital of Hongkong Electric. Such shares issued to Hutchison Whampoa rank pari passu in all respects with the issued shares of the Company.

17. Reserves

	Group			
	Share premium	Contributed surplus	Revenue reserves	Total
HK$ million				
At 1st January, 1997	3,836	774	2,372	6,982
Reserves arising from the Cheung Kong Group Restructuring	–	17,857	–	17,857
Goodwill on acquisitions of interests in				
an associated company	–	(10,411)	–	(10,411)
a subsidiary company	–	(8)	–	(8)
Expenses on Cheung Kong Group Restructuring and share issue	–	(35)	–	(35)
Profit for the year retained	–	–	1,690	1,690
At 31st December, 1997	3,836	8,177	4,062	16,075

The retained profit of the Group included the Group's share of the undistributed retained profit of its associated companies amounting to HK$1,128 million (1996: nil).

	Company			
	Share premium	Contributed surplus	Revenue reserves	Total
HK$ million				
At 1st January, 1997	3,836	2,988	123	6,947
Reserves arising from the Cheung Kong Group Restructuring	–	17,857	–	17,857
Expenses on Cheung Kong Group Restructuring and share issue	–	(35)	–	(35)
Profit for the year retained	–	–	481	481
At 31st December, 1997	3,836	20,810	604	25,250

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

Total distributable reserves of the Company amounted to HK$21,414 million as at 31st December, 1997 (1996: HK$3,111 million).

18. Notes to Consolidated Cash Flow Statement

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

HK$ million	1997	1996
Profit before taxation	2,696	971
Share of results of associated companies	(1,635)	-
Income from joint ventures	(573)	(375)
Interest income	(203)	(163)
Interest expenses	108	62
Finance lease income	(1)	(2)
Depreciation	143	184
Amortisation of deferred expenditure	2	1
Amortisation of investment costs in joint ventures	135	104
Loss on disposal of fixed assets	12	15
Increase in stocks and work-in-progress	(4)	(12)
Increase in debtors, prepayments and retention receivable	(45)	(20)
Increase in creditors and accruals	134	187
Net cash inflow from operating activities	769	952

(b) Purchase of a subsidiary company

HK$ million	1997
Net assets acquired	
Fixed assets	4
Stocks	2
Debtors	9
Bank loan and overdrafts	(3)
Creditors	(11)
Taxation	(1)
Goodwill	8
	8

Analysis of net outflow of cash and cash equivalents in respect of the purchase of a subsidiary company:-

HK$ million	1997
Cash consideration	8
Bank overdrafts acquired	1
Net outflow of cash and cash equivalents in respect of purchase of a subsidiary company	9

18. Notes to Consolidated Cash Flow Statement continued

(c) Analysis of changes in financing during the year

HK$ million	Share capital and premium	Contributed surplus	Bank and other loans	Minority interests	Total
At 1st January, 1997	5,204	774	2,055	5	8,038
Net cash inflow (outflow) from financing	-	(35)	1,043	3	1,011
Shares issued upon Cheung Kong Group Restructuring	886	17,857	-	-	18,743
Goodwill on acquisitions of					
an associated company	-	(10,411)	-	-	(10,411)
a subsidiary company	-	(8)	-	-	(8)
Loan of a subsidiary company acquired	-	-	2	-	2
Minority's share of loss	-	-	-	2	2
At 31st December, 1997	6,090	8,177	3,100	10	17,377

(d) Major non-cash transaction

During the year, 886,209,945 shares of the Company were issued to Hutchison Whampoa credited as fully paid for the acquisition of 35.01 per cent. interest in Hongkong Electric for a total consideration of HK$18,743 million.

19. Retirement Scheme

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

The latest actuarial valuation of the defined benefit scheme was completed as at 1st January 1998 by Joseph K. L. Yip, a fellow member of the Society of Actuaries, of The Watson Wyatt Hong Kong Limited. The actuarial method adopted was Attained Age Funding Method and the main assumptions used were the annual rate of investment return on the scheme assets at 10 per cent. per annum and the annual salary increases at 8 per cent. per annum.

The market value of the defined benefit scheme's assets as at 31st December, 1997 was HK$97 million and the latest actuarial valuation showed that the scheme's assets covered 69 per cent. of the acturial accrued liabilities at the valuation date. The Group's future annual contribution is designed to fund the shortfall over a period of time and the employer funding rates have been increased effective 1st January, 1998.

Forfeited contributions and earnings for the year under the defined contribution schemes amounting to HK$2 million (1996: 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$22 million (1996: HK$18 million).

20. Remuneration of Directors and Senior Executives

(a) Directors' Remuneration

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

HK$ million	1997	1996
Salaries, benefits in kind and fees	5	2
Contribution to retirement schemes	–	–
Bonuses	9	8
Total	14	10

The Directors' remuneration for the year included fees of HK$500,000 (1996: HK$240,000) of which HK$100,000 (1996: HK$95,000) were paid to Non-executive Directors of the Company.

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

Remuneration band	1997	1996
Nil - HK$1,000,000	7	5
HK$1,500,001 - HK$2,000,000	–	1
HK$2,000,001 - HK$2,500,000	1	–
HK$3,500,001 - HK$4,000,000	–	1
HK$4,000,001 - HK$4,500,000	–	1
HK$4,500,001 - HK$5,000,000	1	–
HK$6,000,001 - HK$6,500,000	1	–

(b) Senior Executives' Remuneration

Of the five individuals with the highest emoluments in the Group, two (1996: one) are Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (1996: four) individuals are as follows:

HK$ million	1997	1996
Salaries and benefits in kind	9	10
Contributions to retirement schemes	1	1
Bonuses	11	12
Total	21	23

20. Remuneration of Directors and Senior Executives continued

The three (1996: four) individuals with the highest emoluments are within the following bands:

Remuneration band	1997	1996
HK$3,500,001 - HK$4,000,000	–	1
HK$5,000,001 - HK$5,500,000	–	1
HK$6,000,001 - HK$6,500,000	1	1
HK$6,500,001 - HK$7,000,000	–	1
HK$7,000,001 - HK$7,500,000	1	–
HK$7,500,001 - HK$8,000,000	1	–

21. Commitments

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

	Contracted but not provided for		Authorised but not contracted for	
HK$ million	1997	1996	1997	1996
Investment in infrastructure projects in				
China	3,448	2,023	–	–
the Philippines	–	59	–	31
	3,448	2,082	–	31
Plant and equipment	77	75	134	248
Total	3,525	2,157	134	279

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

	Land and buildings		Others	
HK$ million	1997	1996	1997	1996
Leases expiring:				
within one year	7	7	–	56
in the second to fifth years inclusive	17	13	–	–
after the fifth year	–	2	–	–
Total	24	22	–	56

22. Subsequent Events

(a) In March 1998, the Group entered into joint venture contracts for the construction and operation of Huang Jin Bridge (Golden Bridge), an 11 km bridge under construction in Wuhan City, Hubei Province. The Group has a 70 per cent. interest in the joint venture with an investment cost of approximately HK$485 million.

(b) The Company, Hopewell Holdings Limited and Guangzhou Freeway Company entered into a supplemental agreement regarding the Guangzhou East South Ring Road in 1996. Subsequently, details regarding the South West portion were finalised and cooperation terms for the South East portion were amended to combine South East and South West portions into a single contract and were approved by the PRC government authorities in March 1998. Our share of total investment of Guangzhou East South West Ring Road increased from HK$702 million to HK$1,877 million.

23. Ultimate Holding Company

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

24. Comparative Figures

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

25. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 19th March, 1998.

Appendix 1

As at 31st December, 1997	Share capital issued Number	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	HK$0.5	100	Investment holding
	65,780,000 non-voting deferred	HK$0.5	–	
Anderson Asphalt Limited	36,000 ordinary	HK$100	100	Production and laying of asphalt and investment holding
Anderson Asia Concrete Limited	800,000 ordinary	HK$1	100	Investment holding
Asia Stone Company, Limited	33,000,000 ordinary	HK$1	100	Quarry operation and manufacture of aggregates
Cheung Kong China Infrastructure Limited	2 ordinary	HK$1	100	Investment holding and investment in infrastructure projects in China
China Cement Company (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
Cheung Kong Infrastructure Finance Company Limited	2 ordinary	HK$1	100	Finance

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

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

Appendix 2

As at 31st December, 1997	Share capital issued Number	Par value per share	Approximate share of equity shares held by the Group (per cent)	Principal activities
Incorporated and operating in Hong Kong				
Hongkong Electric Holdings Limited #	2,020,334,691 ordinary	HK$1	36	Electricity generation and distribution
Incorporated and operating in the Philippines				
Lazi Bay Resources Development Inc.	1,000,000 ordinary	1 Peso	40	Operating limestone reserves
	77,000,000 preferred	1 Peso	100	
Lo-Oc Limestone and Development Corporation	19,100,000 ordinary	1 Peso	28	Development of limestone reserves

Listed on the Hong Kong Stock Exchange

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

Appendix 3

Extracts of Published Financial Statements of Hongkong Electric for the year ended 31st December, 1997

The following is a summary of the audited consolidated profit and loss account and balance sheet of Hongkong Electric, a principal associated company of the Company, for the year ended 31st December, 1997, as extracted from the 1997 published financial statements of Hongkong Electric.

Consolidated Profit and Loss Account for the year ended 31st December, 1997

HK$ million	1997
Turnover	8,065
Operating profit	4,661
Share of profit of associate	298
Profit before taxation	4,959
Taxation	(432)
Profit after taxation	4,527
Scheme of Control transfers	
From/(To):	
Development Fund	218
Rate Reduction Reserve	(36)
Profit attributable to shareholders	4,709
Dividends	(2,748)
Retained profit for the year	1,961
Earnings per share	$2.33

Consolidated Balance Sheet as at 31st December, 1997

HK$ million	1997
Fixed Assets	35,011
Associate	89
Other Investments	168
Current Assets	931
Current Liabilities	(5,403)
	30,796
Share Capital	2,020
Reserves	17,185
Shareholders' Funds	19,205
Long-Term Liabilities	11,161
Rate Reduction Reserve	92
Development Fund	338
	30,796

Appendix 4

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

I : Industrial   C : Commercial

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of the Company will be held at the Ballroom, 1st Floor, The Harbour Plaza, 20 Tak Fung Street, Hunghom, Kowloon, Hong Kong on Thursday, 14th May, 1998 at 12:15 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements, the Group Managing Director's Report and the Reports of the Directors and Auditors for the year ended 31st December, 1997.
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, 19th March, 1998

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, 7th May, 1998 to Thursday, 14th May, 1998, 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, 6th May, 1998.
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 1997 Annual Report.

General terms

Anderson Asia Anderson Asia (Holdings) Limited

Anderson Asphalt Anderson Asphalt Limited

Asia Stone Asia Stone Company, Limited

Bonntile Industries Bonntile Industries (H.K.) Limited

BVI the British Virgin Islands

Cheung Kong China Infrastructure Cheung Kong China Infrastructure Limited

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

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

Cheung Kong Holdings Cheung Kong (Holdings) Limited

Company or CKI Cheung Kong Infrastructure Holdings Limited

Directors Directors of the Company

Green Island Cement Green Island Cement (Holdings) Limited

Group CKI and its subsidiaries

HK$ the lawful currency of Hong Kong

Hongkong Electric Hongkong Electric Holdings Limited

Hong Kong Stock Exchange The Stock Exchange of Hong Kong Limited

Hutchison Whampoa Hutchison Whampoa Limited

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

per cent. percentage

PRC the People's Republic of China

Rmb the lawful currency of the PRC

US$ the lawful currency of the United States of America

Technical terms

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

clinker a semi-finished product in the cement production process

GDP gross domestic product
GNP gross national product

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

km kilometre(s)

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

MW megawatt(s), equal to 1,000 kilowatt

offtake contract a contract signed between an electricity generating company and an electricity transmission company or a local power bureau which specifies a certain minimum amount of electricity to be purchased by the electricity transmission company or the local power bureau over a certain period of time at a pre-agreed price or profit, subject only to the occurrence of certain limited event specified in the contract

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 income/expenses and taxation divided by interest expenses

LIBOR London Interbank Offered Rate

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

profit contribution operating profit before corporate overhead and net interest income/expenses, net of attributable operating expenses

return on shareholders' equity net profit attributable to shareholders divided by the average of shareholders' equity at the beginning and end of the year

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

Directors
Li Tzar Kuoi, Victor, Chairman
George 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, Independent Non-executive Director
Lee Pui Ling, Angelina, Independent Non-executive Director

Solicitors
Woo, Kwan, Lee & Lo

Auditors
Deloitte Touche Tohmatsu

Bankers
The Hongkong and Shanghai
Banking Corporation Limited
Canadian Imperial Bank of Commerce

Company Secretary
Eirene Yeung

Registered Office
Clarendon House, Church Street,
Hamilton HM11, Bermuda

Principal Place of Business
14th Floor, China Building, 29 Queen's Road Central, Hong Kong

Internet Address
http://www.cki.com.hk

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

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

Investor Relations
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CARBINER INTERNATIONAL, HONG KONG