OFFERING CIRCULAR

HWL

US$2,000,000,000

Hutchison Whampoa Finance (CI) Limited

(incorporated in the Cayman Islands with limited liability)

US$750,000,000 6.950% Notes due 2007
US$500,000,000 7.450% Notes due 2017
US$500,000,000 7.500% Notes due 2027
US$250,000,000 6.988% Notes due 2037

unconditionally and irrevocably guaranteed by

Hutchison Whampoa Limited

(incorporated in Hong Kong with limited liability)

Hutchison Whampoa Finance (CI) Limited (the "Issuer") proposes to issue US$750,000,000 principal amount of 6.950% Notes due August 1, 2007 (the "Series A Notes"), US$500,000,000 principal amount of 7.450% Notes due August 1, 2017 (the "Series B Notes"), US$500,000,000 principal amount of 7.500% Notes due August 1, 2027 (the "Series C Notes") and US$250,000,000 principal amount of 6.988% Notes due August 1, 2037 (the "Series D Notes" and, together with the Series A Notes, Series B Notes and Series C Notes, the "Notes"). The Notes will be unconditionally and irrevocably guaranteed as to the payment of principal, interest and Additional Amounts (as defined herein), if any (the "Guarantee"), by Hutchison Whampoa Limited ("Hutchison Whampoa" or the "Guarantor").

The Notes will bear interest from August 1, 1997 at the rates set forth above, payable semiannually in arrears on February 1 and August 1 in each year (commencing February 1, 1998). The Notes will not be redeemable by the Issuer prior to maturity, except upon the occurrence of certain changes in Cayman Islands, Hong Kong or PRC tax law requiring the payment of additional amounts as described herein. The Series D Notes are subject to repayment at the option of the holders as described herein. The Notes will be unsecured. See "Description of the Notes and the Guarantee — Redemption" and " — Repayment".

The Notes are being offered and sold by the Purchasers in the United States to qualified institutional buyers in reliance on the exemption from the registration requirements of the United States Securities Act of 1933, as amended (the "Securities Act"), provided by Rule 144A under the Securities Act and to a limited number of Institutional Accredited Investors (as defined) in transactions exempt from the registration requirements of the Securities Act, and outside the United States in reliance on Regulation S under the Securities Act. See "Plan of Distribution."

Notes sold in reliance on Rule 144A will be evidenced by one or more global Notes, in fully registered form without coupons, deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company ("DTC"). Beneficial interests in the global Notes will trade in DTC's Same-Day Funds Settlement System. Except as described herein, beneficial interests in the global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants including Euroclear and Cedel. Any Notes sold in reliance on Regulation S will be evidenced by one or more separate global Notes and any Notes sold other than in reliance on Rule 144A or Regulation S will be issued in certificated form. The Notes will be issued only in registered form in denominations of US$100,000 and integral multiples of US$1,000 in excess thereof. See "Description of the Notes and the Guarantee".

See "Investment Considerations" for a discussion of certain factors that should be carefully considered by prospective investors.

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes have been rated "A3" by Moody's Investors Service, Inc. and "A+" by Standard & Poor's Ratings Group. See "Ratings".

THESE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO ANY U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT IN TRANSACTIONS EXEMPT FROM OR NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. FOR A SUMMARY OF CERTAIN RESTRICTIONS ON RESALES, SEE "TRANSFER RESTRICTIONS".

	Price to Investors(1)	Discount	Proceeds to Issuer(1) (2)
Per Series A Note	99.801%	0.650%	99.151%
Total	$748,507,500	$4,875,000	$743,632,500
Per Series B Note	99.897%	0.875%	99.022%
Total	$499,485,000	$4,375,000	$495,110,000
Per Series C Note	99.292%	0.875%	98.417%
Total	$496,460,000	$4,375,000	$492,085,000
Per Series D Note	100.000%	0.675%	99.325%
Total	$250,000,000	$1,687,500	$248,312,500
Total	$1,994,452,500	$15,312,500	$1,979,140,000

(1) Plus accrued interest, if any, from August 1, 1997 to the date of delivery.
(2) Before deduction of expenses payable by the Issuer.

The Notes are offered by the Purchasers, subject to prior sale, when, as and if delivered to and accepted by the Purchasers and subject to certain further conditions. The Purchasers reserve the right to withdraw, cancel or modify such offer without notice and to reject any order in whole or in part. It is expected that delivery of the Notes will be made against payment therefor on or about August 1, 1997.

Joint Lead Managers and Bookrunners

Goldman, Sachs & Co. **Merrill Lynch & Co.**

Chase Securities Inc. **HSBC Markets**
J.P. Morgan & Co. **Peregrine Fixed Income Limited** **UBS Securities**

BancAmerica Securities, Inc. **CIBC Wood Gundy Securities Corp.**
CITIC Industrial Bank **Citicorp Securities, Inc.** **Deutsche Morgan Grenfell**

The date of this Offering Circular is July 24, 1997.

FOR NEW HAMPSHIRE RESIDENTS ONLY: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

HWL

Hutchison Whampoa Property

The property group of
Hutchison Whampoa Limited

HIT Hongkong International Terminals Limited

Port of Felixstowe

Watson's

Watson's DISTILLED WATER

豐澤電器 Fortress

PARK'N SHOP 百佳

The Harbour Plaza
A Hutchison International Hotel

orange™

Hutchison Telecom

Cheung Kong Infrastructure Holdings Limited
長江基建集團有限公司

HONGKONG ELECTRIC GROUP

Husky Oil

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE NOTES, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH SECURITIES, AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH THE OFFERING. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "PLAN OF DISTRIBUTION".

The Issuer and the Company accept responsibility for the information contained herein. To the best knowledge and belief of the Issuer and the Company (which have taken all reasonable care to ensure that such is the case), the information contained herein is in accordance with the facts and does not omit anything likely to affect the import of such information.

All inquiries relating to the Issuer, the Company, this Offering Circular and the offering contemplated herein should be directed to the Purchasers. Each prospective investor is hereby offered the opportunity to ask questions of, and receive answers from, the Issuer, the Company and the Purchasers concerning the Issuer, the Company, the Notes or the terms and conditions of this offering.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the "Commission"), any state securities commission or any other regulatory authority in the United States or elsewhere, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary may be unlawful.

Neither the Purchasers, the Issuer nor the Company is making any representation to any prospective investor or purchaser of the Notes regarding the legality of investment therein by such prospective investor or purchaser under applicable legal investment or similar laws or regulations.

The "Company" means Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, and its subsidiaries, unless the context otherwise requires, and references in the Company's Consolidated Financial Statements to the "Group" are to the Company and all of its direct and indirect subsidiaries and also includes the Company's interest in associated companies on the basis set forth in Note 1C to the Consolidated Financial Statements of the Company. Certain of the Company's subsidiaries are not wholly-owned, as described more fully herein. As used in this Offering Circular, "China" or the "PRC" means the People's Republic of China, "RMB" means the Renminbi, the official currency of the PRC and "C.I.$" means Cayman Island dollars. References and statements herein regarding China do not apply to Macau or Taiwan.

The Company publishes its financial statements in Hong Kong dollars ("HK$"). For the convenience of the reader, this Offering Circular presents translations into U.S. dollars ("US$") of certain Hong Kong dollar amounts at the rate of HK$7.73 = US$1.00. No representation is made that Hong Kong dollars have been, could have been, or could be, converted into U.S. dollars at the rate indicated or at any other rate. On July 24, 1997, the noon buying rate in New York City for cable transfers in foreign currencies, as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") was HK$7.7385 = US$1.00.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Company or by or on behalf of the Purchasers to subscribe for or purchase any of the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Purchasers, the Issuer and the Company to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on this offering, sale and resale of the Notes and on the distribution of this Offering Circular, see "Plan of Distribution" and "Transfer Restrictions".

No invitation may be made to the public in the Cayman Islands to subscribe for any of the Notes.

Enforcement of Civil Liabilities

The Issuer is incorporated in the Cayman Islands and Hutchison Whampoa is incorporated in Hong Kong. All or a substantial portion of the assets of the Issuer and the Company are located outside the United States. In addition, none of the directors and executive officers of the Issuer and the Company are, and certain of the experts named herein are not, residents of the United States, and all or a substantial portion of the assets of such persons may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, the Issuer or the Company, or to enforce against them judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States. The Company has been advised by its Hong Kong counsel, Woo, Kwan, Lee & Lo, and the Issuer has been advised by its Cayman Islands counsel, Maples and Calder Asia, that there is doubt as to the enforceability in Hong Kong or the Cayman Islands, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Offering Circular.

Hutchison Whampoa

Hutchison Whampoa Limited is the holding company of the Hutchison group of companies. It is a Hong Kong-based diversified corporation listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with interests and activities in the following core businesses: property development and investments; ports and related services; retailing and manufacturing; telecommunications; and energy, infrastructure, finance and other investments. The Company and its subsidiaries and associated companies principally operate in Hong Kong, a Special Administrative Region of China ("Hong Kong"). In addition, they also operate in the mainland of China, elsewhere in Asia and in Europe and North America.

The Company's diversified activities are grouped into the following core divisions:

- ***Property.*** The property division is a leading property developer in Hong Kong and is engaged in the business of building major developments comprising residential, commercial, office, hotel and recreational facilities, principally in Hong Kong and mainland China, the long-term ownership of major commercial premises in the Company's residential/commercial developments, and management of the Company's investments and development activities. The Company's current policy is to retain its office buildings and the major commercial areas in its property development projects as long term holdings. As of December 31, 1996, the Company maintained a portfolio of approximately 9.2 million square feet, excluding 1.8 million square feet occupied by the Company, of long term holdings in Hong Kong, consisting of office buildings, retail shops, industrial buildings and residential units.

- ***Ports and Related Services.*** The ports and related services division, tracing its origins to the last century, is one of the world's leading operators of container terminals. Hutchison Whampoa holds interests in ports in Hong Kong and mainland China, the United Kingdom (the "U.K."), Myanmar and the Bahamas. The Company has recently been awarded a concession to operate port facilities at both ends of the Panama Canal, and has recently signed a joint venture agreement to build and operate a container port at Indonesia's developing deep-sea port of Bojonegara. The core holdings of the division are its interests in Hong Kong (Hongkong International Terminals Limited ("HIT")) and in mainland China (Yantian International Container Terminals Limited ("Yantian"), Shanghai Container Terminals Limited ("SCT") and Hutchison Delta Ports Limited ("Delta Ports")), and in the U.K. (Port of Felixstowe Limited ("Felixstowe")). HIT, an 80%-owned subsidiary of the Company, is the world's largest privately-owned container terminal operation in terms of throughput handled and operates ten of the eighteen container berths in Hong Kong. The Company, through another 80%-owned subsidiary, also has a 50% interest in a joint venture ("COSCO-HIT") with China Ocean Shipping (Group) Company, which operates two additional adjacent container berths. In 1996, Hong Kong handled more containers than any other port in the world and HIT and COSCO-HIT handled approximately 42% of the container traffic passing through Hong Kong. The division also has interests in ship repair, salvage and towage operations in Hong Kong.

- ***Retail and Manufacturing.*** The retail, manufacturing and other services division is principally comprised of A S Watson & Company Limited ("ASW") and Hutchison Whampoa (China) Limited. ASW, a wholly-owned subsidiary of the Company having its origins in southern China in the early 1800s, is one of Asia's largest retailers and operates major chains of supermarkets, personal care stores and electrical appliance stores in Hong Kong and in several other countries in Asia. ASW also manufactures and distributes food and beverage products in Hong Kong and mainland China. Hutchison Whampoa (China) Limited has joint ventures with Procter & Gamble which manufacture and distribute certain Procter & Gamble products throughout mainland China. Hutchison Whampoa (China) Limited also has joint ventures providing aircraft maintenance services in southern China. The Company also owns, operates, acquires and develops hotels which are primarily located in Hong Kong and mainland China.

- *Telecommunications.* The telecommunications division has grown swiftly since its formation in 1985 to become a significant participant in mobile telecommunications in Hong Kong and the U.K. The division has developed expertise as both cellular network operator and service provider offering a comprehensive and integrated range of wireless telecommunications. In Hong Kong, the Company has secured multiple wireless licenses giving it the ability to offer services using Global System for Mobile Communications ("GSM"), Code Division Multiple Access ("CDMA") and Personal Communications Service or System ("PCS") technologies, thereby giving it the widest spectrum allocation and highest spectrum capacity of any operator in Hong Kong. The Company is the leading provider of paging services, and has recently begun to provide fixed line services in, Hong Kong, including international dialing services. The Company, through associates, is also engaged in satellite communication and radio broadcasting services. The division's telecommunications operations are mainly located in Hong Kong, Europe and the Asia Pacific region.

- *Energy, Infrastructure, Finance and Other Investments.* The energy, infrastructure, finance and other investments division comprises a 84.58% interest in Cheung Kong Infrastructure Holdings Limited ("Cheung Kong Infrastructure") and a 49% interest in Husky Oil Ltd. ("Husky"). Cheung Kong Infrastructure is engaged in the development, ownership, operation and management of infrastructure businesses in mainland China, including power plants, roads, toll bridges and a water plant, and infrastructure materials businesses in Hong Kong and mainland China, including the manufacture and sale of cement, the production and delivery of concrete, the production and laying of asphalt and the quarrying and selling of aggregates. Cheung Kong Infrastructure also has a 35.74% interest in Hongkong Electric Holdings Limited ("Hongkong Electric Holdings"). Hongkong Electric Holdings, through its wholly-owned subsidiary, The Hongkong Electric Company, Limited ("Hongkong Electric"), generates, transmits, distributes and is the sole provider of electricity to Hong Kong Island and Lamma Island. Husky is a Canadian-based integrated oil and gas company engaged in the exploration for and development of crude oil and natural gas, as well as the production, purchase, transportation, upgrading, refining and marketing of crude oil, natural gas liquids ("NGLs"), sulphur and petroleum coke, and the marketing of refined petroleum products, including asphalt. The Company also receives substantial income from its investments held in managed funds and other investments, which are accounted for in this division.

The Company currently maintains a significant market share in each of its core businesses in Hong Kong. The Company has achieved a leadership position by obtaining land in prime locations for property development, land rights for container terminal berths, commercial rental locations in Hong Kong for its retail chains, and licensed spectrum for wireless telecommunications. The Company's overall business strategy is to expand its core businesses and their market shares in Hong Kong and elsewhere, particularly in mainland China and other regions in Asia, where it can export its expertise in certain of its core businesses, such as property development, ownership and operation of container terminals, management of retail store chains and wireless telecommunications networks. As part of its overall strategy, the Company seeks to expand its recurrent income base and to maximize the coordination of its core businesses by, for example, utilizing retail space in existing Company properties for its retail chains, developing for commercial and residential purposes existing land formerly used for industrial and other purposes, and utilizing the Company's retail chain outlets in Hong Kong to promote and distribute its telecommunications products and services.

In mainland China, the Company is focusing on its core businesses and is concentrating its efforts in the locations where its established relationships and business know-how are the strongest, such as in Guangdong Province, Beijing and Shanghai. The Company's most active businesses in mainland China include port operations, property development, infrastructure, power generation, manufacturing and retailing.

Hutchison Whampoa, whose origins date back to the early 1800s, was established in July 1977 as the result of the merger between Hutchison International Limited and Hongkong and Whampoa Dock Company Limited. Hongkong and Whampoa Dock Company Limited, registered in 1861, was the first company to be registered in Hong Kong. Hutchison Whampoa became a publicly listed company in 1978. Cheung Kong (Holdings) Limited ("Cheung Kong") became a major shareholder of the Company in 1979 and Mr. Li Ka-shing, a substantial shareholder of Cheung Kong, became the Chairman of the Company in 1981. Cheung

Kong is the largest shareholder of the Company, owning approximately 49.94% of its issued share capital as of June 30, 1997. See "Principal Shareholder". The Company and Cheung Kong have certain common directors and cooperate primarily on major property development projects in Hong Kong and mainland China.

Based on the closing price of its shares on the Hong Kong Stock Exchange on July 24, 1997, the Company had a market capitalization of approximately HK$272,123 million (US$35,203 million), the 2nd largest market capitalization on the Hong Kong Stock Exchange. The Company, Cheung Kong and Hongkong Electric Holdings are three of the 33 constituent stocks which make up the Hang Seng Index, the key index reflecting the performance of trading of shares on the Hong Kong Stock Exchange.

As of December 31, 1996, the Company's total consolidated shareholders' funds were HK$68,899 million (US$8,913 million), and the Company's total consolidated borrowings were HK$40,653 million (US$5,259 million). The total consolidated short term debt and capitalization was HK$143,426 million (US$18,554 million) as of June 30, 1997. For the years ended December 31, 1994, 1995 and 1996, the Company's profit attributable to shareholders was HK$8,021 million, HK$9,567 million and HK$12,020 million (US$1,555 million), respectively. See "Capitalization" and "Selected Consolidated Financial Information".

The Company's registered office is located at 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.

Group Reorganization

On January 6, 1997, the Company unconditionally agreed to purchase for cash 7,750,000 ordinary shares of Hongkong Electric Holdings at an aggregate price of approximately HK$205.4 million resulting in the Company increasing its interest in Hongkong Electric Holdings to 35.01% of the issued share capital of Hongkong Electric Holdings on such date. Also on January 6, 1997, Cheung Kong, the Company and Cheung Kong Infrastructure entered into an agreement pursuant to which, on March 10, 1997, (i) Cheung Kong increased its interest in the Company from 45.36% to 48.95% of the Company's outstanding ordinary shares, (ii) the Company increased its interest in Cheung Kong Infrastructure from 3.93% to 84.58% of Cheung Kong Infrastructure's outstanding ordinary shares, and (iii) the Company transferred its interest of 35.01% in Hongkong Electric Holdings to Cheung Kong Infrastructure (the "Reorganization"). For a summary of these transactions, their pro forma effect on the Company's results of operations and the accounting treatment adopted in the Company's financial statements, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Group Reorganization".

Recent Developments

On June 27, 1997 the Company entered into a HK$12,000 million five year loan facility agreement with a syndicate of financial institutions. The unsecured loan bears interest at 39 basis points over the Hong Kong Inter-Bank Offered Rate and is repayable in full on June 27, 2002. Pursuant to the agreement, the Company borrowed HK$9,000 million on July 7, 1997 and HK$7,965 million of such borrowings was used on the same day to repay short term debt. The Company currently intends to use the remaining amount of the facility in July 1997 to repay short term debt.

The Issuer

The Issuer is a wholly-owned finance subsidiary of the Company incorporated on April 11, 1997 with limited liability for an indefinite period under the laws of the Cayman Islands. The primary purpose of the Issuer, which has no material assets, is to act as a finance subsidiary for the Company. The registered office of the Issuer is located at the office of Maples and Calder, Ugland House, P.O. Box 309, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. All of the issued shares of the Issuer are owned by the Company.

The Offering

Issuer	Hutchison Whampoa Finance (CI) Limited, a company incorporated in the Cayman Islands with limited liability.
Guarantor	Hutchison Whampoa Limited, a Hong Kong company.
Series A Notes	US$750,000,000 principal amount of 6.950% Notes due 2007.
Series B Notes	US$500,000,000 principal amount of 7.450% Notes due 2017.
Series C Notes	US$500,000,000 principal amount of 7.500% Notes due 2027.
Series D Notes	US$250,000,000 principal amount of 6.988% Notes due 2037.
The Offering	US$2,000,000,000 aggregate principal amount of the Notes are being offered (i) in the United States to "qualified institutional buyers", as defined in and in reliance on, Rule 144A ("Rule 144A") under the Securities Act ("QIBs") and to a limited number of institutional investors that qualify as "accredited investors" as defined in Rule 501(a)(1), (2), (3) and (7) under the Securities Act ("Institutional Accredited Investors"), and (ii) outside the United States in reliance on Regulation S ("Regulation S") under the Securities Act. See "Plan of Distribution".
Issue Price	In the case of the Series A Notes, 99.801% of principal amount, plus accrued interest, if any, from August 1, 1997. In the case of the Series B Notes, 99.897% of principal amount, plus accrued interest, if any, from August 1, 1997. In the case of the Series C Notes, 99.292% of principal amount, plus accrued interest, if any, from August 1, 1997. In the case of the Series D Notes, 100% of principal amount, plus accrued interest, if any, from August 1, 1997.
Maturity Date	In the case of the Series A Notes, August 1, 2007 In the case of the Series B Notes, August 1, 2017 In the case of the Series C Notes, August 1, 2027 In the case of the Series D Notes, August 1, 2037
Interest	The Notes will bear interest from the date of original issuance at the rate of 6.950% per annum (in the case of the Series A Notes), 7.450% per annum (in the case of the Series B Notes), 7.500% per annum (in the case of the Series C Notes), and 6.988% per annum (in the case of the Series D Notes) payable semi-annually in arrears.
Interest Payment Dates	February 1 and August 1 of each year, commencing February 1, 1998.
Status of Notes and Guarantee	The Notes of each series will constitute direct, senior, unsecured and unsubordinated obligations of the Issuer ranking *pari passu*, without any preference or priority of payment, among themselves and with all other unsecured and unsubordinated indebtedness of the Issuer. The Guarantee will constitute a direct, senior, unsecured and unsubordinated obligation of the Guarantor ranking *pari passu* with all other unsecured and unsubordinated indebtedness of the Guarantor.
Covenants	In the case of each series of Notes, the Issuer and the Guarantor have agreed to observe certain covenants. See "Description of the Notes and the Guarantee — Certain Covenants".
Additional Amounts	In the event that certain Cayman Islands, Hong Kong or PRC taxes are payable in respect of payments pursuant to the Notes of any series or

pursuant to the Guarantee, the Issuer or the Guarantor, as the case may be, will, subject to certain exceptions, pay such additional amounts under the Notes of such series as will result, after deduction or withholding of such taxes, in the payment of the amounts which would have been payable in respect of the Notes of such series had no such deduction or withholding been required. See "Description of the Notes and the Guarantee — Additional Amounts" and "— Redemption".

Redemption .... None, except that Notes of each series may be redeemed at the option of the Issuer or the Guarantor, in whole but not in part, at the principal amount thereof plus accrued and unpaid interest, in the event the Issuer or the Guarantor would become obligated to pay certain Cayman Islands, Hong Kong or PRC taxes in respect of the Notes of such series. See "Description of the Notes and the Guarantee — Redemption".

Repayment .... The Series A Notes, the Series B Notes and the Series C Notes will not be subject to repayment at any time prior to maturity. The Series D Notes will be subject to repayment at the option of the holders thereof on August 1, 2009 (the "Optional Repayment Date"), in whole or in part in increments of US$1,000 (provided that any remaining principal amount of such Note will be at least US$100,000), at a price equal to 100% of the principal amount to be repaid, together with interest accrued on such principal amount to the date of repayment (and any additional amounts), on notice given to the Issuer by the relevant holder not more than 60 nor less than 30 days prior to the Optional Repayment Date. See "Description of the Notes and the Guarantee — Repayment".

Denomination, Form and Registration of Notes .... The Notes of each series will be denominated in principal amounts of US$100,000 and in integral multiples of US$1,000 in excess thereof. Notes offered in the United States (i) to QIBs in reliance on Rule 144A will be represented by one or more permanent global Notes in definitive, fully registered form without interest coupons (the "Rule 144A Global Notes") deposited with Bankers Trust Company as Fiscal Agent (the "Fiscal Agent"), as custodian for and registered in the name of Cede & Co., as nominee of DTC, and (ii) to Institutional Accredited Investors will be represented by individual certificated Notes in fully registered form without interest coupons. Notes offered outside the United States in reliance on Regulation S will be represented by one or more permanent global Notes in definitive, fully registered form without interest coupons (the "Regulation S Global Notes") deposited with the Fiscal Agent as custodian for and registered in the name of a nominee of DTC for the respective accounts of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear"), and CEDEL Bank S.A. ("CEDEL"). Prior to the 40th day after the later of the commencement of the offering and the closing date, beneficial interests in the Regulation S Global Notes may be held only through Euroclear or CEDEL.

DTC will credit the account of each of its participants, including Euroclear and CEDEL, with the principal amount of Notes being purchased by or through such participant. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and CEDEL.

Transfer Restrictions	The Notes, other than Notes represented by the Regulation S Global Notes, will bear a Securities Act legend, and such Notes (or any beneficial interest therein) may not be transferred except in compliance with the transfer restrictions set forth in such legend. A transfer of a beneficial interest in the Notes of any series, other than Notes represented by the Regulation S Global Notes, to a person that takes delivery through an interest in the Regulation S Global Notes is subject to certain certification requirements as set forth in the Fiscal Agency Agreement. A transfer of a beneficial interest in the Regulation S Global Notes to a person that takes delivery through an interest in the Rule 144A Global Notes or individual certificated Notes is also subject to certification requirements. See "Transfer Restrictions".
Governing Law	The Notes and the Guarantee will be governed by and construed in accordance with the laws of the State of New York.
Ratings	The Notes have been rated "A3" by Moody's Investors Service, Inc. ("Moody's") and "A+" by Standard & Poor's Ratings Group ("S&P"; S&P and Moody's are each referred to as a "Rating Agency" and together, the "Rating Agencies"). These ratings are subject to change by the Rating Agencies in future reviews.
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange.

See "Description of the Notes and the Guarantee" for more detailed information concerning the terms of the Notes.

Summary Financial Information

The following tables present summary consolidated financial information of the Company. This information should be read in conjunction with the consolidated financial statements of the Company and the notes thereto (the "Consolidated Financial Statements"), the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the other historical financial information that appear elsewhere herein. The summary consolidated financial information for the three years ended December 31, 1996 is derived from the Consolidated Financial Statements for those periods, which have been audited by Price Waterhouse, certified public accountants, whose report thereon is included herein.

On January 6, 1997, the Company unconditionally agreed to purchase for cash 7,750,000 ordinary shares of Hongkong Electric Holdings at an aggregate price of approximately HK$205.4 million resulting in the Company increasing its interest in Hongkong Electric Holdings to 35.01% of the issued share capital of Hongkong Electric Holdings on such date. Also on January 6, 1997, Cheung Kong, the Company and Cheung Kong Infrastructure entered into an agreement pursuant to which, on March 10, 1997, (i) Cheung Kong increased its interest in the Company from 45.36% to 48.95% of the Company's outstanding ordinary shares, (ii) the Company increased its interest in Cheung Kong Infrastructure from 3.93% to 84.58% of Cheung Kong Infrastructure's outstanding ordinary shares, and (iii) the Company transferred its interest of 35.01% in Hongkong Electric Holdings to Cheung Kong Infrastructure. As a consequence of these transactions, from and after March 10, 1997, Cheung Kong Infrastructure is accounted for as a subsidiary of the Company. For a summary of these transactions, their pro forma effect on the Company's results of operations and financial position, and the accounting treatment adopted in the Company's financial statements, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Group Reorganization".

The Consolidated Financial Statements are prepared and presented in accordance with generally accepted accounting principles in Hong Kong ("Hong Kong GAAP"), which vary in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). For a description of certain of the differences between Hong Kong GAAP and U.S. GAAP with respect to the Consolidated Financial Statements, see "Summary of Principal Differences Between Hong Kong GAAP and U.S. GAAP".

Financial statements of the Issuer have not been presented since the Issuer has no material assets and will conduct no business, except in connection with financing operations of the Company.

Consolidated Profit and Loss:

	Year Ended December 31,			
	1994	1995	1996	1996
	HK$	HK$	HK$	US$
	(in millions, except per share information)			
Turnover	30,168	35,026	36,662	4,743
Operating profit	5,141	6,523	6,262	810
Share of profits less losses of associated companies	5,099	3,902	3,631	470
Exceptional item	—	756(1)	4,100(2)	530(2)
Profit before taxation	10,240	11,181	13,993	1,810
Taxation				
Hong Kong				
Company and subsidiaries	810	508	556	72
Associated companies	692	436	324	42
Overseas				
Company and subsidiaries	142	88	202	26
Associated companies	(58)	101	229	29
Profit after taxation	8,654	10,048	12,682	1,641
Minority interests	633	481	662	86
Profit attributable to Shareholders	8,021	9,567	12,020	1,555
Dividends	3,362	4,267	5,703	738
Profit for the Period Retained	4,659	5,300	6,317	817
Earnings per Share	2.22	2.65	3.32	0.43
Dividends per Share	0.93	1.18	1.50	0.19

(1) Reflects the profit on the sale of the Company's remaining 18% interest in STAR Television.

(2) Reflects the profit recognized as the result of the global offering and listing of shares of Orange plc ("Orange") in April 1996.

Ratios

	Year Ended December 31,				
	1992	1993	1994	1995	1996
Earnings to Fixed Charges	5.2	7.6	7.1	5.1	5.9
EBITDA/Gross interest coverage	7.8	10.9	8.1	5.8	7.0
Operating Cash Flow/Net Debt	90.4%	297.8%	73.8%	94.4%	132.4%
Net Debt/Net Capital	14.7%	5.6%	16.4%	16.2%	12.3%
Gearing	18.3%	7.0%	19.6%	19.4%	14.0%

Earnings — Represents profit before taxation and fixed charges.

Fixed charges — Consist of interest (including capitalized interest) on all borrowings.

EBITDA — Earnings, including exceptional items of a cash nature, before interest, tax, depreciation and amortization. EBITDA is not presented herein as an alternative measure of operating results or cashflow, but rather to provide additional information as to the Company's ability to service its debt.

Net Debt — Net debt is defined as total interest bearing borrowings including interest bearing loans from minority shareholders, net of bank balances and cash equivalents, long term deposits, managed funds and other listed investments.

Net Capital — Net capital is defined as total borrowings plus share capital and reserves, minority interests and deferred taxation, net of bank balances and cash equivalents, long term deposits, managed funds and other listed investments.

Gearing — Net interest bearing borrowings as a percentage of the aggregate of shareholders' funds and minority equity and interest free loan. Net interest bearing borrowings is defined as total interest bearing borrowings including interest bearing loans from minority shareholders net of bank balances and cash equivalents, long term deposits, managed funds and other listed investments.

Consolidated Balance Sheet:

	As of December 31,			
	1994	1995	1996	1996
	HK$	HK$	HK$	US$
		(in millions)		
Current assets	17,851	23,658	18,385	2,379
Current liabilities	17,490	28,987	20,288	2,625
Net current assets (liabilities)	361	(5,329)	(1,903)	(246)
Managed funds and other investments	13,223	15,965	22,551	2,917
Fixed assets	52,192	54,508	63,188	8,174
Deferred expenditures	1,153	2,536	1,086	141
Associated companies	21,705	22,778	26,369	3,411
Employment of Capital	88,634	90,458	111,291	14,397
Share capital	905	904	905	117
Reserves	56,252	57,935	67,994	8,796
Shareholders' Funds	57,157	58,839	68,899	8,913
Minority interests	5,144	5,333	7,814	1,011
Long term liabilities	26,189	26,174	34,459	4,458
Deferred taxation	144	112	119	15
Capital Employed	88,634	90,458	111,291	14,397

INVESTMENT CONSIDERATIONS

Investors should consider, among other things, the factors set forth below as well as other considerations with respect to investments in Hong Kong corporations not normally associated with investments in the securities of issuers in the United States and other jurisdictions. This Offering Circular, including particularly the information set forth under the caption "Business" in so far as it describes properties, projects, business ventures or strategies at an early stage of development or fulfillment, includes "forward looking statements". Although the Company believes that its plans, intentions and expectations reflected in such forward looking statements are reasonable, it can give no assurance that such plans, intentions or expectations will be achieved. Important factors that could cause actual results to differ materially from the Company's forward looking statements are set forth in this Offering Circular, but particularly include those set forth below. All forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the investment considerations set forth below.

Hong Kong and Mainland China

A significant portion of the Company's operating assets are located in Hong Kong, and a majority of the Company's revenues are derived from its operations conducted in Hong Kong. As a result, the Company's financial condition and results of operations may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy and the economies in the surrounding region, particularly mainland China.

As of July 1, 1997, Hong Kong ceased to be a Crown Colony of the U.K. and became a Special Administrative Region of China. Although the Sino-British Joint Declaration on the Question of Hong Kong (the "Joint Declaration") and the Basic Law of Hong Kong (the "Basic Law") provide that Hong Kong will have a high degree of legislative, judicial and economic autonomy, there can be no assurance that the Company's financial condition and results of operations will not be adversely affected as a consequence of the exercise of Chinese sovereignty over Hong Kong. In addition, political and social developments in China have from time to time adversely affected the Hong Kong economy and property market.

The Company has investments in many joint venture companies in mainland China. The value of the Company's investments in mainland China may be adversely affected by significant political, social or legal uncertainties or changes in China. The Chinese government has been reforming its economic and political systems since the late 1970s. The continued implementation of reforms may be influenced by internal political, social and economic factors. Changes in economic policy or legal requirements may have adverse effects on the Chinese economy, and could discourage foreign investment.

The Company has investments in several joint venture companies formed to develop, own and/or operate property in mainland China. Development projects in mainland China are dependent on obtaining the approval of a variety of governmental authorities at different levels, receipt of which cannot be assured. Development projects in mainland China have been and may in the future be subject to certain risks, including the cyclical nature of property markets, changes in governmental regulations, and economic policies, including regulations and policies restricting construction of properties and buildings and related limitations on extensions of credit, building material shortages, increases in labor and material costs, changes in general economic and credit conditions and the illiquidity of land and other property. There can be no assurances that required approvals will be obtained or that the cost of the Company's developments will not exceed projected costs.

The Hong Kong economy in general, and the Company's port operations in Hong Kong and mainland China, in particular, benefit from the substantial amount of trade between China and the rest of the world. China currently enjoys Most-Favored-Nation ("MFN") status granted by the United States, which results in its exports being subject to the lowest applicable tariffs upon their entry into the United States. The United States annually reconsiders the renewal of MFN trading status for China. MFN status may be extended by executive order of the President of the United States, subject to the power of the United States Congress to rescind such extension by a two-thirds vote of both houses of Congress. No assurance can be given that China's MFN status will be renewed in future years, and China's loss of MFN status could adversely affect the performance of the Company. A significant reduction in trade as the result of the loss of MFN status, the imposition of other trade restrictions or other reasons could adversely affect the Hong Kong economy which could lead, among other things, to a reduction in real property values and rent levels and in the Company's retail business. A significant reduction in trade between China and the rest of the world could also adversely impact the Company's port operations in Hong Kong and mainland China by reducing the amount of cargo handled by the Company's ports in Hong Kong and mainland China.

Hong Kong Property Rentals and Values

The Company has, and expects that it will continue to have, substantial property and hotel interests in Hong Kong. The Hong Kong property market has been cyclical. For example, rental rates for office space rose sharply in 1989 and 1990 and were significantly lower in the following years, particularly in 1991 and 1992 when substantial amounts of new office space became available. Rental rates and property values for office space once again increased to record highs during 1993 and the first half of 1994. Since then rental rates and property values decreased considerably before stabilizing toward the end of 1995 and early 1996. In the latter part of 1996 and first half of 1997 property prices increased. Historically, Hong Kong property values have been affected by supply and demand of comparable properties, the amount of new land made available by the Hong Kong Government to third parties, the rate of economic growth in Hong Kong, political and economic developments in China and Sino-British relations. Since leases of Hong Kong properties are often for a short duration (typically two to six years, depending on the type of property) or contain provisions requiring periodic adjustments of rent within a short period of time (typically three years), the Company's income from property may be subject to more frequent adjustments than would be the case in other real estate markets.

The Company is also subject to the general risks incidental to the ownership and operation of office and related commercial properties including, among other things, competition for tenants, changes in market rental levels, inability to collect rent from tenants due to bankruptcy or insolvency of tenants or otherwise, and the need to renovate, repair and relet space periodically and to pay the associated costs.

The Company is similarly subject to the general risks inherent to property development, including, among other things, the risks that financing for development may not be available on favorable terms, that construction may not be completed on schedule or within budget (for reasons including shortages of equipment, material and labor, work stoppages, interruptions resulting from inclement weather, unforeseen engineering, environmental and geological problems and unanticipated cost increases), that development may be affected by governmental regulations (including delays or failure to obtain the requisite construction and occupancy approvals), that long-term financing may not be available on completion of construction, that developed properties may not be leased or sold on profitable terms and the risk of purchaser defaults.

Property Available for Future Acquisition

The Company's business is dependent, in part, on the availability of land, buildings and hotels suitable for development or investment. As property values have appreciated in Hong Kong, it has become more difficult to locate suitable property to acquire at economic prices. To the extent that the Company is unable to acquire property at economic prices in Hong Kong, the Company's ability to grow its property division could be adversely affected.

Telecommunications

The telecommunications industry is highly competitive and has been subject to rapid and significant changes in technology. The Company faces competition from entities providing other telecommunications technologies and may face competition in the future from technologies being developed or to be developed in the future. Cordless technology, private and shared radio networks, satellite-based personal communications services and other communications services which have the technical capability to handle mobile telephone calls (including interconnection to the fixed line telephone network) may provide competition to cellular networks. The effect of emerging and future technological and regulatory changes on the viability or competitiveness of the Company's Hong Kong telecommunications business cannot be accurately predicted.

The Company has also recently begun to provide fixed line services, including international dialing services, and faces competition from existing and new fixed line service providers.

The Company is currently building a fixed line network in Hong Kong. The Company's ability to increase its fixed line business depends upon the successful construction of the network. The buildout of the network is subject to construction risks and uncertainties which could delay the introduction of service in some areas and increase the cost of network construction.

The Hong Kong telecommunications industry operates under licenses granted by the Hong Kong regulatory authorities. The Company's telecommunications operations could be adversely affected by any revocation or amendment of its existing licenses or the granting of new licenses. There can be no assurance that the existing regulatory and licensing framework will remain unchanged after China's recent resumption of sovereignty over Hong Kong.

Infrastructure Projects

Cheung Kong Infrastructure, in which the Company has a 84.58% interest, is engaged in the development, ownership, operation and management of infrastructure businesses in mainland China and infrastructure materials businesses in Hong Kong and mainland China. In addition to the normal political risks associated with other investments in mainland China, there are a number of construction, financing and other risks associated with infrastructure investments in mainland China. Infrastructure projects of the types undertaken by the Company typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before they become operational and generate revenue. The time taken and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labor, adverse weather conditions, natural disasters, labor disputes, disputes with sub-contractors, accidents, changes in government priorities and unforeseen problems and circumstances. Any of these could give rise to delays in the completion of construction and/or to cost overruns. Delays in the process of obtaining the requisite licences, permits or approvals from government agencies or authorities can also increase the cost or delay or prevent the commercial operation of a business. Construction delays can result in the loss of revenues. The failure to complete construction according to its specifications may result in liabilities, reduced efficiency and less desirable returns.

Controlling Shareholder

Approximately 49.94% of the issued share capital of the Company was held by certain subsidiaries of Cheung Kong as of June 30, 1997. Cheung Kong is also listed on the Hong Kong Stock Exchange, and was the sixth largest company on such Exchange in terms of market capitalization as of July 10, 1997. In addition, approximately 0.20% of the issued share capital of the Company was as of June 30, 1997 held by a unit trust and by a company controlled by such trust and all the units of such trust are held by discretionary trusts, the discretionary beneficiaries of which are, inter alia, Mr. Li Ka-shing, the Chairman of the Company. Mr. Li is also the Chairman and Managing Director of Cheung Kong and is one of the discretionary beneficiaries under certain unit trusts which unit trusts control companies which together hold approximately 33.59% of the issued capital of Cheung Kong as of June 30, 1997. Although Cheung Kong and the Company are currently cooperating in major development activities in Hong Kong and mainland China, there is no assurance that Cheung Kong will not compete with the Company in connection with its property-related businesses in the future.

Although the Company believes that its relationship with Cheung Kong provides it with significant business advantages, the relationship results in various related party, or "connected" transactions. All such transactions are required to be entered into by the Company on an arm's length basis. All transactions between members of the Company and its Directors or any of their respective associates (as defined in the Listing Rules of the Hong Kong Stock Exchange (the "Listing Rules"), which term includes Cheung Kong) will constitute connected transactions of the Company under the Listing Rules and, unless exemptions are applicable or waivers are granted under the Listing Rules, will be subject to independent shareholders' approval in a general meeting.

Holding Company Structure

The Issuer is a wholly-owned subsidiary of the Company, has no material assets and will conduct no business except in connection with financing the operations of the Company. The Guarantee is solely an obligation of the Guarantor. The Guarantor is primarily a holding company and its ability to make payments to the Issuer or pursuant to the Guarantee in respect of the Notes depends largely upon the receipt of dividends, distributions, interest or advances from its wholly or partly-owned subsidiaries and associated companies. The ability of the subsidiaries and associated companies of the Guarantor to pay dividends may be subject to applicable laws. Payments on the Notes are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries (other than the Issuer) and associated companies. Claims of creditors of such companies will have priority as to the assets of such companies over the Guarantor and its creditors, including holders of the Notes seeking to enforce the Guarantee.

Market for the Notes

The liquidity for the Notes will depend in part upon the activity of market makers for the Notes in the over-the-counter market. Representatives of the Purchasers currently intend to make a market in the Notes, but they are not obligated to do so and no assurance can be given that they actually will do so, or if they do so, that they will continue to make a market. No assurance can be given that an active trading market for the Notes will develop.

THE ISSUER

The Issuer, a wholly-owned subsidiary of the Guarantor, was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on April 11, 1997. Its registered office is located at Ugland House, P.O. Box 309, South Church Street, George Town, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong is located at 22/F Hutchison House, 10 Harcourt Road, Central, Hong Kong. The Issuer will not, as long as the Notes are outstanding, engage in any activity other than those in connection with issuing the Notes and advancing the net proceeds thereof to the Company.

The directors of the Issuer are Mr. Canning Kin Ning Fok, Mr. William Shurniak and Mrs. Susan M.F. Chow. Further information on the particulars and experience of the directors is set forth below in "Management".

The authorized share capital of the Issuer is US$50,000 divided into 50,000 shares of US$1.00 par value each, of which one share is issued and outstanding. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought. The Issuer does not have debt outstanding other than the Notes now being issued. The Issuer has no subsidiaries.

The Issuer has not audited or published, and does not propose to audit or publish, any of its accounts since it is not required to do so under Cayman Islands law. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of its affairs and to explain its transactions.

USE OF PROCEEDS

The net proceeds of the sale of the Notes, estimated to be approximately US$1,978,000,000, will be initially advanced by the Issuer to one or more subsidiaries of the Company. The Company intends to cause the net proceeds of the offering to be used for general corporate purposes, including funding capital expenditures in the Company's core businesses.

EXCHANGE RATES

The Hong Kong dollar is freely convertible into other currencies (including the U.S. dollar). Since October 17, 1983, the Hong Kong dollar has been officially linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The link is supported by an agreement between Hong Kong's three banknote-issuing banks and the Hong Kong Government pursuant to which banknotes issued by such banks are backed by certificates of indebtedness purchased by such banks from the Hong Kong Government Exchange Fund with U.S. dollars at the fixed exchange rate of HK$7.80 to US$1.00 and held as cover for the banknotes issued. When banknotes are withdrawn from circulation, the issuing bank surrenders certificates of indebtedness to the Hong Kong Government Exchange Fund and is paid the equivalent amount in U.S. dollars at the fixed rate of exchange. The agreement does not have a fixed term, and the Hong Kong Government has not announced any plans to change the link. Hong Kong's three banknote-issuing banks are The Hong Kong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market, although the Hong Kong Government, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. The market exchange rate has not deviated significantly from the rate of HK$7.80 to US$1.00. Exchange rates between the Hong Kong dollar and other currencies are influenced by the exchange rate between the U.S. dollar and such currencies.

The following table sets forth the average, high, low and period-end Noon Buying Rate between Hong Kong dollars and U.S. dollars (in Hong Kong dollars per U.S. dollar) for the periods indicated:

	Hong Kong Dollars/U.S. Dollars Noon Buying Rate			
	Average(1)	**High**	**Low**	**Period-End**
	HK$	**HK$**	**HK$**	**HK$**
1992	7.7402	7.7745	7.7233	7.7430
1993	7.7357	7.7660	7.7230	7.7280
1994	7.7290	7.7530	7.7225	7.7375
1995	7.7357	7.7665	7.7300	7.7323
1996	7.7345	7.7440	7.7310	7.7347
1997 (through June 30)	7.7448	7.7550	7.7340	7.7475

(1) Determined by averaging the rates on each business day during the relevant period.

Sources: Federal Reserve Bulletin, 1990-1994. Board of Governors of the Federal Reserve System; *Federal Reserve Statistical Release* H.10 *(512), 1995-1997*, Board of Governors of the Federal Reserve System; Federal Reserve Bank of New York.

The Basic Law of Hong Kong provides that after July 1, 1997, the Hong Kong dollar will remain the legal tender in Hong Kong. The Basic Law does not alter the Hong Kong Government's commitments with Hong Kong's three banknote-issuing banks described above. The Basic Law also provides that the Hong Kong dollar shall remain freely convertible and that no exchange control restrictions shall be applied in Hong Kong. See "Hong Kong".

CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as of June 30, 1997 (except where otherwise indicated) and as adjusted to give effect to the issuance of the Notes, a loan of HK$9,000 million borrowed on July 7, 1997 pursuant to a HK$12,000 million long term loan facility and the repayment of HK$7,965 million of short term debt on the same date. See "Management's Discussion and Analysis of Results of Operations and Financial Condition — Liquidity and Capital Resources". The table has been prepared on a basis consistent with the principal accounting policies of the Company as set out in the Consolidated Financial Statements and should be read in conjunction with such Consolidated Financial Statements.

	As of June 30, 1997		
	Actual	**As Adjusted**	**As Adjusted**
	HK$	**HK$**	**US$**
		(in millions)	
Short term debt (including current portion of long-term debt)	20,537	12,572	1,626
Long term debt (net of current portion)	39,146	48,146	6,228
Notes offered hereby	—	15,460	2,000
Shareholders' funds			
Ordinary shares	968	968	125
Share premium	28,034	28,034	3,627
Capital redemption reserves*	404	404	52
Properties revaluation reserves*	19,641	19,641	2,541
Exchange translation reserves*	(613)	(613)	(79)
Retained earnings*	35,309	35,309	4,568
Total shareholders' funds	83,743	83,743	10,834
Total capitalization	122,889	147,349	19,062
Total short term debt and capitalization	143,426	159,921	20,688

*Amounts as at December 31, 1996.

The authorized share capital of the Company is HK$1,565.2 million divided into 4,650,000,000 ordinary shares with a par value of HK$0.25 each and 402,717,856 7½% cumulative redeemable participating preference shares of HK$1 each, of which 3,873,633,401 ordinary shares have been issued and fully paid at June 30, 1997.

Except for adjustments included in the table above, there has been no material change in the consolidated indebtedness of the Company since June 30, 1997 or any material change in the capitalization of the Company since December 31, 1996.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of the Company. This information should be read in conjunction with the Consolidated Financial Statements, the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the other historical financial information that appear elsewhere herein. The selected Consolidated Financial Information for the three years ended December 31, 1996 is derived from the Consolidated Financial Statements for those periods, which have been audited by Price Waterhouse, certified public accountants, whose report thereon is included herein.

On January 6, 1997, the Company unconditionally agreed to purchase for cash 7,750,000 ordinary shares of Hongkong Electric Holdings at an aggregate price of approximately HK$205.4 million resulting in the Company increasing its interest in Hongkong Electric Holdings to 35.01% of the issued share capital of Hongkong Electric Holdings on such date. Also on January 6, 1997, Cheung Kong, the Company and Cheung Kong Infrastructure entered into an agreement pursuant to which, on March 10, 1997, (i) Cheung Kong increased its interest in the Company from 45.36% to 48.95% of the Company's outstanding ordinary shares, (ii) the Company increased its interest in Cheung Kong Infrastructure from 3.93% to 84.58% of Cheung Kong Infrastructure's outstanding ordinary shares, and (iii) the Company transferred its interest of 35.01% in Hongkong Electric Holdings to Cheung Kong Infrastructure. As a consequence of these transactions, from and after March 10, 1997, Cheung Kong Infrastructure is expected to be accounted for as a subsidiary of the Company. For a summary of these transactions, their pro forma effect on the Company's results of operations and financial position, and the accounting treatment adopted in the Company's financial statements, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Group Reorganization". For further information concerning Cheung Kong Infrastructure, see the financial statements of Cheung Kong Infrastructure as at December 31, 1995 and 1996 and the two years then ended attached as Appendix I hereto.

The Consolidated Financial Statements are prepared and presented in accordance with Hong Kong GAAP, which vary in certain significant respects from U.S. GAAP. For a description of certain of the differences between Hong Kong GAAP and U.S. GAAP with respect to the Consolidated Financial Statements, see "Summary of Principal Differences Between Hong Kong GAAP and U.S. GAAP".

Financial statements of the Issuer have not been presented since the Issuer has no material assets and will conduct no business, except in connection with financing operations of the Company.

Consolidated Profit and Loss:

	Year Ended December 31,			
	1994	1995	1996	1996
	HK$	HK$	HK$	US$
	(in millions, except per share information)			
Turnover	30,168	35,026	36,662	4,743
Operating profit	5,141	6,523	6,262	810
Share of profits less losses of associated companies	5,099	3,902	3,631	470
Exceptional item	—	756(1)	4,100(2)	530(2)
Profit before taxation	10,240	11,181	13,993	1,810
Taxation				
Hong Kong				
Company and subsidiaries	810	508	556	72
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Company and subsidiaries	142	88	202	26
Associated companies	(58)	101	229	29
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Minority interests	633	481	662	86
Profit attributable to Shareholders	8,021	9,567	12,020	1,555
Dividends	3,362	4,267	5,703	738
Profit for the Period Retained	4,659	5,300	6,317	817
Earnings per Share	2.22	2.65	3.32	0.43
Dividends per Share	0.93	1.18	1.50	0.19

(1) Reflects the profit on the sale of the Company's remaining 18% interest in STAR Television.

(2) Reflects the profit recognized as the result of the global offering and listing of shares of Orange in April 1996.

Ratios

	Year Ended December 31,				
	1992	1993	1994	1995	1996
Earnings to Fixed Charges	5.2	7.6	7.1	5.1	5.9
EBITDA/Gross interest coverage	7.6	10.9	8.1	5.8	7.0
Operating Cash Flow/Net Debt	90.4%	297.8%	73.8%	94.4%	132.4%
Net Debt/Net Capital	14.7%	5.6%	16.4%	16.2%	12.3%
Gearing	18.3%	7.0%	19.6%	19.4%	14.0%

Earnings — Represents profit before taxation and fixed charges.

Fixed charges — Consist of interest (including capitalised interest) on all borrowings.

EBITDA — Earnings, including exceptional items of a cash nature, before interest, tax, depreciation and amortization. EBITDA is not presented herein as an alternative measure of operating results or cashflow, but rather to provide additional information as to the Company's ability to service its debt.

Net Debt — Net debt is defined as total interest bearing borrowings including interest bearing loans from minority shareholders, net of bank balances and cash equivalents, long term deposits, managed funds and other listed investments.

Net Capital — Net capital is defined as total borrowings plus share capital and reserves, minority interests and deferred taxation, net of bank balances and cash equivalents, long term deposits, managed funds and other listed investments.

Gearing — Net interest bearing borrowings as a percentage of the aggregate of shareholders' funds and minority equity and interest free loan. Net interest bearing borrowings is defined as total interest bearing borrowings including interest bearing loans from minority shareholders net of bank balances and cash equivalents, long term deposits, managed funds and other listed investments.

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	As of December 31,			
	1994	1995	1996	1996
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	(in millions)			
Current assets	17,851	23,658	18,385	2,379
Current liabilities	17,490	28,987	20,288	2,625
Net current assets (liabilities)	361	(5,329)	(1,903)	(246)
Managed funds and other investments	13,223	15,965	22,551	2,917
Fixed assets	52,192	54,508	63,188	8,174
Deferred expenditures	1,153	2,536	1,086	141
Associated companies	21,705	22,778	26,369	3,411
Employment of Capital	88,634	90,458	111,291	14,397
Share capital	905	904	905	117
Reserves	56,252	57,935	67,994	8,796
Shareholders' Funds	57,157	58,839	68,899	8,913
Minority interests	5,144	5,333	7,814	1,011
Long term liabilities	26,189	26,174	34,459	4,458
Deferred taxation	144	112	119	15
Capital Employed	88,634	90,458	111,291	14,397

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Offering Circular.

Overview

The Company is a holding company and engages in its various activities through subsidiaries and associated companies. While a substantial majority of the Company's profits are generated by subsidiaries, historically associated companies engaged in property development for sale and Hongkong Electric Holdings, in which the Company held a 34.6% interest as of December 31, 1996, have made a significant contribution to the Company's results of operations. The information set forth below does not reflect the transactions, which occurred in 1997, described below under "Group Reorganization."

The following table sets forth the Company's turnover and profit attributable to shareholders by activity, and the percentage of the total represented by such activity, for the periods indicated.

Turnover(1)

	Year Ended December 31,									
	1992		1993		1994		1995		1996	
	HK$	%	HK$	%	HK$	%	HK$	%	HK$	%
	(in millions, except percentages)									
Activity:										
Property	1,208	5.8	1,566	6.3	1,912	6.3	1,968	5.6	2,156	5.9
Ports and Related Services	4,486	21.3	5,408	21.9	6,210	20.6	6,548	18.7	7,813	21.3
Retail, Manufacturing and Other Services	9,534	45.3	11,048	44.6	13,605	45.1	15,959	45.5	18,102	49.4
Telecommunications	4,876	23.2	5,717	23.1	7,228	24.0	8,601	24.6	7,042	19.2
Energy, Finance and Other Investments	926	4.4	1,009	4.1	1,213	4.0	1,950	5.6	1,549	4.2
Total	21,030	100.0	24,748	100.0	30,168	100.0	35,026	100.0	36,662	100.0

(1) Includes turnover for the Company and its subsidiary companies, without adjusting for minority interests.

Profit Attributable to Shareholders(1)

	Year Ended December 31,									
	1992		1993		1994		1995		1996	
	HK$	%	HK$	%	HK$	%	HK$	%	HK$	%
	(in millions, except percentages)									
Activity:										
Property	1,824	59.8	2,318	36.8	3,311	41.3	2,936	30.7	1,409	11.7
Ports and Related Services	868	28.4	1,285	20.4	2,021	25.2	2,201	23.0	2,369	19.7
Retail, Manufacturing and Other Services	165	5.4	323	5.1	596	7.4	686	7.2	1,034	8.6
Telecommunications	9	0.3	13(2)	0.2	184	2.3	324(3)	3.4	3,642(4)	30.3
Energy, Finance and Other Investments	186(5)	6.1	2,365	37.5	1,909	23.8	3,420	35.7	3,566	29.7
Total	3,052	100.0	6,304	100.0	8,021	100.0	9,567	100.0	12,020	100.0

(1) Includes profit attributable to shareholders for the Company, its subsidiary companies, after adjusting for minority interests, and its proportionate share of associated companies' profit.

(2) Includes a HK$1,660 million profit on the sale of a portion of the Company's interest in STAR Television and a HK$1,406 million provision for the Company's U.K. telecommunications business.

(3) Includes a HK$756 million profit on the sale of remaining interest in STAR Television.

(4) Includes a HK$4,100 million profit on flotation of Orange.

(5) Includes a HK$1,422 million provision for the investment in Husky.

In 1992, 1993, 1994, 1995 and 1996, the profit attributable to shareholders of the property division was HK$1,824 million, HK$2,318 million, HK$3,311 million, HK$2,936 million and HK$1,409 million, respectively, accounting for 59.8%, 36.8%, 41.3%, 30.7% and 11.7%, respectively, of total profit attributable to shareholders. The division's contribution to profit attributable to shareholders declined in 1996 compared to 1995 primarily due to higher profits from sales in 1995 of units in the completed South Horizon development, in which the Company has a 50% interest.

The contribution of the ports and related services division to the Company's profit attributable to shareholders has grown substantially over the past five years. In 1992, 1993, 1994, 1995 and 1996, the profit attributable to shareholders of the ports and related services division was HK$868 million, HK$1,285 million, HK$2,021 million, HK$2,201 million and HK$2,369 million, respectively, with a compound annual growth rate of 28.5% over the five year period ending December 31, 1996.

The retail, manufacturing and other services division contributed HK$165 million, HK$323 million, HK$596 million, HK$686 million and HK$1,034 million in profit attributable to shareholders in 1992, 1993, 1994, 1995 and 1996, respectively. The Company's retail and manufacturing operations have been a consistently growing contributor to the Company's results of operations. The profit attributable to shareholders of these operations has grown at a compound annual rate of 58.2% over the five year period ending December 31, 1996.

The telecommunications division contributed HK$9 million, HK$13 million, HK$184 million, HK$324 million and HK$3,642 million in profit attributable to shareholders in 1992, 1993, 1994, 1995 and 1996, respectively. Over the past several years, the Company has used the profits generated from its Hong Kong telecommunications operations to offset the losses incurred in the development stage of its start-up operations overseas, such as Orange. In April 1996, as the result of the global offering and listing of shares of Orange, the Company recognized a HK$4,100 million exceptional profit.

The Company's energy, finance and other investments division has performed well in recent years due to the strong performance of Hongkong Electric Holdings and significant income from the Company's investments held in managed funds and other investments. The division contributed HK$186 million (after deducting a HK$1,422 million provision for the Company's investment in Husky), HK$2,365 million, HK$1,909 million, HK$3,420 million and HK$3,566 million in 1992, 1993, 1994, 1995 and 1996, respectively, to the Company's profit attributable to shareholders. In 1996, the energy, finance and other investments division accounted for 29.7% of the Company's total profit attributable to shareholders.

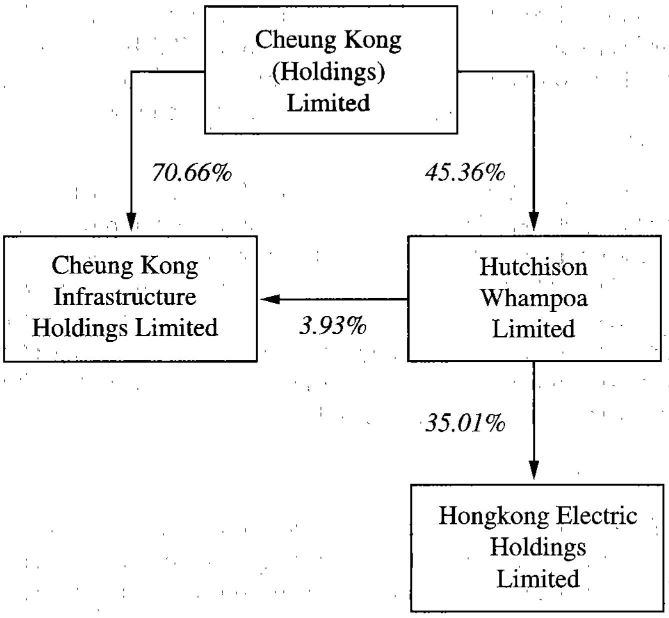
Group Reorganization

On January 6, 1997, the Company unconditionally agreed to purchase for cash 7,750,000 ordinary shares of Hongkong Electric Holdings at an aggregate price of approximately HK$205.4 million (the "Acquisition") increasing the Company's interest from approximately 34% to 35.01% of the issued share capital of Hongkong Electric Holdings.

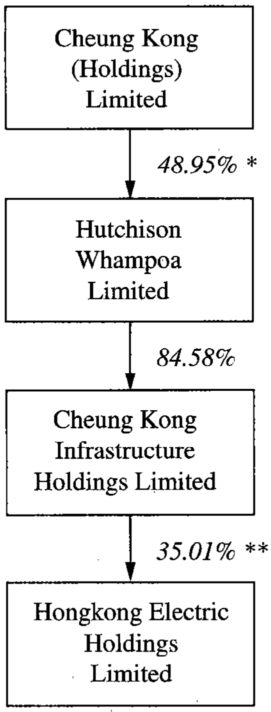
As a consequence of the Acquisition, an obligation for the Company to make a mandatory offer (which offer was made by an indirectly wholly-owned subsidiary of the Company (the "Offeror")) for issued shares of Hongkong Electric Holdings was triggered under the Hong Kong Code on Takeovers and Mergers ("Takeovers Code"). Accordingly, on January 15, 1997, a conditional cash offer (the "Offer") was made on behalf of the Offeror to acquire all the issued shares (other than those already owned by the Offeror or parties acting in concert with the Offeror) of Hongkong Electric Holdings at a price of HK$26.50 per share, which represented a premium of 4.95 percent to the closing price of HK$25.25 as quoted on the Hong Kong Stock Exchange on January 3, 1997. Acceptances of the Offer were less than the amount necessary for the Offer to become unconditional and as a result the Offer lapsed on February 5, 1997. As a consequence, the Company (together with persons acting in concert) may, subject to the restrictions set out in the Takeovers Code, acquire further shares in Hongkong Electric Holdings without incurring an obligation to make a general offer.

Also on January 6, 1997, Cheung Kong, the Company and Cheung Kong Infrastructure entered into an agreement pursuant to which, on March 10, 1997, (i) Cheung Kong increased its interest in the Company from 45.36% to 48.95% of the Company's outstanding ordinary shares, (ii) the Company increased its interest in Cheung Kong Infrastructure from 3.93% to 84.58% of Cheung Kong Infrastructure's outstanding ordinary shares, and (iii) the Company transferred its interest of 35.01% in Hongkong Electric Holdings to Cheung Kong Infrastructure.

The corporate structure of the Cheung Kong group of companies, immediately following the Acquisition but prior to completion of the Offer and the Reorganization, as it relates to the Reorganization is set forth below.



The corporate structure of the Cheung Kong group of companies, immediately following the completion of the Offer and the Reorganization, as it relates to the Reorganization is set forth below.



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* Subsequently increased to 49.94% as of June 30, 1997.

** Subsequently increased to 35.74% as of June 30, 1997.

Transfer of Hongkong Electric Holdings Shares to Cheung Kong Infrastructure. On March 10, 1997, the Company transferred 707,295,862 ordinary shares of Hongkong Electric Holdings, representing 35.01% of the issued share capital of Hongkong Electric Holdings, to Cheung Kong Infrastructure for approximately HK$18,743 million, or HK$26.50 per share, which was satisfied by the issue of 886,209,945 new ordinary shares of Cheung Kong Infrastructure, representing approximately 39.3% of the enlarged issued share capital of Cheung Kong Infrastructure following the Reorganization, to the Company at a price of HK$21.15 per share (being the closing price of Cheung Kong Infrastructure's ordinary shares on the Hong Kong Stock Exchange on January 3, 1997).

Transfer of Cheung Kong Infrastructure Shares to the Company. On March 10, 1997, Cheung Kong transferred 966,689,000 ordinary shares of Cheung Kong Infrastructure, representing approximately 42.88% of the enlarged issued share capital of Cheung Kong Infrastructure following the Reorganization, to the Company for approximately HK$20,445 million, or HK$21.15 per share, which was satisfied by the issue of 254,316,978 new ordinary shares of the Company, representing approximately 6.57% of the enlarged issued share capital of the Company following the Reorganization, to Cheung Kong at a price of HK$58.50 per ordinary share (being the closing price of the Company's ordinary shares on the Hong Kong Stock Exchange on January 3, 1997), and approximately HK$5,568 million in cash.

Accounting Consequences

As a consequence of the transactions described above, from and after March 10, 1997, Cheung Kong Infrastructure is accounted for as a subsidiary of the Company. The following table summarizes the pro forma effect on the Company's consolidated profit and loss and consolidated balance sheet of the transactions described above as if such transactions had occurred on January 1, 1996. There can be no assurance that actual consolidated profit and loss would not have been materially different than as presented had such transactions actually occurred on such date. In addition, the pro forma financial information is prepared and presented in accordance with Hong Kong GAAP, which vary in certain significant respects from U.S. GAAP. For a description of certain of the differences between Hong Kong GAAP and U.S. GAAP with respect to the Consolidated Financial Statements, see "Summary of Principal Certain Differences Between Hong Kong GAAP and U.S. GAAP".

Consolidated Profit and Loss:

	Year Ended December 31, 1996	
	Actual	**Pro Forma(1)**
	HK$	**HK$**
	(in millions, except per share information)	
Turnover	36,662	39,703
Operating profit	6,262	6,677
Share of profits less losses of associated companies	3,631	3,647
Exceptional item	4,100(2)	5,342(3)
Profit before taxation	13,993	15,666
Taxation		
Hong Kong		
Company and subsidiaries	556	587
Associated companies	324	324
Overseas		
Company and subsidiaries	202	203
Associated companies	229	229
Profit after taxation	12,682	14,323
Minority interests	662	1,021
Profit attributable to Shareholders	12,020	13,302
Dividends	5,703	5,703
Profit for the Period Retained	6,317	7,599
Earnings per Share	3.32(4)	3.44(5)(1)

(1) The pro forma information is based on the issue of 254,316,978 new ordinary shares of the Company and the payment of HK$5,568 million to the Cheung Kong group of companies. The payment has been assumed to be financed by borrowings at a pre-tax interest cost of 6 per cent. The pro forma information also assumes that the maximum amount of the current estimate of goodwill arising on an acquisition of Cheung Kong Infrastructure of approximately HK$8,990 million, is written off against reserves of the Company in accordance with its accounting policy and therefore goodwill would have no impact on the consolidated earnings of the Company. In the event that the entire amount of the current estimate of goodwill is allocated to the underlying assets of Cheung Kong Infrastructure and amortized over approximately 20 years, the pro forma profit attributable to shareholders and earnings per ordinary share of the Company would be approximately HK$12,849 million and HK$3.32, respectively.

(2) Reflects the profit recognized as a result of the global offering and listing of shares of Orange in April 1996.

(3) Includes (2) above and a profit of approximately HK$1,242 million recognized as a result of the sale of Hongkong Electric Holdings to Cheung Kong Infrastructure. The profit recognized as a result of the sale of Hongkong Electric Holdings to Cheung Kong Infrastructure is included as permitted by Hong Kong GAAP. U.S. GAAP may not permit recognition of this gain in income. Presentation of pro forma information in the United States would require this gain to be excluded from the pro forma profit and loss account.

(4) Based on a weighted average of 3,616,784,011 of the Company's ordinary shares in issue during 1996.

(5) Based on a weighted average of 3,871,100,989 of the Company's ordinary shares assumed to be in issue during 1996.

Consolidated Balance Sheet:

	As of December 31, 1996	
	Actual	Pro forma
	HK$	HK$
	(in millions)	
Current assets	18,385	22,503
Current liabilities	20,288	22,981
Net current liabilities	(1,903)	(478)
Managed funds and other investments	22,551	22,341
Fixed assets	63,188	64,815
Deferred expenditures	1,086	1,219
Associated companies	26,369	38,550
Employment of Capital	111,291	126,447
Share capital	905	968
Reserves	67,994	74,349
Shareholders' Funds	68,899	75,317
Minority interests	7,814	10,979
Long term liabilities	34,459	40,027
Deferred taxation	119	124
Capital Employed	111,291	126,447

Results of Operations for 1994, 1995 and 1996

1996 Compared to 1995

Turnover for 1996 increased HK$1,636 million, or 4.7%, compared to 1995, principally due to the continued expansion of the Company's businesses. The Company's profit before taxation, excluding exceptional items, decreased HK$532 million, or 5.1%, in 1996 compared to 1995. Profit attributable to shareholders, including the exceptional profit of HK$4,100 million resulting from the global offering and listing of shares of Orange in April 1996, increased by HK$2,453 million, or 25.6%, in 1996 compared to 1995.

Turnover for the property division for 1996 increased HK$188 million, or 9.6%, compared to 1995, primarily due to increased rental income generated from the continued expansion of the Company's property investment portfolio which was partially offset by a reduction in the sale of development properties. The division's contribution to profit attributable to shareholders decreased HK$1,527 million, or 52.0%, compared to 1995, primarily due to higher profits from sales in 1995 of units in the South Horizons development, in which the Company holds a 50% interest. The Company's accounting policy is to recognize profits on sales of property either on the date of sale or on the date of issue of the occupation permit, whichever is later. The Company's investment properties are substantially fully rented and continue to generate satisfactory rental returns.

Turnover for the ports and related services division for 1996 increased HK$1,265 million, or 19.3%, compared to 1995, and the division's contribution to profit attributable to shareholders increased HK$168 million, or 7.6%, compared to 1995. The improved results were primarily attributable to combined throughput at all company operations reaching 11,286,881 TEUs in 1996, an increase of 10.2% compared to 1995. While throughput growth at the Company's container terminal operations at Kwai Chung slowed in line with the downturn in Hong Kong's export performance, progress continued to be made in improving operational efficiency and strengthening relationships with international shipping lines. Total throughput of the Company's HIT and COSCO-HIT operations at Kwai Chung was 5.65 million TEUs in 1996, an increase of 7.2% compared to 1995. Total throughput of Felixstowe was over 2.0 million TEUs in 1996, an increase of 6.9% compared to 1995. The new container port which is being developed in phases at Yantian has grown rapidly since commencing operations in 1995 and, as a result, construction of the second phase, three-berth facility has already begun.

Turnover for the retail, manufacturing and other services division for 1996 increased HK$2,143 million, or 13.4%, compared to 1995, due to continued growth in, and expansion of, these businesses. In addition, comparable same store sales growth for the division's three chain store operations in Hong Kong ranged from 3.5% to 6% in 1996. The division's contribution to profit attributable to shareholders increased HK$348 million, or 50.7% compared to 1995 primarily as a result of increased retail outlets, improved efficiency and cost controls. Overall profits reported by ASW for 1996 were higher than in 1995. Park'N Shop Hong Kong, Watson's Personal Care Stores and the Fortress chain each generated increased profits over 1995. Park'N Shop continued to establish its operations in mainland China, while Watson's personal care stores bolstered its position as the largest such retailing network in Asia. The addition of new product lines together with improved customer service helped Fortress achieve increased profits.

Turnover for the telecommunications division for 1996 decreased HK$1,559 million, or 18.1%, compared to 1995, primarily due to the completion of the flotation of Orange in April 1996, which resulted in the Company's interest in Orange being reduced below 50% and Orange being accounted for as an associated company rather than a consolidated subsidiary. In 1996 the division's contribution to profit attributable to shareholders increased HK$3,318 million compared to 1995, primarily due to the profit recognized as the result of the global offering of shares of Orange. 1996 was a significant year for the Company's telecommunications businesses in Hong Kong, with the virtual completion of the change-over from two limited capacity analog systems to two digital systems with substantially greater subscriber capacity. While profitability was initially adversely affected as a result of operating duplicate systems, the telecommunications businesses in Hong Kong have continued to build profitably on a strong foundation by consolidating resources, enhancing service standards and expanding the subscriber base. The Company's cellular telephone subscriber base tripled during 1996.

Turnover for the energy, finance and other investments division for 1996 decreased HK$401 million, or 20.6%, compared to 1995, and the division's contribution to profit attributable to shareholders increased HK$146 million, or 4.3%, compared to 1995. The division's contribution to profit attributable to shareholders was principally comprised of the Company's 34.6% share of Hongkong Electric Holding's profits attributable to shareholders, the Company's 49% share of Husky's profits attributable to shareholders and investment income from the Company's investments held in managed funds. Profit attributable to shareholders of Hongkong Electric Holdings for 1996 decreased HK$32 million, or 0.8%, compared to 1995, due to a reduction in profits from Hongkong Electric Holdings' associated property company, which sold the remaining units in the South Horizon development in 1995. The earnings from Hongkong Electric Holdings' core electricity generation and distribution activities, however, were more than 11.7% higher than in 1995, partially due to a 3.9% net tariff increase implemented in January 1996. Husky contributed profits to the Company well above the profit generated in 1995, reflecting Husky's efforts to increase productivity and reduce operating costs and debt levels. The Company's investments held in managed funds continued to generate satisfactory levels of investment income.

The Company's share of profits less losses of associated companies for 1996 decreased HK$271 million, or 6.9%, compared to 1995, primarily due to the decrease in profits from associated companies engaged in residential property development discussed above. The Company's share of profits of associated companies principally reflects profits from its 34.6% interest in Hongkong Electric Holdings as of December 31, 1996, 49% interest in Husky and its minority interests in property development companies.

The Company recorded a HK$4,100 million exceptional profit in 1996 as the result of the global offering and listing of shares of Orange in April 1996.

Profit before taxation for 1996 increased HK$2,812 million, or 25.1%, compared to 1995.

Taxation for 1996 increased HK$178 million, or 15.7%, compared to 1995, reflecting provisions for deferred taxation in line with the increased profits from Husky and the associated company holding the Laguna City development. Profit after taxation for 1996 increased HK$2,634 million, or 26.2%, compared to

1995, primarily due to the HK$4,100 million exceptional profit recognized as the result of the global offering and listing of shares of Orange, partially offset by the decrease in profits from associated companies.

Minority interests for 1996 increased HK$181 million, or 37.6%, compared to 1995. Minority interests are attributable primarily to the interests of shareholders other than the Company in certain ports and telecommunications businesses.

Profit attributable to shareholders for 1996 increased HK$2,453 million, or 25.6%, compared to 1995.

1995 Compared to 1994

Turnover for 1995 increased HK$4,858 million, or 16.1%, and profit attributable to shareholders increased by HK$1,546 million, or 19.3%, compared to 1994. The increase in turnover was primarily due to the continued expansion of the Company's businesses. The increase in profit attributable to shareholders included an exceptional profit of HK$756 million in 1995.

Turnover for the property division for 1995 increased HK$56 million, or 2.9%, primarily due to increased gross rental income. The division's contribution to profit attributable to shareholders decreased HK$375 million, or 11.3%, compared to 1994, primarily due to lower property development profits as a result of a downturn in the Hong Kong property market as the result of certain measures announced by the Hong Kong Government in June 1994 to moderate residential property prices. The Company took advantage of the downturn in the market to replenish its land bank through government land auctions, directly through the acquisition of land and indirectly through participation in property development joint ventures. See "Business — Property — Property Development". Gross rental income in 1995 increased HK$358 million, or 23.5%, compared to 1994, primarily as the result of the completion of the two Harbourfront Office Towers in December 1994.

Turnover for the ports and related services division for 1995 increased HK$338 million, or 5.4%, and the division's contribution to profit attributable to shareholders increased HK$180 million, or 8.9%, compared to 1994. The improved results were primarily due to higher throughput at the Company's HIT and COSCO-HIT operations at Kwai Chung, which increased 13% from 4.6 million TEUs in 1994 to 5.2 million TEUs in 1995, and more efficient Company operations. The improved results also reflect higher throughput at Felixstowe, which increased 12% to 1.9 million TEUs in 1995, and SCT, which increased 14% to 1.3 million TEUs in 1995.

Turnover for the retail, manufacturing and other services division for 1995 increased HK$2,354 million, or 17.3%, compared to 1994, due to continued growth in these businesses. The contribution to profit attributable to shareholders for 1995 increased HK$90 million, or 15.1%, compared to 1994. The higher profits principally reflect the improved performance in the retail and manufacturing businesses, as evidenced by an improvement in same store sales. During 1995 retail and manufacturing operations expanded in key Asian markets such as mainland China.

Turnover for the telecommunications division for 1995 increased HK$1,373 million, or 19.0%, compared to 1994. The division's contribution to profit attributable to shareholders increased HK$140 million, or 76.1%, compared to 1994. The higher profits principally reflect a HK$756 million profit on the sale of the Company's remaining 18% interest in Satellite Television Asian Region Limited ("STAR Television") offset by losses in the telecommunications business. Telecommunications results were adversely affected by the write-off in connection with the phase-out of Hutchison Paging's "Tien Dey Seen" second generation cordless telephone system (CT2) and cellular analog systems during 1995 as the result of rapidly changing technology and the loss of a substantial number of the Company's higher-usage cellular subscribers as they switched from the Company's cellular phones utilizing analog technology to competitors' cellular phones utilizing digital technology. The Company commenced its digital cellular telecommunications services in Hong Kong in May 1995.

Turnover for the energy, finance and other investments division for 1995 increased HK$737 million, or 60.8%, and the division's contribution to profit attributable to shareholders increased HK$1,511 million, or 79.2%, compared to 1994. Profit attributable to shareholders of Hongkong Electric Holdings for 1995 increased HK$338 million, or 8.8%, compared to 1994. Earnings of Husky Oil after tax and before ownership charges, increased from C$12.3 million in 1994 to C$69.6 million in 1995. Investment income from the Company's investments held in managed funds and other investments increased HK$1,339 million, due to an improved bond market and additional surplus cash invested during the year.

The Company's share of profits less losses of associated companies for 1995 decreased HK$1,197 million, or 23.5%, compared to 1994, primarily due to a decrease in profits from associated companies engaged in residential property development.

The Company recorded a HK$756 million exceptional profit in 1995 as the result of the sale of STAR Television mentioned above.

Profit before taxation for 1995 increased HK$941 million, or 9.2%, compared to 1994.

Taxation for 1995 decreased HK$453 million, or 28.6%, compared to 1994, primarily due to a decrease in profits from associated companies and increased interest expenses. Profit after taxation for 1995 increased HK$1,394 million, or 16.1%, compared to 1994.

Minority interests for 1995 decreased HK$152 million, or 24.0%, compared to 1994, due to the phase-out of the CT2 and cellular analog systems and the loss of cellular subscribers described above.

Profit attributable to shareholders for 1995 increased HK$1,546 million, or 19.3%, compared to 1994.

Liquidity and Capital Resources

The Company finances its working capital requirements through funds primarily generated from operations. The Company had cash and cash equivalents at December 31, 1994, 1995 and 1996 of HK$12,333.5 million, HK$16,282.9 million and HK$10,797.0 million, respectively. Net cash provided by operating activities in 1994, 1995 and 1996 were HK$6,618 million, HK$8,552 million and HK$11,435 million, respectively. Dividends received from associated companies in 1994, 1995 and 1996 were HK$3,407 million, HK$3,217 million and HK$2,397 million, respectively.

Net cash used in investing in fixed assets, associated companies, managed funds and other investments in 1994, 1995 and 1996 were HK$12,917 million, HK$10,650 million and HK$18,243 million, respectively. The following table sets forth the Company's capital expenditures by division during 1994, 1995 and 1996.

Capital Expenditures

	Year Ended December 31,		
	1994	1995	1996
	HK$	HK$ (in millions)	HK$
Property (note)	1,964	255	3,735
Ports and Related Services	1,746	1,537	1,011
Retail, Manufacturing and Other Services	600	1,222	596
Telecommunications	2,707	3,140	2,252
Energy, Finance and Other Investments	14	20	17
	7,031	6,174	7,611

Note: Capital expenditures exclude costs incurred on property developments for sale of HK$131 million, HK$137 million and HK$5,353 million in 1994, 1995 and 1996, respectively.

The Company's current budgeted total capital expenditures for 1997 include three projects requiring larger than normal expenditures in 1997. The ports division's budget includes a land premium payment for the development rights at container terminal number 9 and land and development costs to develop the 2-berth second phase of Yantian Port. The telecommunications division has budgeted for the construction and development of its Hong Kong CDMA, PCS and fixed line network infrastructure. Excluding these three projects, the budgeted capital expenditures for 1997 are generally consistent with the Company's total capital expenditures in 1996 (both excluding costs of property developments for sale). The Company expects to finance such expenditures from cash on hand, internal cash generation and, to the extent required, by external borrowings, including the offering of the Notes hereby.

Net cash inflow from financing activities in 1994, 1995 and 1996 were HK$14,039 million, HK$8,348 million and HK$5,404 million, respectively. See Note 22(d) of the Notes to the Accounts.

The Company's borrowings, net of cash, managed funds and other listed investments, at December 31, 1994, 1995 and 1996 were HK$11,610 million, HK$11,915 million and HK$10,416 million, respectively. At December 31, 1996, approximately 48% of the Company's total borrowings were denominated in HK dollars, 8% in pounds sterling, 43% in US dollars and the remaining 1% in other currencies. At December 31, 1996, approximately 14% of the Company's borrowings, excluding non-interest bearing loans from minority shareholders, were repayable within one year, 56% were repayable between one and five years and 30% were repayable beyond five years. Committed borrowing facilities available to the Company, but not drawn at December 31, 1996, were equivalent to HK$20,501 million in the aggregate. Interest paid on the Company's borrowings in 1994, 1995 and 1996 was HK$1,307 million, HK$2,808 million and HK$2,821 million, respectively.

On June 27, 1997 the Company entered into a HK$12,000 million five year loan facility agreement with a syndicate of financial institutions. The unsecured loan bears interest at 39 basis points over the Hong Kong Inter-Bank Offered Rate and is repayable in full on June 27, 2002. Pursuant to the agreement, the Company borrowed HK$9,000 million on July 7, 1997 and HK$7,965 million of such borrowings was used on the same day to repay short term debt. The Company intends to use the remaining amount of the facility in July 1997 to repay short term debt.

The Company's overall treasury and funding policy is that of risk management and control. The Company operates a central cash management system encompassing all of its subsidiaries in Hong Kong whereby daily cash balances are aggregated at the Company level to meet the daily funding requirements of the Company and its subsidiaries. Surplus cash is placed on deposit in the money market in line with credit limits established according to the creditworthiness of the counterparty. Working capital banking arrangements with approved banks are monitored and approved at the Company level. Long term borrowing requirements are monitored based on consolidated cash flow projections and loan agreements are negotiated and finalized at the Company level. Except for finance leases, the Company's policy is to arrange unsecured loans, most of which are guaranteed by the Company. At December 31, 1996, secured loans amounted to HK$2,923 million.

Foreign Currency and Interest Rate Management

Since October 17, 1983, the Hong Kong dollar has been officially linked to the U.S. dollar. See "Exchange Rates" and "Exchange Controls and Other Limitations affecting Noteholders". The Company matches, where practicable, the Company's assets located in other countries with the appropriate level of borrowings in those countries' currencies. To hedge against major non-HK and non-US dollar exposures as well as to assist in managing the Company's interest rate exposures, the Company utilizes forward foreign exchange contracts and interest and currency swaps when suitable opportunities arise and when considered appropriate. The Company currently does not have major non-HK dollar and non-US dollar exposures.

Inflation

Hong Kong has experienced high rates of inflation since the late 1980s. The average annual inflation rate in Hong Kong was 9.5% from 1991 through 1995, although it declined to 6.5% in 1996 and to 6.1% for the first quarter of 1997. High inflation has contributed to an increase in rents and property values, which has benefited the Company's property development and property investment business. Inflation has also led to increased costs, particularly in the Company's more labor-intensive businesses, such as ASW.

BUSINESS

Overview

Hutchison Whampoa Limited is the holding company of the Hutchison group of companies. It is a Hong Kong-based diversified corporation listed on the Hong Kong Stock Exchange with interests and activities in the following core businesses: property development and investments; ports and related services; retailing and manufacturing; telecommunications; and energy, infrastructure, finance and other investments. The Company and its subsidiaries and associated companies principally operate in Hong Kong. In addition, they also operate in mainland China, elsewhere in Asia and in Europe and North America.

The Company's diversified activities are grouped into the following core divisions:

- ***Property.*** The property division is a leading property developer in Hong Kong and is engaged in the business of building major developments comprising residential, commercial, office, hotel and recreational facilities, principally in Hong Kong and mainland China, the long-term ownership of major commercial premises in the Company's residential/commercial developments, and management of the Company's investments and development activities.

- ***Ports and Related Services.*** The ports and related services division is one of the world's leading operators of container terminals. Hutchison Whampoa holds interests in ports in Hong Kong and mainland China, the U.K., Myanmar and the Bahamas. The Company has recently been awarded a concession to operate port facilities at both ends of the Panama Canal and has recently signed a joint venture agreement to build and operate a container port at Indonesia's developing deep-sea port of Bojonegara. The core holdings of the division are its interests in Hong Kong (HIT), and in other ports in mainland China (Yantian, SCT and Delta Ports), and in the U.K. (Felixstowe). The division also has interests in ship repair, salvage and towage operations in Hong Kong.

- ***Retail and Manufacturing.*** The retail, manufacturing and other services division is principally comprised of ASW and Hutchison Whampoa (China) Limited. ASW is one of Asia's largest retailers and operates major retail chains in Hong Kong and in several other countries in Asia. ASW also manufactures and distributes food and beverage products in Hong Kong and mainland China. Hutchison Whampoa (China) Limited has joint ventures with Procter & Gamble which manufacture and distribute certain Procter & Gamble products throughout mainland China. Hutchison Whampoa (China) Limited also has joint ventures providing aircraft maintenance services in southern China. The Company also owns, operates, acquires and develops hotels which are primarily located in Hong Kong and mainland China.

- ***Telecommunications.*** The telecommunications division has grown swiftly since its formation in 1985 to become a significant participant in mobile telecommunications in Hong Kong and the U.K.. The division has developed expertise as both cellular network operator and service provider offering a comprehensive and integrated range of wireless telecommunications. In Hong Kong, the Company has secured multiple wireless licenses giving it the ability to offer services using GSM, CDMA and PCS technologies, thereby giving it the widest spectrum allocation and highest spectrum capacity of any operator in Hong Kong. The Company has recently begun to provide fixed line services in Hong Kong, including international dialing services. The Company, through associates, is also engaged in satellite communication and radio broadcasting services.

- ***Energy, Infrastructure, Finance and Other Investments.*** The energy, infrastructure, finance and other investments division has a 84.58% interest in Cheung Kong Infrastructure and a 49% interest in Husky. Cheung Kong Infrastructure is engaged in the development, ownership, operation and management of infrastructure businesses in the PRC, including power plants, roads, toll bridges and a water plant, and infrastructure materials businesses in Hong Kong and mainland China, including the manufacture and sale of cement, the production and delivery of concrete, the production and laying of asphalt and the quarrying and selling of aggregates. Cheung Kong Infrastructure also has a 35.74% interest in Hongkong Electric Holdings. Hongkong Electric Holdings, through its wholly-owned subsidiary, Hongkong Electric, generates, transmits, distributes and is the sole provider of electricity to Hong Kong Island and Lamma Island. Husky is a Canadian-based integrated oil and gas company engaged principally in the exploration for and development of crude oil and natural gas.

The following chart illustrates the main activities of the Company and its associates:

Hutchison Whampoa Limited

Property

Hong Kong rental property
- Commercial
- Office
- Industrial
- Residential

Hong Kong development property
- Residential
- Commercial

Mainland China development property
- Residential
- Commercial

U.K. development property
- Residential

Ports and Related Services

Hong Kong
- HIT Terminals 4, 6, 7 & 9(1)
- COSCO-HIT Terminal 8 East
- Mid-Stream operations
- River trade terminal

Mainland China ports
- Yantian International Container Terminals
- Shanghai Container Terminals
- Delta ports in:
  - Guangdong province — Nanhai, Shantou, Jiangmen, Jiuzhou and Gaolan
  - Fujian province — Xiamen

Europe and the Americas ports
- Port of Felixstowe, U.K.
- Port of Freeport, Grand Bahama
- Port of Balboa, Panama
- Port of Cristobal, Panama

Other ports
- Myanmar
- Indonesia

Ship repairing, salvage & towage in Hong Kong

Retail, Manufacturing and Other Services

Park'N Shop supermarket chain in:
- Hong Kong
- Mainland China

Watson Personal Care Stores chain in:
- Hong Kong
- Mainland China
- Taiwan
- Singapore
- Malaysia
- Thailand

Fortress electrical appliances chain in:
- Hong Kong

Bhs, Tie Rack and Knickerbox stores

Manufacturing & distribution in Hong Kong and mainland China
- Distilled water
- Soft drinks
- Fruit juices
- Ice cream

Hotels
- Sheraton Hotel, Hong Kong
- The Harbour Plaza, Hong Kong
- The Great Wall Sheraton Hotel, Beijing
- The Parkview Plaza Hotel, Beijing

Other
- Procter & Gamble-Hutchison
- Guangzhou Aircraft Maintenance Engineering Company

Telecommunications

Hong Kong
- Digital cellular services network
  - — GSM
  - — CDMA
  - — PCS
- Paging services network
- Fixed line services network

Europe
- Orange plc — operator of digital PCN and nation-wide paging networks in the U.K. and cellular service provider in France and Germany

Mainland China
- Paging, cellular telephone and trunked radio network management and technical services
- Manufacture of pagers and paging and trunked radio equipment

Asia Pacific
- Australia — Paging operator and cellular telephone service provider
- India — GSM cellular services network and seven paging services networks
- Thailand, Malaysia, Indonesia and Singapore — Paging services network joint ventures
- Corporate Access — dedicated satellite communications

Metro Broadcast — commercial radio broadcasting

Asia Satellite Telecommunications — satellite owner and operator

Energy ar

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(1) HIT has the rights to develop, own and operate two berths at container terminal number 9.

Hutchison Whampoa was established in July 1977 as the result of the merger between Hutchison International Limited and the Hongkong and Whampoa Dock Company Limited. Hongkong and Whampoa Dock Company Limited, registered in 1861, was the first company to be registered in Hong Kong. Hutchison Whampoa became a publicly listed company in 1978. Cheung Kong became a major shareholder of the Company in 1979 and Mr. Li Ka-shing, a substantial shareholder of Cheung Kong, became the Chairman of the Company in 1981. Cheung Kong is the largest shareholder of the Company, owning approximately 49.94% of its issued share capital as of June 30, 1997. See "Principal Shareholder". The Company and Cheung Kong have certain common directors and cooperate primarily on major property development projects in Hong Kong and China.

Based on the closing price of its shares on the Hong Kong Stock Exchange on July 24, 1997, the Company had a market capitalization of approximately HK$272,123 million (US$35,203 million), the second largest market capitalization on the Hong Kong Stock Exchange. The Company, Cheung Kong and Hongkong Electric Holdings are three of the 33 constituent stocks which make up the Hang Seng Index.

As of December 31, 1996, the Company's total consolidated shareholders' funds were HK$68,899 million (US$8,913 million) and the Company's total consolidated borrowings were HK$40,653 million (US$5,259 million). The total consolidated short term debt and capitalization was HK$143,426 million (US$18,554 million) as of June 30, 1997. For the years ended December 31, 1994, 1995 and 1996, the Company's profit attributable to shareholders was HK$8,021 million, HK$9,567 million and HK$12,020 million (US$1,555 million), respectively. See "Capitalization" and "Selected Consolidated Financial Information".

Business Strategy

The Company currently maintains a significant market share in each of its core businesses in Hong Kong. The Company has achieved a leadership position by obtaining land in prime locations for property development, land rights for container terminal berths, commercial rental locations in Hong Kong for its retail chains, and licensed spectrum for wireless telecommunications. The Company's overall business strategy is to expand its core businesses and their market shares in Hong Kong and elsewhere, particularly in mainland China and other regions in Asia, where it can export its expertise in certain of its core businesses, such as property development, ownership and operation of container terminals, management of retail store chains and wireless telecommunications networks. As part of its overall strategy, the Company seeks to expand its recurrent income base and to maximize the coordination of its core businesses by, for example, utilizing retail space in existing Company properties for its retail chains, developing for commercial and residential purposes existing land formerly used for industrial and other purposes, and utilizing the Company's retail chain outlets in Hong Kong to promote and distribute its telecommunications products and services.

In mainland China, the Company is focusing on its core businesses and is concentrating its efforts in the locations where its established relationships and business know-how are the strongest, such as in Guangdong Province, Beijing and Shanghai. The Company's most active businesses in mainland China include port operations, property development, infrastructure, power generation, manufacturing and retailing.

Each of the Company's divisions has the following specific business strategies:

- The property division plans to continue, where possible, to redevelop its existing Hong Kong properties with a view to enhancing the properties' values and returns. The division also seeks to replenish its landbank during periods when it believes that there has been a downturn in Hong Kong land prices. The Company plans to retain its office buildings and major commercial areas of its property development projects as long-term holdings in order to increase its base of recurrent income.

- The ports and related services division plans to continue to enhance the performance of its existing port operations while pursuing expansion opportunities in Hong Kong and elsewhere. The Company seeks to improve the operating results of the ports it acquires by upgrading existing infrastructure, management systems and management based upon its successful HIT and Felixstowe operations.

- The retail, manufacturing and other services division plans to build on its base in Hong Kong through a policy of carefully managed growth, while tightly controlling costs. The Company believes that it can use the retail and manufacturing expertise it has gained in Hong Kong to expand and grow its retail and manufacturing operations in other regions of China and elsewhere in Asia.

- The telecommunications division is striving to become the leading operator of wireless communications in Hong Kong and to develop wireless telecommunications as a platform for integrated service offerings of mobile, paging and fixed line communications, with international dialing services. In Hong Kong, the Company has secured multiple wireless licenses giving it the ability to offer services using GSM, CDMA and PCS technologies, thereby giving it the widest spectrum allocation and highest spectrum capacity of any operator in Hong Kong and allowing it the opportunity to provide its customers in Hong Kong with roaming capability in countries with any one of the three technologies.
- The energy, infrastructure, finance and other investments division seeks investments with the potential for sustained growth. Cheung Kong Infrastructure's primary focus is to extend and build upon its current road and power plant projects, while seeking opportunities to participate in clusters of infrastructure projects in fast growing regions of mainland China in partnership with local governments and invest in infrastructure projects in other Asian countries. The Company believes Hongkong Electric is well-positioned for expansion as it seeks to increase its generating capacity to keep pace with Hong Kong's rapid growth and development. Husky's primary business objective is to maximize the cash flow and profit generated from its upstream and downstream operations.

Property

The Company's property division is a leading property developer in Hong Kong and is engaged in the business of building major developments comprising residential, commercial, office, hotel and recreational facilities, principally in Hong Kong and mainland China, the long-term ownership of major commercial premises in the Company's residential/commercial developments, and management of the Company's investments and development activities. In 1996, revenues from sales of the Company's development properties and its share of revenues of associates were HK$2,598 million. As of December 31, 1996, the Company maintained a portfolio of approximately 9.2 million square feet, excluding 1.8 million square feet occupied by the Company, of long term holdings in Hong Kong, consisting of office buildings, retail shops, industrial buildings and residential units. In 1996, gross rentals from the Company's investment properties were HK$1,933 million.

For the past several years, the Company's primary objective in its property business has been, where possible, to redevelop its existing Hong Kong properties with a view to enhancing the properties' values and returns. The Company has redeveloped long-held properties formerly used for dockyards and other facilities into residential developments for sale and is currently redeveloping the site of the Hongkong Hilton Hotel into a Grade A office tower in the Central district of Hong Kong. The Company generally targets its Hong Kong residential developments for middle-income families. The Company also seeks to replenish its landbank during periods, such as 1995, when it believes that there has been a downturn in Hong Kong land prices.

In mainland China, the Company cooperates with local Chinese partners to build its development properties in mainland China. The Company believes that it is conservative in the expansion of its property development operations in mainland China by concentrating its activities in areas of high demand and financing its activities with cash on hand and cash flow from consolidated operations.

The Company also enters into joint ventures with Cheung Kong in connection with major property development projects in Hong Kong and mainland China. The Company's current policy is to retain its office buildings and major commercial areas of its property development projects as long-term holdings in order to increase its base of recurrent rental income.

Overview of Hong Kong Property Rights and Government Policies

Hong Kong consists primarily of Hong Kong Island, the Kowloon Peninsula and the New Territories, and has a total land area of approximately 414 square miles. Virtually all land in Hong Kong is effectively owned by the Hong Kong Government. Land held by private parties is generally leased from the Hong Kong Government under long-term leases. Such leases are for a nominal annual rent. The lessee of the Government lease is commonly referred to as the owner of the leased property. Prior to the Joint Declaration in 1984, Government leases were generally granted for 75, 99 or 999 year terms.

Pursuant to the Joint Declaration, the Hong Kong Government could not, prior to June 30, 1997, grant new leases for terms expiring later than June 30, 2047. The Joint Declaration provided that all rights in relation to Government leases granted before or pursuant to the Joint Declaration are to be recognized and protected by the Government of Hong Kong. The Hong Kong Government has enacted an ordinance effectively extending to June 2047 most leases in the New Territories that would otherwise have expired in June 1997, at a rent as from the date of expiry equal to 3% per annum of the rateable value of the property. However, many Government leases on Hong Kong Island and in Kowloon will expire before 2047 without renewal rights. These leases are not covered by any legislation and the lessee will have to negotiate renewal terms with the Government of Hong Kong. As of December 31, 1996, approximately 99.5% of the Company's properties in Hong Kong were on land with Government leases expiring in or after 2047.

The Joint Declaration limits the amount of new land, excluding land for public rental housing, which may be leased by the Hong Kong Government to third parties to 50 hectares (approximately 5,382,000 sq. ft.) a year up to March 31, 1997. A Land Commission, comprised of equal numbers of officials designated by the British and Chinese governments, was established pursuant to the Joint Declaration to monitor, consider and approve proposals for increasing the 50 hectare limit. For the year ending March 31, 1997, a supplemental land disposal program was approved providing approximately 170 hectares of land for public housing, container terminal number 9, the Central MTRC station and other purposes. The Land Commission was dissolved on June 30, 1997.

The Hong Kong Government has various projects involving the reclamation of land from the harbor in Hong Kong which land, if subsequently released for development, would permit the addition of considerable space to the office, commercial/retail and residential markets in the next several years. Those related to the Mass Transit Railway Corporation ("MTRC") airport railway would provide office, commercial, retail and residential space and hotels to be completed in stages from 1998 to 2008 and possibly beyond.

Hong Kong Property Values

Hong Kong property rentals and values have risen rapidly in recent years, reaching peak levels in mid-1994. In June 1994 the Hong Kong Government announced certain measures intended primarily to moderate residential property prices. These governmental efforts had a dampening effect on property prices in Hong Kong and on overall activity in the Hong Kong property market. Rental rates and property values stabilized toward the end of 1995 and early 1996 and showed signs of improvement during the latter part of 1996 and the first half of 1997.

Leases of Hong Kong office and commercial properties are usually for a short duration (typically three years) compared to longer terms in other countries. Consequently, the Company's rental income from property is subject to more frequent adjustments than may be the case in other real estate markets.

Hong Kong's office property market has experienced three major corrections since 1980, during which periods (1982-83, 1991-92 and 1994) supply exceeded demand resulting in higher vacancy rates and lower effective rents. The tables set forth below provide information on new supply, take-up and vacancy rates for the periods indicated.

All-grades office — supply, take-up and vacancy
(net area in thousands of square feet) (1)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
New supply within the year	3,196	3,432	5,875	6,359	2,356	3,314	495	2,658	2,658	2,894	2,152	4,939	6,079	4,444	5,403	3,820	2,894
Take-up within the year	1,334	2,184	2,722	3,992	4,831	4,143	2,755	2,894	3,809	1,098	1,453	2,572	5,100	5,778	2,303	3,637	1,679
Vacancy at year end	2,184	3,250	6,165	8,533	6,036	5,208	2,862	2,593	1,334	2,808	3,314	5,434	6,338	4,616	7,244	7,285	8,866
Vacancy rate at year end	8.3%	11.0%	17.6%	20.6%	13.8%	11.1%	6.0%	5.5%	2.7%	5.3%	6.1%	9.2%	9.7%	6.7%	9.8%	9.4%	11.2%

Source: Hong Kong Property Review, Rating and Valuation Department of the Hong Kong Government.

(1) All figures are converted from square meters at 1 square meter = 10.76 square feet. Net area refers to the area of all enclosed space of the unit measured to the internal face of enclosing external and/or party walls.

Grade A office — supply, take-up and vacancy
(net area in thousands of square feet) (1)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
New supply within the year	3,303	3,743	651	2,206	158	1,828	2,389	2,297	692	3,002	3,658	2,044	3,550	2,389	1,410
Take-up within the year	N/A	1,932	2,683	2,797	1,088	1,056	2,995	1,370	1,150	1,603	2,927	3,949	968	3,131	1,334
Vacancy at year end	2,479	4,290	2,258	1,667	737	1,509	903	1,830	1,372	3,013	3,734	1,829	4,272	3,519	3,798
Vacancy rate at year end	14.2%	20.2%	10.3%	6.9%	3.1%	6.4%	3.5%	6.5%	4.7%	9.2%	10.2%	4.8%	10.3%	7.9%	8.3%

Source: Hong Kong Property Review, Rating and Valuation Department of the Hong Kong Government.

(1) All figures are converted from square meters at 1 square meter = 10.76 square feet. Net area refers to the area of all enclosed space of the unit measured to the internal face of enclosing external and/or party walls.

Office space in Hong Kong is classified by the Government in Hong Kong Property Review into Grade A, Grade B and Grade C, depending on the size, quality of management, and amenities of the building. After a substantial drop in office property prices from their peak levels in mid-1994, office property prices stabilized towards the end of 1995 and early 1996 and increased during the latter part of 1996 and the first half of 1997. The volume of office property transactions increased during 1996 as compared to 1995 and Grade A office rents and vacancy levels remained stable during 1996 and the first half of 1997.

Hong Kong's commercial property market has experienced two major corrections since 1980. However, as there have not been significant vacancy rates, capital and rental values of commercial properties have not experienced severe setbacks. The table set forth below provides information on new supply, take-up and vacancy rates of commercial properties for each year from 1980 to 1995.

Commercial — supply, take-up and vacancy
(net area in thousands of square feet) (1)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
New supply within the year	2,927	3,389	3,960	2,905	2,744	2,679	1,872	3,066	2,581	2,120	2,572	2,205	1,775	2,837	2,682	2,227	1,302
Take-up within the year	1,549	1,915	2,130	2,615	2,464	2,840	2,292	3,852	1,872	1,356	2,087	1,905	1,334	764	1,001	947	527
Vacancy at year end	3,583	4,551	5,364	5,827	5,918	5,638	5,014	3,960	4,100	4,250	4,110	3,777	3,615	5,176	5,875	6,811	8,113
Vacancy rate at year end	7.4%	8.9%	10.7%	10.1%	9.9%	9.0%	7.8%	5.4%	5.5%	5.8%	5.2%	4.6%	4.4%	5.1%	6.8%	7.8%	9.1%

Source: Hong Kong Property Review, Rating and Valuation Department of the Hong Kong Government.

(1) All figures are converted from square meters at 1 square meter = 10.76 square feet. Net area refers to the area of all enclosed space of the unit measured to the internal face of enclosing external and/or party walls.

The Company believes that the commercial property market in Hong Kong stabilized towards the end of 1995 and capital and rental values have increased since the beginning of 1996.

Hong Kong's residential property market peaked in April 1994. As the result of measures taken by the Hong Kong Government to cool the market and measures taken by banks to tighten lending, the market underwent a downturn. However, the residential property market stabilized in October 1995 and average prices have substantially recovered during the intervening period.

The table set forth below provides information on new supply, take-up and vacancy rates of residential properties for each year from 1980 to 1995.

Residential units — supply, take-up and vacancy
(number of units)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
New supply within the year	24,500	33,500	23,100	21,600	22,300	29,900	34,100	34,400	34,500	36,500	29,400	33,400	26,220	27,670	34,170	22,620	19,870
Take-up within the year	20,200	18,000	19,300	26,200	23,500	29,500	30,300	35,100	33,900	23,700	30,700	23,350	22,680	27,320	23,250	24,710	20,480
Vacancy at year end	16,700	29,700	31,200	24,400	22,400	22,100	24,700	22,300	20,200	30,300	26,150	33,000	34,070	32,240	40,710	36,200	34,050
Vacancy rate at year end	3.5%	5.9%	6.0%	4.5%	4.0%	3.7%	3.9%	3.4%	2.9%	4.2%	3.5%	4.2%	4.2%	3.9%	4.7%	4.1%	3.7%

Source: Hong Kong Property Review, Rating and Valuation Department of the Hong Kong Government.

Property Development

The Company has been a market leader in the creation of "garden city" developments in Hong Kong by redeveloping former dockyards, as well as industrial and warehouse sites. One of the Company's first garden city developments was Whampoa Garden, an estate of 88 residential towers containing more than 10,000 flats on the site of the former Hung Hom dockyards. It was completed in 1991 and has become the leading commercial center in East Kowloon. The development also includes schools, social centers, a public transport terminus and a recreational complex.

In conjunction with Cheung Kong and Hongkong Electric Holdings, in 1995 the Company completed the fourth and final phase of the South Horizons project, a garden city development located on Ap Lei Chau, Hong Kong. The development consists of 34 residential towers containing more than 9,800 flats and comprises approximately 7.8 million square feet of residential area and approximately 360,000 square feet of commercial space. Hutchison Whampoa, Cheung Kong and Hongkong Electric Holdings have 50%, 30% and 20% interests, respectively, in the joint venture which developed the project.

In addition, in 1994, the Company, jointly with Cheung Kong, completed Laguna City, a major garden city development in East Kowloon. Located near Hong Kong International Airport in Kowloon, Laguna City consists of 31 residential towers containing more than 6,500 flats and comprises approximately 5 million square feet of residential space and approximately 186,000 square feet of commercial space. Virtually all of the remaining residential units at Laguna City were sold during the first half of 1996. The Company entered into the Laguna City project in 1988 through a 50% interest in a joint venture with Cheung Kong in respect of the first, second and fourth phases of the project. Cheung Kong has a 100% interest in the third phase of the project.

Both South Horizons and Laguna City feature landscaped gardens and a wide range of recreational and shopping facilities.

Other major developments completed by the Company in Hong Kong include: Harbourfront Office Towers in Hung Hom, Aberdeen Centre in Aberdeen and Provident Centre in North Point. For a description of the Harbourfront Office Towers and Aberdeen Centre, see "— Rental Properties — Principal Rental Properties".

The following table sets forth certain information for the Company's residential development projects, including the Company's share of projects completed by its associates, for each of the periods indicated.

	Year Ended December 31,				
	1992	1993	1994	1995	1996
Floor Area Completed (thousand sq. ft.)	1,058	1,134	1,824	702	432
Floor Area Sold (thousand sq. ft.)	1,058	1,134	1,416	869	615
Revenue from Residential Sales (HK$ millions)	2,532	3,867	5,685	3,974	1,215

Floor area completed, floor area sold and revenue from residential sales declined in 1996 due to the sale of the remaining units in the South Horizon development, which was completed in 1995.

The following table summarizes the Company's current development properties.

Development Properties	Property Type	Total Gross Floor Area (in thousands of sq. ft.)	Percentage Ownership	Expected Completion Date
Hong Kong Property				
Cheung Kong Center	Office	1,260	100%	1998
Tsing Yi Airport Railway Station	Residential	2,680	60%	1999
King's Road	Hotel/Commercial	561	39%	1999
KCRC Hung Hom Terminus	Hotel/Commercial	1,423	25%	2000
KCRC Hung Shui Kiu	Residential	1,300	35%	2002
Ma On Shan	Residential	1,390	50%	1999
Tai Po	Residential	131	35%	1998
Broadcast Drive	Residential	216	50%	1999
Tung Chung	Residential	3,305	25%	2000
Chong Yip Street	Industrial	125	64%	1998
Castle Peak Road	Industrial/Office/Commercial	179	25%	1998
Tsing Yi Terminal 9 Building	Hotel/Service Apartments/Commercial	2,546	55%	2000
Wan Hoi Street, Hunghom	Residential/Commercial	717	50%	1999
Subtotal		15,833		
Mainland China Property				
Orient Plaza, Beijing	Commercial	6,060	22%	2001
Metropolitan Plaza, Chongqing	Hotel/Commercial	1,865	40%	1999
Westgate Mall, Shanghai	Commercial	861	21%	1997
Huamu Residential Development, Shanghai	Residential	1,152	50%	1998
Xuhui District Urban Redevelopment Scheme Phase II, Shanghai	Residential/Commercial	256	35%	1999
Huangsha Underground Railway Station Redevelopment, Guangzhou	Residential/Commercial	1,869	45%	2000
Pacific Plaza, Qingdao	Residential/Commercial	617	30%	1999
Tang Jia Wan Residential Development, Zhuhai	Residential	3,607	35%	2003
Low-Cost Housing, Chongqing	Residential	1,593	50%	1998
Chao Yang Site, Beijing	Residential/Commercial	357	40%	1999
Xuhui District Urban Redevelopment Scheme Phase III, Shanghai	Residential/Commercial	1,343	40%	2000
Subtotal		19,580		
United Kingdom Property				
Royal Gate Kensington	Residential	140	48%	1998
Graham Terrace	Residential	61	50%	1999
Subtotal		201		
Singapore Property				
Bayshore Road Parkway/East Coast	Residential	1,496	24%	2000
Total		37,110		
Golf Course				
Lakeview Golf Course, Dongguan, China	Golf Course	14,244	46%	1998

Principal Hong Kong Properties under Development

The Company's major properties currently under development in Hong Kong include:

Cheung Kong Center (former Hong Kong Hilton Hotel site). The Company is redeveloping the site of the former Hilton Hotel, located at 2 Queen's Road in the Central district of Hong Kong, into a 1.26 million square foot Grade A office tower and public car park. The former Hilton Hotel building was demolished during 1995 and work has commenced on the foundations for the office tower and car park. The underground car park will accommodate 1,050 cars. The office tower, which will be more than 60 stories high, is expected to be completed at the end of 1998. The Company has a 100% interest in this project and the office tower is expected to be held for long term investment.

Tsing Yi Airport Railway Station. The Company has an interest in a consortium which will develop a residential complex at the Hong Kong Mass Transit Airport Railway Station at Tsing Yi. When completed, the project is expected to consist of approximately 2.68 million square feet of residential space. The Company has an effective 60% interest in the project. Construction work began at the end of 1996 and is expected to be completed by the end of 1999. The development is intended for sale.

King's Road Site in North Point. The Company has a 39% interest in a joint venture which is constructing an office block and a hotel in North Point, on a site of approximately 36,641 square feet. The office block and hotel are expected to be completed in 1999.

Kowloon Canton Railway Corporation ("KCRC") Hung Hom Terminus. The Company will participate in the development of a commercial complex with a gross floor area of approximately 1.4 million square feet, consisting of three office towers, a hotel and a shopping arcade above the KCRC's Hung Hom terminus. The Company will have a 25% interest in this project. Planning is well advanced on the project, which is scheduled to be completed in early 2000. The development is intended for sale.

Ma On Shan Site. A joint venture company in which the Company has a 50% interest expects to develop a 278,000 square foot site at Ma On Shan into a 1.39 million square foot residential complex. The project is scheduled to be completed in mid-1999. The development is intended for sale.

Tai Po Site. The Company has a 35% interest in a site at Tai Po, which is to be developed into a 131,000 square foot residential complex. Completion is scheduled for 1998. The development is intended for sale.

Broadcast Drive Site. The Company has a 50% interest in the former Hongkong Television Broadcast (TVB) office building site located at 77 Broadcast Drive. The project is expected to provide approximately 216,000 square feet of residential space, subject to the approval of the development plan by the Hong Kong Government. The project is scheduled for completion in 1999. The development is intended for sale.

Tung Chung Station Development Package III. The Company and Cheung Kong entered into an agreement with the MTRC for the development of Tung Chung Town Lot No. 5 near the Tung Chung Station of the new airport railway. The development will comprise residential units and a shopping center with a total gross floor area of approximately 3.3 million square feet. Completion of this development is scheduled for 2000.

Tsing Yi Terminal 9 Building. The Company has a 55% interest in a project to construct a commercial complex of approximately 2.5 million square feet, which will be located between the soon to be developed container terminal number 9 and the nearby residential complexes. Completion is scheduled in 2000.

Wan Hoi Street, Hunghom. The Company has successfully tendered for a piece of land near the Harbourfront Office/Harbour Plaza Hotel to develop into a 0.7 million square foot residential and commercial complex. The Company has a 50% interest in the project.

Principal Mainland China Properties under Development

The Company's major joint venture property projects currently under development in mainland China include:

Orient Plaza, Beijing. The Company has a 22.3% interest in this joint venture which will engage in the phased redevelopment of certain properties at Dong Chang An Avenue in central Beijing. When completed the project will consist of an office complex, shopping arcade, luxury residential units and a hotel, comprising approximately 6.1 million square feet in total. The project is expected to be completed by the end of the year 2001. Beijing Orient Plaza is expected to be held for long term investment.

Metropolitan Plaza, Chongqing. The Company has a 40% interest in a project to redevelop a 200,000 square foot site in the central district of the city of Chongqing. To be completed in stages, the project will consist of approximately 1.9 million square feet of commercial/office/hotel space. Construction of the first phase comprising a commercial podium of 1.1 million square feet has commenced and is scheduled for completion for letting in 1997.

Westgate Mall, Shanghai. The Company has a 21% interest in a project for the development of a 553,000 square foot commercial podium with an office tower containing approximately 308,000 square feet of space at the intersection of Nanjing West and Jiangning Roads in Shanghai's Jing An district. In addition, carparks will be included for rental covering approximately 242,000 square feet of additional space. The commercial podium is expected to be completed in 1997. The project will be held for rental. Marketing of rental units for the commercial podium is currently in progress.

Huamu Residential Development, Shanghai. The Company has a 50% interest in a joint venture for the development in stages of a 1.2 million square foot low-density housing project in Huamu, in Shanghai's Pudong New District. Development commenced in 1996 and the project is scheduled for completion in 1998. The residential development together with a 200,000 square foot carpark is intended for sale.

Xuhui District Urban Redevelopment Scheme, Shanghai. The Company is participating, through its interests in a joint venture, in an urban redevelopment scheme in Xuhui, Shanghai, which is being completed in three phases. Phase I of the project was completed in 1996 and consisted of 133,000 square feet of commercial/residential space. All residential and office space comprising Phase I of the project has been sold. Construction is in progress on Phase II of the project which will consist of approximately 256,000 square feet of commercial and residential space. Phase II is scheduled for completion in 1999. The Company has a 27.5% interest in Phase I and a 35% interest in Phase II of this project, as well as a 40% interest in the development rights in the third and final phase of this urban renewal scheme. Phase III is to consist of approximately 1,343,000 square feet of commercial and residential space and is scheduled for completion in 2000. The development is intended for sale.

Huangsha Underground Railway Station Redevelopment, Guangzhou. The Company has a 45% interest in a project for the redevelopment of property above the underground railway station in Huangsha, Guangzhou. The master plan has been completed for the first phase of the proposed redevelopment and the first portion of the land has been allocated. Work on the first phase of the redevelopment is awaiting the delivery of the site by the government authorities. The redevelopment, which will be completed in stages, will consist of approximately 1.3 million square feet of residential space and about 573,000 square feet of commercial space. The first phase of the redevelopment is scheduled for completion in 2000. The residential development is intended for sale and the commercial area and carparks are expected to be retained for rental.

Pacific Plaza, Qingdao. The Company has a 30% interest in a property development project in Qingdao. When completed, this development will consist of approximately 847,000 square feet of commercial/residential space. During 1995 an office tower was pre-sold, and construction of the first phase of the low-rise residential units was completed during 1996. The first phase consists of 299,600 square feet of office/commercial area and 62,600 square feet of residential area. The second phase, consisting of approximately 485,000 square feet of high-rise residential area, is scheduled for completion in 1999. The development is intended for sale.

Tang Jia Wan Residential Development, Zhuhai. The Company has a 35% interest in the development of luxury low-rise villas on a site at Tangjiawan, adjoining a golf club in Zhuhai. The project, which will be completed in phases, will consist of approximately 3,607,000 square feet of residential space. Construction of 75 residential units in Zhuhai is expected to be completed in 1998. The development is intended for sale.

United Kingdom Properties under Development

Royal Gate Kensington. The Company has an effective 47.5% interest in the College House, Wright's Lane site in Kensington, London. The site is being redeveloped into a quality 140,000 square foot residential building which will contain 132 flats. The development is expected to be completed in 1998 and is intended for sale.

Graham Terrace. The Company has an effective 50% interest in the Graham Terrace site located in Sloane Square, London, which is being developed into an approximately 61,000 square foot residential complex, which will contain 59 houses and apartments. The development is expected to be completed in 1999 and is intended for sale.

Development Costs

The Company estimates that the Company's share of total development costs for properties under development, whether for investment or for sale and scheduled to be completed by December 31, 2001, will be approximately HK$21,819 million, of which approximately HK$6,020 million will be related to properties in mainland China. The Company currently expects that the majority of these expenditures will be financed primarily by cash flow from consolidated operations and presales of properties under development and, to the extent required, by external borrowing.

Project Management

Property developments undertaken by the Company are coordinated and supervised by its professional project management team consisting of architects, engineers and quantity surveyors.

Rental Properties

The Company owns and maintains a portfolio of approximately 9.2 million square feet (net of Company occupied area) of commercial, office, industrial and residential properties in Hong Kong for rental. These properties currently are substantially fully let and have been for the last three years. The Company's rental properties include interests in Hutchison House and the China Building, office buildings located in the Central district of Hong Kong. The Company and Cheung Kong have their headquarters in Hutchison House and the China Building, respectively.

The following table sets forth the Company's gross rental income and gross floor area of the Company's investment properties for each of the periods shown:

Rental Properties

	Year Ended December 31,				
	1992	1993	1994	1995	1996
Gross Rental Income (HK$ in millions)					
Commercial	404	522	584	594	578
Office	281	297	337	548	748
Industrial	205	389	420	489	482
Residential	15	25	30	48	42
Total	905	1,232	1,372	1,679	1,850
Gross Floor Area(1) (in thousands of sq. ft.)					
Commercial	2,330	2,565	2,555	2,567	2,542
Office	762	743	849	1,413	1,392
Industrial	3,757	4,417	4,292	4,187	5,083
Residential	70	110	183	171	121
Total	6,919	7,835	7,879	8,338	9,188

(1) Amounts shown are net of floor area occupied by the Company.

Principal Rental Properties

Set out below is a brief description of each of the Company's principal rental properties.

Hutchison House. Hutchison House is a 22-story, Grade A office building located in the Central district of Hong Kong. The Company has its headquarters in the building, which is 100% owned by the Company. The building, originally constructed in 1974, comprises approximately 504,000 square feet of office and commercial space. Long term tenants include Ernst & Young, Baker & McKenzie and Wardley Financial Services Ltd., each of which has been a tenant since at least 1990. At December 31, 1996, Hutchison House had an occupancy rate of 100%, and the average effective monthly rental per gross square foot of office space was HK$67.

China Building. China Building is a 23-story, Grade A office building located in the Central district of Hong Kong. China Building, constructed in 1978, comprises approximately 259,000 square feet of office and commercial space. The Company has a 100% interest in the building. Cheung Kong has its headquarters in the building. Other long term tenants include Canadian Eastern Finance Ltd., Canadian Imperial Bank of Commerce and the Consulate General of the Netherlands, each of which has been a tenant since at least 1992. At December 31, 1996, the China Building had an occupancy rate of 100%, and the average effective monthly rental per gross square foot of office space was HK$73.

Harbourfront Office Towers. Harbourfront Office Towers are 23-story, Grade A twin office towers located at the site of the Company's former distribution center adjacent to Whampoa Garden in Hung Hom, East Kowloon. The towers comprise approximately 863,000 square feet of office space and were completed in 1994. In addition, the towers have a total of 214 carparking spaces. The Company has a 100% interest in the towers. Over 80% of the office space was pre-let prior to completion of construction. Principal tenants in the buildings include Hongkong and Shanghai Banking Corporation, STAR Television, Citibank and Hutchison Telecom. At December 31, 1996, each tower had an occupancy rate of 100%, and the average effective monthly rental per gross square foot of office space in the office towers was HK$29.

Whampoa Garden. Whampoa Garden, completed in 1991, consists of 88 16-story residential towers on 12 sites located on the former Hung Hom dockyards in East Kowloon. The Company sold the residential units and retained the commercial complex which, with approximately 1.7 million square feet of commercial space, is one of Hong Kong's largest shopping complexes and has become a leading commercial center in East Kowloon. Approximately HK$200 million is being spent for the phased renovation and upgrading of the commercial complex, which is intended to modernize and enhance the overall appearance of the shopping complex. The renovation, expected to be completed in 1997, is progressing according to plan and has already drawn increased shopping traffic to the area. The Company has a 100% interest in the commercial complex. Tenants include such retailers as Yaohan International Department Store, Wing On Department Store and UA Cinemas. The Company's retail chain stores, Park'N Shop, Watson's Personal Care Store and Bhs, also occupy space in the complex. At December 31, 1996, the complex had an occupancy rate of 99% for its commercial space, and the average effective monthly rental per leasable square foot of commercial space in the complex was HK$21.

The Hongkong International Distribution Centre ("HIDC"). HIDC, located at the Kwai Chung container terminal in Kowloon, is one of the largest commercial/industrial complexes in Asia and was completed in 1992. HIDC comprises approximately 4.7 million square feet of office and warehouse area and has over 187 carparking spaces available for rental. The Company has an 88% interest in HIDC. At December 31, 1996, the complex had an occupancy rate of over 88% for its commercial space, and the average effective monthly rental per leasable square foot of commercial space in the complex was HK$9.

Aberdeen Centre. Aberdeen Centre is a 345,000 square foot commercial complex located in Aberdeen on Hong Kong Island and was completed in 1982. Aberdeen Centre also has over 542 carparking spaces available for rental. The Company has a 100% interest in the Centre. Tenants include such retailers as Wing On Department Store and KPS Retail Store. At December 31, 1996, Aberdeen Centre had an occupancy rate of 97%, and the average effective monthly rental per leasable square foot was HK$31.

The following table summarizes certain information as of December 31, 1996, with respect to the above-described properties and the Company's other existing properties held for rent.

Rental Properties

Rental Properties	Year Completed	Percentage Ownership	Total Gross Floor Area for Rent(1) (in thousands of sq. ft.)
Commercial			
Whampoa Garden Sites 1-12	Various	100%	1,671
Aberdeen Center	1982	100%	332
Provident Center	1984	100%	184
Belvedere Garden Phases 1 and 3	1987/1991	100%	145
Belvedere Garden Phase 2	1989	60%	67
Others	Various	Various	143
			2,542
Office			
Harbourfront Office Towers I and II	1994	100%	545
Hutchison House	1974	100%	453
China Building	1978	100%	259
Park Commercial Center	1981	100%	106
Johnston Road	1977	100%	29
			1,392

Rental Properties	Year Completed	Percentage Ownership	Total Gross Floor Area for Rent(1)
			(in thousands of sq. ft.)
Industrial			
Hong Kong International Distribution Center	1992	88%	4,190
Watson Center	1978	100%	541
Cavendish Center	1984	100%	238
Kwai Chung Industrial Building	1980	100%	101
Others	Various	Various	13
			5,083
Residential	Various	Various	171
Total			9,188

(1) Amounts shown are net of floor area occupied by the Company, which is approximately 1.8 million square feet.

Tenants

The Company seeks to maintain long-term relationships with high quality tenants and to maintain an appropriate balance in its tenant composition. The Company believes that the implementation of its tenant strategy has been fundamental in retaining its core tenants and maintaining the strength of its rental income base.

The following table sets forth the occupancy rate and the average effective monthly rental for the Company's commercial, office, industrial and residential spaces as at the date indicated:

	At December 31,				
	1992	1993	1994	1995	1996
Occupancy Rate					
Commercial(1)	96%	92%	90%	93%	98%
Office(2)	94	100	98	97	99
Industrial (1)	72	89	98	96	91
Residential(2)	93	98	100	84(3)	82(3)
Average Effective Monthly Rental (in HK$)					
Commercial(1)	17	18	21	23	24
Office(2)	44	46	48	43	43
Industrial (1)	9	9	9	9	9
Residential(2)	19	19	23	24	25

(1) Per leasable square foot.

(2) Per gross square foot.

(3) Decreases in occupancy rates are due to renovations which were completed in early 1997.

The Company's office space is generally leased to multinational corporations and leading Hong Kong-based corporations. The Company's commercial space is typically occupied by shops, banks, restaurants and department stores.

In accordance with practices in the Hong Kong property market, the Company's office leases are typically for three years, but in some cases are six or nine years in duration. Regardless of the duration of the lease term, the rent charged is generally adjusted every three years based upon market rates. Depending on market conditions, the Company has granted rent-free periods of one or two months in the original letting of the office and commercial property. Residential leases are typically for two years and are renewed based upon market rates. Commercial leases typically extend for two to three years, but in some cases are six or nine years in duration. Regardless of the duration of the lease term, the rent charged is generally reviewed every two or three years based upon market rates. The Company's tenants are also charged a monthly management fee which covers building maintenance expenses, insurance and certain other costs. Tenants are also required to pay their utility charges and government rates.

Property Taxation

Government rates are collected annually by the Hong Kong Government on the Hong Kong properties of the Company. Such rates are currently imposed at an annual rate of 5.0% of the property's ratable value. In general under the terms of their leases, such amounts are passed through to the respective properties' tenants and, as a result, do not have a material impact on the Company's results of operation.

Property Management

The Company also undertakes property management by providing professional day-to-day property management and maintenance services. The Company believes that its property management services complement and enhance the value and marketability of its investment and development portfolios. The Company provides management services for its properties in Hong Kong, including Hutchison House, Whampoa Garden, Provident Centre, Aberdeen Centre and South Horizons, and its properties in mainland China. In addition to managing and maintaining the Company's investment properties, the estate management division provides building management services to residential complexes with over 36,000 households covering over 30 million square feet of area.

Competition

With respect to its property development activities, the Company competes with a number of other developers, principally for the acquisition of suitable development sites. The supply of land available for development in Hong Kong is constrained by a number of factors, including geography and Hong Kong government policy. Land released for development by the government is usually sold at auction.

With respect to its investment properties, the Company competes with other major developers and complexes to attract commercial and office tenants and to draw customers to the retail outlets, restaurants and hotels in its developments. The Company competes for office tenants primarily based upon the quality and location of its buildings, its reputation as a building owner, the quality of its support services and the rent charged. The Company competes for commercial tenants primarily based on the location of its commercial centers and their ability to attract customers using a balanced mix of tenants.

Ports and Related Services

The Company is one of the world's leading operators of container terminals, holding interests in ports in Hong Kong and mainland China, the U.K., Myanmar and the Bahamas. The Company has been awarded a concession to operate port facilities at both ends of the Panama Canal, and has recently signed a joint venture agreement to build and operate a container port at Indonesia's developing deep-sea port of Bojonegara. The Company also has interests in aircargo, ship repair, salvage and towage operations in Hong Kong. The Company has a long history in the port business and related services. HIT was established in 1974 and is now the successful centerpiece in the Company's ports and related services division.

The Company's strategy in its ports and related services operations is to continue to enhance the performance of its existing port operations while pursuing expansion opportunities in Hong Kong and elsewhere. Many ports around the world are currently owned and operated by the public sector. However, the Company has observed that, over the last several years, there has been a global trend towards the privatization of ports, which the Company believes will continue. The Company is applying its track record, experience and financial resources to capitalize on this global trend by identifying and acquiring key ports throughout the world. The Company seeks to improve the operating results of the ports it acquires by upgrading existing infrastructure and management systems and installing management trained at its existing ports. The Company has significantly expanded its port operations in mainland China in recent years and continues to actively seek opportunities to acquire and develop new ports, and expand its existing ports, in mainland China. The

Company believes that the continuing development of other ports in mainland China will have a beneficial effect on its existing facilities in Hong Kong as containerization of freight increases and the overall market for container handling services along the mainland China coast expands.

The Hongkong and Whampoa Dock Company Limited traces its origins to the last century, when it established a ship construction and repair business at Hung Hom. It later diversified into cargo handling. In 1974, the Hongkong and Whampoa Dock Company Limited formed HIT to coordinate the services of its container handling subsidiaries. Following the merger of the Hongkong and Whampoa Dock Company Limited and Hutchison International Limited in 1977, HIT became a subsidiary of the Company.

HIT is the world's largest privately-owned container terminal operation in terms of throughput handled. In 1996, Hong Kong handled more containers than any other port in the world and HIT and COSCO-HIT handled approximately 42% of the container traffic passing through Hong Kong.

The Company owns and operates Felixstowe, the largest container facility in the U.K. and the fourth largest container facility in Europe.

In response to an increased volume of cargo to and from mainland China, the Company has significantly expanded its mainland China port operations in recent years. The Company holds interests in a number of ports in mainland China, including Yantian, SCT and Delta Ports.

The market for ports and related services is dependent on a variety of factors. The geographic location of the port is important to its flow of traffic. Ports in Hong Kong benefit from its strategic location in the center of the rapidly developing economies of Asia. A terminal operator must have sufficient capacity to meet the demands of its customers. HIT and COSCO-HIT together have the largest number of berths at Kwai Chung Container Port ("Kwai Chung"), the principal container port in Hong Kong. Shipping customers also focus on turnaround time at ports in order to minimize the amount of time their ships spend at ports. The Company aims to utilize the latest technology and management systems in its port operations in order to enhance turnaround performance at its ports.

The following table sets forth the container throughputs of ports operated by the Company's subsidiaries and associated companies.

	Year Ended December 31,				
	1992	1993	1994	1995	1996
Container throughputs (thousands of TEUs)					
Local(1)	3,671.2	4,858.3	6,864.9	7,912.5	8,650.1
Transhipment	686.8	796.9	1,566.5	2,333.6	2,636.8
Total	4,358.0	5,655.2	8,431.4	10,246.1	11,286.9

(1) A "TEU" is a twenty-foot equivalent unit that is based on the dimensions of a cargo container 20 feet long x 8 feet wide x 8 feet 6 inches high with a maximum load of 24 tons.

Hongkong International Terminals Limited

HIT is the world's largest privately-owned container terminal operator in terms of throughput handled. The Company currently holds an 80% interest in HIT, after the acquisition in July 1997 of an additional 2.5% interest from a minority shareholder of HIT. HIT's scope of business includes the loading and unloading of containers to and from container vessels, the handling of cargo, the storage of containers and the handling of containers within the container terminal premises. HIT operates ten berths at its three terminals at Kwai Chung. In addition, HIT's 50% joint venture, COSCO-HIT, operates a two-berth terminal at Kwai Chung. In 1996, approximately 5.7 million TEUs passed through the twelve berths operated by HIT and COSCO-HIT, an increase of 7% over 1995. The three terminals operated by HIT and the one terminal operated by COSCO-HIT occupy approximately 120 hectares of terminal space which is held under leases granted by the Hong Kong Government expiring on June 30, 2047. Historically, the Hong Kong Government has controlled the amount of land used for container terminals.

The following table summarizes certain information with respect to HIT.

	Year Ended December 31,				
	1992	1993	1994	1995	1996
Container throughputs (thousands of TEUs)					
Local	2,462.0	2,997.7	3,352.8	3,264.2	3,471.3
Transhipment	439.5	489.2	662.5	813.8	1,027.5
Total	2,901.5	3,486.9	4,015.3	4,078.0	4,498.8
Fixed assets (HK$ millions)					
Cost	9,563.8	12,191.0	12,696.3	13,423.2	13,850.3
Net book value	8,745.4	11,253.5	11,561.5	12,017.7	11,993.1

The overseas destinations and origins of throughput handled by HIT in 1996 were as follows:

Destination/Origin	Approximate Percentage
North America	41%
Intra-Asia	29%
Europe	23%
Others	7%
Total	100%

HIT and COSCO-HIT handled over 60% of the throughput at Kwai Chung and approximately 42% of the total Hong Kong throughput in 1996. HIT's dominant market share is attributable to its large number of berths and the emphasis on the quality of service it provides to its customers. HIT's contracts with customers are typically for one to ten years. HIT's and COSCO-HIT's major customers include significant shipping lines such as China Ocean Shipping (Group) Company, American President Lines, Evergreen, Wan Hai, Hyundai, Orient Overseas Container Line, Mitsui OSK Lines, Kawasaki Kisen Kaisha, Nedlloyd, Yang Ming and Compagnie Maritime D'Affretement.

The operations of HIT are geared to meet its customers' needs. HIT operates 24 hours a day, every day of the year except for Chinese New Year day. HIT's employees possess significant experience in the operations of container terminals and are continuously trained to maintain and improve their level of professional expertise.

HIT utilizes advanced technologies including rail-mounted, high-speed stacking cranes and computerized port and management systems to assist in efficient yard planning, berth utilization programming and container tracking. As of December 31, 1996, HIT owned 30 quay cranes (9 Panamax, 21 Post-Panamax (capable of handling vessels too large to pass through the Panama Canal)) at its terminals for loading and unloading at the quayside. HIT also maintains close electronic data interchange links with its customers. The use of advanced equipment and management systems maintain efficient turnaround times at HIT's terminals. HIT has been twice voted "Best Container Terminal Operator" at the Asian Freight Industry Awards.

In order to meet anticipated throughput growth in Hong Kong, the Hong Kong Government has approved plans for the development of container terminal number 9. The development of container terminal number 9 is expected to add an additional capacity of 2.6 million TEUs to Kwai Chung by 2001, its expected completion date. HIT has the rights to develop, own and operate two berths at container terminal number 9 at an estimated cost of HK$5.3 billion. The Hong Kong Government is considering plans for the development of two additional container terminals for completion after the year 2000, although no firm plans have been approved. HIT would consider participating in any future development of container terminals in order to maintain or increase its market share of port services in Hong Kong.

Port of Felixstowe Limited

The Company owns and operates Felixstowe, which was established in 1886 and is the largest container facility in the U.K. and the fourth largest container facility in Europe. The Company acquired a 75% interest in Felixstowe in 1991 and the remaining 25% interest in 1994. Felixstowe handled over 2.0 million TEUs in 1996, a 7% increase over 1995. Felixstowe handled approximately 37% of the U.K.'s container throughput in 1996. It has three terminals: Trinity, which can berth nine of the largest container ships at any one time; Landguard, serving deep-sea and short sea operations; and Dooley, the U.K.'s second largest roll-on, roll-off facility. The facilities at Felixstowe were expanded with the completion of Trinity III in early 1996, with the handling capacity increased to approximately 2.5 million TEUs.

The following table summarizes certain information with respect to Felixstowe.

	Year Ended December 31,				
	1992	**1993**	**1994**	**1995**	**1996**
Container throughputs (thousands of TEUs)					
Local	1,209.2	1,266.8	1,327.5	1,431.6	1,460.6
Transhipment	247.3	294.6	359.3	453.1	553.3
Total	1,456.5	1,561.4	1,686.8	1,884.7	2,013.9
Fixed assets (HK$ millions)					
Cost	3,244.9	3,239.7	3,607.5	3,906.2	4,374.3
Net book value	2,243.6	2,128.3	2,295.7	2,657.9	2,905.9

The overseas destinations and origins of throughput handled by Felixstowe in 1996 were as follows:

Destination/Origin	**Approximate Percentage**
Far East	30%
North America	21%
North Europe	13%
Middle East/India	10%
Africa	10%
Central and South America	5%
Mediterranean	11%
Total	100%

Yantian International Container Terminals Limited

The Company has a 43.6% interest in Yantian, which owns and manages the Yantian Port, the first deep-water port in southern China. Opened in July 1994, Yantian Port is located in Da Peng Bay, three kilometers from the Hong Kong border. Yantian Port's two container berths handled throughput of over 353,000 TEUs in 1996, a three-fold increase over 1995. With the completion of Phase II in 2000, Yantian Port will provide 118 hectares of yard space, six container berths and three general cargo berths with an annual handling capacity of 2.0 million TEUs. Yantian Port has a direct rail link to the Shenzhen-Guangzhou railway and a road network connecting to Hong Kong and southern China. Yantian Port has been designated the first container port in mainland China for the implementation, on a pilot basis, of customs procedures in the transhipment of cargo.

The following table summarizes certain information with respect to Yantian.

	Year Ended December 31,		
	1994	1995	1996
Container throughputs (thousands of TEUs)			
Local	12.9	105.8	353.5
Transhipment	—	—	—
Total	12.9	105.8	353.5
Fixed assets (HK$ millions)			
Cost	2,569.5	2,788.6	2,967.4
Net book value	2,531.2	2,677.2	2,776.1

The overseas destinations of throughput handled by Yantian in 1996 were as follows:

Destination	Approximate Percentage
North America	53%
Europe	32%
Intra-Asia	15%
Total	100%

Shanghai Container Terminals Limited

The Company owns an effective 40% interest in SCT, which is a joint venture formed in December 1992 with the Shanghai Port Authority. Operations under the joint venture structure started in August 1993. SCT manages three terminals at Zhang Hua Bang, Jun Gong Lu and Bao Shan, comprising ten container berths. The Company provides senior personnel, expertise and technology for the management of the terminals. The Company also assisted in the conversion and upgrading of general cargo berths to new container berths, which raised SCT's handling capacity to 1.7 million TEUs. SCT handled throughput of 1.44 million TEUs in 1996, a 11.2% increase from 1995. SCT has been granted first rights of refusal to develop Shanghai's future container terminals in the Pudong areas to cope with the anticipated greater volume of trade and increased usage by customers.

The following table summarizes certain information with respect to SCT.

	Year Ended December 31,			
	1993	1994	1995	1996
Container throughputs (thousands of TEUs)				
Local	395.3	1,057.1	1,130.6	1,133.4
Transhipment	13.2	73.0	163.4	304.9
Total	408.5	1,130.1	1,294.0	1,438.3
Fixed assets (HK$ millions)				
Cost	790.7	992.2	1,323.6	1,582.1
Net book value	773.9	948.3	1,237.5	1,444.6

The overseas destinations of throughput handled by SCT in 1996 were as follows:

Destination	Approximate Percentage
Japan	23%
Hong Kong	20%
North America	14%
South Korea	10%
Europe	11%
Southeast Asia	9%
Other	13%
Total	100%

Hutchison Delta Ports Limited

Delta Ports, a wholly-owned subsidiary of the Company, was formed in September 1994 to hold and manage all of the Company's existing interests in river and coastal ports in mainland China and to invest in, develop and operate new river and coastal ports in mainland China. Delta Ports currently operates and manages joint venture facilities in Jiuzhou, Gaolan, Nanhai, Jiangmen, Shantou and Haicang. Except for Shantou and Haicang, these joint venture facilities are 50% owned by Delta Ports. The Shantou port is 70% owned by Delta Ports and the Haicang Port is 49% owned by Delta Ports.

Jiuzhou, Gaolan, Nanhai and Jiangmen handled a total of 426,000 TEUs and 1.35 million tons of general cargo in 1996, an increase of 20% and 35%, respectively, over 1995.

Including Shantou and Haicang, which are in their initial stages of operations and will be fully completed by the end of 1997, Delta Ports is developing into a major developer and operator of river and coastal ports in mainland China in conjunction with local government entities as its joint venture partners.

To finance the acquisition and development of river and coastal ports in mainland China, Delta Ports issued US$275 million of 7% mandatorily exchangeable guaranteed bonds in November 1994. The bonds are mandatorily exchangeable for shares of Delta Ports after an initial public offering of its shares, provided the initial public offering meets certain specifications. If Delta Ports' initial public offering does not meet such specifications or if no initial public offering takes place on or before November 8, 2001, Delta Ports will be required to redeem the bonds at approximately 124% of their principal amount plus accrued interest.

Other Ports

The Company has a 75.5% interest in Mid-Stream Holdings Limited, which is the largest mid-stream operator in Hong Kong. Mid-Stream Holdings Limited achieved a throughput volume of 1.4 million TEUs in 1996 through its waterfront depots at Tsing Yi, Stonecutters Island, Tseung Kwan O and Tuen Mun.

A consortium in which the Company has an effective 33% interest, has been awarded the right to develop a 65 hectare river trade terminal at Tuen Mun, Hong Kong. This terminal is currently being developed and is scheduled to commence operations in late 1998, and the entire project will be completed by 2000.

The Company has a 50% interest in the Port of Freeport on Grand Bahama Island. This port currently provides a major cruise ship destination. The first phase of its two-berth, deep water container terminal facility successfully commenced operations on April 1, 1997. The Port of Freeport is the closest offshore port to the east coast of the United States and is strategically located between Europe, North and South America and the Panama Canal. Freeport Harbour Company, in which the Company has a 50% interest, exercised an option to acquire 100% of the Grand Bahama Airport Company, together with 741 acres of industrial land joining the airport and harbour, which is to be developed as a sea/air business center.

The Company commenced operations of the ports of Balboa on the Pacific Ocean and Cristobal on the Atlantic Ocean on March 1, 1997, under a long-term concession. These two ports are located at either end of the Panama Canal.

The Company has a 20% interest in a newly completed container port facility at Thilawa (Yangon), Myanmar, and start-up operations have commenced.

The Company has recently signed a joint venture agreement to build and operate a container port at Indonesia's developing deep-sea port of Bojonegara.

Related Services

The Company owns 50% interests in both Hongkong United Dockyards Limited ("HUD") and The Hongkong Salvage and Towage Limited ("HKST"). HUD provides both marine and ground engineering services from its floating docks and workshop complex. In addition to ship maintenance and repair, HUD is a leading contractor for steelwork, mechanical and electrical engineering, and industrial and heavy engineering. HKST has the largest and one of the most modern fleet of tugs in Hong Kong. Its 21-vessel fleet includes two 3,200 BHP harbor tugs acquired in 1995 and four 4,000 BHP ocean-going multi-purpose tugs acquired in 1994. Its services include harbor towage, deep-sea towage, salvage, as well as tug design, supervision and consultancy.

Retail, Manufacturing and Other Services

The Company holds 100% interests in both ASW and Hutchison Whampoa (China) Limited. ASW is one of Asia's largest retailers and operates three major retail chains in Hong Kong and in several other countries in Asia in addition to manufacturing and distributing food and beverage products in Hong Kong and elsewhere in mainland China. Hutchison Whampoa (China) Limited has joint ventures with Procter & Gamble which manufacture and distribute certain Procter & Gamble products throughout mainland China. Hutchison Whampoa (China) Limited also has joint ventures providing aircraft maintenance services in southern China. The Company also owns, operates, acquires and develops hotels which are primarily located in Hong Kong and elsewhere in mainland China.

The Company strategy in its retail and manufacturing operations is to build on its base in Hong Kong through a policy of carefully managed growth, while tightly controlling costs. The Company believes that it can use the retail and manufacturing expertise it has gained in Hong Kong to expand and grow its retail and manufacturing operations in mainland China and elsewhere in Asia. The Company believes that the same keys to success in its Hong Kong operations (tight cost control, hands on management and careful quality control) can be transferred successfully to its expanding operations outside of Hong Kong.

The Company has a long history in retail and manufacturing. ASW started business in the 1800s as a small dispensary in the southern Chinese province of Guangdong known for providing free medicines to the poor. Under the Watson family, it quickly diversified into the production of aerated waters as well as pharmaceutical and retailing operations. By the turn of the century, ASW had developed into a major trading force in Hong Kong, mainland China and the Philippines with more than 100 retailing and dispensing branches. Because of its long history, the Watson name is well recognized in a number of countries in Asia. ASW became a wholly-owned subsidiary of the Company in 1981.

A S Watson & Company Limited

ASW operates the Park'N Shop supermarket chain, Watson's personal care store chain and the Fortress electronics and electrical appliances chain. ASW serves millions of customers through a total of 605 retail outlets, of which 303 are located outside Hong Kong. All store numbers in the text of this section are stated as of December 31, 1996. The majority of ASW's retail stores are rented, preserving the operational flexibility of the division. ASW also manufactures and distributes ice-cream products, soft drinks, fruit juices and distilled water in Hong Kong and mainland China. ASW, together with their joint venture partner Nuance International Holdings Ltd, have been awarded the licences for the airside sale of perfume, cosmetics and general merchandise at the new Hong Kong airport at Chek Lap Kok, which is due to open in 1998. The joint venture plans to pursue other airport retail opportunities within Asia.

As customers throughout Asia become increasingly cost and quality conscious, ASW strives to provide customers with quality products at competitive prices. ASW's operations are being expanded regionally into Taiwan, Singapore, Malaysia, Macau, mainland China, Thailand and Indonesia. The Company believes that significant benefits flow from the economies of scale inherent in operating an integrated retail organization throughout Asia.

The following table sets forth certain information with respect to ASW.

	Year Ended December 31,				
	1992	1993	1994	1995	1996
Number of Retail Outlets					
Hong Kong					
Park'N Shop	157	163	163	171	170
Watson's Personal Care Stores	61	61	69	73	81
Fortress	31	32	36	43	45
Others	0	0	1	4	6
Sub-total	249	256	269	291	302
Mainland China					
Park'N Shop	4	10	22	42	60
Watson's Personal Care Stores	2	5	7	12	18
Sub-total	6	15	29	54	78
Other					
Park'N Shop					
Taiwan	13	20	32	14	0(1)
Watson's Personal Care Stores					
Taiwan	40	54	77	98	130
Singapore	24	30	33	38	44
Malaysia	0	0	4	13	29
Macau	1	1	2	4	4
Thailand	0	0	0	0	3
Others	0	0	3	13	15
Sub-total	78	105	151	180	225
Total	333	376	449	525	605

(1) In 1995, the Company decided to close or sell its Park'N Shop stores in Taiwan in view of the difficult operating environment for supermarkets in Taiwan.

Retail Chains

Park'N Shop. The Park'N Shop supermarket chain serves more than 10 million shoppers a month in 230 locations with centrally controlled product ranges and merchandising layouts. The Park'N Shop supermarket chain puts particular emphasis on convenience, product life, display and selection. Checkout scanning equipment has improved customer service and brought benefits in stock control and customer analysis.

The Park'N Shop chain, through its 170 outlets in Hong Kong, commands a market share of the supermarket business of approximately 30% in Hong Kong, as determined by data from an independent market research firm. Its principal competitor in Hong Kong, the Wellcome supermarket chain, has a slightly higher market share than Park'N Shop. Park'N Shop also faces competition on the sale of fresh foods from Japanese department stores and local fresh food markets. Park'N Shop has increased its market share in Hong Kong over the last five years by opening stores in convenient locations in both high and low income areas and by providing a wider and higher quality product range. The Company has achieved encouraging results in the larger-format Park'N Shop supermarkets in the Company's "garden city" developments in Whampoa Garden and South Horizons. Park'N Shop intends to open more larger-format supermarkets to meet the one-stop shopping needs of its customers.

ASW seeks opportunities to expand selectively the Park'N Shop supermarket chain in mainland China. With 60 Park'N Shop stores strategically located in cities such as Shenzhen, Zhuhai, Guangzhou and Shanghai, the Park'N Shop supermarket chain is one of the largest non-domestic food retailers in mainland China. Park'N Shop stores in mainland China are established pursuant to joint ventures with local partners. ASW has a majority interest in most of these joint ventures. ASW believes that there is significant potential in mainland China for the development of additional Park'N Shop stores.

Watson's. The Watson's personal care stores chain is one of Asia's largest retailer of personal care products and enjoys strong brand name recognition in Hong Kong and in other countries in Asia. These stores are similar in concept to a U.S. drug store except that most stores do not dispense prescription drugs. The Watson's personal care stores offer a range of more than 25,000 products, including toiletries, medicines, cosmetics, magazines, confectionery, fashion items and toys. The chain operates 130 outlets in Taiwan, 81 in Hong Kong, 44 in Singapore, 29 in Malaysia, 18 in mainland China, 4 in Macau and 3 in Thailand. The Watson's personal care stores face competition from other similar chains, such as Manning's, department stores and independent stores.

Fortress. Since its acquisition by ASW in 1990, the Fortress chain has emerged as a leading retailer of electronic equipment and domestic electrical appliances in Hong Kong. The chain of 45 Fortress stores in Hong Kong has achieved a market share of approximately 30%, as estimated by the Company, through aggressive price promotions, product range expansion and after-sales product service through optional extended warranty plans. The Fortress chain faces competition from smaller similar chains, department stores and independent stores. Plans are being finalized for the controlled expansion of Fortress into mainland China and Taiwan.

Other Retail Chains. ASW opened a Bhs store in Hong Kong, pursuant to a franchise agreement, in November 1996 to target the medium price range clothing retail segment. Bhs (formerly known as British Home Stores) is a well-known brand name in the U.K. ASW plans to open more Bhs stores in Hong Kong as well as a Bhs store in Malaysia in 1997.

ASW has also established, pursuant to franchise agreements, smaller retail concepts in Hong Kong and elsewhere in Asia such as Tie Rack, which primarily sells neckties and scarves, and Knickerbox, which primarily sells intimate apparel.

Manufacturing

The manufacturing division of ASW manufactures and distributes Watson and international branded distilled and mineral water, beverages, juices and ice cream in Hong Kong and mainland China. ASW has achieved dominant market shares in many of these product areas. ASW utilizes mass media advertising to create product awareness and to differentiate its products. The manufacturing division of ASW also takes advantage of its close supply relationship with the Park'N Shop supermarkets chain to distribute its products.

ASW's manufacturing division has rapidly increased its manufacturing capacity in recent years. ASW's current annual manufacturing capacity in Hong Kong is approximately 222 million liters for water, 19 million liters for juice and 55 million liters for soft drinks. The current annual manufacturing capacity of ASW's joint ventures in mainland China is approximately 250 million liters for soft drinks and 44 million liters for water.

Product quality, sophisticated distribution and effective marketing have helped ASW to establish a dominant share of the market for bottled water in Hong Kong. ASW's "Watson's" and "Cool" brands are the two leading brands of water in Hong Kong. The Company applies stringent methods of distillation to ensure a pure product. Every aspect of the production process, from manufacturing to bottle cap design, is researched and tested to ensure consistency and quality. Watson also markets imported bottled mineral waters such as

Pierval, SPA, San Pellegrino and San Benedetto. ASW's distilled water business is also growing in mainland China, with sales in Beijing, Shanghai and Guangzhou.

"Mr. Juicy", manufactured and distributed by ASW, is the best-selling brand of chilled fruit juice in Hong Kong. ASW also manufactures and distributes Ripe, another well-known brand of juice.

ASW also manufactures and distributes other branded cordials and carbonated drinks and distributes a growing range of international drinks including Pepsi, 7UP and Sunkist. ASW has the bottling license for Pepsi Co. brands in Hong Kong and Sunkist drinks in Hong Kong and elsewhere in China.

ASW imports and produces quality ice cream products. ASW is Hong Kong's largest supplier of such products, based on the value of such products, and its product lines include Dreyer's, Lotte and Mountain Cream. In December 1996, the Company acquired the rights to the Dreyers brand name in Hong Kong and mainland China. ASW is also the dominant supplier of ice cream in Shanghai.

In Hong Kong, the manufacturing division has two factories and approximately 1,170 employees. In mainland China the division has interests in eight manufacturing joint ventures and has over 3,000 employees. ASW's manufacturing division believes that there are significant opportunities for expanded production and distribution of many of its products in mainland China.

Hotels

The Company owns and operates several hotels in Hong Kong and elsewhere in China. The Company is considering opportunities for expansion of its hotel operations in Hong Kong and elsewhere in China. The Company also considers, from time to time, hotel acquisitions in other parts of the world.

The following table sets forth certain information with regard to the Company's hotels in operation or under construction.

	Category	1996 Average Occupancy Rate	Number of Rooms	Percentage Ownership	Year Opened
Hotels in Operation					
The Harbour Plaza	5 star	91%	415 rooms	100%	1995
Hung Hom, Hong Kong		96%	101 service apartments	100%	1995
The Sheraton Hotel and Towers Nathan Road, Hong Kong	5 star	86%	789	39%	1974
The Great Wall Sheraton Beijing	5 star	78%	840	49.8%	1984
The Parkview Plaza Hotel Beijing	4 star	57%	496	95%	1990

	Category	Number of Rooms	Percentage Ownership	Expected Opening Date
Hotels Under Construction				
North Point Hotel Hong Kong	3 star	806	39%	1998
Metropolitan Plaza Chongqing	4 star	419	40%	1998
Hung Hom KCRC Hotel Hong Kong	4 star	700	25%	2000

The Company owns The Harbour Plaza in Hung Hom, Hong Kong, which has 415 rooms and 101 service apartments. The Harbour Plaza commenced operations in July 1995. A hotel management company, Hutchison International Hotels, has been formed to manage the Harbour Plaza as well as certain other hotels the Company may ultimately acquire.

The Company has a 39% interest in the Sheraton Hong Kong Hotel and Towers, which is located in Tsimshatsui, Hong Kong. The hotel has 789 rooms and commenced operations in 1974. Hotel facilities include international cuisine restaurants, function rooms and a shopping mall.

The Company has a 49.8% interest in the Great Wall Sheraton Hotel in Beijing, pursuant to a joint venture with the Beijing Bureau of Tourism Administration.

The Company acquired the Parkview Plaza Hotel in Beijing in June 1997.

The Company has signed an agreement for the acquisition of the Shenyang Times Square Hotel, a 4 star hotel with 245 rooms and 30 office rooms. Construction activities have commenced on the building, which is located in Shenyang, China.

Hutchison Whampoa (China)

In addition to joint ventures in several of its core businesses, namely property development, container ports, telecommunications, retailing, manufacturing and infrastructure, the Company is also engaged in other activities in mainland China through its wholly-owned subsidiary Hutchison Whampoa (China) Limited. The activities of Hutchison Whampoa (China) Limited include the manufacture and distribution of personal care products and the provision of aircraft maintenance and engineering services.

The Company has an approximately 31% interest in Procter & Gamble-Hutchison Limited, the Company's joint venture with Procter & Gamble. The joint venture was established in 1988 and is now a leading producer of personal care products in mainland China. Products manufactured by the joint venture under the Procter & Gamble labels include hair and skin care products (Head and Shoulders, Rejoice, Pantene, Vidal Sassoon, Oil of Ulan (Olay)), toothpaste (Crest), soap (Safeguard), detergent (Tide and Ariel) and feminine products (Whisper). Manufacturing plants of Procter & Gamble-Hutchison Limited are located in Beijing, Tianjin, Guangzhou, Chengdu and Shaoguan. Procter & Gamble-Hutchison Limited has established an extensive sales and distribution network throughout mainland China. The joint venture aggressively markets its products in mainland China through the use of mass marketing techniques such as saturation advertising and sample distributions. These techniques have increased the brand awareness and market share of Procter & Gamble products.

The Company has a 25% interest in Guangzhou Aircraft Maintenance Engineering Company ("GAMECO"), a joint venture with China Southern Airlines and Lockheed Aircraft Services International. GAMECO serves both Chinese and international airlines from its maintenance facility at Guangzhou's Baiyun International Airport, conducting both routine maintenance and overhauls. GAMECO has invested additional capital to increase the level of vertical integration at the facility in order to expand production capacity and profitability. GAMECO also provides management supervision for routine maintenance at airports in Hainan, Shenzhen and Changsha. Plans have also been finalized to develop a new maintenance base in Wuhan.

Telecommunications

Since its formation in 1985, the Company's telecommunications division has grown swiftly to become a significant participant in mobile telecommunications in Hong Kong and the U.K. The Company has developed expertise as both cellular network operator and service provider offering a comprehensive and integrated range of wireless telecommunications. Cellular network operators are typically also service providers. Cellular service providers buy airtime wholesale from network operators and resell a range of mobile communications services to their subscribers. The Company is also the leading provider of paging services and is currently building a fixed line network in Hong Kong. The Company is already providing fixed line services, including international dialing services. The Company, through associates, is also engaged in satellite communication and radio broadcasting services. The Company's telecommunications operations are mainly located in Hong Kong, Europe and the Asia Pacific region.

The Company is striving to become the leading operator of wireless communications in Hong Kong and to develop wireless telecommunications as a platform for integrated service offerings of mobile, paging and fixed line communications. The Company's strategy is to increase its subscriber base through competitive pricing and quality services. In Hong Kong, the Company has secured multiple wireless licenses giving it the ability to offer services using GSM, CDMA and PCS technologies, thereby giving it the widest spectrum allocation of any operator in Hong Kong and allowing it the opportunity to provide its customers in Hong Kong with roaming capability in countries with any one of the three technologies.

The Company utilizes innovative marketing strategies such as providing the "Everyday" discount card to its qualified subscribers. In addition to providing cardholders with special offers for the Company's telecommunications services, the "Everyday" discount card offers purchase discounts for merchandise at over 500 independent and affiliated merchant outlets.

The Company plans to utilize its existing expertise in the Hong Kong telecommunications market to expand its overseas telecommunications operations. The Company presently has telecommunications operations in the U.K., France, Germany, China, Australia, India, Thailand, Malaysia, Indonesia and Singapore. The Company will also consider investing in other overseas telecommunications operations as licenses become available for ownership by foreign invested or controlled entities in various countries in Asia and elsewhere. The strategy of the Company's subsidiary, Chung Kiu Telecommunications (China) Holdings Limited ("Chung Kiu"), is to establish viable telecommunications businesses in mainland China with careful management of growth in order to strategically position Chung Kiu to benefit from any future liberalization of the telecommunications industry in mainland China.

The Company believes it can also achieve benefits through the successful integration of its telecommunications operations with its other divisions in Hong Kong. The Company's large portfolio of commercial and office properties minimizes the difficulty of securing base station sites that will facilitate network configuration. The Company's Fortress stores in Hong Kong provide an established distribution channel for the Company's telecommunications division.

Hong Kong

Industry Overview. Cellular communications services were first launched in Hong Kong in 1985. Until 1992, all cellular communications networks in Hong Kong were analog systems.

Since the launch of cellular services, the development of the cellular industry in Hong Kong has been assisted by the considerable emphasis placed by the Government in the early 1990s on developing an effective telecommunications policy framework. The establishment of the Office of the Telecommunications Authority of Hong Kong ("OFTA") by the Hong Kong Government in July 1993 marked a significant stage in the development of the telecommunications regulatory environment in Hong Kong. OFTA is charged with the responsibility of regulating and licensing telecommunications services, managing the allocation of radio frequency spectrum and ensuring the fair and effective operation and successful development of the Hong Kong telecommunications industry. One of its primary objectives has been to ensure the availability of telecommunications services at a reasonable cost.

In 1992, the Hong Kong Government decided that all operators of analog cellular systems should begin a process of conversion from analog to digital in order to alleviate congestion and improve spectrum efficiency. A spectrum imbalance had arisen as a result of existing operators of analog networks also operating the new digital networks. The government took measures to correct the imbalance which resulted in four existing cellular networks each having an individual allocated spectrum of 2 × 7.5 MHz in July 1997, and the fifth existing cellular network having an allocated spectrum of 2 × 7.5 MHz by July 2000. In order to achieve this goal, the Company, Hongkong Telecom CSL and Pacific Link are required, over time, to return spectrum allocation, including seed spectrum which had been allocated to them to facilitate the migration of existing subscribers of analog networks to their new digital networks.

The following table sets out the existing cellular network operators in Hong Kong together with the amount of spectrum currently allocated to them:

Network Operator	Technology Standard	Date Service Commenced	Spectrum Allocation (MHz) at December 1996	Spectrum Allocation (MHz) by July 1997
Hutchison	AMPS (1) CDMA	May 1985 October 1995	2 × 8.0	2 × 7.5
	TACS (1) GSM	September 1989 May 1995	2 × 7.5	2 × 7.5
	PCS	March 1997	2 × 5.0	2 × 5.0
Hongkong Telecom CSL	TACS (1) GSM	March 1987 July 1993	2 × 11.2	2 × 7.5(2)
Pacific Link	ETACS(1) TDMA	September 1989 October 1992	2 × 8.0	2 × 7.5
	PCS	July 1997	2 × 5.0	2 × 5.0
SmarTone	GSM	March 1993	2 × 6.5	2 × 7.5

Source: OFTA

(1) Analog technology which has migrated to digital.

(2) Spectrum allocation by July 2000.

In April 1994, OFTA published a report on the pricing and connection of cellular handsets. The report, which was prompted by concerns about the high cost of handsets and of connecting handsets to the cellular operators' networks, concluded that, although the cellular network operators were required by their licenses to connect handsets to their networks irrespective of where the handsets were purchased, the prices for connection charged by cellular network operators could have the effect of restricting the competitive provision of handsets in Hong Kong. Following discussions with OFTA, the cellular network operators agreed to reduce their connection fees and minimize, so far as possible, the processing time for connection. This OFTA initiative, together with increased competition, led to significant reductions in handset prices which contributed to the demise of the Company's second-generation cordless telephone (CT2) in Hong Kong. The reduction in handset prices has also contributed substantially to the increased demand for cellular telecommunication services in Hong Kong and the rise in the number of new subscribers since 1994.

In July 1996, the Joint Liaison Group approved OFTA's selection of six consortia to receive licenses to operate PCS networks. Of the existing network operators, only the Company and Pacific Link received a PCS license. The remaining four licenses were awarded to new entrants to the market. The introduction of PCS is expected to increase competition and stimulate demand for digital cellular services in Hong Kong. The PCS networks will be based on the DCS 1800 technology. The Company participated in the bidding for the PCS licenses in early 1995 with the primary objective of obtaining additional spectrum to increase the capacity of its network. Initially 2 × 5 MHz of spectrum will be allocated to each PCS license holder, with another 2 × 5 MHz being allocated based on demonstrated need. The licenses are for a period of 10 years commencing September 1996.

The table below illustrates the rapid growth in Hong Kong's wireless telecommunications industry over the last eleven years.

Wireless Telecommunications 1986-1996

Annual figures December	Analog	Digital	Total number of subscribers	Year on year % change	CT2	Pagers(1)
1986	10,000		10,000			287,356
1987	28,060		28,060	181		376,843
1988	51,280		51,280	83		486,640
1989	89,193		89,193	74		594,216
1990	133,912		133,912	50		711,420
1991	189,664		189,664	42		880,666
1992	233,324		233,324	23	37,444	1,046,384
1993	253,500	37.343	290,843	25	124,963	1,244,392
1994	237,508	194,267	431,775	48	178,651	1,356,177
1995	146,735	540.865	687,600	59	109,324	1,323,741
1996	17,633	1,193,047	1,210,680	76	0	1,089,094

Source: OFTA

(1) Number of pagers licensed, including those not in use.

As illustrated by the table above, the number of cellular subscribers grew over six-fold during the period between 1991-1996, at an average compound annual growth rate of 45 percent. Since the beginning of 1997, the number of new subscribers has continued to grow an average of 4.5 percent month-on-month. As at December 31, 1996, the number of cellular subscribers reached a market penetration of approximately 19 percent with 1,210,680 subscribers.

General. The Company is a leading provider of telecommunications services in Hong Kong. The Company believes it is one of Hong Kong's most successful cellular telephone operators in terms of service quality and technological sophistication. The Company is also the leading provider of paging services in Hong Kong and, commencing in 1995, began to provide certain fixed line services. The Company's Hong Kong telecommunications businesses are operating in a highly competitive and rapidly changing market place.

The following table sets forth certain operating data concerning the Company's Hong Kong telecommunications services for the periods indicated.

Hong Kong Operating Data

	Year Ended and At December 31,				
	1992	1993	1994	1995	1996
Cellular:					
Subscribers (in thousands)	107.3	115.9	112.5	110.5	293.0
Market Penetration(1)	4.0%	4.8%	7.1%	10.9%	18.9%
Company Market Share	46.0%	39.9%	26.1%	16.1%	24.2%
Average monthly usage per subscriber(2)	308	305	299	277(3)	226(4)
Average monthly revenue per subscriber (in HK$)(5)	1,081	1,125	1,120	967	695
Churn rate(6)	12.1%	9.9%	15.7%	31.9%(7)	27.9%(7)
Number of operational base stations	69(8)	84(8)	104	236	399
Number of switching centers	1	1	2	2	2
Paging:					
Subscribers (in thousands)	363.6	405.2	412.5	377.6	325.2
Market Penetration(1)	17.8%	20.7%	22.2%	21.0%	17.0%
Company Market Share	34.7%	32.6%	30.4%	28.5%	29.8%
Churn rate(6)(9)	19.1%	23.5%	30.6%	46.0%	62.3%
Switch capacity	1,050	1,300	1,300	1,500	1,050
Transmitter base stations	73	80	87	95	113

(1) Determined by dividing total market subscribers by the total population of Hong Kong at period end.

(2) Average monthly usage per subscriber is calculated by (i) for each month in such period, dividing the total number of minutes of usage during such month by the average number of active subscribers for that month and (ii) dividing the sum of such results by the number of months in the relevant period.

(3) In 1995, the Company's average monthly cellular usage per subscriber decreased and its cellular churn rate increased significantly because a substantial number of the Company's higher-usage subscribers switched from the Company's cellular phones utilizing analog technology to competitors' cellular phones utilizing digital technology. The Company commenced its digital cellular telecommunications services in Hong Kong in May 1995.

(4) The Company's average monthly cellular usage per subscriber decreased in 1996 because of lower usage from new subscribers as the Company significantly increased its number of subscribers during the year.

(5) Average monthly revenue per subscriber is calculated by (i) for each month in such period, dividing the turnover during such month, excluding revenue from equipment sales and connection charges. by the midpoint of the number of subscribers (excluding promotional users and subscribers on temporary free rate plans) at the beginning and end of that month and (ii) dividing the sum of such results by the number of months in the relevant period.

(6) The Company defines the "churn rate" as the total number of subscribers who disconnect from the network in a given period expressed as a percentage of the midpoint of the number of subscribers at the beginning and end of such period.

(7) In 1995 and 1996, the Company's cellular churn rate increased as a significant number of the Company's subscribers switched from the Company's cellular phones using analog technology to cellular phones using digital cellular services. The Company's digital cellular services commenced services in Hong Kong in May 1995.

(8) Estimated.

(9) The Company's paging churn rate has been increasing as the result of its paging service users switching to cellular phones.

Cellular. The Company is a leader in the development of the wireless telecommunications market in Hong Kong, having commenced its operations in 1985 shortly after cellular communications services were first launched in Hong Kong. The Company is the only cellular operator in Hong Kong offering both GSM and CDMA network services. It launched its PCS network services in March 1997. The Company's PCS network has met all current requirements under its license.

Following the launch of its digital networks described below, the Company expanded its subscriber base rapidly in 1996. During 1996, the Company tripled its subscriber base, increasing its subscribers from approximately 110,500 at December 31, 1995 to approximately 300,000 at December 31, 1996. As of May 31, 1997, the Company had approximately 432,800 subscribers, representing a market share of approximately 29%. The Company believes this substantial growth in subscribers is attributable to a number of factors, including (i) increased network capacities, (ii) quality networks, (iii) affordable tariff plans, (iv) emphasis on customer service, (v) dramatically declining handset costs in Hong Kong, (vi) the Company's strong distribution network through over 40 Hutchison Telecom retail outlets and (vii) increased awareness among consumers of the benefits of wireless telecommunications.

The Company supplies handsets to dealers for resale, as well as directly to new subscribers through the Company's Hutchison Telecom retail outlets, Fortress retail appliance stores and its direct sales force. The Company is actively considering expanding the distribution of its handsets through the use of its other retail chains in Hong Kong.

The Company's cellular networks interconnect with the PSTN (Public Switched Telephone Network) operated by Hongkong Telecom and, through the PSTN, with Hongkong Telecom's international gateways, enabling the Company's subscribers to make or receive calls to or from telephones outside the Company's cellular system. Hongkong Telecom is required to permit other service providers to interconnect to its network.

As discussed above, the Hong Kong Government mandated that all existing analog cellular networks in Hong Kong be phased out by the middle of 1997. The Company closed down its TACS (Total Access Communication System) analog network in June 1996 and its remaining analog network, Advanced Mobile Phone Service (AMPS), will be closed down in mid-1997. With the launch of the GSM and CDMA networks, subscribers on the TACS and AMPS systems were gradually migrated to the Company's digital systems.

The Company commenced its digital cellular telecommunications services in Hong Kong in May 1995 using GSM technology and in October 1995 using CDMA technology. As of December 31, 1996, the Company's digital networks, including its new PCS network, have a total spectrum capacity of over 1,200,000 subscribers using current technology. The Company's digital networks currently include 2 switching centers with 9 mobile switches, 37 base station controllers and approximately 762 base station transceiver subsystems.

The Company was the first operator in the world to launch a CDMA network on a commercial basis. CDMA-based cellular technology is a new variety of digital transmission which is not yet in commercial operation in any country other than Hong Kong, the United States, Canada and Korea. Most of the digital cellular systems currently in use are based upon either the European GSM standard or the Time Division Multiple Access IS-54 ("TDMA") technology. Most Asian markets have adopted the GSM standard, whereas some cellular carriers in the United States are pursuing commercial implementation of TDMA or DCS 1800 (GSM) technology. Nevertheless, several major PCS operators in the United States have committed to large scale CDMA systems and certain other major cellular carriers in the United States, Europe, Japan and mainland China testing CDMA have expressed support for this technology and are obtaining CDMA equipment from major telecommunications manufacturers. CDMA technology has a capacity that is two to three times greater than TDMA or GSM in the same amount of bandwidth.

The Company purchases its principal digital cellular equipment from Motorola. In addition, the handsets required to be purchased by the subscribers to the Company's CDMA digital cellular network are currently produced by Samsung, Motorola and Qualcomm, Inc. Because these companies commenced manufacturing CDMA-based handsets only recently, such handsets are initially available in limited quantities. Additional manufacturers, including Maxon Electronics Co., Ltd., Nokia Corporation and Oki Corporation are expected to commence supply of CDMA-based handsets in 1997. There are a large number of manufacturers of GSM standard handsets, including Ericsson, Motorola and Nokia.

The cellular telecommunications business in Hong Kong is becoming increasingly competitive. The Company's current competitors are Hongkong Telecom CSL, Pacific Link and SmarTone. The Company will also compete with the four new operators in addition to Pacific Link which have been granted PCS licenses. In accordance with the PCS licence requirement, the Company launched its PCS service in March 1997. The Company expects the launch of PCS services to increase competition in Hong Kong's cellular communications market. The Company believes that it is well positioned to meet any competitive pressures given its long standing experience in the Hong Kong mobile communications market, the extensive potential capacity of its network with spectrum allocations in the GSM, CDMA and PCS frequencies, and its commitment to providing high quality coverage and excellent customer service. In addition, the Company's approximate 30% market share in the local paging market, its involvement in the local fixed-line market and the right to carry international dialing services traffic will allow the Company to provide more comprehensive telecom services than most of its competitors.

Paging. The Company is the leading provider of paging services in Hong Kong, which has one of the highest levels of pager penetration in the world, at approximately 17% of its population. The Company believes that it is the industry leader in Hong Kong in both technological progress and customer services. The Company offers digital, alphanumeric and Chinese character display paging and value-added paging services, including voice mail, stock price information, group paging and roaming in Macau and certain cities in mainland China. At December 31, 1996, the Company had approximately 325,000 paging subscribers in Hong Kong. The Company's paging business in Hong Kong has been affected by a shrinking Hong Kong paging market occasioned by the availability of more affordable cellular telephones. In addition, the Company's second-generation cordless telephone (CT2) business, in which it had been the dominant market leader in Hong Kong, was also adversely affected by rapid changes in technology and a shrinking market as customers migrated to cellular telephone services. The Company's CT2 business (as well as the CT2 businesses of all other such service providers in Hong Kong) was, therefore, discontinued during 1996. However, the Company's 80%-owned paging business in Macau, which had approximately 20,000 paging subscribers as of December 31, 1996, continues to show steady growth.

The Company estimates that its share in the Hong Kong paging market was approximately 30% at December 31, 1994, 29% at December 31, 1995 and approximately 30% at December 31, 1996. The Company believes that approximately 5% of its paging customers are business users, a majority of its customers are in their twenties and that there is a growing market among younger men and women for paging services. The Company also believes that the technological changes in telecommunications may provide opportunities for bundling paging services with cellular and fixed line services, thereby enhancing the market for paging services. In order to better position itself in this evolving market, the Company consolidated its telecommunications marketing functions in 1996 to leverage off its experience and knowledge in the Hong Kong market and to facilitate marketing of paging services bundled with cellular services in order to stabilize the Company's paging customer base. The Company estimates that approximately 15% of its cellular subscribers also subscribe to its paging service.

The Company has a network of over 40 outlets throughout Hong Kong in which customers can obtain pagers and complete activation procedures. The Company is the exclusive dealer of Panasonic pagers in Hong Kong and has developed its own low cost house brand pager.

The paging business in Hong Kong is highly competitive. At December 31, 1996, there were 35 public radiocommunication service licenses issued for the provision of paging services in Hong Kong. Rapid technological change in telecommunications has also increased competition as other forms of services are able to compete on the basis of cost with paging. Paging companies in Hong Kong have become highly focused on gaining market share from competitors by providing free pagers and offering extremely low upfront sign-up fees and monthly charges. The Company believes, however, that it is also able to compete on the basis of the quality of its value-added services and the reliability of its system resulting from its experience in the paging business as well as its strong name recognition as an established network operator.

Fixed Line. The Company was awarded a license in June 1995 to provide fixed line services along with two new domestic FTNS (fixed wireline telecommunications network service) operators following the expiration of Hongkong Telecom's fixed-line telecommunications domestic franchise in July 1995. The license was awarded by OFTA with the endorsement of the Joint Liaison Group.

Hongkong Telecom has the exclusive license to provide all outgoing and incoming international public switched voice traffic between the rest of the world and Hong Kong until September 2006. As the dominant fixed wire-line telecommunications operator in Hong Kong, Hongkong Telecom is obligated to permit the connection of all cellular network operators and the three new fixed-line operators to its fixed network. OFTA regulates the level of interconnection charges and although it encourages individual operators to negotiate their own interconnection arrangements, it will act as arbitrator in the event that the operators cannot reach agreement. All outgoing international dialing service traffic originating from a network operator is routed to the Hongkong Telecom gateways for connection to the overseas destinations. Hongkong Telecom pays the relevant network operator a delivery fee for delivering the outgoing international dialing service traffic to Hongkong Telecom's network.

Following the award of its license, the Company successfully launched an international dialing service in Hong Kong in September 1995. As of May 31, 1997, the Company had signed up more than 410,900 subscribers for the service. The majority of the users are corporate and other business customers in Hong Kong. Following the launch of these services, a Personal Number service as well as a Calling Card and a Phone Card service have been introduced. The Company introduced on-net services in early 1997. The construction and development of the Company's fixed line network infrastructure is continuing on schedule. As a condition to being granted a fixed line license, the Company is obligated to meet certain minimum network installation benchmarks by the end of 1996 and the end of 1999. The Company has fulfilled the minimum obligations required to be performed by the end of 1996, such as the installation of a customer access network to 80 buildings over 20 stories, and expects to fulfill the minimum obligations required to be performed by the end of 1999, such as the installation of a customer access network of 200 buildings over 20 stories. The Company estimates that its capital expenditures in respect of its fixed line network will be approximately HK$4,800 million for 1997 to 1999.

Hong Kong Regulation. Hong Kong's telecommunications industry is subject to comprehensive regulation by OFTA.

Telecommunication services in Hong Kong are governed under two ordinances: The Telephone Ordinance (Chapter 269 of the Laws of Hong Kong) and the Telecommunication Ordinance (Chapter 106 of the Laws of Hong Kong). Until July 1, 1995, Hong Kong Telephone Company Limited ("HKTC") exercised an exclusive concession over PSTN telephone services in Hong Kong. This concession was governed by the Telephone Ordinance which continues to regulate the prices which HKTC charges for various services. The Telecommunication Ordinance regulates all other telephone services, including fixed wire-line services (whether provided by HKTC or another operator) and public mobile telephone services. In August 1996, OFTA released a consultation draft of a bill to amend the Telecommunication Ordinance. The draft amendment bill proposes, among other things, to incorporate some provisions of the fixed telecommunications network service license into the Telecommunication Ordinance and to provide OFTA with formal legal powers in areas such as radio spectrum management and technical standards. It is expected that the amendment bill will be introduced in or after the second half of 1997.

OFTA was established in July 1993 under the Telecommunication Ordinance as the regulatory authority of the telecommunications industry including the fixed wire-line and the wireless telecommunications sectors. OFTA, which reports to the Economic Services Branch of the Hong Kong Government, is responsible for the administration of both the Telephone Ordinance and the Telecommunication Ordinance and is, together with the Chief Executive of the Hong Kong Special Administrative Region, empowered to grant licenses for all forms of telecommunications, including public radio communication service licenses and fixed telecommunication network service licenses. OFTA also has the power to make rules and determinations in relation to the provision of telecommunication services, interconnections and facilities sharing arrangements between operators, and the fees paid among operators in respect thereof.

In June 1995, as part of the liberalization of the telecommunications industry in Hong Kong, licenses to operate fixed wire-line telecommunications network services in competition with Hongkong Telecom were granted to the Company, New T & T Hong Kong Limited and New World Telephone Company Limited. In September 1996, public radio communication service licenses to operate PCS services were granted to the Company, Peoples Telephone Company, Mandarin Communications, P Plus Communications, New World PCS and Pacific Link.

There can be no assurance that the existing regulatory and licensing framework will remain unchanged after China's recent resumption of sovereignty over Hong Kong. Telecommunications is an area not specifically provided for in the Joint Declaration or the Basic Law. It is possible that future changes in Hong Kong's telecommunications regulatory environment will have an adverse effect on the Company's telecommunications business in Hong Kong.

Europe: Orange plc

The Company has a 49.02% interest in Orange, the operator of the Orange digital Personal Communications Network ("PCN") telecommunications network in the U.K. Shares of Orange were listed on the NASDAQ Stock Market and on the London Stock Exchange in connection with Orange's initial public offering in April 1996.

Orange's principal business is the operation of the Orange digital PCN telecommunications network in the U.K. and the sale and marketing of Orange services. Under the brand name "Orange", Orange offers a broad range of mobile voice and data communications services. Orange is one of four operators of cellular telephone networks in the U.K., which in total operate six cellular networks — two analog networks, two digital GSM networks and two digital PCN networks.

The number of cellular telephone subscribers in the U.K. has grown significantly in recent years, from approximately 1.2 million subscribers at December 31, 1991 to approximately 6.8 million subscribers at December 31, 1996. Since commencing commercial service on April 28, 1994, Orange has grown rapidly. At June 30, 1997, Orange had approximately 981,000 subscribers, representing approximately 13.2% of all cellular telephone subscribers in the U.K. and approximately 20.9% of all digital cellular telephone subscribers in the U.K. according to published industry data. At December 31, 1996, Orange was available in an area covering more than 92% of Great Britain's population. Management of Orange expects that coverage will be expanded to approximately 96% of Great Britain's population by the end of December 1997.

In addition to operating the Orange network, Orange provides a range of other mobile telecommunications services in the U.K. Orange has been a service provider for the Cellnet and Vodafone cellular telephone networks in the U.K. since 1989 through its wholly-owned subsidiary, Hutchison Cellular Services Limited ("Cellular Services Provider"). Orange also operates a nationwide paging network in the U.K. through another of its wholly-owned subsidiaries, Hutchison Paging (U.K.) Limited ("Paging"). Orange operates in continental Europe through its subsidiaries, Hutchison Telecommunications (France) S.A., a cellular service provider in France, and Hutchison Telecommunications GmbH, a cellular service provider in Germany.

The following table sets forth certain operating data of Orange and its subsidiaries for the periods indicated.

Orange Operating Data

	Year Ended and at December 31,			
	1993	1994(1)	1995	1996
Orange Subscribers (in thousands)	—	89	379	785
Average monthly usage per subscriber (mins) (2)	—	170	168	171
Average monthly revenue per subscriber (£) (3)	—	38	37	37
Churn rate (4)	—	18.7%	18.1%	18.6%
Number of operational base stations	—	1,218	1,853	2,677
Number of mobile switching centers	—	3	5	9
Number of Cellular Services Provider subscribers (in thousands)	161	168	163	123
Number of Paging subscribers (in thousands)	28	47	53	57

(1) Orange data for 1994 is provided at December 31, 1994 and for the period from September 1 to December 31, 1994.

(2) Average monthly usage per subscriber is calculated by (i) for each month in such period, dividing the total number of minutes of usage during such month by the midpoint of the number of Orange subscribers (excluding promotional users and subscribers on temporary free rate plans) at the beginning and end of that month and (ii) dividing the sum of such results by the number of months in the relevant period.

(3) Average monthly Orange revenue per subscriber is calculated by (i) for each month in such period, dividing the Orange turnover during such month, excluding revenue from equipment sales and connection charges, by the midpoint of the number of Orange subscribers (excluding promotional users and subscribers on temporary free rate plans) at the beginning and end of that month and (ii) dividing the sum of such results by the number of months in the relevant period.

(4) Orange defines the "churn rate" as the total number of subscribers who disconnect from the Orange network in a given period expressed as a percentage of the midpoint of the number of Orange subscribers at the beginning and end of such period. Such churn rate includes Orange subscribers who disconnect during the first 14 days after connection pursuant to the 14-day money-back guarantee offered by Orange.

Mainland China

The Company's subsidiary Chung Kiu, through a joint venture company, provides consultancy and technical services and equipment to cellular telephone, paging and trunked radio network operators in mainland China. In addition, the joint venture is engaged in research and development projects and the manufacture of telecommunications equipment in mainland China, including pagers and trunked radio systems and handsets. The strategy of Chung Kiu is to establish viable telecommunications operations in mainland China with careful management of growth in order to strategically position itself to benefit from any future liberalization of the telecommunications industry in mainland China.

The development of Chung Kiu's cellular-related businesses in mainland China are in the preliminary stages. Agreements for Chung Kiu to provide services and equipment in respect of cellular systems to joint ventures between the People's Liberation Army and the Ministry of Posts and Telecommunications of China have been signed covering 35 cities in six provinces in mainland China.

Chung Kiu has paging activities in five cities in China pursuant to agreements to receive performance-linked maintenance and consulting fees for the services provided. In addition, Chung Kiu has entered into agreements which give it the right to participate in providing paging services on similar terms in 77 other cities in eight provinces and three municipalities. The paging stations in all such cities will use the same frequency used by the Company's paging operations in Hong Kong, which enables mainland China-Hong Kong roaming services to be available to the Company's Hong Kong subscribers. The Company and Chung Kiu introduced this roaming service in November 1996.

Chung Kiu also has agreements which give it the right to provide equipment and services to trunked radio operators in 56 cities located in eight provinces and one municipality in China. Chung Kiu is to receive performance-linked maintenance consulting fees for services provided.

Chung Kiu has manufacturing facilities in Shenzhen to produce two-line Chinese character display and one-line numeric display pagers. The facilities have a normal production capacity of approximately 10,000 pagers per month. Production capacity can be significantly increased to meet higher demand. During 1995 and 1996, Chung Kiu manufactured 78,235 and 94,910 pagers, respectively. Chung Kiu also has facilities in Harbin to manufacture its own full-duplex trunked radio equipment.

Asia Pacific

Established in 1989, Hutchison Telecommunications (Australia) ("HTA"), in which the Company has a 56% interest, is one of Australia's top three paging operators and a leading nationwide supplier of telecommunications services. HTA operates sophisticated paging secretarial services and automated paging. In addition, in 1995, HTA commenced business as a cellular service provider on the Optus GSM network. Other interrelated services include messaging direct to pagers and mobile phones, internet services, and real-time information services. As of December 31, 1996, HTA had approximately 95,000 paging subscribers and approximately 65,000 GSM cellular subscribers.

The Company also has a 29.4% interest in Hutchison Max Telecom Limited ("Hutchmax"), an Indian company which provides cellular telephone services in Mumbai (formerly Bombay), which is India's leading financial and business center and its largest city. Only one other company is licensed to provide cellular telephone services in Mumbai. Using GSM technology, Hutchmax commenced cellular service in November 1995 and, as of December 31, 1996, Hutchmax had a leading market share with approximately 49,000 subscribers. The net number of new subscribers of its cellular services averaged approximately 5,300 per month during the three months ended December 31, 1996. As of December 31, 1996, Hutchmax also provided paging services to approximately 71,500 customers in seven Indian cities. Hutchmax is constructing additional paging networks for the state of Punjab. The Company believes that Hutchmax is India's second leading paging operator in terms of number of subscribers and the market share leader in all but one of the areas where it offers paging services.

The Company is involved in paging joint ventures in Thailand and Malaysia. The Thailand paging joint venture, in which the Company has a 45% interest, had, as of December 31, 1996, approximately 109,500 paging subscribers, and the Malaysian paging joint venture, in which the Company has a 28.5% interest, had, as of December 31, 1996, approximately 27,000 paging subscribers.

The Company is operating a paging joint venture in Indonesia, in which it has a 42.5% interest. Services in Jakarta, Bandung and Surabaya commenced in May 1996. The Company has been awarded a paging license in Singapore. The Company's Singapore network commenced service on April 1, 1997. The Company also acquired Corporate Access in late 1995, which further enhances its existing telecommunications presence throughout the region. Corporate Access is engaged in the business of providing services and equipment relating to communications utilizing very small aperture terminals (VSATs). These services are principally provided for corporate customers.

Asia Satellite Telecommunications Holdings Limited ("AsiaSat")

The Company has an effective 22.98% interest in AsiaSat, a leading provider of high quality satellite transponder capacity in Asia. In January 1997, the Company's effective interest in AsiaSat was reduced from 33.33% to 22.98% upon the sale by the Company of a portion of its effective interest in AsiaSat to another significant shareholder in AsiaSat for approximately US$102 million. Shares of AsiaSat were listed on the New York and Hong Kong Stock Exchanges in connection with AsiaSat's initial public offering in June 1996.

AsiaSat currently operates two satellites, AsiaSat 1 and AsiaSat 2. AsiaSat 1, Asia's first privately owned commercial satellite covering the Asian region, was launched on April 7, 1990, and commenced commercial service in June 1990. In order to take advantage of unsatisfied demand for high quality, high power transponder capacity in Asia, AsiaSat 2, which provides increased footprint coverage over AsiaSat 1 with a substantial gain in signal power, was launched on November 28, 1995, and commenced commercial service in January 1996. Together, AsiaSat 1 and AsiaSat 2 provide coverage to more than 50 countries, with approximately 3.3 billion people, from Siberia to Australia and from Japan to the Middle East. AsiaSat intends to launch a third satellite, AsiaSat 3, with similar footprint coverage to AsiaSat 2 in late 1997, and a new satellite, AsiaSat 4, in 1999, at approximately the end of AsiaSat 1's operational life, to take advantage of expected growth in satellite communications and satisfy rising demand in Asia for high quality, high power transponder capacity.

AsiaSat 1's transponder capacity (24 C-band transponders) has been virtually fully committed since the end of 1991 and, as of December 31, 1996, approximately 87% of available capacity was utilized. As of December 31, 1996, approximately 83% of AsiaSat 2's transponder capacity (24 C-band and 9 Ku-band transponders) was committed under transponder utilization agreements and transponder purchase agreements.

AsiaSat provides satellite transponder capacity primarily to the broadcasting and telecommunications markets, including the private communications network market. AsiaSat has entered into separate transponder utilization agreements with over 50 customers from various countries, including mainland China, Hong Kong, Malaysia, Myanmar, Pakistan, Mongolia, South Korea, Vietnam, Singapore, Australia, Germany, Portugal, the U.K. and the United States. In 1994, 1995 and 1996, approximately 24%, 23% and 27%, respectively, of AsiaSat's revenues were derived from customers in mainland China.

The Company believes that AsiaSat 1 is the leading satellite for regional television programming distribution in Asia. AsiaSat's largest customer, STAR Television, is a Hong Kong-based international satellite television broadcasting company that broadcasts over the greater Asian region. AsiaSat's customers for television broadcasting also include the Ministry of Radio, Film and Television of China, Pakistan TV, Myanmar TV, Deutsche Welle of Germany broadcasting TV5 and MCM from France and RTVE from Spain, Marconi of Portugal broadcasting RTPI and Nine Television Network of Australia broadcasting Sky Channel.

AsiaSat's telecommunications customers include Hongkong Telecom International Limited, The Ministry of Post and Telecommunications of China, Singapore Telecom, Pakistan Telecom, Myanmar Post and Telecommunications, TimeSat of Malaysia and Vietnam Telecom International. The Company's customers in the private communications network market include, in China, the Ministry of Foreign Trade and Economic Cooperation, the People's Bank of China, the Ministry of Water Resources and Xinhua News Agency and, elsewhere in Asia, Reuters Asia, Hutchison Telecommunications and the Telecom Foundation of Pakistan.

Metro Broadcast

The Company has a 50% interest in Metro Broadcast, a bi-lingual commercial radio station in Hong Kong. Metro Broadcast was launched in 1991 and its three channels now reach over 28% of Hong Kong's commercial radio audience.

Energy, Infrastructure, Finance and Other Investments

The Company has a 84.58% interest in Cheung Kong Infrastructure and a 49% interest in Husky Oil of Canada. Cheung Kong Infrastructure has a 35.74% interest in Hongkong Electric Holdings. The Company believes that Cheung Kong Infrastructure is well-positioned to achieve its goals of becoming one of the largest independent power producers in mainland China and one of the largest private investors in roads and bridges in mainland China. Cheung Kong Infrastructure's cement and concrete businesses and its 35.74% interest in Hongkong Electric Holdings contribute significantly to its recurrent income. The Company believes that Hongkong Electric Holdings is well-positioned to expand Hongkong Electric's electricity generating and distribution business in Hong Kong to keep pace with Hong Kong's rapid growth and development. Hongkong Electric Holdings, through its wholly owned subsidiary Hongkong Electric International Limited, plans to pursue opportunities elsewhere in Asia, including making equity investments in power plants and, where considered appropriate, participating with Cheung Kong Infrastructure in projects in mainland China. Husky aims to maximize its cash flow and profits by growing reserves and production while improving efficiency. The Company is considering investments in energy projects in mainland China and elsewhere with the potential for sustained growth.

The Company receives income from its long term investments in managed funds and other investments. Managed funds are portfolios of listed or senior credit rated fixed income securities, primarily denominated in U.S. dollars, managed by independent professional fund managers in various financial centers around the world. The Company also invests in shares and convertible securities of listed companies.

Cheung Kong Infrastructure Holdings Limited

In March 1997, the Company acquired a 84.58% interest in Cheung Kong Infrastructure. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Group Reorganization". Cheung Kong Infrastructure was organized in May 1996 for the purpose of acquiring certain infrastructure and infrastructure-related businesses of the Company, Cheung Kong and certain other companies. Shares of Cheung Kong Infrastructure were listed on the Hong Kong Stock Exchange in connection with Cheung Kong Infrastructure's initial public offering in July 1996. Based on the closing price of its shares on the Hong Kong Stock Exchange on July 24, 1997, Cheung Kong Infrastructure had a market capitalization of approximately HK$58,497 million (US$7,567 million).

Cheung Kong Infrastructure is engaged in the development, ownership, operation and management of infrastructure businesses in mainland China, including power plants, roads, toll bridges and a water plant, and infrastructure materials businesses in Hong Kong and elsewhere in China, including the manufacture and sale of cement, the production and delivery of concrete, the production and laying of asphalt and the quarrying and selling of aggregates. Cheung Kong Infrastructure generally participates in such businesses through joint ventures. In March 1997, Cheung Kong Infrastructure acquired a 35.01% interest in Hongkong Electric

Holdings pursuant to the Cheung Kong Group Reorganization in March 1997. Cheung Kong Infrastructure acquired a further 14,822,500 shares of Hongkong Electric Holdings in the open market, thereby increasing its interest in Hongkong Electric Holdings to 35.74%. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Group Reorganization".

Cheung Kong Infrastructure's strategy for its infrastructure businesses is to invest in a number of infrastructure projects clustered in fast-growing regions of mainland China with underdeveloped infrastructure. Cheung Kong Infrastructure prefers to participate in such projects through joint ventures with entities under the supervision of local Chinese government authorities. Cheung Kong Infrastructure believes that its clustering and partnership approach allows it to become a partner in the development of a city or region and not just an investor in individual projects, thereby allowing it to become an integral contributor to the city's or region's overall infrastructure and economic development. Cheung Kong Infrastructure prefers to invest in existing projects or in projects that are already under construction in order to benefit from immediate or imminent cash flow and to reduce project development risks. Cheung Kong Infrastructure's objective is to obtain a relatively secure investment return from its infrastructure businesses by ensuring a stable minimum financial return, with the potential for participation in excess profits. To this end, Cheung Kong Infrastructure generally seeks to obtain multi-level guarantees with respect to the recoupment of its capital investments and the payment of its investment returns in foreign currency, principally in U.S. dollars. Many of Cheung Kong Infrastructure's road and power businesses have a contractual minimum return or predetermined net return in foreign currency, some of which are coupled with performance and payment guarantees, together with a fixed price construction project and a guaranteed completion time for construction. With the exception of the Shantou Bay Bridge and the Shen-Shan Highway (Eastern Section), in which Cheung Kong Infrastructure shares profit in proportion to the capital contribution ratio, Cheung Kong Infrastructure is entitled to receive assured returns in foreign currency from its infrastructure projects in mainland China.

The following table summarizes certain information with respect to Cheung Kong Infrastructure.

	Year Ended and as of December 31,			
	1993	1994	1995	1996
Financial Information (millions of HK$):				
Turnover:				
Infrastructure materials	1,439	1,854	2,155	2,666
China infrastructure	—	64	184	375
Total turnover	1,439	1,918	2,339	3,041
Profit/(Loss) before taxation:				
Infrastructure materials	143	262	449	673
China infrastructure	(7)	50	171	259
Head office	—	—	(23)	39
Total profit before taxation	136	312	597	971
Profit attributable to shareholders:	133	300	569	886
Dividends	—	—	—	361
Fixed assets	1,643	2,156	1,664	1,627
Joint ventures	508	1,273	1,784	4,901
Shareholders funds	545	1,278	1,847	8,350
Operating Information:				
Production:				
Cement (millions of tonnes)	1.7	1.9	1.9	2.0
Concrete (millions of cubic meters)	2.0	2.2	2.3	2.2
Asphalt (millions of tonnes)	0.7	0.5	0.3	0.8
Aggregates (millions of tonnes)	1.4	1.8	1.5	1.5
Toll roads (km):				
Operational	—	—	—	201.1
Under development	—	—	140	70.9
Toll bridges (km):				
Operational	—	—	2.5	6.1(1)
Under development	—	—	—	4.1(2)
Installed power capacity (MW)	—	—	400	400(3)
Gross generation (MWh)	—	—	550	708(3)(4)
On-grid output (MWh)	—	—	1,093	1,295(3)(5)

(1) Including the approach roads, the total operational length will be 59.0 km. (1995: 11.33 km)

(2) Including the approach roads, the total length under development will be 51.0 km. (1995: NM)

(3) Excluding Hongkong Electric Holdings. See "Management's Discussion and Analysis of Results of Operations and Financial Condition — Group Reorganization."

(4) Excluding Nanhai Jiangnan Power Plant as information relating to gross generation is not available.

(5) Including Nanhai Jiangnan Power Plant on-grid output 535 MWh (1995: 569 MWh).

Cement and Concrete Businesses

Cheung Kong Infrastructure, through Green Island Cement (Holdings) Limited ("Green Island") and Anderson Asia (Holdings) Limited ("Anderson Asia"), is an integrated construction materials manufacturer involved in the production, distribution and sale of cement, concrete, asphalt and aggregates.

Green Island. Cheung Kong Infrastructure, through Green Island, is the only integrated cement manufacturer in Hong Kong, supplying approximately 44% of Hong Kong's annual cement requirements in 1996. As of December 31, 1996, it had a kiln capacity of approximately 1.5 million tonnes of clinker (a semi-finished product in the cement manufacturing process) and a cement grinding capacity of approximately 2.5 million tonnes per year. In addition to its own production of clinker, Cheung Kong Infrastructure imports clinker for subsequent processing, sale and distribution in Hong Kong and elsewhere in the PRC. Cheung Kong Infrastructure also imports cement for sale and distribution in Hong Kong and elsewhere in the PRC.

Cheung Kong Infrastructure operates as an integrated cement business starting with resource exploration and going through development, international shipping and cement manufacturing to ultimate down-stream distribution. In addition, Cheung Kong Infrastructure is involved in the disposal of solid waste (principally pulverized fuel ash) which is produced as a waste product of power generation by coal-fired power stations.

Anderson Asia. Cheung Kong Infrastructure, through Anderson Asia, is one of Hong Kong's market leaders in the production and delivery of concrete, the production and laying of asphalt and the quarrying and selling of aggregates. As of December 31, 1996, Cheung Kong Infrastructure had a concrete production capacity of approximately 4.7 million cubic meters per year, an asphalt production capacity of approximately 0.8 million tonnes per year and an aggregate quarrying capacity of approximately 2 million tonnes per year.

Roads and Bridges

Cheung Kong Infrastructure currently has interests in 27 toll roads and 13 toll bridges in mainland China. The following table summarizes certain information with respect to Cheung Kong Infrastructure.

Business	Business Scale	Cheung Kong Infrastructure's Interest (1) (%)	Actual or Target Commencement Date of Operation	Joint Venture Expiration Date
Guangdong Eastern Coastal Corridor				
Shantou Bay Bridge	2.5 km toll bridge (2)	30	December 1995 (3)	2028
Shenzhen-Shantou Highway (Eastern Section)	140.0 km toll road	33.5	November 1996	2028
Nanhai Road Network				
Operational	2 toll roads (40.17 km) and 5 toll bridges (3.55 km) (4)	49	August 1996 (5)	2020-2022
Under development	4 toll bridges (2.9 km) (6)	64.4	January 1999 (7)	2023-2024
Jiangmen Roads & Bridges				
Jiangmen Jiangsha Highway	20.92 km toll road	50	December 1996 (5)	2026
Jiangmen Jianghe Highway	20.29 km toll road	50	March 1999	2028
Jiangmen Chaolian Bridges	2.05 km toll bridge	50	May 1999	2028

Business	Business Scale	Cheung Kong Infrastructure's Interest (1) (%)	Actual or Target Commencement Date of Operation	Joint Venture Expiration Date
Guangzhou East-South Ring Road	19.4 km toll road	37.5	June 1999	2029
Shenyang Roads	3 toll roads (13.81 km) and 2 toll bridges (1.18 km)	54.2	July 1998	2028
	4 toll roads (17.414 km)	52	December 1997	2027
Shenyang Roads	4 elevated toll roads (6.42km)	52	December 1997	2027
Zengcheng Lixin Highway	29.6 km toll road	51	May 1997	2022
Tangshan-Jing Tang Port Expressway	7 toll roads (179.887km)	51	— (8)	— (8)
Zhumadian National Highway 107	2 toll roads (113.685km)	66	— (9)	— (9)
Total Roads and Bridges	27 toll roads (601.596 km) and 13 toll bridges (12.18 km)			

(1) This represents the approximate share of Cheung Kong Infrastructure's contribution to the total investment of each project in the form of registered capital contribution and shareholders' loans. It does not necessarily represent either the profit distribution ratio or the ratio of the distribution of assets upon the termination or expiration of the joint venture.

(2) The toll bridge, including the approach roads, will be 11.33 km in length.

(3) The first phase of the Shantou Bay Bridge became operational in December 1995.

(4) The five toll bridges, including the connecting roads, will be 47.7 km in length.

(5) Date of injection of funds by Cheung Kong Infrastructure.

(6) The four toll bridges, including the connecting roads, will be 49.8 km in length.

(7) Pursuant to the relevant contracts, if the toll bridges are completed and commence operation prior to such date, Cheung Kong Infrastructure shall be entitled to a certain percentage of the after-tax net profits of the relevant joint ventures, with the Chinese party receiving the majority of such after-tax net profits as a form of early completion bonus.

(8) The joint venture will have a term of 26 years, which will commence upon issuance of a business license.

(9) The joint venture will have a term of 27 years, which will commence upon issuance of a business license.

Guangdong Eastern Coastal Corridor. Cheung Kong Infrastructure entered into a joint venture contract with a number of entities in June 1993 for the construction and management of, and collection of tolls on, the Shenzhen-Shantou Highway (Eastern Section), a 140 km dual two-lane highway, which commenced operation in November 1996. Cheung Kong Infrastructure also entered into a joint venture contract with a number of entities in August 1993 for the construction and management of, and collection of tolls on, the Shantou Bay Bridge, a dual three-lane bridge with approach roads on the southern and northern sides of the bridge. The Shantou Bay Bridge became operational in December 1995. The Shenzhen-Shantou Highway and the Shantou Bay Bridge form a section of an eastern coastal corridor which connects two of China's five Special Economic Zones, and also forms a part of one of the two north-south national trunk highways that run across China. Cheung Kong Infrastructure has a 33.5% interest in the Shenzhen-Shantou Highway (Eastern Section) and a 30% interest in the Shantou Bay Bridge. The total project cost (as stipulated in the joint venture contract) of the Shenzhen-Shantou Highway and Shantou Bay Bridge amounts to RMB 2.8 billion and RMB 670 million, respectively, of which Cheung Kong Infrastructure is obligated to fund RMB 921 million and RMB 200 million, respectively, through registered capital contributions and shareholder loans in cash.

Nanhai Road Network. On May 10, 1996, Cheung Kong Infrastructure entered into contracts for the acquisition of an interest in 11 PRC joint ventures, the scope of business of which is the construction and/or management of 11 roads in the Nanhai Municipality (the "Nanhai Road Network"). The Nanhai Road

Network forms a major part of the five north-south and four east-west highway network of Nanhai Municipality, which is strategically located to the west of Guangzhou Municipality, the provincial capital and geographical center of the Guangdong Province and a major communications hub. Cheung Kong Infrastructure has a 49% interest in seven roads and bridges in the Nanhai Road Network and a 64% interest in four toll bridges, which are under development. The total project cost of the seven roads and bridges which are operational amounts to US$210 million, of which Cheung Kong Infrastructure is obligated to fund US$102.9 million, through registered capital contributions and shareholder loans in cash. The total project cost of the four toll bridges which are under development amounts to US$120 million, of which Cheung Kong Infrastructure is obligated to fund US$77.2 million, through registered capital contributions and shareholder loans in cash. Cheung Kong Infrastructure will also have a right of first refusal to participate in the development, management and/or construction of other toll roads in the Nanhai Municipality.

Jiangmen Roads and Bridges. In December 1996, Cheung Kong Infrastructure acquired a 50% interest in a joint venture that manages and operates the Jiangsha Highway. The total project cost of the highway is HK$207 million, of which Cheung Kong Infrastructure is obligated to fund HK$103 million, or 50%, through registered capital contributions and shareholder loans in cash. The highway, which connects Jiangsha and Heshan, is 20.92 km long and has been operational since December 1996.

In December 1996, Cheung Kong Infrastructure formed a cooperative joint venture with two Chinese parties to construct and operate the Jianghe Highway. Cheung Kong Infrastructure has a 50% interest in the Jianghe Highway. The total project cost of the Jianghe Highway is RMB450 million, of which Cheung Kong Infrastructure is obligated to fund RMB225 million, through registered capital contributions and shareholder loans in cash. The highway, which links Jiangmen and Gonghe, is 20.29 km long with three interchanges and is expected to commence operation by March 1999. Cheung Kong Infrastructure's joint venture partner is responsible for the construction of the highway at a fixed price with a guaranteed completion date.

In January 1997, Cheung Kong Infrastructure entered into a joint venture contract for the construction and operation of the Jiangmen Chaolian Bridge. Cheung Kong Infrastructure has a 50% interest in the Jiangmen Chaolian Bridge. The total project cost is HK$130 million, of which Cheung Kong Infrastructure is obligated to fund HK$65 million, through registered capital contributions and shareholder loans in cash. The bridge is approximately 2 km long. The approach road of the bridge and the toll system are under construction. The project is expected to be operational in May 1999.

Guangzhou East-South Ring Road. In February 1997, Cheung Kong Infrastructure, together with a subsidiary of Hopewell Holdings Limited, entered into a supplementary agreement with a Chinese party to invest in the 19.4 km East-South section of the Guangzhou East-South-West Ring Road. Cheung Kong Infrastructure has a 37.5% interest in the project. Total project cost is RMB2,000 million, of which Cheung Kong Infrastructure is obligated to fund RMB750 million, through registered capital contributions and shareholder loans in cash. The expected completion date is 1999.

Shenyang Roads. Cheung Kong Infrastructure entered nine joint venture contracts with two Chinese entities in Shenyang, Liaoning Province's largest city, in November 1996. The nine road and bridge projects primarily comprise a major section of the city's outer ring road, two of Shenyang's three bridges over the Hun River and their approach roads. In May 1997, Cheung Kong Infrastructure signed another four joint venture contracts in Shenyang for the construction and operation of four sections of the elevated toll roads. All of the roads and bridges are existing key sections of the city's transportation network. Construction is underway to upgrade these roads and bridges by widening, renovating and building interchanges and toll stations.

Cheung Kong Infrastructure's joint venture partner is responsible for the turnkey construction of the roads and bridges, subject to a guaranteed completion date. The contracts have been approved and the first capital injection was made in December 1996. Of the thirteen projects, eight are expected to commence operation by December 1997 and the remaining five by July 1998. Cheung Kong Infrastructure has on average a 53% interest in the projects. The total project cost is RMB2,453 million, of which Cheung Kong Infrastructure is obligated to fund RMB1,295 million, through registered capital contributions and shareholder loans in cash.

Zengcheng Lixin Highway. In March 1997 Cheung Kong Infrastructure entered into a joint venture for the construction and operation of the Lixin Highway. Cheung Kong Infrastructure has a 51% interest in the joint venture. The total project cost is HK$200 million, of which Cheung Kong Infrastructure is obligated to fund HK$102 million, through registered share capital contributions and shareholder loans in cash. The Lixin Highway is an important link between two national trunk highways: National Highway 107 — connecting Guangzhou and Shenzhen and National Highway 324 — running from Guangzhou to Shantou. This highway has a total length of 29.6 km and is a four-lane Class I highway that has been operational since October 1995.

Tangshan-Jing Tang Port Expressway. In June 1997, Cheung Kong Infrastructure entered into seven joint venture contracts for the construction and operation of the Tangshan-Jing Tang Port Expressway. Cheung Kong Infrastructure has a 51% interest in the joint venture. The total project cost is RMB1,298.9 million, of which Cheung Kong Infrastructure is obliged to find RMB662.4 million.

Zhumadian National Highway 107. In June 1997, Cheung Kong Infrastructure entered into two joint venture contracts for the construction and operation of the Zhumadian National Highway 107. Cheung Kong Infrastructure has a 66% interest in the joint venture. The total project cost is US$69.9 million, of which Cheung Kong Infrastructure is obligated to fund US$46.1 million.

Power Projects in Mainland China

Cheung Kong Infrastructure currently has interests in nine power plants in mainland China, with an aggregate design capacity of 2,350 MW. The following table summarizes certain information with respect to Cheung Kong Infrastructure.

Business	Business Scale	Cheung Kong Infrastructure's Interest (1) (%)	Actual or Target Commencement Date of Operation	Joint Venture Expiration Date
Shantou Power Plants				
Shantou Chenghai Power Plant	75 MW oil-fired power plant	60	January 1995	2010
Shantou Chaoyang Power Plant	90 MW oil fired power plant	60	January 1995	2010
Shantou Tuopu Power Plant	114 MW oil-fired power plant	60	January 1995	2010
Nanhai Power Plants				
Nanhai Jiangnan Power Plant	121 MW coal/oil-fired power plant	36	January 1995(2)	2004
Nanhai Power Plant I	400 MW oil-fired power plant	30	November 1996(3)	2012
Zhuhai Power Plant	1,400 MW coal-fired power plant	45	November 1999	2019
Fushun Power Plants				
Changshun Heat & Electricity	25 MW coal-fired power plant	60	June 1997	2017
Changshun Energy	25 MW coal-fired power plant	60	June 1997	2017
Changshun Power	100 MW coal-fired power plant	60	June 1997	2017
Total Power Plants	2,350 MW			

(1) This represents the approximate share of Cheung Kong Infrastructure's contribution to the total investment of each project in the form of registered capital contribution and shareholders' loans. It does not necessarily represent either the profit distribution ratio or the ratio of the distribution of assets upon the termination or expiration of the joint venture.

(2) Date of injection of funds by Cheung Kong Infrastructure.

(3) Unit 1 of Nanhai Power Plant I became operational in November 1996. Unit 2 is currently under construction and is expected to become fully operational in July 1997.

Shantou Power Plants. In the first half of 1993, Cheung Kong Infrastructure was invited by the Shantou Municipal People's Government to enter into joint venture agreements with the Shantou Municipal Power Development Company, a PRC state-owned enterprise, for the development and management of the Shantou Chenghai Power Plant, the Shantou Chaoyang Power Plant and the Shantou Tuopu Power Plant, three existing oil-fired power plants with an aggregate installed capacity of 279 MW. A joint venture contract was signed with respect to each of the three Shantou power plants in October 1993. The total project cost of the Shantou Chenghai Power Plant ("Chenghai Power Plant"), Shantou Chaoyang Power Plant ("Chaoyang Power Plant") and Shantou Tuopu Power Plant ("Tuopu Power Plant" and, together with the Chenghai Power Plant and Chaoyang Power Plant, the "Shantou Power Plants") is approximately US$41 million, US$50 million and US$63 million, respectively, of which Cheung Kong Infrastructure is obligated to fund approximately US$24.6 million, US$30 million, and US$37.8 million, respectively, through registered capital contributions and shareholder loans in cash. Cheung Kong Infrastructure's interest in each of the power plants in Shantou is 60%.

The Chenghai Power Plant, located in the Chenghai County, Shantou Municipality, Guangdong Province, is an existing 75 MW oil-fired plant comprising: (i) four 2.5 MW diesel generators and (ii) six 10.89 MW diesel generators. The Chaoyang Power Plant, located in the Chaoyang Municipality (a municipality which is under the supervision of Shantou Municipal People's Government), Guangdong Province, is an existing 90 MW oil-fired power plant comprising: (i) five 1 MW diesel generators, (ii) three 3 MW diesel generators, and (iii) eight 9.5 MW diesel generators. The Tuopu Power Plant, located within the Shantou Special Economic Zone, Guangdong Province, is an existing 114 MW oil-fired power plant comprising: (i) ten 1.22 MW diesel generators, (ii) eight 2.5 MW diesel generators, and (iii) eight 10.24 MW generators.

The joint ventures have entered into long term power purchase contracts (the "Shantou Power Purchase Contracts") in respect of the Shantou Power Plants with the Shantou Municipal Power Industry Company ("Shantou Power Company"), each of which is coterminous with the applicable joint venture period. The Shantou Power Purchase Contracts stipulate that Shantou Power Company will purchase all of the electricity generated by the Shantou Power Plants and guarantee to offtake certain annual minimum quantities. If the actual quantity of electricity purchased by Shantou Power Company in any year is less than the annual minimum quantity stipulated, Shantou Power Company is obligated to pay a supplemental fee to the applicable joint venture. In 1997, the minimum offtake quantity for the Chenghai Power Plant, the Chaoyang Power Plant and the Tuopu Power Plant is approximately 277.7 million KWh, 331.7 million KWh and 420.7 million KWh, respectively.

Nanhai Power Plants. The Nanhai Jiangnan Power Plant ("Jiangnan Power Plant"), located in Xiqiao, Taiping, Nanhai Municipality, Guangdong Province, is an existing 121 MW power plant comprising the following steam turbine power generators which came into operation between 1987 and 1992: (i) one 3 MW coal-fired generator, (ii) one 6MW coal-fired generator, (iii) one 12 MW coal-fired generator, (iv) three 25 MW coal-fired generators and (v) one 25 MW oil-fired generator. The Nanhai Power Plant I ("Nanhai Power Plant I") is a 400 MW oil-fired power plant (comprising two 200 MW steam turbine generators) located in Xiqiao, Xintian, Nanhai Municipality, Guangdong Province. The Jiangnan Power Plant and the Nanhai Power Plant I are connected to the Guangdong Provincial grid and were primarily built to provide electricity in order to help alleviate power shortages and meet the growing power requirements associated with commercial and industrial growth in the Nanhai Municipality. Cheung Kong Infrastructure has a 36% interest in the Jiangnan Power Plant and a 30% interest in the Nanhai Power Plant I. The total project cost of the Jiangnan Power Plant and Nanhai Power Plant I is approximately US$29.98 million and US$228 million, respectively, of which Cheung Kong Infrastructure is obligated to fund US$10.9 million and US$68 million, respectively, through registered capital contributions and shareholder loans in cash.

The joint venture has entered into a long term power purchase contract (the "Jiangnan Power Purchase Contract") with Guangdong Province Nanhai Municipal Power Supply Bureau ("Nanhai Power Bureau"). Pursuant to the Jiangnan Power Purchase Contract, Nanhai Power Bureau will purchase all of the electricity generated by Jiangnan Power Plant and guarantees to offtake a certain annual minimum quantity. The Jiangnan Power Purchase Contract will expire on July 30, 2004, five months before the expiration of the joint venture term.

The joint venture has entered into a long term power purchase contract (the "Nanhai Power Purchase Contract"), which is coterminous with the joint venture period, with Nanhai Power Bureau. Pursuant to the Nanhai Power Purchase Contract, Nanhai Power Bureau will purchase all of the electricity generated by Nanhai Power I and agrees to offtake certain annual minimum quantities.

Zhuhai Power Plant. The first phase of the Zhuhai Power Plant ("Zhuhai Power Plant") is a 1,400 MW coal-fired electrical power plant (comprising two 700 MW coal-fired generators) currently under development in the Western District of Zhuhai Special Economic Zone, Guangdong Province. The Zhuhai Power Plant is being built to provide electricity to alleviate power shortages and meet the growing power requirements associated with commercial and industrial growth in and around Guangdong Province. Cheung Kong Infrastructure has a 45% interest in the Zhuhai Power Plant. The total project cost is US$1,222 million, of which Cheung Kong Infrastructure is obligated to fund US$550 million, through registered capital contributions and shareholder loans in cash.

Fushun Power Plants. In January 1997, Cheung Kong Infrastructure entered into a 20 year joint venture contract with Fushun Heat and Electricity Plant, a state-owned enterprise under the supervision of the Fushun Municipal Government, for the management and operation of the three existing coal-fired power projects. The total investment cost of the three projects is HK$690 million. Cheung Kong Infrastructure has a 60% interest in each of these projects and its share of the total investment cost is HK$414 million. The aggregate installed capacity of three projects is 150MW, provided by two 25MW and one 100MW generators.

The power offtaker is North East Power Industry Bureau which is a state-owned enterprise under the supervision of the Ministry of Power. The steam offtakers are three large local industrial companies which are also state-owned enterprises. The PRC joint venture partner is responsible for fuel supply, maintaining all power generators and ancillary facilities and guaranteeing that the plants can generate sufficient electricity and steam to satisfy the annual minimum power and steam offtake amounts.

Water Projects

In December 1996, Cheung Kong Infrastructure entered into a joint venture contract for the management and operation of a water plant in Dongguan. The plant provides tap water service to the Qiaotau area in Dongguan. Cheung Kong Infrastructure has a 35% interest in the joint venture. The total investment cost is RMB42.6 million and Cheung Kong Infrastructure's investment cost is RMB14.91 million. The water plant has a capacity of 50,000 tons per day and is currently operational.

Hongkong Electric Holdings

Hongkong Electric Holdings' wholly-owned subsidiary, Hongkong Electric, generates, transmits, distributes and is the sole provider of electricity to Hong Kong Island and Lamma Island. China Light & Power Company Limited ("CL&P"), which is not affiliated with Hongkong Electric, supplies electricity to Kowloon Peninsula and the New Territories. The MTRC system's electricity requirements are supplied jointly by Hongkong Electric and CL&P. The division of markets between Hongkong Electric and CL&P is based on practical considerations of geography and is not mandated by law or by contract. The Company expects that the present arrangement will continue for the foreseeable future.

Hongkong Electric has been supplying electricity since 1890 when the first electric street lights in Central were switched on, making it one of the world's oldest electricity companies. Over a century later, Hongkong Electric is supplying electricity to over half a million customers.

Hongkong Electric believes that the Central to Wanchai reclamation project, together with other major developments planned on Hong Kong Island, and the new MTRC airport line should result in a need for an increase in generating capacity and system upgrading in the future. In order to meet the anticipated growth in demand, a new 350 MW coal-fired unit is currently under construction and is scheduled to be commissioned at the end of 1997. Hongkong Electric also plans to add a new 250 MW gas turbine by 2001.

Hongkong Electric Holdings entered into an agreement on June 12, 1997 for the acquisition of approximately 25% effective equity interest in Siam Power Generation Company Limited, which owns a 450

MW power plant in Rayong, Thailand. Hongkong Electric Holdings, through its wholly owned subsidiary Hongkong Electric International Limited, plans to pursue other opportunities elsewhere in Asia, including making equity investments in power plants and, where appropriate, participating with Cheung Kong Infrastructure in projects in mainland China.

The following table summarizes certain information with respect to Hongkong Electric Holdings.

	Year Ended and as of December 31,				
	1992	1993	1994	1995	1996
Operating Information:					
Electricity unit sales (million of kWh)	7,215	7,751	8,257	8,380	8,873
Average net tariff (HK cents per kWh)	71.1	74.0	77.5	80.4	83.5
Number of customers (thousands)	456	472	483	493	504
Installed capacity (MW)	2,605	2,605	2,605	2,955	2,955
Financial Information (millions of HK$):					
Turnover	5,332	5,946	6,670	6,942	7,673
Profit attributable to shareholders	3,050	3,380	3,848	4,186	4,154
Dividends	1,657	1,818	2,020	2,243	2,485
Fixed assets	18,142	20,669	24,466	28,969	32,202
Shareholders' funds	10,242	11,804	13,632	15,575	17,244

Hongkong Electric's power station is located on Lamma Island, and its installed capacity of 2,955 MW currently comprises seven coal-fired units with a total capacity of 2,150 MW and seven oil-fired gas turbines with a total capacity of 805 MW. Of the total electricity units generated during 1996, 99.98% were produced by the coal-fired units. During 1996, 3.5 million metric tonnes of low sulphur, low ash and competitively priced coal was burnt from such diverse supply source countries as Australia, China, Indonesia and South Africa.

As a percentage of total unit sales in 1996, domestic customers accounted for 25.3%, commercial 69.3% and industrial 5.4%. The system maximum demand peaked at 2,118 MW during 1996.

The transmission network includes high capacity submarine cables. For environmental and operational reasons, nearly all high voltage cabling on Hong Kong Island and Lamma Island is underground. Additionally, where cable-laying might cause serious disruption to the environment, Hongkong Electric has built cable tunnels. As of December 31, 1996, there were 3,101 high voltage distribution substations in the system operated by Hongkong Electric. Hongkong Electric's system is interconnected with the system operated by CL&P to provide additional spinning reserves for both systems. Generation, transmission and distribution are all controlled at Hongkong Electric's computerized system control center, which ensures the safe, efficient and secure delivery of electricity to all of its customers.

The operations of Hongkong Electric are subject to the Scheme of Control Agreement with the Hong Kong Government (the "Scheme of Control"). The original Scheme of Control expired in 1993 and was extended for another 15 years to December 31, 2008. This new Scheme of Control was endorsed by the Joint Liaison Group of the Chinese government. Under the Scheme of Control, shareholders of Hongkong Electric are guaranteed a net return of 15% on net fixed assets financed by shareholders' funds and a minimum of 5.5% (13.5% permitted return minus a maximum of 8% interest costs) on net assets financed by borrowings. The Scheme of Control is designed to ensure a balance of benefits for both consumers and Hongkong Electric Holdings' shareholders.

In January 1997, Hongkong Electric implemented a 3.47%, or 2.9 Hong Kong cents per kWh, average net tariff increase. Since 1983, inflation in Hong Kong has gone up by over 180% compared to the corresponding increase of 43% in net electricity tariff, representing a reduction of 49% in its net electricity tariff in real terms.

Associated Technical Services Limited, Hongkong Electric Holdings' engineering consultancy subsidiary, provides a range of feasibility study, design, inspection, supervision, training and other services for power station and transmission/distribution projects overseas from the Middle East to Southeast Asia and mainland China, as well as civil construction and other electrical projects in Hong Kong.

Husky Oil

Founded in 1938, Husky is a Canadian-based integrated oil and gas company engaged in the exploration for and development of crude oil and natural gas, as well as the production, purchase, transportation, upgrading, refining and marketing of crude oil, natural gas, NGLs, sulphur and petroleum coke, and the marketing of refined petroleum products, including asphalt.

Husky's primary business objective is to maximize the cash flow and profit generated from its upstream and downstream operations. Husky plans to achieve this objective through a strategy that grows reserves and production with a focus on existing assets, reduces finding and development costs, continues to improve operating and administrative efficiencies, expands pipeline and oil and gas marketing operations, increases profits from refined products operations and optimizes performance of heavy oil upgrading operations.

The following table summarizes certain information with respect to Husky.

	Year Ended and as of December 31,				
	1992	1993	1994	1995	1996
Operating Information:					
Net proved reserves(1)					
Crude oil and NGLs (million barrels)	209.5	188.6	196.2	191.0	205.0
Natural gas (billion cubic feet)	1,202.5	983.7	948.0	1,010.2	1,015.1
Average net daily production					
Heavy crude oil (thousand barrels/day)	17.9	20.9	25.0	27.3	31.0
Light and medium crude oil and NGLs (thousand barrels/day)	24.2	25.2	25.4	23.4	23.1
Natural gas (million cubic feet/day)	198.1	196.9	194.0	239.5	220.3
Average sales prices					
Heavy crude oil (Canadian dollars/barrel)	12.50	12.48	14.33	16.65	18.75
Light and medium crude oil and NGLs (Canadian dollars/barrel)	20.72	19.04	18.47	20.57	24.48
Natural gas (Canadian dollars/thousand cubic feet)	1.30	1.59	1.76	1.50	1.82
Financial Information (millions of Canadian dollars):					
Sales and operating revenues	720.8	819.6	919.7	1,080.6	1,272.9
Net earnings (loss) under U.S. GAAP	(134.5)	(201.5)	(51.0)	44.0	60.1
Total assets under U.S. GAAP	3,801.5	3,575.4	3,679.4	2,952.7	2,793.7
Shareholders' equity under U.S. GAAP	(249.5)	(441.4)	(820.7)	(776.7)	(503.3)

(1) Reserves do not include crude oil discovered at the Terra Nova oil field, which is located off the east coast of Canada. The Canada-Newfoundland Offshore Petroleum Board estimates recoverable crude oil in the field at about 400 million barrels. A development plan has been filed with the relevant regulatory authority and production is projected to commence in the year 2000. Husky's initial pooled interest in the Terra Nova field is 17.5%.

Husky has a balanced portfolio of assets, including properties that produce heavy, light and medium gravity crude oil, NGLs, natural gas and sulphur. Husky generally has a high degree of operational control in its upstream operations. Husky has extensive gathering and processing facilities in the Lloydminster, Ram River and Rainbow Lake areas in western Canada and is currently the operator of properties which account for approximately 79% of its total working interest production. Husky's net proved crude oil and NGLs reserve life is approximately 10 years and its net proved natural gas reserve life is approximately 13 years, based on 1996 reserves and production. Husky also has a substantial undeveloped land base in the Lloydminster area, offshore the east coast of Canada and in the Madura Strait area offshore Indonesia. Husky believes that it is a financially disciplined operator with strong technical capabilities and operational experience, especially with respect to the production, development, transportation and upgrading of heavy crude oil. Husky also has extensive experience and expertise in enhanced crude oil recovery and horizontal drilling, as well as in natural gas exploration in the foothills along the Canadian Rocky Mountains. Husky has a strong presence in crude oil, natural gas and sulphur marketing and has established marketing networks for refined petroleum products through independently operated Husky branded outlets and through direct marketing to end users.

In 1996, approximately 76% of Husky's operating profit was generated by its upstream operations, which include the exploration for and the development and production of crude oil, natural gas and NGLs. Husky's upstream operations are primarily in western Canada and offshore the east coast of Canada. Husky also has some international upstream operations. Husky's 1996 production was primarily from western Canada. Husky's 1996 total net production was 54,100 barrels/day of crude oil and NGLs and 220.3 million cubic feet/day of natural gas. Approximately 1% of Husky's total production of crude oil and NGLs in 1996 was from international operations. Husky's 1996 upstream revenues were derived from its production of heavy crude oil (35%) and light and medium crude oil and NGLs (34%), and from natural gas production and other natural gas-related operations (31%). As of December 31, 1996, Husky had total net proved reserves of crude oil and NGLs and of natural gas of approximately 205 million barrels and 1,015 billion cubic feet, respectively. The standardized measure of discounted future net cash flows of Husky's proved reserves, calculated in accordance with SFAS No. 69, as of December 31, 1996, on a pre-tax basis was approximately 2.9 billion Canadian dollars (1.7 million Canadian dollars on an after tax-basis). On December 31, 1996, the Noon Buying Rate was 1 Canadian dollar = US$0.7301. Based on 1995 production, Husky is ranked as the 10th largest producer of crude oil and NGLs and the 16th largest producer of natural gas in Canada, as reported in Oilweek Magazine's 1995 survey of Canada's Top 100 Oil & Gas Producers.

In 1996, approximately 24% of Husky's operating profit was generated by its downstream operations, which include pipeline operations and oil and gas product marketing, refined products operations and heavy oil upgrading operations. Husky's pipeline operations include the transportation of blended heavy crude oil and diluent through its heavy oil pipeline systems which, in total, include over 870 miles of pipeline. These systems transport blended heavy crude oil from the Cold Lake region of Alberta and from west central Saskatchewan to upgrading and refining facilities in Lloydminster, which is on the border between Alberta and Saskatchewan, and to the Interprovincial Pipe Line system at Hardisty, Alberta. Husky's pipeline operations also include a synthetic crude oil pipeline from Lloydminster to Hardisty. In 1996, throughput on Husky's pipeline systems averaged approximately 360,000 barrels/day.

Husky also is a major marketer of both its own and third party production of crude oil, NGLs, natural gas and sulphur. In 1996, Husky marketed approximately 230,000 barrels/day of crude oil and NGLs, 600 million cubic feet/day of natural gas, 1,400 long tons/day of sulphur and 500 long tons/day of petroleum coke.

Husky sells and distributes refined petroleum products through approximately 315 independently operated Husky branded petroleum outlets, including service stations, truck stops and bulk distribution facilities located from the west coast of Canada to the eastern border of Ontario, some of which include 24 hour restaurants, convenience stores, service bays, car washes, fast food sales, bank machines and propane sales. A number of these outlets are equipped with the Husky proprietary "Route Commander" cardlock system to enable commercial users to purchase products using a card system which electronically processes transactions and provides the user with detailed billing, sales tax and other information.

Husky owns a 10,000 barrels/day light oil refinery in Prince George, British Columbia and a 25,000 barrels/day asphalt refinery in Lloydminster. Husky also owns a 50% interest in, and is the operator of, the Bi-Provincial Upgrader, a heavy oil upgrading facility located in Lloydminster which, in 1996, produced approximately 54,000 barrels/day of synthetic crude oil. Husky supplies all of the feedstock required by the Bi-Provincial Upgrader and purchases all of its output for resale.

The oil and gas industry, both within Canada and internationally, is highly competitive in all aspects. Husky competes in virtually every aspect of its businesses with other oil and gas companies. In the exploration and development of oil and natural gas, Husky's competitors include major integrated oil and gas companies, numerous other independent oil and gas companies and individual producers and operators. In export markets, Husky encounters active competition from other producers, both Canadian and foreign. In the downstream operations, the margins earned by Husky on its refined products are determined by competitive market conditions and are beyond the control of Husky. The oil and gas industry also competes with other industries in supplying energy, fuel and related products to consumers. Husky believes it is competitive in the areas in which it operates.

In June 1997, Husky and a partner applied to the Alberta Energy and Utilities Board for approval to jointly build and operate a 343 mile pipeline to serve northeastern Alberta crude oil producers. The proposed pipeline will run from Fort McMurray, Alberta to Hardisty, Alberta and will have an initial shipping capacity of 150,000 barrels per day. Husky is also in the process of finalizing an Incremental Oil Recovery Contract with the China National Petroleum Corporation for enhanced development of the Pucheng Field located onshore in the Henan province of China. Contract completion and initiation of a front-end engineering study is planned for mid-1997.

In November 1996, Husky issued US$150 million of 6.875% Senior Notes due November 15, 2003, US$150 million of 7.125% Senior Notes due November 15, 2006 and US$200 million of 7.550% Senior Debentures due November 15, 2016. Husky primarily used the proceeds of the issuance to repay certain loans guaranteed by its shareholders and certain existing term credit facilities.

COMPASS Card

The Company entered Hong Kong's fast-growing credit card business at the end of 1995, teaming up with Dao Heng Bank subsidiary OTB Card Company Limited and Visa International to launch the COMPASS Card. Incorporating state-of-the-art technology, the COMPASS Card is the first credit card in the world to provide a chip-based program that complies with the Visa/Mastercard/Europay specification. COMPASS provides cardholders with an attractive usage-based bonus scheme. COMPASS had, as of May 31, 1997, more than 185,031 members. The Company's investment in this venture is held through Hutchison OTB Card Limited, which is a 50/50 joint venture with OTB Card Company Limited.

Environmental Matters

The Company's operations are subject to various environmental laws. Compliance with such laws has not had, and in the Company's opinion, is not expected to have, a material effect upon the Company's capital expenditures, earnings or competitive position.

Legal Proceedings

The Company is not engaged in any material litigation or arbitration proceeding, and no material litigation or claim is known by the Company to be pending or threatened against it.

Insurance

The Company believes that its properties are covered by adequate property insurance by reputable companies and with commercially reasonable deductibles and limits, covering fire, earthquake, loss of rental and third party liabilities.

Employees

As of December 31, 1996, the Company and its subsidiaries had a total of approximately 27,733 employees. Hutchison Whampoa on its own has no employees. The following table shows the divisional allocation of employees as of December 31, 1994, 1995 and 1996:

	As of December 31,		
	1994	1995	1996
Property	1,598	2,196	2,292
Ports and Related Services	4,062	4,316	4,846
Retail, Manufacturing, and Other Services	14,230	14,758	15,052
Telecommunications(1)	6,815	7,709	5,366
Other	150	158	177
Total	26,855	29,137	27,733

(1) Excludes employees of Orange as of December 31, 1996. The flotation of Orange was completed in April 1996 and in 1996, Orange was accounted for as an associated company.

HONG KONG

Until July 1, 1997, Hong Kong was a colony of the U.K. On July 1, 1997, sovereignty over Hong Kong was transferred from the U.K. to China, and Hong Kong became a Special Administrative Region of China. The agreement between the British and Chinese governments regarding this transfer is embodied in the Joint Declaration, which was signed on December 19, 1984 and subsequently ratified by both governments. Acting pursuant to the Joint Declaration, in April 1990 China's National People's Congress (the "NPC") adopted the Basic Law, which is the basic constitutional document of Hong Kong. Under the Basic Law, Hong Kong is to have its own legislature, legal and judicial system and full economic autonomy for 50 years. Defense and foreign affairs are the responsibility of the central government in Beijing, although Hong Kong will still be able to participate in international organizations and agreements, where deemed appropriate. The Basic Law provides that the Hong Kong dollar will remain the legal tender currency in Hong Kong and is to remain freely convertible, and that no exchange controls will be applied. Existing freedoms, including the rights of free speech and assembly, a free press, freedom of religion, and to strike and to travel, are ensured by law, and business ownership, private property, the right of inheritance and foreign investment are to be legally protected.

Under the Basic Law, the laws in force in Hong Kong prior to June 30, 1997 will remain in force, except for any that contravene the Basic Law, and will be subject to amendment by Hong Kong's legislature. The power of interpretation of the Basic Law is vested in the Standing Committee of the NPC, although the courts of Hong Kong may interpret the Basic Law in adjudicating cases before them, subject to certain limitations. The power of amendment of the Basic Law is vested in the NPC. The Basic Law provides that the Chief Executive of Hong Kong shall be recommended by a committee composed of Hong Kong residents representing a broad spectrum of distinct constituencies, such as industry, labor, and the various professions, and appointed by the central government of China.

MANAGEMENT

The directors of the Company are set forth below.

Name	Age	Position
Li Ka-shing	68	Chairman and Executive Director
Li Tzar Kai, Richard	30	Deputy Chairman and Executive Director
Fok Kin Ning, Canning	45	Group Managing Director and Executive Director
Li Tzar-kuoi, Victor	32	Executive Director
William Shurniak	65	Group Finance Director and Executive Director
Susan M.F. Chow	43	Executive Director
George C. Magnus	61	Executive Director
Kam Hing Lam	50	Executive Director
Frank J. Sixt	45	Executive Director
Michael D. Kadoorie	55	Director
C.P. Langley	52	Director
Li Fook-wo	80	Director
Simon Murray	56	Director
P.A.L. Vine	75	Director
C.H. Wong	63	Director

The Board of Directors of the Company consists of fifteen members. Set forth below is selected biographical information for each of the Directors:

Li Ka-shing, age 68, CBE, JP has been an Executive Director since 1979 and Chairman since 1981. He is the founder and Chairman and Managing Director of Cheung Kong, a substantial shareholder of the Company, and has been engaged in many major commercial developments in Hong Kong for more than 40 years. Mr. Li is an Advisor on Hong Kong Affairs to the Government of the PRC and a member of both the Preparatory Committee and the Selection Committee for Hong Kong. He is also an Honorary Citizen of Shantou, Guangzhou, Shenzhen, Nanhai, Foshan, Jiangmen and Chaozhou, respectively. He also holds the title of honorary chairman in various community organizations. Mr. Li holds an Honorary Doctorate degree from Beijing University, and an Honorary Doctorate of Laws degree from both the University of Hong Kong and the University of Calgary and an Honorary Doctorate of Social Science degree from the Hong Kong University of Science and Technology. Mr. Li Ka-shing is the father of Mr. Li Tzar Kai, Richard, and Mr. Li Tzar-kuoi, Victor.

Li Tzar Kai, Richard, aged 30, has been an Executive Director since 1992 and Deputy Chairman since 1993. He is also a Director of Hongkong Electric Holdings. He is the founder of Satellite Television Asian Region Limited (STAR Television) and Chairman and Chief Executive of the Pacific Century Group.

Fok Kin Ning, Canning, aged 45, has been an Executive Director since 1984 and the Company's Group Managing Director since 1993. He is Chairman of Orange, Deputy Chairman of Hongkong Electric Holdings and Cheung Kong Infrastructure. He is also a Director of Cheung Kong. He holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants.

Li Tzar-kuoi, Victor, aged 32, has been an Executive Director since 1995. He is Chairman of Cheung Kong Infrastructure and Deputy Chairman and Deputy Managing Director of Cheung Kong. He is also a Director of Hongkong Electric Holdings and The Hongkong and Shanghai Banking Corporation Limited. He holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural

Engineering. He is an Advisor on Hong Kong Affairs to the Chinese government and a member of the Governor's Business Council.

William Shurniak, aged 65, is the Company's Group Finance Director and has been an Executive Director since 1984. He has broad experience in banking. He is a Director of Orange, Hongkong Electric Holdings and AsiaSat.

Susan M.F. Chow, aged 43, has been an Executive Director since 1993. She is a solicitor and holds a Bachelor's degree in Business Administration. She is a Director of Orange and also a Director of Hongkong Electric Holdings and an Executive Director of Cheung Kong Infrastructure.

George C. Magnus, aged 61, has been an Executive Director since 1980. He is also Chairman of Hongkong Electric Holdings and Deputy Chairman of Cheung Kong and Cheung Kong Infrastructure. He holds a Master's degree in Economics.

Kam Hing Lam, aged 50, has been an Executive Director since 1993. He is also Deputy Managing Director of Cheung Kong, Group Managing Director of Cheung Kong Infrastructure and a Director of Hong Kong Electric Holdings. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

Frank J. Sixt, aged 45, has been an Executive Director since 1991. He is also an Executive Director of Cheung Kong and Cheung Kong Infrastructure. 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.

Michael D. Kadoorie, aged 55, has been a Director since 1995. He is also Chairman of The Hongkong and Shanghai Hotels Limited, Heliservices (Hong Kong) Limited and China Energy Investment Company Limited as well as Chairman of China Light & Power Company Limited.

C.P. Langley, aged 52, OBE, was appointed a Director on January 9, 1996. He is the General Manager of The Hongkong and Shanghai Banking Corporation Limited and holds directorships in a number of listed companies in Hong Kong, including Hang Seng Bank Limited, Cathay Pacific Airways Limited, Hongkong Electric Holdings, Winsor Industrial Corporation Limited and Winsor Properties Holdings Limited.

Li Fook-wo, aged 80, has been a Director since 1977. He is also the Chairman of The Bank of East Asia Limited and a Director of Johnson Electric Holdings Limited.

Simon Murray, aged 56, CBE, has been a Director since 1984. He is the Executive Chairman of Deutsche Bank Group for the Asia Pacific Region. He is also a Director of Cheung Kong and Orient Overseas (International) Limited.

P.A.L. Vine, aged 75, OBE, LLD, VRD, JP, is a solicitor and has been a Director since 1977. He is also a Director of the Cross Harbour Tunnel Company Limited, and a number of other listed companies in Hong Kong including International Maritime Carriers (Holdings) Limited, Liu Chong Hing Investments Limited and Liu Chong Hing Bank Limited.

C.H. Wong, aged 63, is a solicitor and has been a Director since 1984. He is also a Director of The Bank of East Asia Limited and Hongkong Electric Holdings.

TRANSACTIONS WITH AFFILIATES

The Company enters into transactions ("Connected Transactions") from time to time with Cheung Kong and other connected persons (as defined in the Listing Rules of the Hong Kong Stock Exchange). The Company's practice is to seek to ensure that all such transactions are on an arms' length basis and in accordance with normal commercial terms and in compliance with the Listing Rules of the Hong Kong Stock Exchange. The following is a brief description of the Company's Connected Transactions over the period from January 1, 1994 to March 31, 1997.

1. On March 18, 1994, Promising Land International Inc., a wholly-owned subsidiary of the Company, purchased from Cheung Kong and its wholly-owned subsidiary, Ebony Limited ("Ebony"), all of the issued shares of Yemanbo Limited ("Yemanbo") and Merrymaker Holdings Limited ("Merrymaker") for HK$1,798,679.31 and HK$71,380,978.66, respectively. On the same date, Hutchison International Limited, another wholly-owned subsidiary of the Company, purchased from Cheung Kong and Ebony shareholder's loans of HK$3,777,000.69 owed by Yemanbo and HK$124,747,021.34 owed by Merrymaker. The sole asset of Yemanbo is 3,872,000 shares of Harbour Ring International Holdings Limited ("Harbour Ring"). The assets of Merrymaker consist of a HK$87,550,000 convertible redeemable note issued by Harbour Ring and 51,200,000 shares in Harbour Ring.

2. On May 9, 1994, Yarra Group Limited and Cactus Holdings Limited, wholly-owned subsidiaries of the Company, purchased from Cheung Kong Investment Company Limited and Cheung Kong Finance Company Limited, wholly-owned subsidiaries of Cheung Kong, the entire issued share capital of, and loans (at their face value) to, Hey Wealth Limited ("Hey Wealth") for an aggregate consideration of HK$450,732,235.75. Hey Wealth is a limited company incorporated in Hong Kong and its principal asset is a commercial building known as Park Commercial Centre, 6-10 Shelter Street, Hong Kong.

3. The Company and Cheung Kong have entered into various lease agreements in respect of approximately 53,579 square feet of office space in China Building. China Building is owned by a wholly-owned subsidiary of the Company.

4. On August 31, 1995, Peniston Limited, a wholly-owned subsidiary of the Company, purchased from Motorola Asia Limited the remaining 25% interest in Hutchison Paging Holdings Limited not already owned by the Company.

5. In November 1995, Hutchison Telecommunications International Limited, a wholly-owned subsidiary of the Company, purchased from Pacific Century Telecommunications Limited the entire issued share capital of, and loans to, Pacific Century Technology Investment Limited ("PCTIL") for an aggregate consideration of US$74,488,000. PCTIL holds shares, directly or indirectly, in a group of companies that provides services and equipment, under the business name "Corporate Access", relating to communications utilizing very small aperture terminals.

6. On March 16, 1996, Shinta Limited, a 60%-owned subsidiary of the Company, appointed Cheung Kong Real Estate Agency Limited, a wholly-owned subsidiary of Cheung Kong, as the project manager of the property development project at the Tsing Yi Airport Railway Station.

7. In July 1996, the Company transferred to Cheung Kong Infrastructure all of its existing interests in joint venture companies involved in the development, ownership, operation and/or management of infrastructure businesses in toll roads, toll bridges and power plants in China in exchange for shares representing, following Cheung Kong Infrastructure's initial public offering, approximately 3.93% of the outstanding shares of Cheung Kong Infrastructure.

8. On September 4, 1996, Hutchison Telephone Company Limited, a 70%-owned subsidiary of the Company, entered into an agreement with Motorola Inc. for the purchase of a DCS 1800 cellular system on a turnkey basis.

9. On January 6, 1997, Cheung Kong, the Company and Cheung Kong Infrastructure entered into an agreement pursuant to which, on March 10, 1997, (i) Cheung Kong increased its interest in the Company from 45.36% to 48.95% of the Company's outstanding ordinary shares, (ii) the Company increased its interest in Cheung Kong Infrastructure from 3.93% to 84.58% of Cheung Kong Infrastructure's outstanding ordinary shares, and (iii) the Company transferred its interest of 35.01% in Hongkong Electric Holdings to Cheung Kong Infrastructure. See "Management's Discussion and Analysis of Results of Operations and Financial Condition — Group Reorganization".

DESCRIPTION OF THE NOTES AND THE GUARANTEE

The Notes of each series are to be issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") to be executed among the Issuer, the Guarantor and Bankers Trust Company, as fiscal and paying agent (the "Fiscal Agent"). Copies of the Fiscal Agency Agreement and the Notes are available for inspection during normal business hours at the offices of the Fiscal Agent. The following summaries of certain provisions of the Notes and the Fiscal Agency Agreement do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the provisions thereof, including the definitions therein of certain terms. Whenever particular defined terms from the Notes or the Fiscal Agency Agreement are referred to, such defined terms are incorporated herein by reference.

General

The Notes will be issued in four series and will mature on August 1, 2007 (in the case of the Series A Notes), August 1, 2017 (in the case of the Series B Notes), August 1, 2027 (in the case of the Series C Notes) and August 1, 2037 (in the case of the Series D Notes). The Series A Notes will be limited to US$750,000,000 aggregate principal amount, the Series B Notes will be limited to US$500,000,000 aggregate principal amount, the Series C Notes will be limited to US$500,000,000 aggregate principal amount and the Series D Notes will be limited to US$250,000,000 aggregate principal amount. The Notes of each series will bear interest at the rates per annum shown on the front cover of this Offering Circular from August 1, 1997 or from the most recent interest payment date to which interest has been paid or provided for, payable semiannually in arrears on February 1 and August 1 of each year, commencing February 1, 1998, to the person in whose name the Note (or any predecessor Note) is registered at the close of business on the preceding January 15 or July 15, as the case may be. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Payments of principal of and interest on Notes represented by individual Notes in certificated form will be made by check drawn on a bank in The City of New York or, in the case of any holder of more than US$1,000,000 in principal amount of Notes, upon timely application, by electronic transfer of immediately available funds to an account of such holder at a bank in The City of New York. Payments of principal of and interest on the Global Notes will be made to the registered holder thereof in immediately available funds. Any payments of principal of and interest on the Notes to be made on a date that is not a Business Day may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue as a result of such delayed payment. "Business Day" means any day, other than a Saturday or Sunday, that is not a day on which banking institutions are authorized or required by law or executive order to be closed in The City of New York or Hong Kong or Luxembourg. So long as any series of Notes is listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require, the Issuer will maintain a paying agent and transfer agent for such series of Notes in Luxembourg and payment of principal and interest on the Notes can be made at the offices of the paying agent in Luxembourg. The transfer of the Notes will be registrable and the Notes will be exchangeable at the Corporate Trust Office (as defined in the Fiscal Agency Agreement) in The City of New York, which initially will be the office of the Fiscal Agent, and at the office of the transfer agent in Luxembourg. In the case of the transfer of less than all of the principal amount of any individual Notes, a new individual Note will be delivered by the transfer agent to the transferee in respect of the untransferred portion.

Ranking

The Notes will constitute direct, senior, unsecured and unsubordinated obligations of the Issuer ranking *pari passu,* without any preference or priority of payment, among themselves and with all other unsecured and unsubordinated obligations of the Issuer.

Guarantee

The Guarantor will fully and unconditionally guarantee to each Holder of a Note authenticated and delivered by the Fiscal Agent the due and punctual payment of the principal of and interest on such Note (and any Additional Amounts (as hereinafter defined) payable in respect thereof), when and as the same shall become due and payable, whether at Stated Maturity, by declaration of acceleration, call for redemption, repayment or otherwise, in accordance with the terms of such Note and of the Fiscal Agency Agreement. The

Guarantee will constitute a direct, senior, unsecured and unsubordinated obligation of the Guarantor and will rank *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor.

Notes; Delivery and Form

The statements set forth herein include summaries of certain rules and operating procedures of DTC, Euroclear and CEDEL which will affect transfers of interests in the Global Notes.

The Notes sold in offshore transactions in reliance on Regulation S will be initially in the form of one or more Regulation S Global Notes without interest coupons, which will be deposited with Bankers Trust Company (in such capacity, the "Custodian") for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes sold to QIBs in reliance on Rule 144A will be issued initially in the form of one or more Rule 144A Global Notes in registered form without interest coupons, which will be deposited with the Custodian for DTC and registered in the name of Cede & Co., as nominee of DTC. The Notes sold to Institutional Accredited Investors in the United States will be issued initially in the form of individual Notes in certificated, definitive registered form ("Restricted Individual Notes").

Notes issued in the form of individual definitive certificates will be in registered form, without coupons, in denominations of US$100,000 and in integral multiples of US$1,000 above that amount.

The Notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer set forth therein and in the Fiscal Agency Agreement and will bear a legend regarding such restrictions as set forth under "Transfer Restrictions". Under certain circumstances, transfers may be made only upon receipt by the Fiscal Agent of a written certification (in the form(s) provided in the Fiscal Agency Agreement).

Until 40 days after the later of the commencement of the offering and the closing date, beneficial interests in a Regulation S Global Note may be held only through Euroclear or CEDEL, unless delivery is made through the related Rule 144A Global Note in accordance with the certification requirements described in this paragraph. Prior to the 40th day after the later of the commencement of the offering and the closing date, a beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the related Rule 144A Global Note only upon receipt by the Fiscal Agent of a written certification (in the form(s) provided in the Fiscal Agency Agreement) (a) from the transferee to the effect that such transferee (i) is a QIB purchasing for its own account (or for the account of one or more QIBs over which account it exercises sole investment discretion) and (ii) agrees to comply with the restrictions on transfer set forth under "Transfer Restrictions", and (b) from the transferor to the effect that the transfer was made in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After the 40th day after the later of the commencement of the offering and the closing date, the certifications contemplated by clause (a)(i) and clause (b) of the preceding sentence shall no longer be required, but the transferee will still be required to certify as provided by clause (a)(ii) of such sentence. After the 40th day after the later of commencement of the offering and the closing date (but not earlier), investors may also hold interests in a Regulation S Global Note through organizations other than Euroclear or CEDEL that are either Participants (as hereinafter defined) or Euroclear Participants (as hereinafter defined) or CEDEL Participants (as hereinafter defined).

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Fiscal Agent of written certifications (in the form(s) provided in the Fiscal Agency Agreement) from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 under the Securities Act (if available) and that, if such transfer occurs on or prior to the 40th day after the later of the commencement of the offering and the closing date, the interest transferred will be held immediately thereafter through Euroclear or CEDEL.

Restricted Individual Notes (or any individual Notes issued in exchange for an interest in a Rule 144A Global Note under the circumstances described under "Individual Notes" below) may be transferred only upon receipt by the Fiscal Agent of a written certification from the transferor (in the form(s) provided in the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with the restrictions on transfer set forth under "Transfer Restrictions", and in the case of any resale other than a "Safe Harbor Resale" as defined under "Transfer Restrictions", the execution and delivery by the transferee of a written certification (also in the form attached to the Fiscal Agency Agreement) and any additional documents or other evidence (including, but not limited to, an opinion of counsel) that the Issuer or the Fiscal Agent may, in its sole discretion, deem necessary or appropriate to evidence compliance with such Transfer Restrictions.

Restricted Individual Notes (or any individual Notes issued in exchange for an interest in a Rule 144A Global Note under the circumstances described under "Individual Notes" below) may be transferred or exchanged for a beneficial interest in a Global Note only upon receipt by the Fiscal Agent of a written certification (in the form(s) provided in the Fiscal Agency Agreement) from the transferor or holder, respectively, to the effect that (a) in the case of a transfer for a beneficial interest in a Rule 144A Global Note, the transfer is being made to a person who the transferor reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs as to which account it exercises sole investment discretion and, in each case, in accordance with the requirements of Rule 144A and of any other applicable securities laws of any state of the United States or any other jurisdiction, (b) in the case of an exchange for a beneficial interest in a Rule 144A Global Note, the holder is a QIB holding for its own account or the account of one or more other QIBs as to which account it exercises sole investment discretion and, in each case, such Restricted Individual Notes were acquired in transactions meeting the requirements of Rule 144A and any other applicable securities laws of any state of the United States or any other jurisdiction or (c) in the case of a transfer or exchange for a beneficial interest in a Regulation S Global Note, the person so certifying transferred or acquired (as applicable) such Restricted Individual Note in a transaction complying with Rule 903 or Rule 904 of Regulation S or Rule 144 (if available) under the Securities Act and that, if such transfer occurs on or prior to the 40th day after the later of the commencement of the offering and the closing date, the interest transferred will be held immediately thereafter through Euroclear or CEDEL.

Any beneficial interest in one of the Global Notes that is transferred to an entity who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter by subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

Investors may hold their interests in the Global Notes directly through DTC, CEDEL or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems. CEDEL and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

Transfers between participants in DTC (the "Participants") will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in CEDEL and Euroclear ("CEDEL Participants" and "Euroclear Participants", respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Initial settlement for the Notes will be made in same-day funds. So long as DTC continues to act as depositary for the Notes, the Notes will trade in DTC's Same-Day Funds Settlement System.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between DTC, on the one hand, and CEDEL or Euroclear Participants, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or CEDEL, as the case may be. Such cross-market transactions, however, will require delivery of instructions to Euroclear or CEDEL, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or CEDEL, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to DTC to take action to effect final settlement on its behalf by delivering or receiving payment in accordance with DTC's Same-Day Funds Settlement System.

Persons who are not Participants may beneficially own interests in the Global Notes held by DTC only through Participants or Indirect Participants (as defined below) (including Euroclear and CEDEL). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Global Notes, Cede & Co. for all purposes will be considered the sole holder of such Notes.

Payment of interest and principal on the Global Notes will be made to Cede & Co., the nominee for DTC, as the registered owner of the Global Notes by wire transfer of immediately available funds. Neither the Issuer, the Guarantor nor the Fiscal Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

The Issuer has been informed by DTC that, upon receipt of any payment of interest on or the redemption price of the Global Notes, DTC will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the Global Notes as shown on the records of DTC. Payments of interest on and principal of the Notes held through CEDEL or Euroclear will be credited to the cash accounts of CEDEL Participants or Euroclear Participants, as the case may be, in accordance with the relevant system's rules and procedures. Payments by Participants to owners of beneficial interests in the Global Notes held through such Participants will be the responsibility of such Participants, as is the case with securities held by broker-dealers, either directly or through nominees, for the accounts of customers and registered in "street name".

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in the Global Notes to pledge such interest to persons or entities that do not participate in the DTC system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

So long as the Notes are represented by Global Notes and such Global Notes are held on behalf of DTC or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Notes represented by the applicable Global Notes for all purposes under the Fiscal Agency Agreement, including, without limitation, obtaining consents and waivers thereunder, and neither the Fiscal Agent, the Issuer nor the Guarantor shall be affected by any notice to the contrary. Neither the Fiscal Agent, the Issuer nor the Guarantor shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants (and any such Participants will take actions on behalf of any Indirect Participants) in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable Global Note and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described below) only at the direction of one or more Participants and only in respect of the principal amount of the Notes represented by the Global Note as to which such Participant or Participants has or have given such direction.

CEDEL or Euroclear, as the case may be, will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange) on behalf of a CEDEL Participant or a Euroclear Participant only in accordance with its relevant rules and procedures and subject to its ability to effect such actions through DTC.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for the physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly ("Indirect Participants").

Although DTC, CEDEL and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, CEDEL and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, the Guarantor nor the Fiscal Agent will have any responsibility for the performance by DTC, CEDEL and Euroclear, or their respective Participants or Indirect Participants, of their respective obligations under the rules and procedures governing their operations.

Individual Notes

Notes initially purchased by, or transfers of beneficial interests in the Global Notes to, Institutional Accredited Investors will be evidenced by Restricted Individual Notes registered in the name of the purchaser thereof. In addition, if DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by the Company within 90 days or if there shall have occurred and be continuing an event of default (as described below) with respect to the Notes, the Issuer will issue individual Notes in certificated, definitive registered form in exchange for the Global Notes.

Subject to the transfer restrictions set forth on the individual Notes in certificated form, the holder of such individual Notes in certificated form may transfer or exchange such Notes by surrendering them at the Corporate Trust Office or at the office of the transfer agent in Luxembourg. Prior to any proposed transfer of individual Notes in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Fiscal Agent or the transfer agent in Luxembourg as described under "Notes; Delivery and Form" above. Upon the transfer, exchange or replacement of individual Notes in certificated form not bearing the legend referred to under "Transfer Restrictions", the Fiscal Agent or the transfer agent in Luxembourg will deliver individual Notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual Notes in certificated form bearing the legend, or upon specific request for removal of the legend on an individual Note in certificated form, the Fiscal Agent or the transfer agent in Luxembourg will deliver only individual Notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Redemption

Unless earlier redeemed (or, in the case of Series D Notes, repaid) in the limited circumstances set forth below, the Series A Notes will mature on August 1, 2007, the Series B Notes will mature on August 1, 2017, the Series C Notes will mature on August 1, 2027 and the Series D Notes will mature on August 1, 2037 in each case at a price equal to 100% of the principal amount thereof. The Notes of each series may be redeemed at the option of the Issuer or the Guarantor, at any time in whole but not in part, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption if, as a result of any change in or amendment to the laws of the Cayman Islands, Hong Kong or the PRC (or of any political subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or any change in the official interpretation or official application of such laws, regulations or rulings, or any change in the official application or interpretation of, or any execution of or amendment to, any treaty or treaties affecting taxation to which the Cayman Islands, Hong Kong or the PRC or such political subdivision or taxing authority is a party, which change, amendment or treaty becomes effective on or after the date of this Offering Circular, the Issuer or the Guarantor is or would be required on the next succeeding due date for a payment with respect to the Notes of such series to pay additional amounts with respect to the Notes of such series as described below under "Taxation", and such obligation cannot be avoided by the use of reasonable measures available to the Issuer or the Guarantor, as the case may be. Prior to any redemption of the Notes of such series, the Issuer or the Guarantor, as the case may be shall deliver to the Fiscal Agent a certificate stating that the Issuer or the Guarantor, as the case may be is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred. The Notes are not otherwise subject to redemption at the option of the Issuer or the Guarantor.

Repayment

The Series A Notes, the Series B Notes and the Series C Notes will not be subject to repayment at the option of the holders thereof at any time prior to maturity. The Series D Notes will be subject to repayment at the option of the holders thereof on August 1, 2009 (the "Optional Repayment Date"), in whole or in part in increments of US$1,000 (provided that any remaining principal amount of such Note will be at least US$100,000), at a price equal to 100% of the principal amount to be repaid, together with interest accrued on such principal amount to the date of repayment (and any additional amounts), on notice given to the Issuer by such holder not more than 60 nor less than 30 days prior to the Optional Repayment Date.

Additional Amounts

All payments of principal and interest in respect of the Notes of each series, and all payments pursuant to the Guarantee, shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Cayman Islands, Hong Kong or the PRC or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or the Guarantor, as applicable, shall pay such additional amounts as will result in receipt by the holders of the Notes of such series of such amounts as would have been payable to them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

(i) in respect of any tax or other governmental charge that would not have been imposed but for a connection between the holder or beneficial owner of a Note and the Cayman Islands, Hong Kong, the PRC or any political subdivision or any authority thereof or therein, as the case may be, otherwise than merely holding such Note or Guarantee or receiving principal or interest in respect thereof; or

(ii) in respect of any Note of such series or Guarantee presented for payment more than 30 days after the relevant date, except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such 30-day period. For this purpose, the "relevant date" in relation to any Note or Guarantee means (i) the due date for payment thereof and (ii) if the full amount payable on such due date has not been received in The City of New York by the Fiscal Agent on or prior to such due date, the first date on which such full amount has been so received and notice to that effect has given to the holders of the Notes.

Any reference in the Notes to principal and/or interest shall be deemed to include any additional amounts which may be payable as described above.

Certain Covenants

Lien Covenant

The Issuer will not, and will not permit any of its Subsidiaries to, create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Indebtedness for Borrowed Money of the Issuer or such Subsidiary (or any secured guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Notes will be secured at least equally and ratably with such Indebtedness for Borrowed Money or by such other Lien as shall have been approved by the holders of the Notes as provided in the Fiscal Agency Agreement and such Notes.

The Guarantor will not, and will not permit any of its Principal Subsidiaries (other than Listed Principal Subsidiaries) to create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Indebtedness for Borrowed Money of the Guarantor or such Principal

Subsidiary (or any secured guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Guarantee will be secured either at least equally and ratably with such Indebtedness for Borrowed Money or by such other Lien as shall have been approved by the holders of the Notes as provided in the Fiscal Agency Agreement, for so long as such Indebtedness for Borrowed Money will be so secured, unless, after giving effect thereto, the aggregate outstanding principal amount of all such secured Indebtedness for Borrowed Money (excluding that of Listed Principal Subsidiaries and their respective Subsidiaries) entered into after the date of the initial issuance of the Notes would not exceed 30% of the Guarantor's Adjusted Consolidated Net Worth.

The foregoing restriction will not apply to:

(a) Liens existing on or prior to the Closing Date (as defined in the Purchase Agreement);

(b) Liens for taxes or assessments or other applicable governmental charges or levies;

(c) Liens created or arising by operation of law or created in the ordinary course of business, including, but not limited to, landlords' liens and statutory liens of carriers, warehousemen, mechanics, materialmen, vendors and other liens securing amounts which are not more than 60 days overdue or which are being contested in good faith;

(d) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return of money bonds and similar obligations;

(e) easements, rights-of-way, zoning and similar restrictions and other similar charges of encumbrances not interfering with the ordinary conduct of the business of the Guarantor and such Principal Subsidiaries;

(f) Liens created on any property or assets acquired, leased or developed after the Closing Date; *provided, however,* that (i) any such Lien shall be confined to the property or assets acquired, leased or developed; (ii) the principal amount of the debt encumbered by such Lien shall not exceed the cost of the acquisition or development of such property or assets or any improvements thereto or thereon and (iii) any such Lien shall be created concurrently with or within three years following the acquisition, lease or development of such property or assets;

(g) rights of setoff of a financial institution with respect to deposits or other accounts of the Guarantor or such Principal Subsidiary held by such financial institution in an amount not to exceed the aggregate amount owed to such financial institution by the Guarantor or such Principal Subsidiary, as the case may be;

(h) Liens on documents and the goods they represent in connection with letters of credit and similar transactions entered into in the ordinary course of business;

(i) Liens arising in connection with industrial revenue, development or similar bonds or means of project financing (not to exceed the value of the project financed and limited to the project financed);

(j) Liens in favor of the Guarantor or any Principal Subsidiary;

(k) leases, subleases, licenses and sublicenses granted to third parties in the ordinary course of business;

(l) attachment, judgment and other similar Liens arising in connection with the court proceedings which are effectively stayed while the underlying claims are being contested in good faith by appropriate proceedings;

(m) any Lien against any property or assets of a Person existing at the time such Person becomes such a Principal Subsidiary or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;

(n) any Lien existing on any property or assets prior to the acquisition thereof, which Lien was not created in connection with the acquisition thereof, except for Liens permitted pursuant to clause (f) above;

(o) Liens on any property or assets of the Guarantor or any such Principal Subsidiary in favor of any government or any subdivision thereof, securing the obligations of the Guarantor or such Principal Subsidiary under any contract or payment owed to such governmental entity pursuant to applicable laws, rules, regulations or statutes;

(p) Liens created in connection with any sale/leaseback transaction;

(q) any renewal or extension of any of the Liens described in the foregoing clauses which is limited to the original property or assets covered thereby; and

(r) Liens in respect of Indebtedness for Borrowed Money with respect to which the Guarantor or any Principal Subsidiary has paid money or deposited money or securities with a trustee or depository to pay or discharge in full the obligations of the Guarantor and its Subsidiaries in respect thereof (other than the obligations that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full).

Consolidation, Merger and Sale of Assets

Neither the Issuer nor the Guarantor may, without the consent of the holders of any outstanding Notes, consolidate with or merge into any other Person in a transaction in which the Issuer or the Guarantor, as the case may be, is not the surviving entity, or convey, transfer or lease its properties and assets substantially as an entirety to, any Person unless, among other things, (i) any Person formed by such consolidation or into which the Issuer or the Guarantor, as the case may be, is merged or to whom the Issuer or the Guarantor, as the case may be, has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the jurisdiction of its organization and such Person assumes the Issuer's or the Guarantor's obligations, as the case may be, on the Notes and under the Fiscal Agency Agreement (including, in the case of the Guarantor's obligations, the Guarantee and any obligation to pay any Additional Amounts), (ii) immediately after giving effect to the transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, (iii) any such Person not organized and validly existing under the laws of the United States, any state thereof or the District of Columbia or, as the case may be, Hong Kong or the Cayman Islands shall expressly agree in a supplemental Fiscal Agency Agreement that all payments pursuant to the Notes or the Guarantee, as the case may be, in respect of principal of and interest on the Notes shall be made without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the jurisdiction of organization of such Person or any political subdivision or taxing authority thereof or therein, unless such taxes, duties, assessments or governmental charges are required by such jurisdiction or any such subdivision or authority to be withheld or deducted, in which case such Person will pay such additional amounts of, or in respect of, principal and interest ("Successor Additional Amounts") as will result (after deduction of such taxes, duties, assessments or governmental charges and any additional taxes, duties, assessments or governmental charges payable in respect of such Successor Additional Amounts) in the payment to the holder of a Note of the amounts which would have been payable pursuant to the Notes or the Guarantee, as the case may be, had no such withholding been required, subject to the same exceptions (other than the right to redeem the Notes as a result of such consolidation, merger, conveyance, lease or transfer) as apply with respect to the payment by the Issuer or the Guarantor of Additional Amounts in respect of the Notes or the Guarantee (inserting references to the taxing jurisdiction where appropriate) and (iv) if, as a result of the transaction, property of the Issuer or the Guarantor would become subject to a Lien that would not be permitted under "Lien Covenant", the Issuer or the Guarantor or such successor Person takes such steps as shall be necessary to secure the Notes and the Guarantee equally and ratably with (or prior to) the indebtedness secured by such Lien.

Events of Default

Each of the following shall constitute an Event of Default with respect to the Notes of any series:

(a) failure to pay principal of any Note of such series within five days after the due date for such payment;

(b) failure to pay interest on any Note of such series within 30 days after the due date for such payment;

(c) failure to perform any other covenant of the Issuer or the Guarantor in the Fiscal Agency Agreement or the Notes continued for sixty days after there has been given, by registered or certified mail, to the Issuer or the Guarantor by the Fiscal Agent or by the holders of at least 25% in principal amount of the Outstanding Notes a written notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Fiscal Agency Agreement and the Notes;

(d) (i) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness for Borrowed Money of the Issuer, the Guarantor or any Principal Subsidiary (other than a Listed Principal Subsidiary or any of its Subsidiaries), (ii) acceleration of the maturity of any Indebtedness for Borrowed Money of the Issuer, the Guarantor or any Principal Subsidiary (other than a Listed Principal Subsidiary or any of its Subsidiaries) following a default by the Issuer, the Guarantor or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 days after receipt of the written notice as provided in the Fiscal Agency Agreement, or (iii) failure to pay any amount payable by the Issuer, the Guarantor or any Principal Subsidiary (other than a Listed Principal Subsidiary or any of its Subsidiaries) under any guarantee or indemnity in respect of any Indebtedness for Borrowed Money of any other Person; *provided, however,* that no such event set forth in clause (i), (ii) or (iii) shall constitute an Event of Default unless the aggregate Indebtedness for Borrowed Money to which all such events relate exceeds US$30,000,000 (or its equivalent in any other currency); and

(e) certain events in bankruptcy or insolvency in respect of the Issuer, the Guarantor or any Principal Subsidiary (other than a Listed Principal Subsidiary or any of its Subsidiaries).

If an Event of Default (other than an Event of Default described in clause (e) above) with respect to the Notes of any series shall occur and be continuing, the holder of at least 25% in aggregate principal amount of the Outstanding Notes of such series by notice as provided in the Fiscal Agency Agreement may declare the principal amount of such Notes of such series and any accrued and unpaid interest thereon to be due and payable immediately. If an Event of Default in clause (e) above with respect to the Notes of such series shall occur, the principal amount of all the Notes of such series and any accrued and unpaid interest thereon will automatically, and without any action by any holder of the Notes of such series, become immediately due and payable. After any such acceleration but before a judgment or decree based on acceleration has been obtained, the holders of a majority in aggregate principal amount of the Outstanding Notes of such series may, under certain circumstances, rescind and annul such acceleration if all then existing Events of Default have been cured or waived as provided in the Fiscal Agency Agreement.

Modification and Amendment

The Issuer may at any time, and the Fiscal Agent shall at any time after the Notes of any series shall have become immediately due and payable due to an Event of Default, upon a request in writing made by holders holding not less than 10% of the outstanding principal amount of the Notes of any series, convene a meeting of holders of the Notes of such series. At a meeting of the holders of the Notes of any series, persons entitled to vote a majority in aggregate principal amount of the Notes of such series at the time outstanding shall constitute a quorum. In the absence of a quorum at any such meeting, the meeting may be adjourned; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned; at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 25% in aggregate principal amount of the Notes of such series at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. Any resolution at a meeting of holders of Notes of any series to modify or amend, or to waive compliance with, any of the covenants or conditions referred to above (other than those set forth below as requiring the consent of each holder of a Note affected thereby) shall be adopted if passed by the lesser of (i) a majority in aggregate principal amount of Notes of such series then outstanding and (ii) 75% in aggregate principal amount of Notes of such series represented and voting at the meeting.

Modifications and amendments to the Fiscal Agency Agreement or the Notes of any series requiring consent of holders may be made, and future compliance therewith or past defaults by the Issuer and the Guarantor may be waived, with the consent of the Issuer, the Guarantor and the holders of more than 50% in aggregate principal amount of the Notes of such series at the time outstanding, or of such lesser percentage as may act at a meeting of holders; provided that no such modification, amendment or waiver of the Fiscal Agency Agreement or any Note may, without the consent of each holder affected thereby, (i) change the stated maturity of the principal of or interest on any such Note; (ii) reduce the principal of or interest on any such Note; (iii) change the currency of payment of the principal of or interest on any such Note; (iv) change the provisions or procedures relating to the redemption or repayment of the Notes of such series; or (v) reduce the abovestated percentage of principal amount of Notes outstanding or reduce the quorum requirements or the percentage of votes required for the taking of any action.

Defeasance and Covenant Defeasance

The Fiscal Agency Agreement provides that the Issuer and the Guarantor, at the Issuer's or the Guarantor's option, (i) will be deemed to have been discharged from any and all obligations in respect of the Notes of any series (except for certain obligations to pay any additional amounts in respect of any withholding or deduction for Cayman Islands, Hong Kong or PRC taxes (as described above under "Description of the Notes and the Guarantee — Taxation") then unknown, to register the transfer of or exchange Notes, to replace stolen, lost, destroyed or mutilated Notes upon satisfaction of certain requirements (including, without limitation, providing such security or indemnity as the Fiscal Agent, the Issuer or the Guarantor may require), to maintain Paying Agents and to hold certain monies in trust for payment) or (ii) need not comply with certain restrictive covenants of the Notes (including those described under "Certain Covenants"), in each case if the Issuer or the Guarantor deposits, in trust with the Fiscal Agent, money in an amount, or U.S. Government Obligations that through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or a combination thereof, in each case sufficient to pay all the principal of, interest on, and any additional amounts in respect to any withholding or deduction for Cayman Islands, Hong Kong or PRC taxes known at such time and required to be paid with regard to, the Notes of such series, on the dates such payments are due in accordance with the terms of the Fiscal Agency Agreement and the Notes of such series. In the case of discharge pursuant to clause (i) above, the Issuer or the Guarantor, as the case may be, is required to deliver to the Fiscal Agent an opinion of counsel stating that (a) the Issuer or the Guarantor, as the case may be, has received from, or there has been published by, the United States Internal Revenue Service, a ruling, or (b) since the date of the Fiscal Agency Agreement, there has been a change in the applicable United States Federal income tax laws, in either case to the effect that the holders of the Notes of such series will not recognize gain or loss for United States Federal income tax purposes as a result of the exercise of the option under clause (i) above and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would have been the case if such option had not been exercised.

Fiscal Agent

Bankers Trust Company will be the Fiscal Agent under the Fiscal Agency Agreement. The Corporate Trust Office of the Fiscal Agent is located at Four Albany Street, 7th Floor, New York, New York 10006, United States. The Fiscal Agent is an agent of the Issuer and does not have the duties of a trustee with respect to the holders of the Notes.

The Fiscal Agent may resign at any time or may be removed by the Issuer. If the Fiscal Agent resigns, is removed or becomes incapable of acting as Fiscal Agent or if a vacancy occurs in the office of the Fiscal Agent for any cause, a successor Fiscal Agent will be appointed in accordance with the provisions of the Fiscal Agency Agreement.

Obligation Currency

To the fullest extent permitted by applicable law, the Issuer's obligation under the Notes to make all payments in U.S. Dollars (the "Obligation Currency") will not be satisfied by any payment, recovery or any other realization or proceeds in any currency other than the Obligation Currency. The Issuer has agreed to indemnify the holders of the Notes in U.S. Dollars for any shortfall in the aggregate amount of Obligation Currency actually received by such holders and the aggregate amount of payments due and payable.

Governing Law

The Fiscal Agency Agreement, the Notes and the Guarantee will be governed by, and construed in accordance with, the laws of the State of New York.

Notices

Notices to the holders of the Notes of any series will be mailed to them at their respective addresses in the register of Notes and shall be published (so long as the Notes of such series are listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort). Any such notice will be deemed to have been given on the later of the date of such publication and the fourth day after being so mailed. So long as and to the extent that the Notes of any series are represented by Global Notes and such Global Notes are held by DTC, notices to owners of beneficial interests in the Global Notes of such series may be given by delivery of the relevant notice to DTC for communication by it to entitled account holders and such notice shall also be published in the Luxemburger Wort as aforesaid.

Definitions

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Fiscal Agency Agreement.

"Adjusted Consolidated Net Worth" means the aggregate of (a) the amount paid up or credited as paid up on the issued share capital (including ordinary shares and preference shares) of the Guarantor; and (b) the amounts standing to the credit of the Guarantor's consolidated reserves (including but not limited to any such balance on the share premium account, revaluation reserve and retained profits or losses); and (c) the amount of minority interests, all as shown by the then latest audited consolidated balance sheet of the Guarantor and its Subsidiaries; *provided, however,* that the aggregate of the amounts described in clauses (a) through (c) above shall be adjusted, (to the extent that the same has not been taken into account in such latest audited consolidated balance sheet) by (I) deducting therefrom the amount directly or indirectly attributable to the Guarantor by which the Market Value of any asset is less than its book value in such latest audited consolidated balance sheet, and/or (II) adding thereto the amount directly or indirectly attributable to the Guarantor by which the Market Value of any asset is greater than its book value in such latest audited consolidated balance sheet.

"Indebtedness for Borrowed Money" means any indebtedness for or in respect of money borrowed that has a final maturity of one year or more from its date of incurrence or issuance and that is evidenced by any agreement or other instrument, excluding trades payables; *provided, however,* that for the purposes of determining the amount of Indebtedness for Borrowed Money of the Guarantor outstanding at any relevant time, the amount included as Indebtedness for Borrowed Money of the Guarantor in respect of finance leases shall be the net amount from time to time properly characterized as "obligations under finance leases" in accordance with generally accepted accounting principles and practices in Hong Kong.

"Lien" means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind. The term "Lien" shall not include an unsecured guarantee or Liens arising by operation of law.

"Listed Principal Subsidiary" means any Principal Subsidiary, the shares of which are at the relevant time listed on The Stock Exchange of Hong Kong Limited or any other recognized stock exchange.

"Market Value" means (a) the best price at which the relevant asset (other than shares described in clause (b)) is expected to be sold on the relevant date assuming (i) a willing seller; (ii) a reasonable period in which to negotiate the sale; (iii) values will remain constant during the negotiation period; (iv) the asset will be freely exposed to the market; and (v) there is no special purchaser; and (b) in the case of shares in associated companies which are quoted on any stock exchange, the value of such shares having regard to the underlying net assets of such associated companies and the percentage holding of the Guarantor and its Subsidiaries in such associated companies, in each such case as reasonably determined by the board of directors of the Guarantor after deducting (or, where such Market Value is to result in an adjustment to the then latest audited consolidated balance sheet, adjusting for) an estimate of the direct tax liability (if any) which would arise on the sale of such asset at such price computed solely by reference to such sale price and the cost price for tax purposes.

"Principal Subsidiary" means at any time a Subsidiary of the Guarantor: (1) as to which one or more of the following conditions is satisfied: (a) its net profits or (in the case of a Subsidiary of the Guarantor which has one or more Subsidiaries) consolidated net profits attributable to the Guarantor (in each case before taxation and extraordinary items) are at least 5% of the consolidated net profits of the Guarantor and its Subsidiaries (in each case before taxation and extraordinary items); or (b) its net assets or (in the case of a Subsidiary of the Guarantor which has one or more Subsidiaries) consolidated net assets attributable to the Guarantor represent 5% or more of the consolidated net assets (after deducting minority interests in Subsidiaries) of the Guarantor and its Subsidiaries; all as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest consolidated audited accounts of the Guarantor and its Subsidiaries, provided that: (i) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited accounts relate, the reference to the then latest audited accounts for the purposes of the calculation above shall, until audited accounts for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts; (ii) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose by its auditors; (iii) if the accounts of a Subsidiary of the Guarantor (not being a subsidiary referred to in (i) above) are not consolidated with those of the Guarantor then, without prejudice to the provisions of sub-paragraph (c) above, the determination of whether or not the Subsidiary of the Guarantor is a Principal Subsidiary shall, if the Guarantor requires, be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts of the Guarantor and its Subsidiaries; or (2) to which is transferred the whole or substantially the whole of the assets and undertaking of a Subsidiary of the Guarantor which immediately prior to the transfer was a Principal Subsidiary, provided that the Subsidiary of the Guarantor which so transfers its assets and undertaking shall forthwith upon the transfer cease to be a Principal Subsidiary (but without prejudice to clause (1) above) and the Subsidiary of the Guarantor to which the assets and undertaking are so transferred shall become a Principal Subsidiary; and for this purpose a certificate by the auditors of the Guarantor as to whether or not a Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

"Subsidiary" means in relation to any person and at any particular time any entity of which more than 50% of the issued share capital is then beneficially owned by such person and/or one or more of its Subsidiaries.

TAXATION

Cayman Islands

The Cayman Islands currently have no exchange control restrictions and no income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax applicable to the Issuer or any holder of Notes. Accordingly, payment of principal of (including any premium) and interest on, and any transfer of, the Notes will not be subject to taxation in the Cayman Islands, no Cayman Islands withholding tax will be required on such payments to any holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands capital gains tax. The Cayman Islands are not party to any double taxation treaties.

The Issuer has received an undertaking from the Governor-in-Council of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1995 Revision) of the Cayman Islands, for a period of 20 years from April 22, 1997 (the date of the undertaking), no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Issuer (i) on the shares, debentures or other obligations of the Issuer or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital by the Issuer to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Issuer.

No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of the Notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands, in which case stamp duty of 0.25% of the face amount thereof is payable on each Note (up to a maximum of C.I.$250 (US$305)) unless stamp duty of C.I.$500 (US$610) has been paid in respect of the entire issue of Notes. An instrument of transfer in respect of a Note if executed in or brought within the jurisdiction of the Cayman Islands will attract a Cayman Islands stamp duty of C.I.$100 (US$122).

Hong Kong Taxation

Under existing Hong Kong law neither the Issuer nor any paying agent will be required to declare or withhold for or on account of any Hong Kong taxes in respect of payments on the Notes. The Notes are not subject to Hong Kong stamp duty upon issue or on any subsequent transfer.

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) as it is currently applied, interest on the Notes will be subject to Hong Kong profits tax where such interest is received by or accrues to:

(a) a financial institution (as defined in the Inland Revenue Ordinance) and such interest arises through or from the carrying-on by the financial institution of its business in Hong Kong; or

(b) a corporation carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong; or

(c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong and is in respect of the funds of the trade, profession or business.

Hong Kong is not party to any income tax treaty with the United States.

The foregoing summary is of general nature only and is based on Hong Kong law at the date of this Offering Circular. Prospective purchasers of Notes should consult with their own professional tax advisors as to the particular consequences of holding the Notes which may affect them.

United States Taxation

The following is a general summary of the principal United States Federal tax consequences of the ownership and sale of Notes, and is based on the United States Internal Revenue Code of 1986, as amended (the "Code"), regulations thereunder, and administrative and judicial interpretations thereof, all of which are subject to change with possibly retroactive effect. This summary applies only to holders that are the beneficial owners of the Notes, that purchase the Notes as part of their initial issuance at the initial offering price, and that hold the Notes as capital assets. The summary does not deal with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold Notes as a hedge (or hedged against) currency or interest rate risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. Prospective purchasers of Notes should consult their own tax advisors concerning the consequences of owning Notes in the purchasers' particular circumstances, under the laws of the United States and any other relevant taxing jurisdictions.

United States Holders

Payments of Interest. Interest on a Note will be taxable to a United States Holder, as defined below, as ordinary income at the time it is received or accrued, depending on the United States Holder's method of accounting for tax purposes. A United States Holder is a beneficial owner who or that is (i) a citizen or resident of the United States, (ii) a domestic corporation or (iii) otherwise subject to United States federal income taxation on a net income basis in respect of the Notes.

Interest on the Notes, including Additional Amounts, if any, will be income from sources outside the United States and, with certain exceptions, will be "passive" or "financial services" income which is treated separately from other types of income for purposes of computing the foreign tax credit allowable, if any, under the Code.

Purchase, Sale and Retirement of the Notes. A United States Holder's tax basis in the Note will generally be its cost. A United States Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement (not including any amounts attributable to accrued and unpaid interest) and the tax basis of the Note. Such gain or loss recognized on the sale or retirement of a Note will be long-term capital gain or loss if the Note was held for more than one year.

United States Alien Holders

Payments of Interest. For purposes of this discussion, a "United States Alien Holder" is any beneficial owner of a Note who is for U.S. federal income tax purposes (i) a nonresident alien individual, (ii) foreign corporation or partnership or (iii) an estate or trust that is not subject to United States federal income tax on a net income basis in respect of income or gain from a Note. Subject to the discussion of backup withholding below, interest on a Note is exempt from United States federal income tax, including withholding tax, if paid to a United States Alien Holder, whether or not such Holder is engaged in a trade or business in the United States, unless:

(i) the Holder is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code, or

(ii) the Holder or corporation has an office or other fixed place of business in the United States to which the interest is attributable and the interest is derived from the active conduct of a banking, financing or similar business within the United States or is received by a corporation the principal business of which is trading in stock or securities for its own account and certain other conditions exist.

Purchase, Sale and Retirement of Notes

A United States Alien Holder will not be subject to United States federal income tax on any gain realized on the sale or exchange of a Note unless (i) such gain is effectively connected with the conduct by the Holder of a United States trade or business, or (ii) in the case of a United States Alien Holder who is an individual, such Holder is present in the United States for 183 days or more during the taxable year in which such gain is realized and either the Holder has a "tax home" in the United State or the gain is attributable to an office or other fixed place of business maintained by such Holder in the United States. In addition, the Notes will be deemed to be situated outside the United States for purposes of the United States federal estate tax and will not be includible in the gross estate for purposes of such tax in the case of the estate of a non-resident of the United States who was not a citizen of the United States at the time of death.

Backup Withholding and Information Reporting

Certain information reporting requirements and (in the case of certain non-corporate holders who fail to provide accurate taxpayer identification numbers or to report all interest and dividends required to be shown on their United States federal income tax returns) a 31% "backup" withholding tax may apply to payments of principal and interest made or deemed to be made to non-corporate holders in the United States (including payments made by wire transfer from outside the United States to an account maintained by the holder with a fiscal or paying agent in the United States). While United States Alien Holders are generally exempt from these withholding and reporting requirements (assuming the gain or income is not otherwise subject to United States federal income tax), non-resident alien individuals may be required to comply with certification and identification procedures in order to prove their exemption. Similar rules requiring reporting and withholding with respect to gross sale proceeds will apply to a United States Alien Holder who sells a Note through a United States office of a broker, and information reporting (but not "backup" withholding) will apply to a United States Alien Holder who sells a Note through (a) a non-United States branch of a United States broker or (b) a non-United States office of a broker that is a controlled foreign corporation for United States tax purposes or 50% or more of whose income is effectively connected with a United States trade or business for a specified three-year period, in either case unless the holder provides certification of non-United States status or otherwise establishes an exemption.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING NOTEHOLDERS

Under existing Hong Kong law, (i) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of interest or other payments on the Notes offered hereby to US residents and (ii) there are no limitations on the rights of non-residents or foreign owners to hold the Notes offered hereby. The Basic Law provides that no foreign exchange control policies shall be applied in Hong Kong.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement (the "Purchase Agreement") among the Issuer, the Guarantor and the initial purchasers named below (the "Purchasers"), the Issuer has agreed to sell to the Purchasers and the Purchasers have agreed, severally and not jointly, to purchase from the Issuer the respective principal amounts of the Series A Notes, Series B Notes, Series C Notes and Series D Notes set forth opposite each of their names below.

Purchaser	Principal Amount of Series A Notes	Principal Amount of Series B Notes	Principal Amount of Series C Notes	Principal Amount of Series D Notes
Goldman, Sachs & Co.	US$307,500,000	US$205,000,000	US$205,000,000	US$102,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	307,500,000	205,000,000	205,000,000	102,500,000
Chase Securities Inc.	22,500,000	15,000,000	15,000,000	7,500,000
HSBC Securities, Inc.	22,500,000	15,000,000	15,000,000	7,500,000
J.P. Morgan Securities Inc.	22,500,000	15,000,000	15,000,000	7,500,000
Peregrine Fixed Income Limited	22,500,000	15,000,000	15,000,000	7,500,000
UBS Securities LLC	22,500,000	15,000,000	15,000,000	7,500,000
BancAmerica Securities, Inc.	4,500,000	3,000,000	3,000,000	1,500,000
CIBC Wood Gundy Securities Corp.	4,500,000	3,000,000	3,000,000	1,500,000
CITIC Industrial Bank	4,500,000	3,000,000	3,000,000	1,500,000
Citicorp Securities, Inc.	4,500,000	3,000,000	3,000,000	1,500,000
Deutsche Morgan Grenfell Inc.	4,500,000	3,000,000	3,000,000	1,500,000
Total	US$750,000,000	US$500,000,000	US$500,000,000	US$250,000,000

The Purchase Agreement provides that the obligations of the Purchasers to pay for and accept delivery of the Notes are subject to the approval of certain legal matters by their counsel and certain other conditions. The closing of each of the Series A Notes, the Series B Notes, the Series C Notes and the Series D Notes is conditioned upon the closing of each of the other three series.

The purchase price for the Notes will be the initial offering price set forth on the cover page hereof less the discount applicable to such series of Notes. The Purchasers have advised the Issuer that they propose initially to offer the Series A Notes, Series B Notes, Series C Notes and the Series D Notes to investors at the respective offering prices set forth on the cover page of this Offering Circular and to certain dealers at such prices less a concession not in excess of 0.40%, 0.50%, 0.50% and 0.40%, respectively, of the principal amount of the Series A Notes, Series B Notes, Series C Notes and the Series D Notes. The Purchasers may allow and such dealers may reallow a discount not in excess of 0.25% of the principal amount of the Series A Notes, Series B Notes, Series C Notes or Series D Notes, as the case may be, to certain other dealers. After the initial offering, the prices to investors, concessions and discounts may be changed.

The Issuer and the Guarantor have agreed to indemnify the Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the Purchasers may be required to make in respect thereof. In addition, the Issuer and the Guarantor have agreed to reimburse the Purchasers for certain of their expenses.

The Issuer and the Guarantor have agreed in the Purchase Agreement that, for a period of 30 days after the date of delivery of the Notes, they will not, without the prior written consent of Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, offer, sell, contract to sell or otherwise dispose of any of its debt securities that are substantially similar to the Notes of any series.

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold by the Purchasers only (i) in the United States to QIBs pursuant to Rule 144A and to a limited number of Institutional Accredited Investors in transactions exempt from the registration requirements of the Securities Act (subject to the requirement that offers and sales to Institutional Accredited Investors that are not QIBs may only be made by Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated) and (ii) outside the United States in reliance upon Regulation S.

Each Purchaser has severally acknowledged and agreed that, except as permitted by the preceding paragraph, it has offered and sold Notes and will offer and sell Notes (i) as part of their distribution at any time, and (ii) otherwise until 40 days after the later of the date upon which the offering of the Notes commences and the closing date, only in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act. Each Purchaser has agreed that, at or prior to confirmation of a sale of Notes (other than a sale of Notes pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it or through it during the restricted period a confirmation or notice setting forth the restriction on offers and sales of Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A or pursuant to another exemption from the registration requirements of the Securities Act.

Each Purchaser has severally acknowledged and agreed that (a) it has not offered or sold and prior to the date six months after the date of issue of the Notes will not offer or sell any Notes to persons in the U.K. except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the U.K. within the meaning of the Public Offers of Securities Regulations 1995, (b) it has complied, and will comply, with all applicable provisions of the Financial Services Act of 1986 of Great Britain with respect to anything done by it in relation to the Notes in, from or otherwise involving the U.K., and (c) it has only issued or passed on and will only issue or pass on in the U.K. any document received by them in connection with the issuance of the Notes to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) of Great Britain or is a person to whom the document may otherwise lawfully be issued or passed on.

Each Purchaser has severally acknowledged and agreed that (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong and (b) unless it is a person permitted to do so under the securities laws of Hong Kong, it has not issued or had in its possession for the purpose of issue and will not issue or have in its possession for the purpose of issue any advertisement, document or invitation relating to the Notes in Hong Kong other than with respect to Notes intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of securities whether as principal or agent.

Each Purchaser has severally acknowledged and agreed that it has not made and will not make (on behalf of the Issuer) any invitation to the public in the Cayman Islands to subscribe for any of the Notes.

In connection with the offering, the Purchasers may purchase and sell the Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the Purchasers in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Notes; and short positions created by the Purchasers involve the sale by the Purchasers of a greater number of Notes than they are required to purchase from the Issuer in the offering. The Purchasers also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the securities sold in the offering may be reclaimed by the Purchasers if such Notes are repurchased by the Purchasers in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Notes, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be affected on the Luxembourg Stock Exchange, in the over-the-counter market or otherwise.

Chase Securities Inc. is an affiliate of The Chase Manhattan Bank which is an agent and a lender to the Company under its HK$12,000 million five-year loan facility agreement.

Application has been made to list the Notes on the Luxembourg Stock Exchange. No assurance can be given as to the liquidity of, or trading market for, the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

Each purchaser of the Notes of any series will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A, in Regulation D or in Regulation S are used herein as defined therein):

(1) it *either* (A) (i) is a QIB, (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or the account of a QIB *or* (B) (i) is an Institutional Accredited Investor, (ii) is acquiring the Notes being sold to it for its own account and (iii) is not acquiring such Notes with a view to any resale or distribution thereof other than in accordance with the restrictions set forth below *or* (C) is outside the United States and is not a U.S. person;

(2) it acknowledges that the Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;

(3) it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Notes or any beneficial interests in any Notes other than a Regulation S Global Note, such Notes may be offered, resold, pledged or transferred only (A) by an initial investor (i) to the Issuer, (ii) to a person whom the seller reasonably believes is a QIB that purchases for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available) (resales described in subclauses (i) through (iv) of this clause (A), "Safe Harbor Resales"), or (B) by a subsequent investor, in a Safe Harbor Resale or pursuant to any other available exemption from the registration requirements under the Securities Act (provided that, as a condition to the registration of transfer of any Notes otherwise than in a Safe Harbor Resale, the Issuer, the Guarantor or the Fiscal Agent may require delivery of any documents or other evidence (including but not limited to an opinion of counsel) that it, in its sole discretion, may deem necessary or appropriate to evidence compliance with such exemption), or (C) pursuant to an effective registration statement under the Securities Act, and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction;

(4) it agrees to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause (3) above, if then applicable;

(5) it understands and agrees that (A) Notes initially offered in the United States to QIBs will be represented by Rule 144A Global Notes, (B) that Notes offered to Institutional Accredited Investors will be in the form of Restricted Individual Notes and such Notes may not be held in book-entry form until they have been transferred in accordance with the restrictions set forth below and no such transfer will be permitted unless the purchaser provides certification that the transfer complies with such restrictions, as described in "Description of the Notes and the Guarantee — Notes; Delivery and Form" and (C) that Notes offered outside the United States in reliance on Regulation S will be represented by Regulation S Global Notes;

(6) it understands that the Notes, other than the Regulation S Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer and the Guarantor:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF HUTCHISON WHAMPOA FINANCE (CI) LIMITED (THE "ISSUER") AND HUTCHISON WHAMPOA LIMITED (THE "GUARANTOR") THAT THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) BY AN INITIAL INVESTOR (AS DEFINED

BELOW) (1) TO THE ISSUER OR THE GUARANTOR, (2) SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) (RESALES DESCRIBED IN SUBCLAUSES (1) THROUGH (4) OF THIS CLAUSE (A), "SAFE HARBOR RESALES"), OR (B) BY A SUBSEQUENT INVESTOR, IN A SAFE HARBOR RESALE OR PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY SECURITIES OTHERWISE THAN IN A SAFE HARBOR RESALE, THE ISSUER, THE GUARANTOR OR THE FISCAL AGENT MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE (INCLUDING BUT NOT LIMITED TO AN OPINION OF COUNSEL) THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION) OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. SECURITIES OWNED BY AN INITIAL INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER MAY NOT BE HELD IN BOOK-ENTRY FORM AND MAY NOT BE TRANSFERRED WITHOUT CERTIFICATION THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS, AS PROVIDED IN THE FISCAL AGENCY AGREEMENT. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER AND THE GUARANTOR THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

FOR ALL PURPOSES OF THIS SECURITY, THE TERM "INITIAL INVESTOR" MEANS ANY PERSON WHO, IN CONNECTION WITH THE INITIAL DISTRIBUTION OF THIS SECURITY, ACQUIRES SUCH SECURITY FROM THE ISSUER OR ANY INITIAL PURCHASER (AS SUCH TERM IS DEFINED IN THE FISCAL AGENCY AGREEMENT) PARTICIPATING IN SUCH DISTRIBUTION OR ANY AFFILIATE OF ANY OF THE FOREGOING.";

(7) it understands that the Regulation S Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer and the Guarantor:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.";

(8) it acknowledges that, prior to any proposed transfer of Notes in certificated form or of beneficial interests in Global Notes (in each case other than pursuant to an effective registration statement), the holder of Notes or the holder of beneficial interests in Global Notes, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Fiscal Agency Agreement; and

(9) it acknowledges that the Issuer, the Guarantor and the Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees

that, if any of such acknowledgements, representations or warranties deemed to have been made by virtue of its purchase of Notes are no longer accurate, it shall promptly notify the Issuer and the Guarantor, and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Fiscal Agency Agreement to effect exchanges of transfer of interests in Global Notes and of Notes in certificated form, see "Description of the Notes and the Guarantee — Notes; Delivery and Form".

AVAILABLE INFORMATION

In order to preserve the exemptions for resales and transfers pursuant to Rule 144A, the Guarantor has agreed to furnish, upon the request of any holder of a Note or of a beneficial interest in a Global Note, such information as is specified in paragraph (d) (4) of Rule 144A under the Securities Act to such holder or beneficial owner or to a prospective purchaser of such Note or interest in a Global Note in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of such Note by such holder or of such beneficial interest by such beneficial owner, unless, at the time of such request, the Guarantor is subject to the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), or is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to furnish the Securities and Exchange Commission with certain information pursuant to Rule 12g3-2(b) under the Exchange Act).

RATINGS

The Notes have received a rating of "A3" from Moody's and "A+" from S&P. The ratings reflect the timely payment of principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts. The credit ratings accorded the Notes are not a recommendation to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There can be no assurance that the ratings will remain in effect for any given period or that the ratings will not be revised by the Rating Agencies in the future if in their judgment circumstances so warrant.

VALIDITY OF THE NOTES AND THE GUARANTEE

The validity of the Notes and the Guarantee under New York law will be passed upon for the Issuer and the Company by Sullivan & Cromwell, Hong Kong and New York. Certain legal matters under United States and New York law with respect to the Notes and the Guarantee will be passed upon for the Purchasers by Brown & Wood, a Multinational Partnership, Hong Kong. Certain legal matters under Cayman Islands law with respect to the Notes will be passed upon for the Issuer by Maples and Calder Asia. Certain legal matters under Hong Kong law with respect to the Notes and the Guarantee will be passed upon for the Issuer and the Company by Woo, Kwan, Lee & Lo, Hong Kong. Certain legal matters under Hong Kong law with respect to the Notes and the Guarantee will be passed upon for the Purchasers by Linklaters & Paines, Hong Kong.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company at December 31, 1994, 1995 and 1996 and for the years ended December 31, 1994, 1995 and 1996 included in this Offering Circular have been audited by Price Waterhouse, independent auditors, as stated in their reports appearing herein. The consolidated financial statements of Cheung Kong Infrastructure at December 31, 1995 and 1996 and for the years ended December 31, 1995 and 1996 included in this Offering Circular have been audited by Kwan Wong Tan & Fong, independent auditors, as stated in their report appearing herein.

GENERAL INFORMATION

1. The Regulation S Series A Notes, the Regulation S Series B Notes, the Regulation S Series C Notes and the Regulation S Series D Notes have been accepted for clearance through CEDEL and Euroclear with the Common Codes of 7893205, 7893213, 7893221 and 7893248, respectively. The CUSIP Numbers for the Rule 144A Series A Notes, the Rule 144A Series B Notes, the Rule 144A Series C Notes and the Rule 144A Series D Notes are 448414AA0, 448414AC6, 448414AE2 and 448414AG7, respectively, the CINS Numbers for the Regulation S Series A Notes, the Regulation S Series B Notes, the Regulation S Series C Notes and the Regulation S Series D Notes are G46715AA9, G46715AB7, G46715AC5 and G46715AD3, respectively, and the CUSIP Numbers for the Restricted Individual Series A Notes, the Restricted Individual Series B Notes, the Restricted Individual Series C Notes and the Restricted Individual Series D Notes are 448414AB8, 448414AD4, 448414AF9 and 448414AH5, respectively. The International Securities Identification Numbers ("ISIN") for the Series A Notes, Series B Notes, Series C Notes and Series D Notes are USG46715AA90, USG46715AB73, USG46715AC56 and USG46715AD30, respectively.

2. Application has been made to list the Notes on the Luxembourg Stock Exchange. The legal notice relating to the issue of the Notes, the Memorandum and Articles of Association and the By-laws of the Issuer will be registered prior to the listing with the Registrar of the District Court in Luxembourg *(Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg)*,where such documents are available for inspection and where copies thereof can be obtained upon request. As long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will retain a Paying Agent and a Transfer Agent in Luxembourg.

3. The Issuer and the Guarantor have obtained all necessary consents, approvals and authorizations as may be required in connection with the issue and performance of the Notes, except as disclosed in this Offering Circular. The issue of the Notes was approved by resolutions of the Issuer passed on July 15, 1997 and the giving of the Guarantee of the Notes by the Guarantor was authorized by resolutions of the Guarantor passed on July 15, 1997.

4. Except as disclosed in this Offering Circular, there has been no material adverse change in the financial position or prospects of the Company since December 31, 1996 and there has been no material adverse change in the financial position or prospects of the Issuer since its date of incorporation.

5. Other than as referred to elsewhere in this Offering Circular, neither the Issuer nor the Guarantor nor any of the Guarantor's subsidiaries is involved in any litigation or arbitration proceedings that if determined adversely to the Guarantor or any of its subsidiaries would in the aggregate have a material adverse effect on the consolidated financial position of the Guarantor and the Guarantor's subsidiaries (including the Issuer) taken as a whole, nor is the Issuer, the Guarantor or any of the Guarantor's subsidiaries aware that any such proceedings are pending or threatened.

6. A copy of the Memorandum and Articles of Association and the By-laws of each of the Issuer and the Guarantor and copies of the Fiscal Agency Agreement and the Purchase Agreement (or, pending execution thereof, drafts thereof subject to modification) will, for so long as the Notes are listed on the Luxembourg Stock Exchange, be available for inspection during usual business hours on any weekday (except public holidays) at the offices of the Fiscal Agent in Luxembourg. As long as any of the Notes remain outstanding, copies of the Guarantor's annual report in English containing the audited consolidated financial statements and its most recent unaudited semi-annual interim report in English will be delivered to and be obtainable from the specified offices of the Fiscal Agent.

7. The Issuer has not audited or published, and does not propose to audit or publish, any of its accounts since it is not required to do so under Cayman Islands law. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of its affairs and to explain its transactions.

8. The Guarantor publishes annual report containing the audited non-consolidated balance sheet of the Guarantor and the audited consolidated financial statements of the Company not later than five months

after the date upon which the financial period ended. The Guarantor publishes interim report containing the unaudited consolidated results of the Group for the first six months of each financial year not later than three months after the end of that six month period. The Guarantor does not publish audited interim consolidated nor non-consolidated financial statements. Copies of the annual report and the interim report may be obtained at the office of the Paying Agent in Luxembourg.

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP

The audited financial information of the Company is prepared and presented in accordance with Hong Kong GAAP. which differs in certain significant respects from U.S. GAAP. Certain significant differences between Hong Kong GAAP and U.S. GAAP relevant to the Company's consolidated financial information are summarized below. Such summary should not be construed to be exhaustive. Further, no attempt has been made to identify future differences between Hong Kong GAAP and U.S. GAAP as the result of prescribed changes in accounting standards. Regulatory bodies that promulgate Hong Kong GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between Hong Kong GAAP and U.S. GAAP that may affect the Company's consolidated financial statements as a result of transactions or events that may occur in the future.

1. Profit Recognition on Real Estate Development and Sales

In Hong Kong, it is common for property, primarily residential, to be sold in advance of its completion.

Under U.S. GAAP, profit is recognised in full on real estate sales using the full accrual method set out in Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" (SFAS 66) if a) the profit is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and b) the earning process is virtually complete, that is, the seller is not obligated to perform significant activities after the sale to earn the profit. For retail commercial property sales profit is recognised in full when the development is completed and other conditions specified in SFAS 66 relating to the expiration of the refund period, the amount of cumulative payments received, the receivable collection experience on the project as a whole and nonsubordination of receivables are met. Where these conditions are met but the development is not completed profit is required to be recognised by the percentage of completion method, provided the development has proceeded beyond its preliminary stages, can be completed according to plan and is practical. Where the conditions relating to collectibility of receivables have not been met profit is required to be recognized using the installment method prescribed by SFAS 66, if the conditions regarding the expiration of the refund period and the sufficiency of cumulative payments have been met and the seller is financially capable. If a retail land sales does not meet the criteria for accounting using the full accrual, percentage of completion or installment methods of revenue recognition then cash received from a buyer is accounted for as a deposit. Profit on construction in progress is required to be recognized either on the completed contract or percentage of completion method, depending on the circumstances.

As allowed under Hong Kong GAAP, the Company recognizes profit on sales of property developed for resale on the date of sale or when the occupation permit is issued, whichever is later.

2. Capitalization of Real Estate and Other Fixed Assets, Including Investment Property

Under Hong Kong GAAP all direct and indirect costs relating to the acquisition or construction of fixed assets including interest costs on related borrowed funds during the construction period and certain operating expenses prior to the commissioning date are capitalised as fixed assets.

Under U.S. GAAP interest attributable to the construction of fixed assets for the company's own use or for sale or lease is capitalizable during the construction or acquisition period. Interest is capitalizable both on borrowings related to the relevant fixed assets and on borrowings that could have been avoided if expenditures for the assets had not been made. Indirect costs that relate clearly to a project under construction or development are capitalized. Other indirect costs are generally expensed as incurred.

3. Revaluation of Assets

As required by Hong Kong GAAP the Company's real estate investment properties are restated in the consolidated financial statements on the basis of appraised values and an offsetting-entry is recorded in the Company's consolidated reserves. Investment properties which are held on leases with unexpired terms of more than 20 years are not depreciated as the appraised values take into account the state of each property at the date of appraisal.

Under U.S. GAAP, real estate investment properties must be stated at historical cost and depreciated over the estimated useful life of the asset.

4. Land Held Under Lease

As permitted by Hong Kong GAAP prior to 1996, the Company did not amortize land held under long term leases. U.S. GAAP requires all leasehold land to be depreciated over the term of the lease.

Effective January 1, 1996 Hong Kong GAAP also requires all leasehold land to be depreciated over the term of the lease.

5. Deferred Expenditures

Commissions paid to dealers and certain other selling costs incurred to add new subscribers to the communication service networks are deferred and amortized on a straight line basis over periods of up to three years.

Telecommunications and other projects' pre-operating expenses, including interest, are deferred and amortized over periods of up to ten years from the date of commencement of operations.

Under U.S. GAAP costs incurred to add new subscribers to communications service networks are expensed as incurred. Pre-operating expenses of telecommunications' and other projects are also generally expensed as incurred unless they are directly related to the construction of a fixed asset.

6. Depreciation of Cellular Networks

The Company depreciates certain of its cellular networks according to a profile of depreciation rates that rise in later years to reflect the increase in the number of subscribers and related network revenues as the service develops and matures. Under U.S. GAAP, depreciation is generally recognized on a straight line basis over the estimated useful life of an asset commencing when the asset is first placed in service.

7. Defeasance of Finance Leases

In 1995 the Company recognized a gain in respect of the economic defeasance of lease obligations for its digital network in the United Kingdom. The defeasance arrangements did not qualify as an "in substance defeasance" of the lease obligations under U.S. GAAP which requires such defeasance deposits to be held under a formal trust arrangement for the benefit of the lessor. Under U.S. GAAP, therefore, the gain would be spread over the life of the lease and the deposit and lease obligations shown gross in the Company's consolidated balance sheet at December 31, 1996.

8. Restructuring and Other Provisions

The Company and its subsidiaries periodically establish provisions for restructuring and/or closure of selected operations and estimated future losses of establishing businesses. Such provisions are established on the basis of Hong Kong GAAP. Certain of the provisions would be required to be adjusted, and the related expenses recognized in different periods, to conform with the more prescriptive requirements of U.S. GAAP.

9. Accounting for Impairment of Assets

There are no accounting rules in Hong Kong prescribing the circumstances in which an asset impairment should be recognized in a company's financial statements nor the basis for determining the amount of such an impairment. U.S. GAAP requires asset impairments to be recognized and accounted for on the basis of the prescriptive requirements of SFAS 121 "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of."

10. Deferred Taxation

U.S. GAAP generally requires that deferred taxation be provided for all future taxable timing differences regardless of when reversal is anticipated in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," issued by the Financial Accounting Standards Board. Statement 109 also requires the recognition of deferred tax assets on future deductible temporary differences including tax loss and credit carry forwards if realization of such future benefits is more likely than not. Under Hong Kong GAAP, deferred taxation is calculated under the liability method in respect of the taxation effect arising from all timing differences which are expected with reasonable probability to crystallize in the foreseeable future. Tax deferred or accelerated by the effect of timing differences is accounted for to the extent that it is probable that a liability or asset will crystallize. Deferred tax net debit balances are not carried forward as assets, except to the extent that they are expected to be recoverable.

11. Share of Results of Associated Companies and Joint Ventures

Under U.S. GAAP, the share of results of investee companies accounted for under the equity method is generally based on the investor's ownership percentage applied to the investee's net income, with the resulting share of the investee's net income presented as a single amount in the investor's financial statements.

Under Hong Kong GAAP, the share of the investee's results may also be presented as two separate amounts based on the equity share of (i) the investee's income before income taxes and (ii) the investee's income tax provision.

12. Valuation of Marketable Securities

The Company values investments in listed equity securities included within managed funds and other investments at cost less provision for permanent diminution in value, as permitted by Hong Kong GAAP. U.S. GAAP requires listed equity securities which comply with the definition of a marketable security under Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" to be stated at market value. The difference between cost and market value is either included in income or shareholders' equity, depending on whether the security is classified as held for trading purposes or as "available-for-sale".

13. Pension Costs

The Company operates several defined benefit schemes. Under Hong Kong GAAP, the expected costs of providing pensions are charged to the profit and loss account so as to spread the costs over the service lives of employees in the scheme in such a way that the cost is a substantially level percentage of current and expected future pensionable payroll.

Under U.S. GAAP, a net periodic pension cost is computed based on the standardized method set out in Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions".

14. Dividends

Under Hong Kong GAAP, dividends payable are recorded in the period to which the dividends relate.

Under U.S. GAAP, dividends are recorded in the period in which they are declared.

15. Earnings Per Share

Under Hong Kong GAAP common stock equivalents are included in the calculation of fully diluted earnings per share but not in the calculation of basic earnings per share. Under U.S. GAAP, common stock equivalents, which are non-common stock securities which give their holders the right through conversion or exercise to acquire shares of common stock are added to common shares in computing primary earnings per share if they are dilutive in nature.

16. Consolidation of Financial Statements of Investee Companies

According to the accounting practices in the United States, consolidation of the financial statements of a subsidiary company or equity joint venture into the consolidated financial statements of its parent company is generally required if the parent company has a controlling financial interest in the investee. Ownership of more than 50% of the company's voting shares is normally required to evidence control although in limited circumstances consolidation may be required where the parent owns less than fifty per cent. of the company's voting shares.

Accounting principles generally accepted in Hong Kong require consolidation of the financial statements of a subsidiary company, as defined in the Hong Kong Companies Ordinance, except in limited circumstances, including where the parent company cannot appoint a majority of the board of directors; does not own share capital carrying more than half the votes or where the parent company's ability to control the subsidiary's assets and operations is significantly impaired. A company is considered a subsidiary if its parent company controls the composition of its board of directors, controls more than half of the company's voting power or holds more than half of the issued share capital.

17. Goodwill and other Intangible Assets

Goodwill or negative goodwill on consolidation represents the excess of costs of investments over the fair value attributable to the net assets acquired or vice versa.

Under Hong Kong GAAP, there is no mandatory accounting standard on goodwill and other intangible assets. Goodwill or negative goodwill attributable to the acquisition of subsidiary or associated companies is generally written off or credited directly to reserves immediately upon acquisition or amortized over its estimated useful life. The Company has elected to charge or credit goodwill arising upon acquisition to reserves in the year in which it arises in the Hong Kong GAAP financial statements. Goodwill arising on investments in associated companies and the Company's share of goodwill reported in associated companies' accounts are also charged or credited against reserves in the year in which they arise. Intangible assets attributable to the acquisition of subsidiary or associated companies are generally amortized over their estimated useful lives or stated at cost, depending on the circumstances.

U.S. GAAP requires positive goodwill and other intangible assets attributable to the acquisition of subsidiary or associated companies and the Company's share of goodwill reported in the associated companies accounts, to be recorded on the balance sheet as intangible assets and amortized over the estimated life of the benefits received from the acquisition, generally using the straight line method over a period not exceeding forty years.

18. Exceptional Items

Under Hong Kong GAAP, items of operating income or expense of such size or importance that their disclosure is necessary to explain the performance of the enterprise are separately disclosed in the profit and loss account as exceptional items. Under U.S. GAAP, all items of income or expense are disclosed in the profit and loss account according to their nature and there is no exceptional item category.

19. Profit on Deemed Disposal

As described in Note 25 of the Notes to the Accounts, as permitted by Hong Kong GAAP, subsequent to December 31, 1996 the Company realised a profit of approximately HK$1,200 million arising from the reduction of its effective interest in Hongkong Electric Holding Ltd. attributable to a reorganization. U.S. GAAP would not permit recognition of this gain in income.

20. Accounting Policies of Principal Associated Companies

The Company's principal associated companies are Husky Oil Ltd., Hongkong Electric Holdings Ltd., Orange plc (since April 1, 1996) and Asia Satellite Telecommunications Holdings Ltd.

The accounting policies of these companies, which are used to determine the Company's share of results of, and investments in, associated companies, differ in certain significant respects from U.S. GAAP. There follows a summary of such differences. Again, this summary should not be construed to be exhaustive and further differences might be identified if audited U.S. GAAP financial statements of each of the associates were prepared.

Husky Oil

Husky prepares its accounts in accordance with Canadian GAAP. The Company equity accounts its attributable share of Husky's Canadian GAAP net earnings on the basis that any restatements to Hong Kong GAAP would not be material. Differences between Canadian and U.S. GAAP affecting Husky's net earnings include the following:

- Husky performs a cost recovery ceiling test for each cost centre which limits net capitalized costs to the undiscounted estimated future net revenue from proved oil and gas reserves plus the cost of unproved properties less impairment, using year end prices or average prices in that year if appropriate. In addition, the aggregate value of all cost centres is further limited by including financing costs, administration expenses, future removal and site restoration costs and income taxes. Under U.S. GAAP, companies using the full cost method of accounting for oil and gas producing activities perform a ceiling test on each cost centre using discounted estimated future net revenue from proved oil and gas reserves using a discount factor of 10 percent. Prices used in the U.S. GAAP ceiling tests performed for this reconciliation were those in effect at the applicable year end. Financing and administration costs are excluded from the calculation under U.S. GAAP.

- Husky defers unrealized gains and losses on translation of foreign denominated long term monetary items which are amortized over the remaining lives of the items. Under U.S. GAAP, gains or losses on translation of foreign denominated long term monetary items are credited or charged to earnings immediately.

- Husky expenses costs related to medical and dental post retirement benefits as incurred. Under U.S. GAAP, companies are required to use the projected benefit method prorated based on service.

- Husky carries the financial securities fund, which was a major asset of discontinued operations, at cost less impairment and recorded gains and losses when realized. Under U.S. GAAP, companies are required to carry marketable securities not held to maturity at a marked to market value and record unrealized holding gains and losses for trading securities in earnings.

- Husky records interest waived on subordinated shareholders' loans and dividends waived on Class C shares as a reduction of ownership charges. Under U.S. GAAP, waived interest and dividends in those years would be recorded as interest on subordinated shareholders' loans and dividends on Class C shares as capital contributions.

Hongkong Electric Holdings Ltd.

The principal differences between Hong Kong and U.S. GAAP affecting the results of operations of this company are as follows:

- offset of goodwill arising on consolidation against reserves in the year in which it arises. See "Goodwill and other Intangible Assets" above.

- non depreciation of long term leasehold land. See "Land Held Under Lease" above.

- basis of accounting for retirement scheme costs. See "Pension Costs" above.

- capitalization of exchange gains and losses in respect of fixed assets under construction. U.S. GAAP generally requires such gains and losses to be expensed.

- different basis for capitalizing interest during the construction period of fixed assets. See "Capitalization of Real Estate and Other Fixed Assets, Including Investment Property" above.

- accounting for deferred taxation using the partial provision method U.S. GAAP requires use of the full provision method. See "Deferred Taxation" above.
- presentation of the share of an investee's results as two separate amounts. See "Share of Results of Associated Companies and Joint Ventures" above.
- recognition of profit on sales of properties on the later of the date of sale or the date of issue of the relevant occupation permit, whichever is later. See "Profit Recognition on Real Estate Development and Sales" above.

Asia Satellite Telecommunications Holdings Ltd.

The principal differences between Hong Kong and U.S. GAAP affecting the results of operations of this company are as follows:

- different basis for capitalizing interest during the construction period of fixed assets. See "Capitalization of Real Estate and Other Fixed Assets, Including Investment Property" above.
- expensing of most expenses incurred in the pre-operating period under U.S. GAAP. See "Deferred Expenditures" above.
- accounting for deferred taxation using the partial provision method U.S. GAAP requires use of the full provision method. See "Deferred Taxation" above.
- recognition of transponder revenue in accordance with the terms of the agreements, which include escalation clauses. U.S. GAAP requires recognition of revenue under such agreements on a straight line basis.

Orange plc

Until April 1, 1996 Orange was a subsidiary of the Company and its results have been consolidated in the Company's accounts up to March 31, 1996. Significant differences between the company's accounting policies and U.S. GAAP affecting the consolidated results for these periods are described above and include the company's policy of capitalizing commissions paid to dealers, the treatment of telecommunications projects' pre-operating expenses the basis for depreciating cellular networks and accounting for a gain on defeasance of a finance lease.

Cheung Kong Infrastructure

Effective March 10, 1997 the Company acquired a controlling interest in Cheung Kong Infrastructure. The financial statements of Cheung Kong Infrastructure attached hereto as Annex I and used to prepare the pro forma profit and loss account of the Company for the year ended December 31, 1996 and at that date are prepared in accordance with Hong Kong GAAP which differ in certain significant respects from U.S. GAAP. Such differences include:

- elimination of goodwill against reserves. See "Goodwill and Other Intangible Assets" above.
- different rules for determining when a subsidiary should be consolidated. See "Consolidation of Financial Statements of Investee Companies" above.
- inclusion of interest income in revenue.
- accounting for deferred taxation on the partial provision method. See "Deferred Taxation" above.
- deferral of pre-operating expenses. See "Deferred Expenditures" above.
- accounting for defined benefit costs. See "Pension Costs" above.

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INDEX TO AUDITED FINANCIAL STATEMENTS OF HUTCHISON WHAMPOA LIMITED

AUDITORS' REPORT

To the Members of Hutchison Whampoa Limited
(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages F-5 to F-28 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing accounts which give a true and fair view. In preparing accounts 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 accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view, in all material respects, of the state of the affairs of the Group at 31 December 1996 and of its profit and cash flows for the year then ended.

PRICE WATERHOUSE
Certified Public Accountants

Hong Kong, 26 March 1997

AUDITORS' REPORT

To the Members of Hutchison Whampoa Limited
(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages F-5 to F-28 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

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Opinion

In our opinion the accounts give a true and fair view, in all material respects, of the state of the affairs of the Group at 31 December 1995 and of its profit and cash flows for the year then ended.

PRICE WATERHOUSE
Certified Public Accountants

Hong Kong, 28 March 1996

AUDITORS' REPORT

To the Members of Hutchison Whampoa Limited
(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages F-5 to F-28 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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Opinion

In our opinion the accounts give a true and fair view, in all material respects, of the state of the affairs of the Group at 31 December 1994 and of its profit and cash flows for the year then ended.

PRICE WATERHOUSE
Certified Public Accountants

Hong Kong, 23 March 1995

HUTCHISON WHAMPOA LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1996

	Note	1996	1996	1995	1994
		(US$ millions)		(HK$ millions)	
Turnover	2	4,743	36,662	35,026	30,168
Operating profit		810	6,262	6,523	5,141
Share of profits less losses of associated companies	4	470	3,631	3,902	5,099
Exceptional item	3	530	4,100	756	—
Profit before taxation	4	1,810	13,993	11,181	10,240
Taxation	7	169	1,311	1,133	1,586
Profit after taxation		1,641	12,682	10,048	8,654
Minority interests		86	662	481	633
Profit Attributable to the Shareholders		1,555	12,020	9,567	8,021
Dividends	8	738	5,703	4,267	3,362
Profit for the Year Retained	9	817	6,317	5,300	4,659
Earnings per Share	10	US43 cents	HK$3.32	HK$2.65	HK$2.22

HUTCHISON WHAMPOA LIMITED

CONSOLIDATED BALANCE SHEET
at 31 December 1996

	Note	1996 (US$ millions)	1996	1995 (HK$ millions)	1994
Fixed assets	11	8,174	63,188	54,508	52,192
Deferred expenditures	12	141	1,086	2,536	1,153
Associated companies	13	3,411	26,369	22,778	21,705
Managed funds and other investments	14	2,917	22,551	15,965	13,223
Current assets	15	2,379	18,385	23,658	17,851
Current liabilities	16	2,625	20,288	28,987	17,490
Net current assets (liabilities)		(246)	(1,903)	(5,329)	361
Employment of Capital		14,397	111,291	90,458	88,634
Share capital	17	117	905	904	905
Reserves	18	8,796	67,994	57,935	56,252
Shareholders' Funds		8,913	68,899	58,839	57,157
Minority interests	19	1,011	7,814	5,333	5,144
Long term liabilities	20	4,458	34,459	26,174	26,189
Deferred taxation	21	15	119	112	144
Capital Employed		14,397	111,291	90,458	88,634

HUTCHISON WHAMPOA LIMITED

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 1996

	Note	1996	1996	1995	1994
		(US$ millions)	(HK$ millions)		
Net cash inflow from operating activities	22(a)	1,479	11,435	8,552	6,618
Returns on investments					
Dividends received from associated companies		310	2,397	3,217	3,407
Interest and other dividends received		301	2,328	1,972	1,303
		611	4,725	5,189	4,710
Servicing of finance					
Interest paid		(365)	(2,821)	(2,808)	(1,307)
Dividends paid to minority shareholders		(57)	(439)	(523)	(1,059)
Dividends paid to shareholders		(594)	(4,594)	(3,614)	(2,714)
		(1,016)	(7,854)	(6,945)	(5,080)
Taxation					
Hong Kong profits tax paid		(101)	(785)	(432)	(772)
Overseas profits tax paid		(22)	(168)	(112)	(76)
		(123)	(953)	(544)	(848)
Investing activities					
Proceeds on disposal of fixed assets		11	82	1,331	488
Proceeds on disposal of subsidiary companies (net of cash and cash equivalents sold)	22(b)	17	132	—	472
Proceeds on disposal of and repayments from associated companies		1,424	11,010	2,526	—
Proceeds on disposal of other investments		303	2,343	1,513	4,294
Purchase of fixed assets		(1,677)	(12,964)	(6,311)	(7,162)
Interest capitalised as fixed assets		34	261	12	360
Additions to deferred expenditures		(178)	(1,378)	(1,864)	(910)
Purchase of subsidiary companies (net of cash and cash equivalents acquired)	22(c)	(30)	(229)	(1,749)	(1,391)
Purchase of and advances to associated companies		(1,086)	(8,394)	(2,767)	(6,041)
Additions to managed funds and other investments		(1,178)	(9,106)	(3,341)	(3,027)
		(2,360)	(18,243)	(10,650)	(12,917)
Net cash outflow before financing activities		(1,409)	(10,890)	(4,398)	(7,517)
Net cash inflow from financing activities	22(d)	699	5,404	8,348	14,039
Increase (decrease) in cash and cash equivalents	22(e)	(710)	(5,486)	3,950	6,522

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

A. *Basis of consolidation*

The consolidated accounts of the Group include the accounts for the year ended 31 December 1996 of the Company and of all its direct and indirect subsidiary companies and also incorporate the Group's interest in associated companies on the basis set out in note 1C below. Results of subsidiary and associated companies acquired or disposed of during the year are included as from their effective dates of acquisition to 31 December 1996 or up to the dates of disposal as the case may be. Goodwill is eliminated against reserves in the year in which it arises.

B. *Subsidiary companies*

A company is a subsidiary company if more than 50% of the issued voting capital is held long term. Investments in subsidiary companies are carried at cost.

C. *Associated companies*

A company is an associated company if not less than 20% nor more than 50% of the issued voting capital is held as a long term investment and a significant influence is exercised over its management. Results of the associated companies are incorporated in the accounts to the extent of the Group's share of the post-acquisition results calculated from their accounts made up to 31 December 1996. The investment in associated companies represents the Group's share of their net assets less provision for diminution in value and goodwill, after attributing fair values to their net tangible and intangible assets at the date of acquisition. Goodwill arising on acquisition of the investments and the Group's share of goodwill reported in the associated companies' accounts are eliminated against reserves in the year in which they arise.

D. *Managed funds and other investments*

Managed funds represents the cost of the funds' investments less provision for permanent diminution in value. Gains and losses on the sale of the funds' investments and interest and dividend income are accounted for on an accrual basis in the determination of operating profit. Other investments are carried at cost less provisions for permanent diminution in value and represent listed and unlisted investments in companies which are not subsidiary or associated companies. Results of these companies are included in the accounts to the extent of dividends received and receivable.

E. *Fixed assets*

Fixed assets are stated at cost or valuation less depreciation. Leasehold land is amortised over the remaining period of the lease. In prior years, leasehold land with a remaining lease period of more than fifty years was not amortised. Buildings are depreciated on the basis of an expected life of fifty years, or the remainder thereof, or over the remaining period of the lease, whichever is less. The period of the lease includes the period for which a right of renewal is attached.

Depreciation of other fixed assets is provided at rates calculated to write off their costs over their estimated useful lives on a straight line basis at the following annual rates:

Motor vehicles	20-25%
Plant, machinery and equipment	10-20%
Container terminal equipment	5-20%
Leasehold improvements	Over the unexpired period of the lease or 15%, whichever is the greater

F. *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work has been completed and which are held for their investment potential. Such properties are included in fixed assets at their open market value on the basis of an annual professional valuation. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Upon disposal of an investment property, the relevant revaluation surplus is credited to operating profit. Investment properties are not depreciated except where the unexpired term of the lease is twenty years or less.

G. *Leased assets*

Assets acquired pursuant to finance leases and hire purchase contracts that transfer to the Group substantially all the rewards and risks of ownership are accounted for as if purchased whereby an amount equivalent to cost is recorded as a fixed asset and as a long term liability. Depreciation is provided in accordance with the Group's depreciation policy. Payments to the lessor are treated as consisting of capital and interest elements. The interest element is charged to the profit and loss account. All other leases are accounted for as operating leases and the rental payments are charged to the profit and loss account on an accrual basis.

H. *Deferred expenditures*

Commissions paid to dealers and certain other selling costs incurred to add new subscribers to the communication service networks are deferred and amortised on a straight line basis over periods of up to three years.

Fees paid for the arrangement of syndicated loan facilities and debt securities are deferred and amortised on a straight line basis over the period of the loans.

Telecommunications projects' pre-operating expenses, including interest, are deferred and amortised over periods of up to ten years from the date of commencement of operations.

I. *Properties under development*

Land for properties under development is stated at cost or valuation, and development expenditure is stated at the aggregate amount of costs, including capitalised interest, incurred at the balance sheet date. The profit and turnover on sales of property are recorded either on the date of sale or on the date of issue of the occupation permit, whichever is the later.

J. *Stocks*

Stocks are stated at the lower of cost and net realisable value. Stocks consist mainly of retail goods and cost is determined as the estimated selling price less the normal gross profit margin.

K. *Deferred taxation*

Deferred taxation is provided for when there is a reasonable probability that such taxation will become payable within the foreseeable future. Deferred taxation is calculated by the liability method at the applicable tax rate on timing differences arising from the recognition of income and expenditures in different fiscal periods for accounting and for tax purposes.

L. *Foreign exchange*

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are included in the determination of operating profit.

The accounts of overseas subsidiary and associated companies are translated into Hong Kong dollars using the year end rates of exchange for the balance sheet items and the average rates of exchange for the year for the profit and loss account. In prior years the profit and loss accounts were translated at year end rates of exchange. The effect of this change on prior year results is not material and therefore the comparative figures have not been restated. Exchange differences are dealt with as a movement in reserves.

2. Turnover

	Group		
	1996	1995	1994
	(HK$ millions)		
Sales of goods	16,032.7	14,269.1	12,337.6
Rendering of services	18,268.0	18,696.2	16,464.3
Interest	2,209.9	1,924.9	1,267.2
Dividends	151.4	135.4	98.4
	36,662.0	35,025.6	30,167.5

The turnover of the Group comprises the gross value of goods and services invoiced to customers, income from investments, proceeds from the sales of development properties, rental income from operating leases, interest income and finance charges earned. It does not include the turnover of associated companies.

3. Exceptional Item

	Group		
	1996	1995	1994
	(HK$ millions)		
Profit on flotation of Orange plc after a provision for losses	4,100.0	—	—
Profit on disposal of investment in satellite television	—	756.3	—
	4,100.0	756.3	—

In April 1996, the Group's associated company Orange plc issued 357.5 million ordinary shares in a global public offering and was listed on the London Stock Exchange and NASDAQ in the United States. As a result, the Group's interest in Orange plc was reduced from 68.4% to 48.2% and an exceptional profit of HK$4,100 million, after a provision for estimated losses in building the business, was realised.

4. Profit Before Taxation

Profit before taxation is shown after crediting and charging the following items:

	Group 1996	1995	1994
	(HK$ millions)		
Credits:			
Share of profits less losses of associated companies			
Listed	1,651.6	1,593.4	1,553.4
Unlisted	1,979.8	2,308.3	3,545.6
	3,631.4	3,901.7	5,099.0
Gross rental income from investment properties	1,964.7	1,878.5	1,521.2
Less: Related outgoings	(423.7)	(415.0)	(306.0)
Net rental income	1,541.0	1,463.5	1,215.2
Dividend and interest income from managed funds and other investments			
Listed	558.3	585.8	592.4
Unlisted	333.2	186.1	84.1
Gain on defeasance of finance leases	—	647.1	—
Profit on disposal of investment properties	9.2	1,185.8	—
Charges:			
Interest			
Bank loans and overdrafts	2,095.2	1,915.7	1,336.6
Other loans repayable within 5 years	328.0	493.8	210.5
Other loans not wholly repayable within 5 years	395.1	487.1	59.9
	2,818.3	2,896.6	1,607.0
Less: Interest capitalised	(261.2)	(12.3)	(359.8)
	2,557.1	2,884.3	1,247.2
Depreciation of fixed assets	1,866.8	2,124.5	1,318.9
Amortisation of deferred expenditures	663.1	482.2	174.2
Operating leases			
Properties	1,375.4	1,271.7	1,101.9
Hire of plant and machinery	76.2	146.0	72.8
Auditors' remuneration	25.7	24.5	19.9

The share of profits less losses of associated companies does not include the Group's share of losses incurred by Orange plc during the year as these were accounted for as a provision against the exceptional profit described in note 3.

5. Directors' Emoluments

The emoluments of the directors of the Company are as follows:

	Group 1996	1995	1994
	(HK$ millions)		
Fees	0.8	0.8	0.8
Basic salaries and allowances	37.4	34.2	30.2
Provident fund contributions	3.2	3.2	2.9
Bonuses	75.6	50.7	40.0
Benefit from share options exercised	68.7	6.9	10.7

The emoluments of the non-executive directors of the Company are HK$0.3 million (1995 — HK$0.3 million; 1994 — HK$0.3 million).

No management remuneration was paid to Mr Li Ka-shing during the year other than a director's fee of HK$50,000 which he paid to Cheung Kong (Holdings) Limited.

The Senior Executive Share Option Scheme provides share options to selected senior executives, including certain directors. Details of the Scheme are set out in note 17.

Emoluments of all directors of the Company are analysed as below:

	Number of Directors		
HK$	1996	1995	1994
Nil 1,000,000	7	8	7
2,500,001 — 3,000,000	—	1	1
3,500,001 — 4,000,000	—	1	2
4,000,001 — 4,500,000	—	1	—
4,500,001 — 5,000,000	2	—	—
5,000,001 — 5,500,000	—	1	—
6,500,001 — 7,000,000	—	—	1
7,500,001 — 8,000,000	1	1	1
8,000,001 — 8,500,000	—	1	1
9,000,001 — 9,500,000	—	2	1
11,000,001 — 11,500,000	1	—	—
12,500,001 — 13,000,000	1	—	—
18,000,001 — 18,500,000*	—	1	—
20,500,001 — 21,000,000*	—	—	2
25,000,001 — 25,500,000*	2	—	—
26,000,001 — 26,500,000	—	1	—
27,000,001 — 27,500,000*	1	—	—
28,000,001 — 28,500,000*	1	—	—
37,500,001 — 38,000,000	1	—	—

* Includes benefits from share options exercised of HK$68.7 million (1995 — HK$6.9 million and 1994 — HK$10.7 million).

The five individuals whose emoluments were the highest for the year were four directors of the Company and one director of a subsidiary of the Company. The remuneration of the director of the subsidiary company consisted of basic salary and allowance — HK$3.5 million; provident fund contribution — HK$0.2 million; bonuses — HK$4.3 million; and benefit from share options exercised — HK$28.0 million.

6. Pension Schemes

The Group has established pension schemes for employees located in Hong Kong and in some overseas locations. Total pension expense for the year was HK$230.4 million (1995 — HK$209.8 million; 1994 — HK$163.1 million) of which HK$76.2 million (1995 — HK$72.3 million; 1994 — HK$54.3 million) related to overseas schemes. Contributions to all plans are charged to the profit and loss account in the year incurred.

The Group's Hong Kong employees who commenced employment prior to 1 January 1994 are members of a scheme which provides benefits based on the greater of employee and employer vested contributions plus a minimum interest thereon of 6% per annum, and a benefit derived by a formula based on the final salary and years of service. Employees' contributions are either 5% or 7% of basic monthly salary. The employers' annual contribution is designed to fully fund the scheme as advised by independent actuaries. A formal independent actuarial valuation using the aggregate cost method completed at 30 June 1996 reported a market value of the scheme assets of HK$1,449.6 million and a level of funding of 110% of the accrued actuarial liabilities on an ongoing basis. The main assumptions in the valuation are an investment return of 8.5% per annum and salary increases of 6.5% per annum. The valuation was performed by Mark Baxter, Fellow of the Institute of Actuaries of Australia, of William M Mercer Limited. The Scheme was registered under the Occupational Retirement Schemes Ordinance on 31 October 1995.

The Group's Hong Kong employees who commenced employment subsequent to 31 December 1993 are members of a defined contribution scheme. All contributions are made by the employer at either 7.5% or 10% of basic monthly salary. Benefits are equal to the vested contributions plus a minimum interest thereon of 5% per annum. The Scheme was registered under the Occupational Retirement Schemes Ordinance on 21 May 1996. Except for the employees of the Group's port business in the United Kingdom, overseas employees are members of defined contribution schemes in their respective country of operation. Forfeited contributions of the Group's defined contribution schemes in the amount of HK$10.3 million (1995 — HK$3.8 million; 1994 — HK$0.3 million) were used to reduce the current year's level of contributions and HK$0.9 million (1995 — HK$1.3 million; 1994 — HK$1.5 million) is available at 31 December 1996 to reduce future years' contributions.

The employees of the Group's United Kingdom port business are members of a defined benefit scheme. Employees contribute 5% of pensionable salary. The employers' annual contribution is designed to fully fund the plan as advised by an independent actuary. A formal valuation using the projected unit method completed at 1 January 1995 reported a market value of the scheme assets of HK$559 million and a level of funding of 106% of the accrued actuarial liabilities on an ongoing basis. The main assumptions in the valuation are an investment return of 9.5% per annum and pensionable salary increases of 7% per annum. The valuation was performed by Colin Hedderwick, Fellow of the Institute of Actuaries.

7. Taxation

	Group		
	1996	**1995**	**1994**
	(HK$ millions)		
Current taxation expense			
Hong Kong			
Subsidiary companies	557.4	539.8	853.5
Associated companies	274.5	568.5	668.0
Overseas			
Subsidiary companies	209.8	87.7	141.5
Associated companies	82.7	35.4	5.7
	1,124.4	1,231.4	1,668.7
Deferred taxation expense (credit)			
Hong Kong			
Subsidiary companies	(1.5)	(31.9)	(43.2)
Associated companies	49.5	(132.4)	23.9
Overseas			
Subsidiary companies	(7.6)	—	—
Associated companies	146.1	65.8	(63.9)
	186.5	(98.5)	(83.2)
	1,310.9	1,132.9	1,585.5

Hong Kong profits tax has been provided for at the rate of 16.5% (1995 and 1994 — 16.5%) on the estimated assessable profit less available tax losses. Overseas taxation has been provided for at the applicable rates on the estimated assessable profit less available tax losses.

The potential tax liabilities (assets) which have not been provided for in respect of the current year are as follows:

Arising from accelerated depreciation allowances on continuing operations	(31.3)	(331.6)	302.4
Arising from tax losses	(258.2)	(31.7)	158.7

No provision for taxation has been made for taxes which would arise on the remittance of retained profits of overseas companies to Hong Kong as it is not anticipated that these amounts will be remitted in the near future.

8. Dividends

	Group		
	1996	1995	1994
		(HK$ millions)	
Interim dividend paid of 42 cents per share (1995 — 33 cents and 1994 — 26 cents)	1,520.5	1,193.2	941.1
Proposed final dividend of 108 cents per share (1995 — 85 cents and 1994 — 67 cents)	4,181.9	3,073.4	2,421.1
	5,702.4	4,266.6	3,362.2

9. Profit for the year retained

Profit for the year retained after deducting minority interests is as follows:

	Group		
	1996	1995	1994
		(HK$ millions)	
Retained by Company and subsidiary companies			
Profit for the year	11,200.3	9,377.5	6,117.6
Dividends	(5,702.4)	(4,266.6)	(3,362.2)
	5,497.9	5,110.9	2,755.4
Retained by associated companies			
Profit for the year	3,048.5	3,289.0	4,424.5
Dividends	(2,228.8)	(3,099.4)	(2,521.4)
	819.7	189.6	1,903.1
	6,317.6	5,300.5	4,658.5

10. Earnings per share

The calculation of earnings per share is based on profit attributable to the shareholders of HK$12,020 million (1995 — HK$9,567 million; 1994 — HK$8,021 million) and on the weighted average of 3,616,784,011 shares in issue during 1996 (1995 — 3,614,332,483 shares; 1994 — 3,618,093,652 shares). Fully diluted earnings per share is not shown as the dilution is not material.

11. Fixed assets — group

	Investment properties	Other properties	Other assets	1996 Total
	(HK$ millions)			
Cost or valuation				
At 1 January	21,227.4	20,462.8	21,301.0	62,991.2
Exchange translation differences	—	227.8	31.2	259.0
Additions	154.6	9,193.7	3,615.8	12,964.1
Disposals	(7.1)	(2.2)	(464.7)	(474.0)
Relating to subsidiaries acquired	—	—	409.3	409.3
Relating to subsidiaries disposed	—	(104.6)	(7,650.0)	(7,754.6)
Revaluation	3,627.6	—	—	3,627.6
Transfer between categories	370.7	(10.3)	(360.4)	—
At 31 December	25,373.2	29,767.2	16,882.2	72,022.6
Accumulated depreciation				
At 1 January	—	967.5	7,515.4	8,482.9
Exchange translation differences	—	46.8	55.7	102.5
Charge for the year	—	368.9	1,497.9	1,866.8
Disposals	—	—	(327.8)	(327.8)
Relating to subsidiaries acquired	—	—	173.6	173.6
Relating to subsidiaries disposed	—	(18.4)	(1,444.8)	(1,463.2)
Transfer between categories	—	(32.2)	32.2	—
At 31 December	—	1,332.6	7,502.2	8,834.8
Net book value at 31 December	25,373.2	28,434.6	9,380.0	63,187.8
Net book value at 31 December 1995	21,227.4	19,495.3	13,785.6	54,508.3
Net book value at 31 December 1994	24,201.0	17,361.8	10,629.1	52,191.9
Cost or valuation at 31 December 1996				
At cost	—	29,767.2	16,882.2	46,649.4
At valuation	25,373.2	—	—	25,373.2
	25,373.2	29,767.2	16,882.2	72,022.6

Net book value of investment and other properties comprises:

	1996	1995	1994
	(HK$ millions)		
Hong Kong			
Long leasehold (not less than 50 years)	48,267.4	35,605.7	37,483.2
Medium leasehold (less than 50 years but not less than 10 years)	163.3	119.8	83.8
Overseas			
Freehold	182.0	481.7	506.5
Long leasehold	1,989.4	1,311.2	1,348.1
Medium leasehold	3,189.8	3,176.2	2,121.9
Short leasehold (less than 10 years)	15.9	28.1	19.3
	53,807.8	40,722.7	41,562.8

Properties under development are included in other properties in the amount of HK$11,709.6 million at 31 December 1996 (1995 — HK$2,195.9 million; 1994 — HK$344.6 million).

The investment properties have been revalued as at 31 December 1996 by Knight Frank & Kan, professional valuers, on an open market value basis.

12. Deferred expenditures

Deferred expenditures comprise:

	Group 1996	1995	1994
	(HK$ millions)		
Subscribers' costs	491.8	1,516.6	438.7
Pre-operating expenses	374.0	874.8	539.1
Loan facilities fees	220.6	144.9	174.6
	1,086.4	2,536.3	1,152.4

13. Associated companies

	Group 1996	1995	1994
	(HK$ millions)		
Unlisted shares	5,322.0	4,678.1	4,410.0
Listed shares, Hong Kong	6,732.0	6,352.6	6,352.6
Listed shares, overseas	741.5	—	38.0
Share of undistributed post-acquisition reserves	2,599.2	2,795.3	2,086.6
Investment in associated companies	15,394.7	13,826.0	12,887.2
Amounts due from associated companies	11,268.6	9,011.2	8,846.6
Amounts due to associated companies	(294.7)	(59.5)	(29.0)
	26,368.6	22,777.7	21,704.8

The market value of the listed investments at 31 December 1996 was HK$35,502.2 million (1995 — HK$18,008.7 million; 1994 — HK$15,211.6 million).

Particulars regarding the principal associated companies are set out on pages F-25 to F-28.

14. Managed funds and other investments

	Group 1996	1995	1994
	(HK$ millions)		
Managed funds, overseas	13,169.2	9,588.0	9,100.9
Unlisted shares and advances	540.3	444.8	1,014.0
Listed shares, Hong Kong	4,554.8	2,065.6	1,445.0
Listed shares, overseas	1,345.8	236.4	236.4
Long term deposits	2,750.6	2,986.9	800.0
Convertible notes	189.9	643.1	627.0
	22,550.6	15,964.8	13,223.3
Managed funds, overseas comprise:			
Listed marketable securities	9,666.2	7,236.6	6,394.3
Cash and cash equivalents and accrued interest	3,503.0	2,351.4	2,706.6
	13,169.2	9,588.0	9,100.9

The market value of the listed investments at 31 December 1996 was HK$16,841.4 million (1995 — HK$9,176.0 million, 1994 — HK$7,620.1 million).

Convertible notes carry interest and are convertible into ordinary shares of the issuers which are listed companies in Hong Kong.

15. Current assets

	Group		
	1996	1995	1994
	(HK$ millions)		
Stocks	2,463.9	2,689.0	1,957.9
Debtors	5,081.0	4,570.6	3,379.6
Bank balances and cash equivalents	10,839.7	16,398.6	12,513.1
	18,384.6	23,658.2	17,850.6

16. Current liabilities

	Group		
	1996	1995	1994
	(HK$ millions)		
Bank loans and overdrafts	6,156.9	14,282.5	6,319.9
Other loans	42.3	30.4	16.1
Creditors	9,290.5	10,770.7	7,985.6
Taxation	615.8	830.6	746.8
Proposed final dividend	4,181.9	3,073.4	2,421.1
	20,287.4	28,987.6	17,489.5

The bank and other loans of the Group are secured to the extent of HK$78.2 million (1995 and 1994 — Nil).

17. Share capital

	Number of shares			Company		
	1996	1995	1994	1996	1995	1994
				(HK$ millions)		
Authorised:						
Ordinary shares of HK$0.25 each	4,350,000,000	4,200,000,000	4,200,000,000	1,087.5	1,050.0	1,050.0
7.5% cumulative redeemable participating preference shares of HK$1 each	402,717,856	402,717,856	402,717,856	402.7	402.7	402.7
				1,490.2	1,452.7	1,452.7
Issued and fully paid:						
Ordinary shares						
At 1 January	3,614,859,733	3,619,644,720	3,616,882,378	903.7	904.9	904.2
Senior Executive Share Option Scheme	2,963,891	1,664,013	2,762,342	0.7	0.4	0.7
Repurchased and cancelled	—	(6,449,000)	—	—	(1.6)	—
At 31 December	3,617,823,624	3,614,859,733	3,619,644,720	904.4	903.7	904.9

Pursuant to a Senior Executive Share Option Scheme, options to purchase ordinary shares in the Company are granted to selected executives and executive directors. The option price is the average of the closing bid prices of an ordinary share of the Company on the five dealing days immediately preceding the date on which an invitation to apply for the option is given. The options granted under the Scheme are exercisable between the third and tenth anniversaries of the Grant Date. At 31 December 1996 options to purchase 3,651,017 ordinary shares at option prices from HK$8.19 to HK$11.12 per share were outstanding (1995 — 6,614,908 ordinary shares; 1994 — 8,595,735 ordinary shares).

18. Reserves

	Share premium	Investment properties revaluation	Exchange transition	Retained profit	Total 1996	Total 1995	Total 1994
			(HK$ millions)				
Group							
At 1 January	13,633.4	15,879.0	(567.2)	28,989.5	57,934.7	56,252.0	48,156.5
Premium on exercise of share options	23.7	—	—	—	23.7	15.2	24.0
Share issue expenses	(0.2)	—	—	—	(0.2)	(0.1)	(0.1)
Shares repurchased and cancelled	—	—	—	—	—	(172.4)	—
Revaluation surpluses (deficits)	—	3,565.8	—	—	3,565.8	(1,655.6)	4,119.9
Revaluation surpluses of associated companies	—	203.4	—	—	203.4	366.8	—
Valuation released to profit and loss account	—	(7.0)	—	—	(7.0)	(702.5)	(14.8)
Transfer between categories	—	(0.3)	—	0.3	—	—	—
Net goodwill on consolidation	—	—	—	1.4	1.4	(1,593.6)	(446.2)
Exchange translation differences	—	—	(294.6)	—	(294.6)	2.2	(245.8)
Exchange translation differences of associated companies	—	—	249.3	—	249.3	122.2	—
Profit for the year retained	—	—	—	6,317.6	6,317.6	5,300.5	4,658.5
At 31 December	13,656.9	19,640.9	(612.5)	35,308.8	67,994.1	57,934.7	56,252.0
Including retained reserves of associated companies	—	570.2	413.6	2,430.0	3,413.8	3,271.0	2,589.1

Included in share premium of the Group is a capital redemption reserve of HK$404.3 million (1995 — HK$404.3 million; 1994 — HK$402.7 million). Reserves of the Company available for distribution to shareholders amount to HK$4,984.8 million (1995 — HK$3,755.6 million; 1994 — HK$3,203.6 million).

19. Minority interests

	Group 1996	Group 1995	Group 1994
	(HK$ millions)		
Equity interests	3,683.3	1,145.0	535.8
Loans — interest free	1,713.7	1,485.4	1,427.7
Loans — interest bearing	2,417.0	2,702.7	3,180.3
	7,814.0	5,333.1	5,143.8

The loans are unsecured and have no fixed terms of repayment. At 1995, loans having interest at market rates are repayable as to HK$2,482.5 million (1994 — HK$3,075.0 million) in 1997 and the remainder after five years.

20. Long term liabilities

	Group 1996	1995	1994
	(HK$ millions)		
Bank loans repayable within 5 years	19,342.2	12,847.0	19,071.5
Bank loans not wholly repayable within 5 years	6,975.8	5,109.9	375.0
Other loans repayable within 5 years	2,155.6	90.0	23.0
Other loans not wholly repayable within 5 years	5,980.1	8,105.8	6,706.1
	34,453.7	26,152.7	26,175.6
Creditors	5.7	21.7	13.3
	34,459.4	26,174.4	26,188.9
The loans are repayable as follows:			
Bank loans			
After 1 year, but within 2 years	3,853.9	6,402.5	8,097.3
After 2 years, but within 5 years	17,951.5	7,441.3	11,137.2
After 5 years	4,512.6	4,113.1	212.0
Other loans			
After 1 year, but within 2 years	15.5	32.4	14.5
After 2 years, but within 5 years	2,149.7	65.6	34.4
After 5 years	5,970.5	8,097.8	6,680.2
	34,453.7	26,152.7	26,175.6

The bank and other loans of the Group are secured to the extent of HK$2,844.7 million (1995 — HK$4,796.0 million; 1994 — Nil).

Other loans repayable within five years include HK$2,125.8 million (1995 and 1994 — HK$2,125.8 million) of 7% exchangeable bonds. The bonds are exchangeable for shares of Hutchison Delta Ports Limited, a wholly owned subsidiary company, after an initial public offering of its shares. If there is no such offering, the bonds will mature in 2001.

Other loans not wholly repayable within five years mainly represent HK$5,959.8 million (1995 — HK$5,959.8 million; 1994 — HK$4,533.6 million) of floating rate notes bearing interest at LIBOR plus 0.85% due in 2004.

21. Deferred taxation

The movements in deferred taxation, arising from accelerated depreciation allowances, are as follows:

	Group 1996	1995	1994
	(HK$ millions)		
At 1 January	111.8	143.9	184.8
Exchange translation differences	1.9	(0.2)	2.3
Relating to subsidiaries acquired	14.1	—	—
Net credit for the year	(9.1)	(31.9)	(43.2)
At 31 December	118.7	111.8	143.9
The potential tax liabilities (assets) which have not been provided for in the accounts are as follows:			
Arising from accelerated depreciation allowances	486.6	517.9	849.5
Arising from tax losses	(392.0)	(133.8)	(102.1)

Properties revaluation surpluses do not constitute a timing difference for taxation purposes because the realisation of the surpluses would not be subject to taxation. Therefore the above potential liability does not include deferred taxation related to the revaluation surpluses.

22. Notes to consolidated cash flow statement

	Group 1996	Group 1995	Group 1994
	(HK$ millions)		
(a) Reconciliation of profits before taxation to net cash inflow from operating activities			
Profit before taxation	13,993.1	11,180.9	10,239.4
Dividend and interest income	(2,361.3)	(2,060.3)	(1,365.6)
Interest expenses	2,557.1	2,884.3	1,247.2
Share of profits less losses of associated companies	(3,631.4)	(3,901.7)	(5,099.0)
Exceptional item	(4,100.0)	(756.3)	—
Depreciation and amortisation	2,529.9	2,606.7	1,493.1
Loss (profit) on sale of fixed assets	57.1	(1,067.9)	(180.7)
Profit on disposal of subsidiary companies, associated companies and other investments	(314.0)	(250.5)	(330.3)
Gain on defeasance of finance leases	—	(647.1)	—
Increase in stocks	(137.1)	(660.1)	(375.2)
Increase in debtors	(1,602.3)	(1,082.2)	(704.7)
Increase in creditors	4,534.9	2,323.1	1,573.5
Other non cash items	(91.1)	(16.9)	120.2
Net cash inflow from operating activities	11,434.9	8,552.0	6,617.9
(b) Disposal of subsidiary companies			
Net assets disposed of:			
Fixed assets	6,291.4	5.5	535.0
Deferred expenditures	2,134.3	—	—
Associated companies	—	—	(32.1)
Stocks	362.2	0.8	2.2
Debtors	1,401.0	2.3	7.0
Cash and cash equivalents	307.8	—	14.4
Bank and other loans	(5,161.5)	(2.1)	—
Creditors and taxation	(6,285.1)	(5.1)	(35.3)
Goodwill	524.3	—	1.7
Minority interests	2,085.3	(2.1)	(23.9)
	1,659.7	(0.7)	469.0
Profit on disposal:			
Included in operating profit	0.8	0.7	17.1
Included in exceptional item	4,100.0	—	—
	5,760.5	—	486.1
Satisfied by:			
Increase in net assets of associated companies	5,320.8	—	—
Cash consideration	439.7	—	486.1
	5,760.5	—	486.1
Less: Cash and cash equivalents sold	(307.8)	—	(14.4)
	5,452.7	—	471.7

	Group 1996	Group 1995	Group 1994
	(HK$ millions)		
(c) Purchase of subsidiary companies			
Net assets acquired:			
Fixed assets	235.7	812.7	536.0
Deferred expenditures	0.9	—	—
Associated companies	(81.5)	—	221.8
Managed funds and other investments	—	4.3	—
Stocks	—	71.8	1.3
Debtors	283.0	22.2	5.9
Cash and cash equivalents	34.1	43.3	9.5
Bank and other loans	(161.5)	—	(5.7)
Creditors and taxation	(142.8)	(131.9)	(3.1)
Deferred taxation	(14.1)	—	—
Goodwill	71.1	1,566.2	303.4
Minority interests	38.4	(596.1)	331.4
	263.3	1,792.5	1,400.5
Discharged by:			
Cash payment	263.3	1,792.5	1,400.5
Less: Cash and cash equivalents purchased	(34.1)	(43.3)	(9.5)
	229.2	1,749.2	1,391.0

	Share capital and premium	Bank and other loans	Minority interests	Group 1996 Total	Group 1995 Total	Group 1994 Total
	(HK$ millions)					
(d) Analysis of changes in financing during the year						
At 1 January	14,537.1	40,371.6	5,333.1	60,241.8	52,010.7	38,346.1
Issue of ordinary share capital less expenses	24.2	—	—	24.2	15.5	24.6
New loans	—	19,113.6	2,602.8	21,716.4	14,645.5	23,380.4
Repayment of loans	—	(13,871.9)	(2,547.5)	(16,419.4)	(6,951.3)	(9,408.9)
Issue of shares by subsidiary companies to minorities	—	—	84.3	84.3	65.8	43.2
Redemption of subsidiary companies preference shares	—	—	(1.3)	(1.3)	(21.7)	(0.7)
Cash consideration for repurchase of shares	—	—	—	—	(174.0)	—
Proceeds from sale of network assets to lessor	—	—	—	—	4,745.5	—
Amounts placed on deposit with defeasance banks	—	—	—	—	(3,977.3)	—
Net cash inflow from financing	24.2	5,241.7	138.3	5,404.2	8,348.0	14,038.6
Purchase of minority interests	—	—	(102.8)	(102.8)	166.2	(376.0)
Minority interests in profit	—	—	662.2	662.2	480.9	633.2
Dividend paid to minority interests	—	—	(438.9)	(438.9)	(523.4)	(1,059.2)
Exchange translation differences	—	2.6	51.8	54.4	(61.2)	395.0
Relating to subsidiary companies acquired	—	161.5	64.4	225.9	429.9	50.3
Relating to subsidiary companies disposed of	—	(5,161.5)	2,085.3	(3,076.2)	(4.2)	(23.9)
Reserves movement for repurchase of shares	—	—	—	—	174.0	—
Gain on defeasance of finance leases	—	—	—	—	(647.1)	—
Provision for defeased leases	—	—	—	—	(121.1)	—
Others	—	—	20.6	20.6	(10.9)	6.6
At 31 December	14,561.3	40,615.9	7,814.0	62,991.2	60,241.8	52,010.7

	Group		
	1996	1995	1994
	(HK$ millions)		
(e) Movement in cash and cash equivalents			
At 1 January	16,282.9	12,333.5	5,811.9
Increase (decrease) in cash and cash equivalents	(5,485.9)	3,949.4	6,521.6
At 31 December	10,797.0	16,282.9	12,333.5
(f) Analysis of the balances of cash and cash equivalents			
Bank balances and cash equivalents	10,839.7	16,398.6	12,513.1
Bank overdrafts	(42.7)	(115.7)	(179.6)
	10,797.0	16,282.9	12,333.5

23. Contingent Liabilities

	Group		
	1996	1995	1994
	(HK$ millions)		
Guarantees have been executed in respect of bank and other borrowings facilities available as follows:			
To associated companies	1,366.8	4,656.4	5,087.8

At 31 December 1996 the Group had contingent liabilities in respect of other guarantees amounting to HK$1,750.9 million (1995 — HK$522.1 million; 1994 — HK$360.5 million).

An associated company has arranged two finance leases whereby if the finance leases terminate due to the insolvency of either of the deposit banks, the obligations of the associated company to pay future rentals are replaced by an obligation to pay a termination sum under each finance lease. Under the contractual arrangements with the lessor, the lessor has agreed to bear the risk of non payment of that portion of the termination sum that was to be settled through a demand under the letters of credit issued by the defaulting deposit bank. The Group has agreed to indemnify its 68.42% share if the associated company is unable to pay the remainder of the termination sum to the lessor.

24. Commitments

Outstanding Group commitments not provided for in the accounts at 31 December 1996 are as follows:

Capital commitments

1. Contracted for:

   i. Container terminals, Hong Kong — HK$236.4 million (1995 — HK$301.9 million; 1994 — HK$122.6 million).

   ii. Container terminals, China — HK$1,287.3 million (1995 — HK$283.1 million; 1994 — HK$1,119.4 million).

   iii. Container terminals, other — HK$143.3 million (1995 and 1994 — Nil).

   iv. Telecommunications — HK$1,117.5 million (1995 — HK$907.5 million; 1994 — HK$863.0 million).

   v. Other fixed assets — HK$35.7 million (1995 — HK$297.4 million; 1994 — HK$551.5 million).

   vi. Investments in China ports — HK$445.3 million (1995 and 1994 — Nil).

vii. Investments in China properties joint venture projects — HK$519.0 million (1995 — HK$521.4 million; 1994 — HK$368.4 million).

viii. Other investments — HK$125.7 million (1995 — HK$207.8 million; 1994 — HK$184.5 million).

ix. Property developments in Hong Kong — HK$2,180.1 million (1995 — HK$3,277.5 million; 1994 — Nil).

2. Authorised but not contracted for:

i. Container terminals, Hong Kong — HK$2,823.6 million (1995 — HK$1,740.2 million; 1994 — HK$1,184.3 million).

ii. Container terminals, China — HK$2,474.4 million (1995 — HK$1,117.8 million; 1994 — HK$389.8 million).

iii. Container terminals, other — HK$616.0 million (1995 and 1994 — Nil).

iv. Telecommunications — HK$3,152.1 million (1995 — HK$5,207.5 million; 1994 — HK$3,242.5 million).

v. Other fixed assets — HK$2,312.5 million (1995 — HK$1,481.2 million; 1994 — HK$1,759.0 million).

vi. Investments in China ports — HK$220.6 million (1995 and 1994 — Nil).

vii. Investments in Hong Kong properties joint venture projects — HK$2,760.9 million (1995 — HK$1,626.6 million; 1994 — HK$237.0 million).

viii. Investments in China properties joint venture projects — HK$3,310.9 million (1995 — HK$3,075.1 million; 1994 — HK$940.8 million).

ix. Other investments — HK$858.7 million (1995 — HK$809.8 million; 1994 — HK$517.3 million).

x. Property developments in Hong Kong — HK$11,055.1 million (1995 — HK$8,678.0 million; 1994 — Nil).

Operating lease commitments — amount payable within one year for land and buildings leases

1. Expiring in the first year — HK$269.4 million (1995 — HK$182.8 million; 1994 — HK$211.1 million).
2. Expiring in the second to fifth years inclusive — HK$820.6 million (1995 — HK$885.8 million; 1994 — HK$804.8 million).
3. Expiring after the fifth year — HK$191.2 million (1995 — HK$214.1 million; 1994 — HK$165.7 million).

Operating lease commitments — amount payable within one year for other assets

1. Expiring in the first year — HK$13.3 million (1995 — HK$25.5 million; 1994 — HK$21.7 million).
2. Expiring in the second to fifth years inclusive — HK$33.9 million (1995 — HK$200.4 million; 1994 — HK$55.3 million).
3. Expiring after the fifth year — HK$1.0 million (1995 — HK$86.1 million; 1994 — HK$10.2 million).

25. Subsequent event

Subsequent to the year end, an extraordinary general meeting of shareholders approved the transfer of the Group's 35.01% interest in Hongkong Electric Holdings Limited ("Hongkong Electric") to Cheung Kong

Infrastructure Holdings Limited ("Cheung Kong Infrastructure"), a company listed on the Stock Exchange of Hong Kong, in exchange for 39.3% of Cheung Kong Infrastructure shares at a market value of approximately HK$18,743 million and the purchase of a further 42.88% of Cheung Kong Infrastructure shares from Cheung Kong (Holdings) Limited, a major shareholder of the Company, for a cash consideration of HK$5,568 million and the issue of 254,316,978 ordinary shares of the Company at a market value of HK$14,877 million. After the completion of these transactions on 10 March, 1997 the Group held an aggregate 84.58% interest in Cheung Kong Infrastructure including its interests held before the transactions, and the issued ordinary share capital of the Company increased from 3,617,823,624 shares to 3,872,140,602 shares. As a result of the Hongkong Electric transaction, the Group realised a profit of approximately HK$1,200 million.

26. Comparative figures

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

27. US Dollar equivalents

The US dollar equivalents of the figures shown in the accounts have been translated at the rate of HK$7.73 to US$1.

PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES
at 31 December 1996

Subsidiary and associated companies	Country of incorporation/ principal country of operations	Nominal value of issued ordinary share capital		Percentage of equity attributable to the Group	Principal activities
Property					
Aberdeen Commercial Investments Limited	Hong Kong	HK$	2	100	Property owning
# Afford Limited	Hong Kong	HK$	20	45	Property investment
# Bayswater Development Limited	British Virgin Islands	US$	2	50	Property investment
#+ Becogate Limited	Hong Kong	HK$	4	50	Property investment
# Chesgold Limited	Hong Kong	HK$	4	50	Property investment
# Cheung Wo Hing Fung Enterprises Limited	British Virgin Islands	US$	100	35	Property investment
# Conestoga Limited	Hong Kong	HK$	10,000	24	Property developing
Elbe Office Investments Limited	Hong Kong	HK$	2	100	Property owning
# Forton Investment Limited	Hong Kong	HK$	4	50	Property investment
Foxton Investments Limited	Hong Kong	HK$	10,000	100	Property owning
Glenfuir Investments Limited	Hong Kong	HK$	1,000,000	100	Property owning
# Glory Sense Limited	Hong Kong	HK$	100	50	Property investment
Grafton Properties Limited	Hong Kong	HK$	100,000	100	Property owning
Harley Development Inc	Panama/Hong Kong	US$	2	100	Property owning
Hey Wealth Limited	Hong Kong	HK$	2	100	Property owning
Hongkong and Whampoa Dock Company, Limited	Hong Kong	HK$	139,254,060	100	Holding company
Hongville Limited	Hong Kong	HK$	2	100	Property owning
Hutchison Estate Agents Limited	Hong Kong	HK$	50,000	100	Property management
Hutchison Properties Limited	Hong Kong	HK$	166,758,910	100	Holding company
Hutchison Whampoa Properties Limited	Hong Kong	HK$	2	100	Holding company
Hutchison Whampoa Properties (Management and Agency) Limited	Hong Kong	HK$	20	100	Property management & related services
Hybonia Limited	Hong Kong	HK$	20	100	Property owning
# Montoya (Hong Kong) Limited	Hong Kong	HK$	140	39	Property investment
Mossburn Investments Limited	Hong Kong	HK$	1,000	100	Property owning
# New China Sheen Limited	Hong Kong	HK$	4	50	Property investment
# New China Target Limited	Hong Kong	HK$	4	50	Property investment
Omaha Investments Limited	Hong Kong	HK$	10,000	88	Property owning
Palliser Investments Limited	Hong Kong	HK$	100,000	100	Property owning
Provident Commercial Investments Limited	Hong Kong	HK$	2	100	Property owning
#+ Randash Investment Limited	Hong Kong	HK$	2	50	Property developing
#+ Ranon Limited	Hong Kong	HK$	2	50	Property owning
Rhine Office Investments Limited	Hong Kong	HK$	2	100	Property owning
#+ Secan Limited	Hong Kong	HK$	10	50	Property owning
Shinta Limited	Hong Kong	HK$	2	60	Property developing
# Southern Mount Limited	Hong Kong	HK$	4	50	Property developing
#+ Talent Sun Limited	British Virgin Islands	US$	100	35	Property investment
Trillium Investment Limited	Bahamas/Hong Kong	US$	1,060,000	100	Property owning
Turbo Top Limited	Hong Kong	HK$	2	100	Property developing
Vember Lord Limited	Hong Kong	HK$	2	100	Property owning
# Wonder Pacific Investment Limited	Hong Kong	HK$	4	50	Property developing
Ports and Related Services					
# C&P (Myanmar) Pte Limited	Myanmar	Kyats	2,000	20	Container terminal operating
# COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	HK$	40	39	Container terminal operating
#+ Freeport Harbour Company Limited	Bahamas	B$	2,000	50	Port operating
Hongkong International Terminals Limited	Hong Kong	HK$	20	78	Holding company & container terminal operating
# The Hongkong Salvage and Towage Company, Limited	Hong Kong	HK$	20,000,000	50	Tug fleet operating
# Hongkong United Dockyards Limited	Hong Kong	HK$	76,000,000	50	Ship reparing & general engineering
Hutchison Delta Finance Limited	Cayman Islands/ Luxembourg	US$	3	100	Finance
Hutchison Delta Ports Limited	Cayman Islands	US$	2	100	Holding company

Subsidiary and associated companies	Country of incorporation/ principal country of operations	Nominal value of issued ordinary share capital		Percentage of equity attributable to the Group	Principal activities
# Jiangmen International Container Terminals Limited	China	US$ RMB	7,793,087 20,000,000	50	Container terminal operating
Mid-Stream Holdings Limited	British Virgin Islands	US$	25,400	75	Holding company & mid-stream container operating
# Nanhai International Container Terminals Limited	China	US$	22,000,000	50	Container terminal operating
Panama Ports Company, S.A.	Panama	US$	2	100	Container terminal operating
Port of Felixstowe Limited	United Kingdom	GBP	100,002	100	Holding company
# River Trade Terminal Holdings Limited	British Virgin Islands/ Hong Kong	US$	100	33	River trade terminal operating
# Shanghai Container Terminals Limited	China	RMB	2,000,000,000	40	Container terminal operating
Yantian International Container Terminals Limited	China	HK$	1,200,000,000	44	Container terminal operating
# Zhuhai International Container Terminals (Gaolan) Limited	China	US$	23,500,000	50	Container terminal operating
# Zhuhai International Container Terminals (Jiuzhou) Limited	China	US$	52,000,000	50	Container terminal operating
Retail, Manufacturing and Other Services					
A. S. Watson & Company, Limited	Hong Kong	HK$	109,550,965	100	Holding company
A. S. Watson Asia Pacific Holdings Limited	British Virgin Islands	US$	1	100	Holding company
A. S. Watson Group (Hong Kong) Limited	British Virgin Islands/ Hong Kong	US$	1	100	Retailing, supermarket operating, manufacturing & distribution of water, beverage, fruit juice & frozen products
Cavendish Hotels (Holdings) Limited	Hong Kong	HK$	100,000,000	51	Investment in hotel
+ Consolidated Hotels Limited	Hong Kong	HK$	78,000,000	39	Hotel operating
Fortress Limited	Hong Kong	HK$	20	100	Retailing
#+ Guangzhou Aircraft Maintenance Engineering Company Limited	China	US$	27,500,000	25	Aircraft maintenance
*#+ Hanny Holdings Limited	Bermuda/Hong Kong	HK$	353,379,408	34	Data storage media manufacturing & distributing
*#+ Harbour Ring International Holdings Limited	Bermuda/Hong Kong	HK$	172,112,740	21	Toys trading & manufacturing
Hutchison Hotel Hong Kong Limited	Hong Kong	HK$	2	100	Hotel operating
Hutchison International Hotels Limited	British Virgin Islands	US$	1	100	Holding company
Hutchison Whampoa (China) Limited	Hong Kong	HK$	15,000,000	100	Investment holding & China services
Mountain Cream (International) Limited	Hong Kong	HK$	1,000	100	Frozen products manufacturing & distributing
Pan Asian Systems Limited	Hong Kong	HK$	100,000	100	Satellite equipment trading
Park'N Shop Limited	Hong Kong	HK$	1,000,000	100	Supermarket operating
#+ Procter & Gamble — Hutchison Limited	Hong Kong	US$	44,930,000	31	Investments in manufacturing toiletries products
Shanghai A. S. Watson Yimin Food Company Limited	China	US$	18,000,000	51	Frozen products manufacturing & distributing
Shanghai Park'N Shop Supermarket Company Limited	China	HK$	15,600,000	70	Supermarket operating
# Shenzhen Park'N Shop Supermarkets Limited	China	HK$	25,000,000	50	Supermarket operating
United Soft Drinks Limited	Hong Kong	HK$	34,500,000	51	Beverage distributing

Subsidiary and associated companies	Country of incorporation/ principal country of operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group	Principal activities
+ Watson Asia Beverage Company Limited	China	US$ 2,722,500	60	Beverage manufacturing & trading
Watson Park'N Shop (Taiwain) Limited	Taiwan	NT$ 711,000,000	100	Retailing
Watson's Personal Care Stores Pte Limited	Singapore	S$ 5,000,000	100	Retailing
Watson's The Chemist Limited	Hong Kong	HK$ 1,000,000	100	Retailing
Telecommunications				
*#+ Asia Satellite Telecommunications Holdings Limited	Bermuda/Hong Kong	HK$ 39,000,000	33	Satellite owning
# Chung Kiu Telecommunications (China) Limited	British Virgin Islands/ China	US$ 10,000	50	Trading & manufacturing of communications equipment
Hutchison Communications Limited	Hong Kong	HK$ 20	100	Fixed line communications & paging services
# Hutchison Max Telecom Limited	India	INR 1,000,000,000	29	Cellular & paging services
Hutchison Paging Limited	Hong Kong	HK$ 10,000	100	Dormant
#+ Hutchison Serting Telecom Sdn Bhd	Malaysia	M$ 5,000,000	25	Paging services
Hutchison Telecommunications (Hong Kong) Limited	Hong Kong	HK$ 20	100	Telecommunications
Hutchison Telecommunications Limited	Hong Kong	HK$ 10,000	100	Holding company
Hutchison Telecommunications Technology Investments Limited	British Virgin Islands	US$ 10	100	Holding company and corporate access networks
Hutchison Telecommunications (Australia) Limited	Australia	A$ 18,750,000	56	Holding company & telecommunications
# Hutchison Telecommunications (Thailand) Company Limited	Thailand	THB 360,000,000	45	Paging services
Hutchison Telephone Company Limited	Hong Kong	HK$ 1,000,000	70	Cellular mobile telephone services
# Metro Broadcast Corporation Limited	Hong Kong	HK$ 1,000,000	50	Radio broadcasting
*# Orange plc	United Kingdom	GBP 239,607,187	48	Holding company & telecommunications
Energy, Finance and Investment				
Binion Investment Holdings Limited	Cayman Islands	US$ 3	100	Portfolio investment
Cavendish International Holdings Limited	Hong Kong	HK$ 2,898,985,782	100	Holding company
*#+ Hongkong Electric Holdings Limited	Hong Kong	HK$ 2,020,334,691	35	Electricity generating
#+ Husky Oil Ltd.	Canada	C$ 559,368,303	49	Investment in oil and gas
Hutchison International Finance (BVI) Limited	British Virgin Islands	US$ 1	100	Finance
Hutchison International Limited	Hong Kong	HK$ 446,349,093	100	Holding company
Hutchison Whampoa (Europe) Limited	United Kingdom	GBP 1,000	100	Consultancy services
Lunogo Limited	British Virgin Islands	US$ 1	78	Portfolio investment
Sandalwood Group Limited	British Virgin Islands	US$ 359,582,001	100	Portfolio investment
Strategic Investments International Limited	British Virgin Islands	US$ 1	78	Portfolio investment & treasury
Union Faith Energy (H.K.) Limited	Hong Kong	HK$ 10,000	100	Holding company
Union Faith (Lincoln) Limited	Canada	C$ 1	100	Finance
Yanlock Limited	British Virgin Islands	US$ 1	100	Portfolio investment
Zeedane Investments Limited	British Virgin Islands	US$ 1	100	Portfolio investment

The above table lists the principal subsidiary and associated companies of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiary and associated companies would, in the opinion of the directors, result in particulars of excessive length.

Unless otherwise stated, the principal country of operation of each company is the same as its country of incorporation. The activity of portfolio investment is international, and not attributable to a principal country of operation.

Except Hutchison International Limited which is 100% directly held by the Company, the interests in the remaining subsidiary and associated companies are held indirectly.

* *Company listed in Hong Kong except Orange plc which is listed on the London Stock Exchange and the NASDAQ Stock Market.*

\# *Associated company.*

\+ *The accounts of these subsidiary and associated companies have been audited by firms other than Price Waterhouse. In this respect, (a) the turnover (excluding the turnover of associated companies) is HK$946 million, (b) the profit before taxation of subsidiary companies and the profit before taxation attributable to Hutchison Whampoa Limited of associated companies is HK$3,554 million and (c) the net assets are HK$3,178 million.*

SCHEDULE OF PRINCIPAL PROPERTIES
at 31 December 1996

Description	Lot number	Group's interest	Approx. gross floor area (sq. ft. unless otherwise stated)	Type	Estimated completion date (% complete)
Aberdeen Centre, Aberdeen, Hong Kong	A.I.L. 302 & 304	100%	345,026	C	Existing
Provident Centre, Wharf Road, Hong Kong	I.L. 8465	100%	193,569	C	Existing
Hunghom Bay Centre, Hunghom, Kowloon	R.P. of H.H.M.L. 1	100%	80,402	C	Existing
Whampoa Garden, Hunghom, Kowloon	K.I.L. 10750 Sec. A-H & Sec. J-L	100%	1,713,990	C	Existing
Hutchison House, 10 Harcourt Road, Hong Kong	I.L. 8286	100%	503,715	C	Existing
China Building, 29 Queen's Road, Central, Hong Kong	I.L. 2317	100%	258,751	C	Existing
Cheung Kong Center, 2 Queen's Road, Central, Hong Kong (site area approximately 103,937 sq. ft.)	I.L. 8887	100%	1,260,000	C	1998 (5%)
Chun Fai Centre, Chun Fai Road, Jardine's Lookout, Hong Kong	I.L. 8734	100%	32,270	C	Existing
12/F Kwun Tong Harbour Plaza 182 Wai Yip Street, Kowloon	K.T.I.L. No. 711	100%	24,586	C	Existing
1/F of Frankie Centre, Junction Road, Kowloon Tong, Kowloon	N.K.I.L. 5746	100%	23,027	C	Existing
A composite development at 41 Smithfield Road, Kennedy Town, Hong Kong (site area approximately 964 sq. ft.)	I.L. 6075	100%	4,690	R/C	1997 (15%)
A commercial development at 661-665 King's Road, North Point, Hong Kong (site area approximately 36,641 sq. ft.)	I.L. 8885	39%	348,901 212,170	H C	1999 (9%) 1999 (9%)
7–13 Chiu Lung Street, Central, Hong Kong	I.L. 5571, 5570 & 5569	50%	39,585	C	Existing
Trust Tower, Unit B, Basement, G/F and Mezzanine Floors, 68-74 Johnston Road, Wanchai, Hong Kong	IL 4280 & R.P. of Sec. A of M.L. 64A	100%	4,993	C	Existing
Trust Tower, 1/F-20/F, 68-74 Johnston Road, Wanchai, Hong Kong	I.L. 4280 & R.P. of Sec. A of M.L. 64A	43%	56,260	C	Existing
Shops Nos. 4-9 Smithfield Court, 41A & 43 Smithfield Road, Hong Kong	Sections C & D of I.L. 906	100%	7,054	C	Existing
Shopping Centre of Greenview Court, Castle Peak Road, Tsuen Wan, New Territories	Sec. A of T.W.T.L. 96	100%	39,834	C	Existing
Shopping Centre of Belvedere Garden,					
Phase I	T.W.T.L. 308	100%	21,340	C	Existing
Phase II,	T.W.T.L. 316 (Plot A)	60%	120,039	C	Existing
Phase III, Castle Peak Road, Tsuen Wan, New Territories	T.W.T.L. 316 (Plot B)	100%	131,945	C	Existing
Park Commercial Centre Causeway Bay, Hong Kong	Subsection of I.L. 1149	100%	106,330	C	Existing
Watson House, Wo Liu Hang Road, Shastin, New Territories	S.T.T.L. 61	100%	280,900	C/W	Existing
Hongkong International Distribution Centre, Kwai Chung, New Territories	M/F to 6/F on K.C.L. No. 4	88%	4,705,141	C/W	Existing
	G/F on K.C.L. No. 4	78%	737,394	C/W	Existing

Description	Lot number	Group's interest	Approx. gross floor area (sq. ft. unless otherwise stated)	Type	Estimated completion date (% complete)
798 guest rooms & shopping mall at the Sheraton Hong Kong Hotel & Towers, Salisbury Road, Tsimshatsui, Kowloon	K.I.L. 9172	39%	729,945	H	Existing
One and Two Harbourfront and The Harbour Plaza Hotel Hunghom, Kowloon	Sec. A, B & R.P. of H.H.M.L. 6 and extension thereto	100% 100%	862,988 473,623	C H	Existing Existing
KCRC freightyard extension development, Hunghom Bay, Kowloon (site area approximately 538,837 sq. ft.)	K.I.L. 11077	25%	992,724 430,598	C H	2000 (2%) 2000 (2%)
Watson Centre, 16-24 Kung Yip Street, Kwai Chung, New Territories	K.C.T.L. 258	100%	687,200	I	Existing
13 Chong Yip Street, Kwun Tong, Kowloon (site area approximately 10,394 sq. ft.)	K.T.I.L. 444	64%	124,725	I	1998 (20%)
Watson's Water Centre 6 Dai Li Street, Tai Po Industrial Estate, New Territories	Tai Po Town Lot No. 1 Sec. B. SS2	100%	255,138	I	Existing
LG/F of Edwick Industrial Centre, 4-30 Lei Muk Road, Kwai Chung, New Territories	R.P. of K.C.T.L. 302	100%	13,570	I	Existing
Cavendish Centre, 23 Yip Hing Street, Wong Chuk Hang, Hong Kong	A.I.L. 399	100%	342,868	I	Existing
One half of M/F, whole of 6/F-10/F & the Roof, 1-11 Ka Ting Road, Kwai Chung, New Territories	R.P. of K.C.T.L. 129	100%	100,800	I	Existing
Food distribution depot, Sheung Shui, New Territories	F.S.S.T.L. 97	100%	163,075	I	Existing
682–684 Castle Peak Road, Kowloon (site area approximately 14,940 sq. ft.)	N.K.I.L. 2598 Sec. A & N.K.I.L. 3853	25%	179,285	I/O	1998 (12%)
Provident Villas, 27, 29 & 30 Sassoon Road, Pokfulam, Hong Kong	R.B.L. 648 R.P. & R.B.L. 650	100%	19,338	R	Existing
Peak Villas, 86-88 Peak Road, Hong Kong	R.B.L. 308	100%	9,974	R	Existing
Knightsbridge Court, 28 Barker Road, Hong Kong	R.B.L. 126 & Extension	100%	29,400	R	Existing
16 Houses E1 to E16, Las Pinadas, Clearwater Bay Road, Sai Kung, New Territories	Lot 250 in Demarcation District 223	100%	28,124	R	Existing
2 & 2A Henderson Road, Jardine's Lookout, Hong Kong	I.L. 6930	100%	6,230	R	Existing
23 Coombe Road, Hong Kong	R.B.L. 731	100%	6,130	R	Existing
Laguna City (Phase IV), Cha Kwo Ling, Kwun Tong, Kowloon	N.K.I.L. 6055	50% 50%	1,532 12,488	R C	Existing Existing
South Horizons, Ap Lei Chau, Aberdeen, Hong Kong	R.P. of A.L.C.I.L. 121	50% 50%	41,641 2,785	C R	Existing Existing
A residential development at Tai Po (site area approximately 164,688 sq. ft.)	T.P.T.L. 97	50%	131,750	R	1998 (10%)
A residential development at 77 Broadcast Drive (site area approximately 50,880 sq. ft.)	N.K.I.L. 5104	50%	216,280	R	1999 (5%)
A residential development at Tsing Yi Airport Railway Station (site area approximately 581,250 sq. ft.)	T.Y.T.L. 132	60%	1,154,911 1,524,856	R R	1998 (30%) 1999 (20%)
A residential development at Ma On Shan (site area approximately 277,980 sq. ft.)	S.T.T.L. 446	50%	1,389,900	R	1999 (1%)
6/F of Beijing Tower, 10 Dong Chang An Jie Beijing, China	Dong Chang An Jie, Beijing	50%	23,644	C	Existing

Description	Lot number	Group's interest	Approx. gross floor area (sq. ft. unless otherwise stated)	Type	Estimated completion date (% complete)
Oriental Plaza Dong Chang An Jie, Beijing (site area approximately 1,018,557 sq. ft.)	Dong Chang An Jie, Beijing				
	Phase 1	22%	1,808,396	C	2000 (1%)
	Phase 2	22%	1,722,282	C	2001 (1%)
	Phase 3	22%	2,529,602	C	2001 (1%)
The Greenery, Tianhe, Guangzhou, China	No. 3 North Residential District, Tiyu Road East, Tianhe, Guangzhou, PRC	65%	67,076 31,600	R C	Existing Existing
Huangsha, Guangzhou, China (site area approximately 369,060 sq. ft.)	Huangsha MTR Station Podium	45%	1,868,721	R/C	2000 (1%)
Lakeview, Hwang Gang Lake, Dongguan, Guangdong, China (site area approximately 7,910,291 sq. ft.)	Phase I.1	10%	210,138	R	Existing
	Phase I.2	10%	399,706	R	Existing
	Golf Course	46%	14,244,106	C	1998 (2%)
Metropolitan Plaza, Chongqing, China (site area approximately 201,468 sq. ft.)	Ba Yi Lu / Zhou Yung Lu, Chongqing				
	Phase 1	40%	1,102,837	C	1997 (75%)
	Phase 2	40%	324,814	H	1999 (15%)
	Phase 3	40%	437,169	C	2000 (10%)
Low Cost Housing, Chongqing, China (site area approximately 982,129 sq. ft.)	Yang He District, Chongqing				
	Phase 1.2	50%	775,008	R	1997 (20%)
	Phase 1.3	50%	818,064	R	1998 (10%)
Westgate Mall, Mei Long Zhen, Shanghai, China (site area approximately 127,424 sq.ft.)	Nanjing Xi Lu/ Jiang Ning Lu, Shanghai	21%	861,120	C	1997 (80%)
Zhang Jia Zhai, Beijing Road West, Shanghai, China (site area approximately 102,250 sq. ft.)	Shanghai Beijing Xi Lu / Shi Mun Er Lu	25%	510,810	R/C	2002 (1%)
Pudong Huamu, Shanghai (site area approximately 2,559,559 sq. ft.)	Pudong Huamu Road, Shanghai	50%	1,151,737	R	1998 (10%)
Tang Jia Bay, Zhuhai, China (site area approximately 4,796,943 sq. ft.)	Tang Jia Bay, Zhuhai				
	Phase 1	35%	165,500	R	1998 (5%)
	Phase 2–4	35%	3,441,789	R	2003 (1%)
Walton Plaza Xuhui, Shanghai, China (site area approximately 346,353 sq. ft.)	Changsu Lu / Changle Lu Xuhui District, Shanghai				
	Phase 2	35%	255,591	R/C	1999 (2%)
	Phase 3	40%	1,343,347	R/C	2000 (1%)
Pacific Plaza, Qingdao, China (site area approximately 238,192 sq. ft.)	Dong Hai Lu, Qingdao				
	Phase 1	30%	129,641 2,271	C R	Existing Existing
	Phase 2	30%	484,672	R	1999 (5%)
Royal Gate Kensington Kensington, London, United Kingdom (site area approximately 21,456 sq. ft.)	Kensington, London	48%	140,024	R	1998 (10%)
Graham Terrace Sloane Square, London, United Kingdom (site area approximately 47,243 sq. ft.)	Westminster, London	50%	61,020	R	1999 (1%)
Container Terminal No. 4 Kwai Chung, New Territories	K.C.L. No. 4	78%	70.08 acres	CT	Existing

Description	Lot number	Group's interest	Approx. gross floor area (sq. ft. unless otherwise stated)	Type	Estimated completion date (% complete)
Container Terminal No. 6 Kwai Chung, New Territories	K.C.L. No. 6	78%	71.13 acres	CT	Existing
Container Terminal No. 7 Kwai Chung, New Territories	K.C.L. No. 7	78%	77.87 acres	CT	Existing
Container Terminal No. 8, East, Kwai Chung, New Territories	K.C.L. No. 8	39%	72.13 acres	CT	Existing
Container Terminal at Felixstowe, United Kingdom	Felixstowe, County of Suffolk	100%	800 acres	CT	Existing
Port Operation at Freeport, Bahamas	Freeport, Grand Bahama Island	50%	1,630 acres	P	Existing
Container Terminal at Freeport, Bahamas	Freeport, Grand Bahama Island	50%	56 acres	CT	1997 (87%)
Container Terminal at Yantian Port Shenzhen, China	Yantian, Shenzhen, Guangdong	43%	7,755,206	CT	Existing
Container Terminal at Jiuzhou, Zhuhai Guangdong, China	Shihua Donglu Zhuhai SEZ	50%	1,659,592	CT	Existing
Multi-purpose Terminal at Zhuhai Port, Gaolan, Zhuhai, Guangdong, China	Zhuhai Port, Zhuhai Guangdong	50%	2,238,891	CT	Existing
Container Terminal at Zhuchi Port, Shantou, Guangdong, China	Zhuchi Port, Shantou Guangdong	70%	4,582,505	CT	1998 (40%)
Container Terminal at Zhang Hua Bang, Jun Gong Lu & Bao Shan, Shanghai, China	Zhang Hua Bang, Jun Gong Lu & Bao Shan	40%	8,915,639	CT	Existing
Container Terminal at San Shan Port, Nanhai, Guangdong, China	San Shan Island, Nanhai Guangdong	50%	2,152,783	CT	1997 (50%)
Container Terminal at Gaosha Port, Jiangmen, Guangdong, China	Geoshawei, Baishi Administration area Jiangmen, Guangdong	50%	1,337,675	CT	Existing
Container Terminal at Yangon, Myanmar	Thilawa, Yangon Myanmar	20%	185.33 acres	CT	1999 (2%)

Note:
Except for properties at Peak Road and at Coombe Road, Hong Kong, which are medium leasehold, all of the other Hong Kong properties are long leasehold. China properties are medium leasehold. All overseas properties are freehold except the container terminals at Felixstowe which is long leasehold.

C — Commercial   H — Hotel   I — Industrial   I/O — Industrial/Office   R — Residential
CT — Container Terminal   W — Warehouse   P — Port Operation   G — Golf Course

INDEX TO AUDITED FINANCIAL STATEMENTS OF CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

The following pages are an extract from the Cheung Kong Infrastructure 1996 Annual Report. Page numbers are as they appeared in such Annual Report.

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

(Incorporated in Bermuda with limited liability)

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

We have audited the financial statements on pages 70 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31st December, 1996 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KWAN WONG TAN & FONG
Certified Public Accountants
Hong Kong, 20th March, 1997

CONSOLIDATED PROFIT AND LOSS STATEMENT

for the year ended 31st December

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

BALANCE SHEET

as at 31st December

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

LI Tzar Kuoi, Victor
Director
20th March, 1997

IP Tak Chuen, Edmond
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December

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

1. Group Reorganisaton and Basis of Preparation of Financial Statements

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

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

2. Principal Accounting Policies

a) Basis of Accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable Hong Kong Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

b) Basis of Consolidation

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

Results of subsidiary and associated companies acquired or disposed of during the year are accounted for as from or up to the effective dates of acquisition or disposal.

c) Goodwill

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

d) Subsidiary Companies

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

2. PRINCIPAL ACCOUNTING POLICIES *continued*

e) Associated Companies

An associated company is a company other than a subsidiary company in which the Group has a long-term equity interest of over 20 per cent. and over which the Group is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

Investments in associated companies are stated in the consolidated balance sheet at the Group's share of their net assets. Income from associated companies is stated in the consolidated profit and loss statement at the Group's share of post-acquisition results of the associated companies.

f) Joint Ventures

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

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

g) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation.

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

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

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

h) Stocks

Stocks are stated at the lower of cost, computed on a weighted-average or a first-in first-out basis, and net realisable value. Cost includes cost of materials purchased and in the case of work-in-progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimates of costs to completion and selling expenses.

2. Principal Accounting Policies *continued*

i) Contracts Work-in-progress

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

j) Revenue Recognition

(i) Sale of goods

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

(ii) Contract revenue

Income from contracts is recognised according to the stages of completion.

(iii) Returns from joint ventures

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

(iv) Interest income

Interest income is recognised on an accrual basis.

k) Foreign Currencies

The profit and loss and cash flow statements of overseas subsidiary and associated companies are translated into Hong Kong dollars using average rates of exchange. Balance sheets are translated at closing rates.

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

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

l) Deferred Taxation

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

m) Operating Leases

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

2. PRINCIPAL ACCOUNTING POLICIES *continued*

n) Finance Leases

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

o) Deferred Expenditure

Deferred expenditure, which represents pre-operating expenses incurred prior to commercial operation of the projects, is amortised on a straight line basis over a period of 10 years commencing from the date of commercial operation of the respective projects.

p) Retirement Benefits

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

3. TURNOVER

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

HK$ million	**1996**	1995
PRC Infrastructure	**375**	184
Infrastructure Materials	**2,666**	2,155
Total	**3,041**	2,339

Turnover is geographically analysed as follows:

HK$ million	**1996**	1995
Hong Kong	**2,624**	2,028
The PRC	**417**	311
Total	**3,041**	2,339

4. PROFIT BEFORE TAXATION

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

Profit before taxation is geographically analysed as follows:

HK$ million	1996	1995
Hong Kong	**749**	449
The PRC	**222**	148
Total	**971**	597

5 TAXATION

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

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

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

7. DIVIDENDS

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

8. EARNINGS PER SHARE

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

9. FIXED ASSETS

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

10. Subsidiary Companies

HK$ million	1996
Unlisted shares, at cost	4,014
Amounts due by subsidiary companies	4,144
At 31st December	**8,158**

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

11. Associated Companies

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

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

12. Joint Ventures

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

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

13. OTHER NON-CURRENT ASSETS

Other non-current assets comprise the following:

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

Details of finance lease debtors are further shown below:

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

14. STOCKS AND WORK-IN-PROGRESS

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

15. BANK LOANS

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

16. LONG-TERM LOANS

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

17. DEFERRED TAXATION

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

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

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

18. SHARE CAPITAL

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

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

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

19. Reserves

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

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

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

Contributed surplus of the Company arose when the Company issued shares in exchange for the shares of subsidiary and associated companies being acquired pursuant to the IPO Reorganisation, and represents the difference between the value of net assets of the companies acquired and the nominal value of the Company's shares issued. Under the Company Act of 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders.

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

20. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

(b) Analysis of changes in financing during the year

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

(c) Major non-cash transaction

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

21. RETIREMENT SCHEME

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

The latest actuarial valuation of the defined benefit scheme was completed in July, 1995 by Mr. Joseph K. L. Yip, a fellow member of the Society of Actuaries, of The Wyatt Company (HK) Limited. The actuarial method adopted was Attained Age Funding Method and the main assumptions used included the annual rate of investment return on the scheme assets at 10% and the annual salary increases at 8%.

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

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

22. REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES

(a) **Directors' Remuneration**

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

HK$ million	**1996**	1995
Salaries, benefits in kind and fees	**2**	–
Contributions to retirement schemes	**–**	–
Bonuses	**8**	–
Total	**10**	–

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

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

Remuneration band	**1996**	1995
Nil - HK$1,000,000	**5**	8
HK$1,500,001 - HK$2,000,000	**1**	–
HK$3,500,001 - HK$4,000,000	**1**	–
HK$4,000,001 - HK$4,500,000	**1**	–

22. Remuneration of Directors and Senior Executives *continued*

(b) **Senior Executives' Remuneration**

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

HK$ million	**1996**	1995
Salaries and benefits in kind	**10**	10
Contributions to retirement schemes	**1**	1
Bonuses	**12**	11
Total	**23**	22

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

Remuneration band	**1996**	1995
HK$2,500,001 - HK$3,000,000	–	1
HK$3,000,001 - HK$3,500,000	–	1
HK$3,500,001 - HK$4,000,000	**1**	–
HK$4,500,001 - HK$5,000,000	–	1
HK$5,000,001 - HK$5,500,000	**1**	–
HK$5,500,001 - HK$6,000,000	–	2
HK$6,000,001 - HK$6,500,000	**1**	–
HK$6,500,001 - HK$7,000,000	**1**	–

23. Commitments

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

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

23. Commitments *continued*

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

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

24. Subsequent Events

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

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

(i) the Group acquired from Hutchison Whampoa 707,295,862 shares in Hongkong Electric, representing approximately 35.01 per cent of the issued capital of Hongkong Electric based on the price of HK$26.50 per share, for a consideration of approximately HK$18,743 million, satisfied by the issue to Hutchison Whampoa of 886,209,945 new shares of HK$1.00 each in the Company at HK$21.15 per share credited as fully paid and ranking pari passu in all respects with the existing shares of the Company;

(ii) Cheung Kong Holdings transferred its entire holding of 966,689,000 shares in the Company to Hutchison Whampoa; and

(iii) the authorised share capital of the Company was increased from HK$2,000,000,000 to HK$4,000,000,000 by the creation of an additional 2,000,000,000 shares of HK$1.00 each, such shares to rank pari passu in all respects with the existing issued shares of the Company.

(b) On 14th March, 1997, the Group acquired in the open market 14,822,500 shares in Hongkong Electric by cash at an average price of HK$27.19 and thereby increasing its shareholding in Hongkong Electric from 35.01 per cent. to 35.7 per cent.

25. Ultimate Holding Company

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

26. Comparative Figures

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

27. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 20th March, 1997.

APPENDIX 1

PRINCIPAL SUBSIDIARY COMPANIES

As at 31st December, 1996	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 65,780,000 non-voting deferred	HK$0.5 HK$0.5	100	Investment holding
Anderson Asphalt Limited	36,000 ordinary	HK$100	100	Production and laying of asphalt and investment holding
Anderson Asia Concrete Limited	800,000 ordinary	HK$1	100	Investment holding
Asia Stone Company, Limited	33,000,000 ordinary	HK$1	100	Quarry operation and manufacture of aggregates
Cheung Kong China Infrastructure Limited	2 ordinary	HK$1	100	Investment holding and investment in infrastructure projects in the PRC
China Cement Company (Hong Kong) Limited	597,200,000 ordinary	HK$1	100	Manufacturing, sale and distribution of cement and property investment
China Cement Company (International) Limited	2 ordinary	HK$1	100	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK$2	100	Investment holding and property investment
Green Island Cement (Holdings) Limited	101,549,457 ordinary	HK$2	100	Investment holding
Ready Mixed Concrete (H.K.) Limited	50,000,000 ordinary	HK$1	100	Production and sale of concrete and investment holding
Sukvit Investments Limited	2 ordinary 10,000 non-voting deferred	HK$1 HK$1	100	Investment holding
INCORPORATED IN THE BRITISH VIRGIN ISLANDS				
Cheung Kong Infrastructure (BVI) Limited	1,682,215 ordinary	HK$0.1	100	Investment holding
Daredon Assets Limited	1 ordinary	US$1	100	Fund investment

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

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

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

APPENDIX 2

PRINCIPAL ASSOCIATED COMPANIES

As at 31st December, 1996	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 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

+ Not audited by Kwan Wong Tan & Fong.

APPENDIX 3

SCHEDULE OF MAJOR PROPERTIES

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

I : industrial *C : commercial*

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GLOSSARY OF CERTAIN TERMS

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

ASW — A.S. Watson & Company, Limited, a wholly-owned subsidiary of the Company.

Basic Law — the Basic Law of the Hong Kong SAR, which, together with the Joint Declaration, provides that the Hong Kong SAR will have a high degree of legislative, judicial and economic autonomy.

CDMA — Code Division Multiple Access cellular telephone technology.

Cellular network operator — an operator of a cellular telephone network. Cellular network operators are typically also cellular service providers.

Cellular service provider — company which buys airtime wholesale from cellular network operators and resells a range of mobile communications services to their subscribers.

Cheung Kong — Cheung Kong (Holdings) Limited, which is the largest shareholder of the Company, owning approximately 49% of its issued share capital.

Chung Kiu — Chung Kiu Telecommunications (China) Holdings Limited was established by the Company to provide management and technical services and equipment to cellular telephone, paging and trunked radio network operators in mainland China.

Clinker — a semi-finished product in the cement production process.

COSCO-HIT — a 50-50 joint venture between a 77.5%-owned subsidiary of the Company and China Ocean Shipping (Group) Company.

CT2 — the Company's second-generation cordless telephone system.

Delta Ports — Hutchison Delta Ports Limited, which is a wholly-owned subsidiary of the Company located in mainland China.

Felixstowe — Port of Felixstowe Limited, which is a wholly-owned subsidiary of the Company located in United Kingdom.

FTNS — Fixed wireline telecommunications network.

GSM — Global System for Mobile Communications cellular telephone technology.

HIT — Hongkong International Terminals Limited, which is a 77.5%-owned subsidiary of the Company.

Husky — Husky Oil Ltd., which is a Canadian-based integrated oil and gas company in which the Company has a 49% interest.

Joint Declaration — the Sino-British Joint Declaration on the Questions of Hong Kong, which, together with the Basic Law, provides that the Hong Kong SAR will have a high degree of legislative, judicial and economic autonomy.

km — kilometer.

Kwai Chung — Kwai Chung Container Port, which is the principal container port in Hong Kong.

MFN — Most Favored Nation.

MTRC — Mass Transit Railway Corporation.

MW — megawatt, equal to 1,000 kilowatts.

NGLs — natural gas liquids.

NPC — the National People's Congress of China.

OFTA — Office of the Telecommunications Authority of Hong Kong.

Orange — Orange plc, which is a 49.02%-owned associated company of the Company located in the U.K.

PCS or PCN — Personal Communications Service, System or Network cellular telephone technology.

PSTN — Public Switched Telephone Network.

SAR — Special Administrative Region of China.

SCT — Shanghai Container Terminals Limited, which is a 40%-owned associated company of the Company located in mainland China.

sq. m. — square meter (equivalent to approximately 10,764 square feet).

TEU — Twenty foot equivalent unit, which is the amount of cargo that can be shipped in a container 20 feet long by 8 feet wide by 8 feet 6 inches high with a maximum load of 24 tons.

TDMA — Time Division Multiple Access IS-54, a digital cellular system.

Yantian — Yantian International Container Terminals Limited, which is a 43.6%-owned subsidiary of the Company located in mainland China.

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US$2,000,000,000

HWL

Hutchison Whampoa Finance (CI) Limited

US$750,000,000 6.950% Notes due 2007
US$500,000,000 7.450% Notes due 2017
US$500,000,000 7.500% Notes due 2027
US$250,000,000 6.988% Notes due 2037

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BancAmerica Securities, Inc.
CIBC Wood Gundy Securities Corp.
CITIC Industrial Bank
Citicorp Securities, Inc.
Deutsche Morgan Grenfell

July 24, 1997