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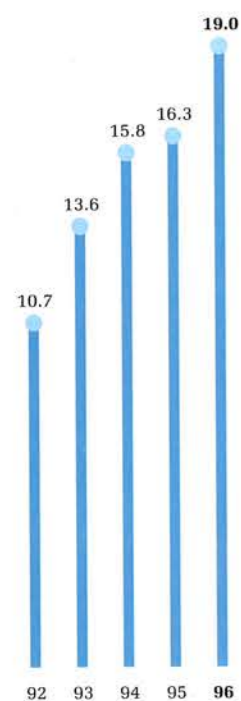
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and investment**

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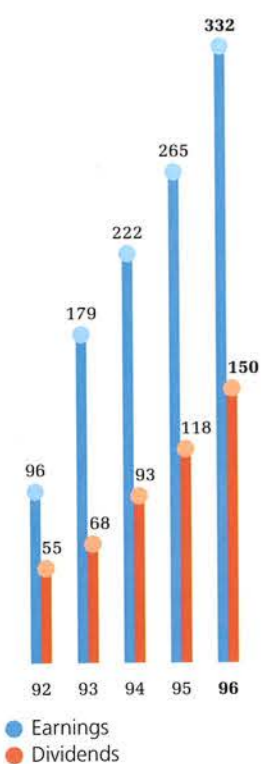
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FINANCIAL HIGHLIGHTS

Net Assets per Share
HK dollars



Earnings and Dividends per Share
HK cents



	1996 HK\$ millions	1995 HK\$ millions	Percentage change
Turnover	36,662	35,026	+5%
Profit attributable to the shareholders	12,020	9,567	+26%
Dividends	5,703	4,267	+34%
Shareholders' funds	68,899	58,839	+17%
Earnings per share (HK\$)	3.32	2.65	+25%
Dividends per share (HK cents)	150	118	+27%
Dividend cover	2.1	2.2	-5%
Return on shareholders' funds	17.4%	16.3%	+7%
Gearing	14.0%	19.4%	-28%
Net assets per share – book value (HK\$)	19.0	16.3	+17%

ANALYSIS OF GROUP PROFIT AND TURNOVER

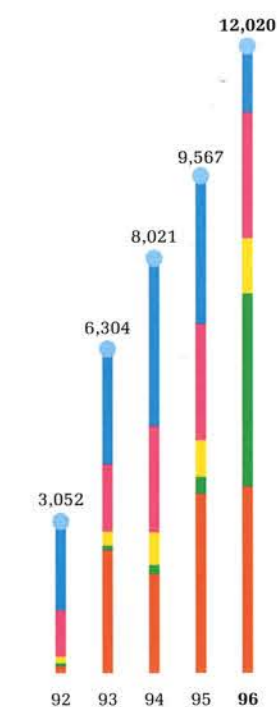
Profit attributable to the shareholders by activity	1996 HK\$ millions	1995 HK\$ millions	Percentage change
Property	1,409	2,936	-52%
Ports and Related Services	2,369	2,201	+8%
Retail, Manufacturing and Other Services	1,034	686	+51%
Telecommunications	3,642	324	+1,024%
Energy, Finance and Investment	3,566	3,420	+4%
Total	12,020	9,567	+26%

Turnover by activity

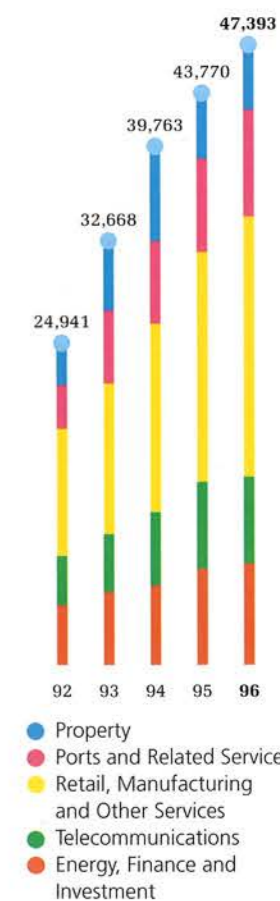
	1996 HK\$ millions	1995 HK\$ millions	Percentage change
Property	5,446	5,531	-2%
Ports and Related Services	8,073	7,038	+15%
Retail, Manufacturing and Other Services	19,531	17,263	+13%
Telecommunications	6,581	6,568	-
Energy, Finance and Investment	7,762	7,370	+5%
Total	47,393	43,770	+8%

The above information includes the Company, its subsidiary companies and its proportionate share of associated companies' amount, after adjusting for minority interests in both turnover and profit attributable to the shareholders.

Profit Attributable to the Shareholders by Activity
HK\$ millions



Turnover by Activity
HK\$ millions



CORPORATE INFORMATION

Chairman

Li Ka-shing, CBE, LLD, JP

Deputy Chairman

Richard T K Li

Group Managing Director

Canning K N Fok, BA, DFM, ACA (Aus)

Executive Directors

Victor T K Li

W Shurniak

Susan M F Chow, BSc

George C Magnus, MA

A N M Chow

H L Kam, BSc, MBA

Frank J Sixt, MA, LLL

Directors

The Hon Michael D Kadoorie

C P Langley, OBE

Li Fook-wo, CBE, LLD, DSSc, FCIB, JP

Simon Murray, CBE

P A L Vine, OBE, LLD, VRD, JP

C H Wong, CBE, MA, LLM, JP

Company Secretary

N D McGee, BA, LLB

Auditors

Price Waterhouse

Bankers

The Hongkong and Shanghai

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Standard Chartered Bank

The Chase Manhattan Bank, N A

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Chairman's Statement

The Group's audited consolidated net profit after tax for the year ended 31 December 1996 was HK\$12,020 million compared with HK\$9,567 million earned in 1995, an increase of 25.6%. Earnings per share were HK\$3.32 compared with HK\$2.65 in 1995.

Your directors will recommend a final dividend of HK\$1.08 per share at the forthcoming Annual General Meeting. This, together with the interim dividend of HK\$0.42 paid on 18 October 1996, gives a total dividend of HK\$1.50 per share for the year and represents a 27.1% increase on the HK\$1.18 paid in respect of 1995.

Overall Review

The Group continued its growth during 1996 with the five core businesses achieving solid results in challenging market conditions. The property market showed a significant recovery during 1996 and, with an increase in purchasing power, this upward trend has continued into 1997.

The Group's rental income is showing steady growth as the property investment portfolio continues to expand. The portfolio will be further enlarged when the first phase of the new office tower, which is being built on the site of the former Hongkong Hilton Hotel, is completed in 1998. The entire redevelopment of this site will be completed in the year 2000. The land premium for this development has already been paid and work is progressing on schedule. Profits generated from property development have declined in relation to previous years as a result of the South Horizons and Laguna City developments having been completed. However, the increase in income from our investment portfolios and other sectors of the Group more than offset the reduction in contribution from the property development sector. Since the beginning of last year, further progress was made in replenishing the Group's land bank through acquisitions which include 50% interests in sites at Hung Shui Kiu and Tung Chung as well as the right to construct a commercial complex which will serve as a screen between the soon to be developed Container Terminal No 9 and the nearby residential complexes. The new development projects acquired to date in Hong Kong, together with our existing projects in China, provide the potential for future growth in profitability.

While throughput growth at our container terminal operations at Kwai Chung slowed in line with the downturn in Hong Kong's export performance, headway continued to be made in improving operational efficiency and strengthening relationships with international shipping lines. During the year, Hongkong International Terminals Limited was awarded the rights to develop, commission and operate two berths at Terminal 9 on Tsing Yi Island. In addition, a consortium in which the Group has a 33% interest has acquired the right to develop a site in Tuen Mun into a new river trade container handling facility. In the UK, the Group's port facilities at Felixstowe performed well, and our joint venture container port operations in China also continued to make steady progress. 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. In line with the Group's strategy to further enhance its container terminal operations and profitability, steps have also been taken to expand the Group's container terminal operations internationally through

investments in port operations in the Bahamas, Myanmar, Indonesia and Panama. Container terminal opportunities in other countries are also being considered.

During the year, A S Watson & Company made solid progress and further expanded its retailing presence in Asian markets in addition to strengthening its retailing and manufacturing activities in China. Through improved efficiencies and cost controls, this division was able to record a strong increase in profit. Park'N Shop continued to establish its operations in 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. The Group will maintain its policy of selective expansion of its retail operations.

1996 was a significant year for the Group's telecommunications businesses in Hong Kong, with the virtual completion of the change-over from two limited capacity analogue systems to two digital systems with substantially greater subscriber capacity. The overall capacity has been further increased with the awarding of a Personal Communications Services (PCS) licence to the Group. While profitability was down as a result of operating duplicate systems, the change-over is now virtually complete and has resulted in a substantially increased subscriber capacity. During the year, the businesses continued to build on strong foundations by consolidating resources, enhancing service standards and expanding subscriber base. The Group's cellular telephone subscriber base, which now stands at approximately 340,000, has tripled since the end of 1995, and the prospects for continued growth are encouraging. The establishment of Hutchison Telecommunications (Hong Kong) Limited has improved efficiency for the telecommunications group through the streamlining of its marketing and operational resources for mobile telephone, paging and fixed-line network services. Steady progress has also been made on the infrastructural development of the Network Eight fixed-line service. The PCS licence which was awarded in July will provide additional spectrum for subscriber growth in the years ahead as well as allow the Group to introduce a variety of new products and services.

In the UK, the Orange plc business continued its rapid growth with the subscriber base more than doubling that of the previous year to now stand at 888,000. Orange has acquired an impressive 11% share of the overall UK market since the launching of its wirefree network. The flotation of Orange was completed in April, at which time the Group's effective interest was reduced to 48.22%. This has subsequently been increased to 49.02% as a result of the recent acquisition of additional shares in the company from British Aerospace.

Husky Oil performed very well during the year, and steady progress was made in its on-going drilling and exploration programme. In addition, Husky obtained an investment grade rating through two international rating agencies and successfully refinanced its debt on a stand alone basis.

The Group's overall strategy is to continue to expand its core businesses in Hong Kong, China and elsewhere, particularly in Asia. As part of its overall strategy, the Group also seeks to enlarge its recurrent income base and to maximise the co-ordination of its businesses. The recent re-organisation saw the consolidation of the Hongkong Electric group shareholding into its subsidiary, Cheung Kong Infrastructure. This will further enable the Group to focus on its core businesses in China and the region. The Group is most active in China in the areas of port operations, property development, infrastructure, power generation, manufacturing and retailing.

During 1996 we witnessed a gradual recovery in Hong Kong's economy with rallies in both the stock market and property sectors. This recovery is likely to be further enhanced in the months ahead with expected increases in China's exports and imports. Hong Kong will maintain its pre-eminent regional role given the on-going strengthening of economic ties between itself and China. The Group has complete confidence in the future of Hong Kong. Against that background, the Group is committed to continue developing its core businesses in markets with good potential and in those areas in which it has the resources and expertise. With its solid base of recurrent quality income, strong cash flow and financial position, the Group is well positioned to move forward to the next century with confidence.

Mr Charles Lee resigned as director on 12 March 1997 to devote himself to his public duties. Mr Albert Chow Nin Mow will resign as a director with effect from 30 April 1997 for personal reasons. I would like to thank both gentlemen for their services and the valuable contributions they have made to the Group.

I also wish to thank the Board of Directors and all the employees of the Group for their support, dedication and hard work throughout the year.

Li Ka-shing
Chairman

Hong Kong, 26 March 1997

Operations Review

Each of the Group's five core businesses benefited from focused management and increased investment during the year and all of the principal subsidiaries reported profits after tax. Substantial capital commitments have been made in each division, ranging from a replenishment of our land bank, through investments in several major property development sites in Hong Kong, to the acquisition of interests in container ports in other countries and the roll-out of our telecommunications networks and retailing outlets. These are part of our overall strategic plans for the further growth and expansion of the Group and its profitability as we move forward.



Property development and holdings

Through its “garden city” residential developments and the innovative Wonderful Worlds of Whampoa commercial complex, the Group’s property division has helped change the face of Hong Kong, improving the quality of life for hundreds of thousands of people. The division also has an extensive portfolio of commercial properties and it is involved in a number of property developments in China.



An artist's impression of Cheung Kong Center, which is currently under construction in Central. When completed, it will be one of Hong Kong's most "intelligent" commercial buildings.

Profit from the property division totalled HK\$1,409 million (1995 – HK\$2,936 million), which arose primarily from rental income and the sale of development properties. While rental income recorded an increase, profit from the property development sector was down, as expected, now that the South Horizons and Laguna City developments have been completed.

HONG KONG — PROPERTY SALES: During the year, the remaining units, comprising a gross floor area of approximately 584,000 sq ft, and 259 car parking spaces were sold at the Group's Laguna City project in Kwun Tong in east Kowloon. The Group also sold its remaining interest in Concordia Plaza, a commercial development in Tsim Sha Tsui.

HONG KONG — NEW ACQUISITIONS & PROPERTIES UNDER DEVELOPMENT:

Steady progress was made in the Group's projects under development in Hong Kong. In Central, site formation is well advanced for Cheung Kong Center, the Group's planned office tower which is to be constructed on the site of the former Hongkong Hilton Hotel. Demolition of Beaconsfield House is underway and the site will be incorporated into the Cheung Kong Center development. Work on the superstructure is expected to commence later this year, and when completed during the second half of 1998, the office tower will comprise a total floor area of approximately 1,260,000 sq ft as well as provide underground parking for approximately 1,050 cars. The Cheung Kong Center will be one of Hong Kong's most "intelligent" buildings, and it is already attracting a high level of interest from prospective tenants.

In North Point, where the Group has a 39% interest in a 36,641 sq ft site under development, work on a twin-tower office and hotel complex is on schedule. Due for completion in 1999, the hotel will have approximately 800 rooms and a total floor area of 349,000 sq ft, while the office tower will provide 212,000 sq ft of office and commercial space.

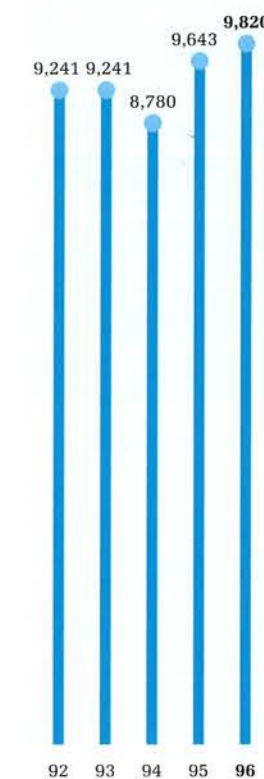
Construction of a commercial complex in Hung Hom, in which the Group has a 25% interest, is scheduled for completion in 2000. This 1.4 million sq ft complex will comprise a hotel, three office blocks and a shopping arcade.

The Group has a 60% interest in a consortium that is developing a large-scale residential complex above the Mass Transit Railway station at Tsing Yi. When

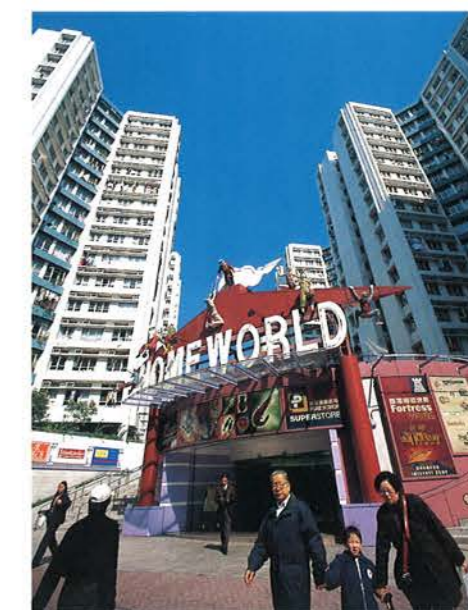


A proposed residential complex to be constructed above the Mass Transit Railway station at Tsing Yi.

Investment Properties
Gross floor area completed
in thousand sq ft



The twin-tower Harbourfront complex on the Hung Hom waterfront offers spectacular views of Hong Kong Island.



Every day thousands of people pass through the entrance to Home World at the Wonderful Worlds of Whampoa, which includes a Park'N Shop Superstore and Fortress World.

completed in phases in 1998 and 1999, the development will provide 2.68 million sq ft of residential space.

In Tai Po, site formation work is underway for a 131,000 sq ft residential project in which the Group has a 50% interest. The project is scheduled for completion in 1998. Work is also proceeding on schedule on a 1.39 million sq ft residential development at Ma On Shan, in which the Group holds a 50% interest. When completed in 1999, the development will have approximately 1,600 residential units. Another residential project currently under development is located on Broadcast Drive. The Group has a 50% interest in this project, which when completed in 1998, will provide a gross floor area of approximately 200,000 sq ft.

In November 1996, a joint venture company equally owned by the Group and Cheung Kong (Holdings) Limited entered into an agreement with Kowloon-Canton Railway Corporation for a residential development with a gross floor area of approximately 1.2 million sq ft at Hung Shui Kiu, Yuen Long, in the New Territories. In February of this year, the Group and Cheung Kong (Holdings) Limited formed another 50/50 joint venture company which entered into an agreement with the Mass Transit Railway Corporation 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 centre with a total gross floor area of approximately 3.3 million sq ft. Completion of this development is scheduled for 2000.

HONG KONG — RENTAL PROPERTIES: The Group's investment portfolio comprising approximately 10 million sq ft of commercial, industrial and residential properties in Hong Kong remained virtually fully let and continued to generate a steady flow of quality recurrent income.

At Hung Hom, the Group benefited from the on-going upgrading of its Whampoa Garden commercial complex, where a number of "theme" shopping concepts were successfully opened, including Home World, Fashion World, Book World and Screen World. Additional new themes are to be launched this year. Rental income was further enhanced by the full occupancy of the Harbourfront twin-towers, which provide a gross floor area of 863,000 sq ft of Grade-A office space. The Hongkong International Distribution Centre, in which the Group holds an 88% interest, remained substantially fully let throughout the year.

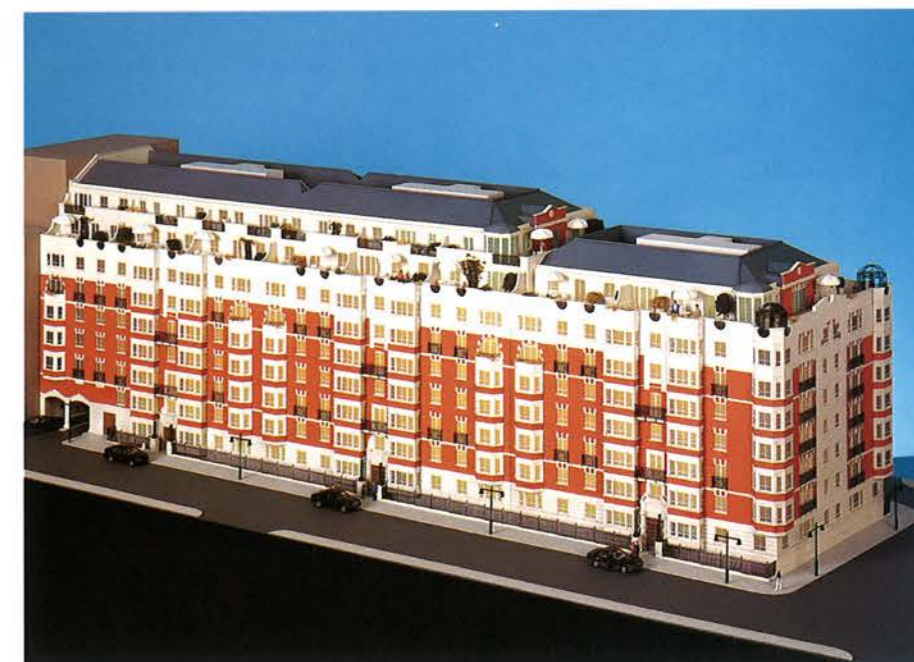
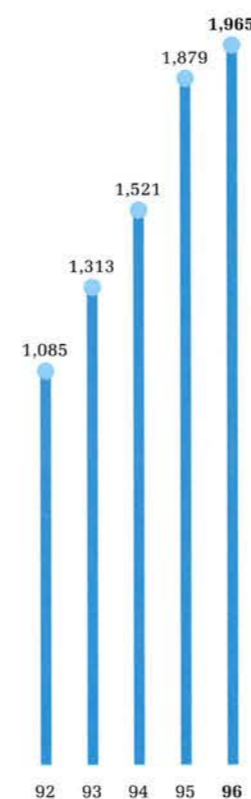


Walton Plaza in Shanghai is scheduled for completion in phases by 2000.



Ninety-six units in this low-density housing development in Huamu, Pudong, will go on sale this year.

Gross Rental Income
HK\$ millions



The Royal Gate Kensington development in London comprises 132 luxury residential units.

CHINA — PROPERTIES UNDER DEVELOPMENT: Satisfactory progress was made during the year on the Group's following joint venture property projects in China:

Chongqing

Construction of the 1.1 million sq ft retail podium of Metropolitan Plaza is scheduled to be completed this summer and pre-letting of the shops has already started, with strong interest shown by prospective tenants. Construction of the hotel and office towers portion of this development is expected to be completed in 1999. When completed, the entire complex will provide a total of approximately 1.9 million sq ft of space.

(The Group has a 40% interest in this project)

Guangzhou

Delivery of the site above the underground railway station at Huangsha, which is currently under construction, is expected to take place this year. When completed, this development will provide in the region of 1.3 million sq ft of residential space and 531,000 sq ft of commercial area.

(The Group has a 45% interest in this project)

Qingdao

Construction of the first phase of an 847,000 sq ft commercial/residential complex was completed and substantially sold. Work has started on the second phase, which will comprise five tower blocks with a total of 485,000 sq ft of residential space. Completion is scheduled for 1999.

(The Group has a 30% interest in this project)

Shanghai

1. The 861,000 sq ft commercial podium of Westgate Mall on Nanjing Road West in the Jing An district is scheduled to open this summer, and the office tower is to be completed by the end of this year. Pre-letting of the retail outlets is progressing satisfactorily.

(The Group has a 21% interest in this project)

2. Construction of a low-density housing development in Huamu, district of Pudong, is progressing satisfactorily. Approximately 96 houses in this development are expected to be ready for sale this year.

(The Group has a 50% interest in this project)

3. The first phase of Walton Plaza in the district of Xuhui has been completed and the schematic design for the second and third phases of this urban redevelopment programme is in the process of being finalised. This development, when completed, will comprise approximately 1.6 million sq ft of residential, office and commercial space.

(The Group's interest in the phases of this project ranges from 27.5% to 40%)

Zhuhai

Site investigation work has been completed for this low-rise residential development. Preparation of the master plan and the design for the first phase of the project, to comprise approximately 75 houses, is in progress.

(The Group's interest in this project is 35%)

UNITED KINGDOM — PROPERTIES UNDER DEVELOPMENT: During the year, 60 residential units in the Group's 47.5% owned residential redevelopment project, comprising 132 flats and penthouse units, in London's Kensington district were pre-sold. The remaining units in this development are expected to be offered for sale later this year. The development is scheduled to be completed in 1998. The Group also recently acquired a 47,000 sq ft site near Sloane Square, London, for residential development. Planning is underway, and work will begin upon handover of the site, which is expected to take place before the end of this year.

Ports and related services

The Group is one of the world's leading operators of container ports, with interests in Hong Kong, China, the UK and other countries. Other activities of this division include ship repair, salvage and towage services.



HIT uses the most advanced technology to handle more than half of the container traffic passing through Hong Kong's Port of Kwai Chung.

Profits from the Group's ports and related services activities in 1996 amounted to HK\$2,369 million (1995 – HK\$2,201 million). Combined throughput at all operations rose 10.2% to 11,286,881 TEUs. The size of the Group's international network of container port facilities was enlarged during the year, and further opportunities are being explored.

ASIA:

Hong Kong

Despite structural changes affecting the international shipping industry, throughput at the Group's 77.5% owned Hongkong International Terminals Limited ("HIT") facility in Hong Kong rose 10.3% to 4.5 million TEUs. The world's largest privately owned container facility, HIT operates Kwai Chung terminals 4, 6 and 7 and has a 50% interest in the adjacent Terminal 8 East, which recorded throughput of 1.1 million TEUs during the year. Combined throughput from both operations rose 7.2% to 5.6 million TEUs.

The final phase of HIT's successful Productivity Plus Programme was implemented during the year, increasing HIT's capacity to over five million TEUs.

During the year, HIT was also awarded the rights to develop, commission and operate two berths at terminal 9 on Tsing Yi Island. Construction of this facility should begin next year with completion of the first berth scheduled for the year 2000.

Mid-Stream Holdings Limited operated profitably during the year, registering a 5% increase in throughput to 1.4 million TEUs. The Group's interest in Mid-Stream Holdings was increased this year from 50% to 75.5%.

The River Trade Terminal Company ("RTTC"), in which the Group holds a 33% interest, was awarded the rights to develop a 65-hectare Tuen Mun site into an 8.5 million-tonnes-a-year facility. The first phase of this project is expected to be completed by late 1998, with the remainder of the terminal to become operational by 2000. RTTC will provide a wider range of services, including container and breakbulk operation and storage, transshipment, marine shuttle services, CFS warehousing and container maintenance and repair.

Operating in a depressed ship repair industry, Hongkong United Dockyards, a 50% owned associate, had a disappointing year. Confronted by excess capacity worldwide, the company spent a difficult year competing for both bookings and revenue. However, the sale of its smallest floating dock, the relocation of the offices of Hongkong Salvage &

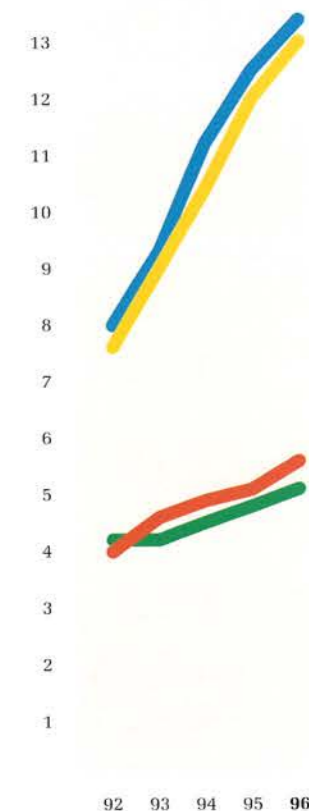
The Control Tower at HIT oversees various aspects of the facility's activities, including co-ordinating in-yard container movements and providing planners with real-time operations data.



HIT provides efficient container handling facilities 24 hours a day.

Comparison of Container Throughputs
Million TEUs

- Hong Kong
- Singapore
- Rotterdam
- Kaohsiung



Towage to its premises, and an improved yield from its land engineering operations all contributed to a boost in its operating profit for the year.

Hongkong Salvage & Towage (50% owned) had another profitable year and continued to benefit from the growth in shipping movements in Hong Kong, especially in the container sector. During the year, one of its older tugs was profitably sold and the company took delivery of the two new container vessels required for its second waste disposal contract in Hong Kong.

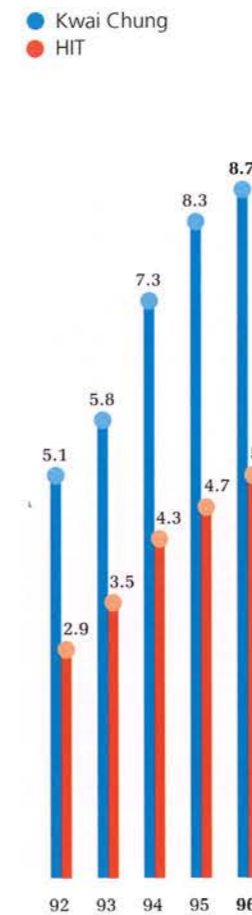
China

Assisted by the completion of an extensive modernisation programme, throughput at the Group's 40% owned Shanghai Container Terminals Limited grew 11.2% during the year to 1.4 million TEUs. Comprising 10 container berths, the facility has an annual capacity of 1.7 million TEUs. Construction of a new headquarters building is on schedule and is expected to be completed by the third quarter of 1997.

Yantian International Container Terminals ("YICT") made good headway in its goal of becoming a major international shipping port. Throughput at the facility, which is 43.6% owned by the Group, rose to 353,509 TEUs during the year, supported by the signing of contracts with six international shipping lines. In December, the port celebrated the groundbreaking for the HK\$4.7 billion second phase of its development. When completed in 1999, the expansion will increase the port's capacity to two million TEUs a year and give Yantian the ability to simultaneously handle up to six container vessels. A weekly block train service linking Yantian with Changsha was introduced in September, enhancing the port's connections with other cities in China.

Wholly owned subsidiary Hutchison Delta Ports ("HDP"), which invests in, develops and operates river and coastal ports in China, had another satisfactory year of operations, with combined throughput rising 19.9% to 425,779 TEUs for the year. In December, HDP increased the number of its ports to six by signing a contract for the establishment of a new facility in Xiamen. This latest addition is expected to begin operations in the second quarter of 1997 and will coincide with the completion of construction of HDP's port in Shantou, which was acquired in 1995.

Kwai Chung Container Throughput
Million TEUs



The successful completion of Shanghai Container Terminals' modernisation programme helped push throughput up by more than 11%.



Phase II of Yantian International Container Terminals will increase the port's capacity to two million TEUs a year.



A view of Shanghai Container Terminals' operations.

Myanmar

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

Indonesia

Hutchison International Port Holdings ("HPH") has recently signed a joint venture agreement to build and operate a container port at Indonesia's developing deep-sea port of Bojonegara. This port initiative was launched last September by the Indonesian Government.

EUROPE:

The Port of Felixstowe Limited continued to consolidate its position as the UK's leading container port facility, increasing throughput by 6.9% to over two million TEUs. Felixstowe comprises three terminals: Trinity, which can berth up to seven of the largest container vessels; Landguard, which serves deep-sea and feeder operations; and Dooley, one of the country's busiest terminals for roll-on roll-off traffic.

THE AMERICAS AND THE CARIBBEAN: The Group, through its subsidiary Panama Ports Company, has been awarded the concession to operate two ports in Panama, namely, Cristobal and Balboa, which are located at opposite ends of the Panama Canal. These ports were handed over to the Group effective 1 March this year and will have a combined annual throughput capacity of more than 650,000 TEUs after improvements to the facilities have been completed.

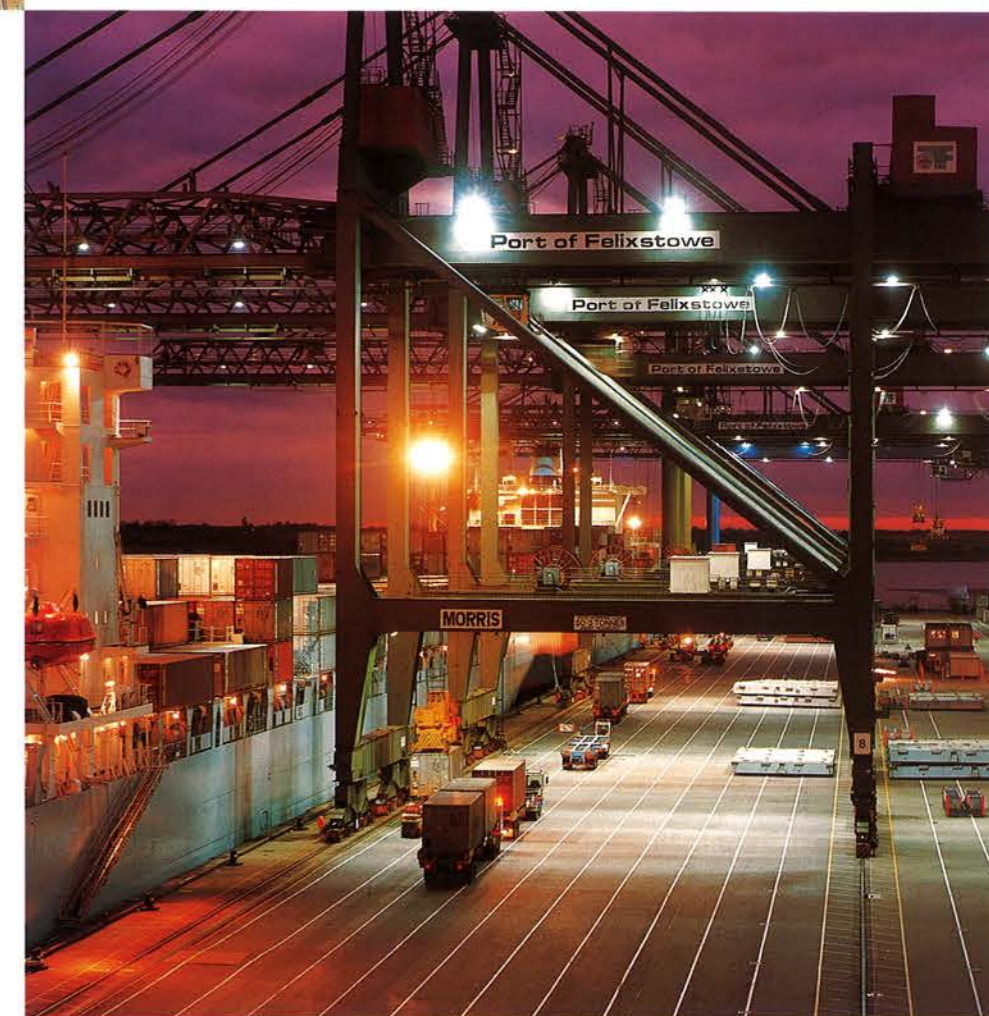
Substantial progress has been made in the development of the initial two container berths at the strategically located port of Freeport, Grand Bahama Island. This new facility is scheduled to become operational early this year. HPH has a 50% interest in this port facility which also handles cruise lines calling regularly at Freeport.



HDP's river port facility at Zhuhai plays a growing role in keeping China's trade moving.



The Port of Felixstowe is the UK's leading container port facility.



The Port of Felixstowe comprises three terminals: Trinity, Landguard and Dooley.

Retail, manufacturing and other services

The Group's A S Watson retailing arm strengthened its position as one of Asia's largest retail operators through the on-going expansion of its chain store networks in Hong Kong, China and around the region. Manufacturing activities include ice-cream products, soft drinks, fruit juices and distilled water.



Park'N Shop excels at providing its customers with a wide selection of food products in a pleasant and convenient environment.

Profit from the retail, manufacturing and other services activities totalled HK\$1,034 million (1995 – HK\$686 million).

A S WATSON & COMPANY: 1996 was a successful year for the wholly owned subsidiary A S Watson & Company, which recorded a significant increase in profits despite difficult market conditions. The record performance was achieved through focused management, responsiveness to changing market conditions and strategic positioning of the company's businesses. With over 18,000 employees and a network of more than 600 outlets throughout the region, the A S Watson group has further entrenched its position as one of the largest retailing chains in Asia. Customer service and operating efficiency continue to be the key principles in the group's regional expansion plans.

The Park'N Shop supermarket chain in Hong Kong had another year of increased profitability. While the number of stores remained level at 171, the total trading floor area was increased with the introduction of larger store formats. The highlight of the year was the opening of the Park'N Shop Superstore at Whampoa Garden, which offers customers more than 14,000 items in a 46,000 sq ft shopping environment. The superstore concept, which has proven popular with consumers, has also been successfully launched in Macau.

The Park'N Shop network in China has expanded to 61 outlets with stores strategically located in such cities as Shanghai, Guangzhou, Shenzhen and Zhuhai, and a superstore is to be opened in Beijing this spring. Park'N Shop's expansion plans for China include the opening of more superstores in key cities.

As Asia's leading retailing chain of personal care products, Watson's The Chemist turned in a strong performance. The chain continued its regional expansion and currently operates 133 outlets in Taiwan, 84 in Hong Kong, 43 in Singapore, 29 in Malaysia, 19 in China, and three stores have been opened in Thailand.

The Fortress consumer electronics and electrical appliance chain, which operates 46 stores in Hong Kong, had a good year with improved profits and an increase in market share. A wider product range, more consumer-friendly store layouts and better customer service were key contributing factors to its improved performance.

During the year, the A S Watson group obtained the exclusive rights to operate the Bhs (British Home Stores) concept in Asia. The concept comprises women's, men's and children's fashions as well as a wide range of home products. The first Bhs



The spacious layout and wide selection at Park'N Shop's superstores add a new and exciting dimension to shopping for food and household items.

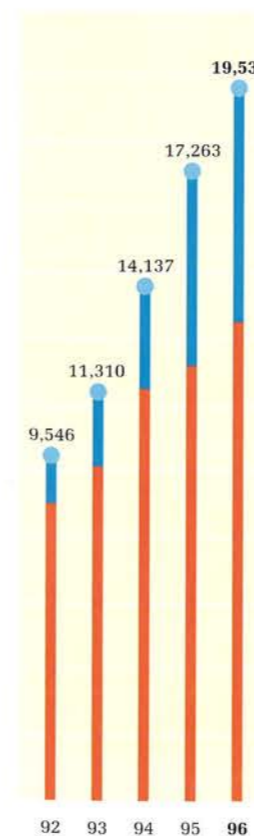


The Park'N Shop Superstore in Shenzhen.

Retail, Manufacturing and Other Services

Turnover
HK\$ Millions

● Overseas
● Hong Kong



Watson's personal care stores around the region stock more than 25,000 products ranging from cosmetics, toiletries, medicines and fashion items to toys and candies.

store in Hong Kong was opened in November at Whampoa Garden.

Manufacturing operations in Hong Kong had a satisfactory year, with continued growth in the distilled water, soft drinks, fruit juice and ice cream businesses. In China, A S Watson continues to expand its distribution network as well as manufacturing facilities, managing a total of seven factories. During the year, a new soft drink plant started production in Guangzhou, and construction commenced on a new ice cream factory.

Pan Asian Systems, the Group's telecommunications supply and engineering company, had a disappointing year due to delays of certain major projects. However, the recent introduction of a new line of telecommunications products is expected to have a positive effect on the company's performance in 1997.

HUTCHISON WHAMPOA (CHINA): 1996 was another year of strong returns for the

Group's joint ventures in consumer products, aviation and hotels in China.

The Procter & Gamble-Hutchison joint venture continued its upward growth by consolidating its leading position in the China market. Enhanced by a competitive edge in its sales and distribution expertise, the joint venture is a market leader in the haircare products sector in China. The joint venture produces a diversified range of skin, hair, soap, detergents, dental hygiene and paper products in a growing number of factories in China. Dental hygiene products made their debut during the year, and consumer response has been very encouraging. The construction of a new multi-product manufacturing plant in Tianjin is proceeding on schedule, and when completed in late 1998, it will substantially increase the joint venture's overall production capacity.

The Group's 25% owned Guangzhou Aircraft Maintenance Engineering Company ("GAMECO") achieved improved results during 1996 by strengthening relationships with existing customers, enlarging its customer base and increasing its capacity. GAMECO continues to benefit from its maintenance contract with China Southern Airlines, which has embarked on a fleet expansion programme. The company's new component overhaul workshops at the Guangzhou facility successfully completed their first full year of operations, and progress was made during the year for the establishment of a new maintenance base in Wuhan.



Hong Kong's first Bhs, at Wonderful Worlds of Whampoa, offers shoppers a wide variety of fashions plus a range of home furnishing and other items.



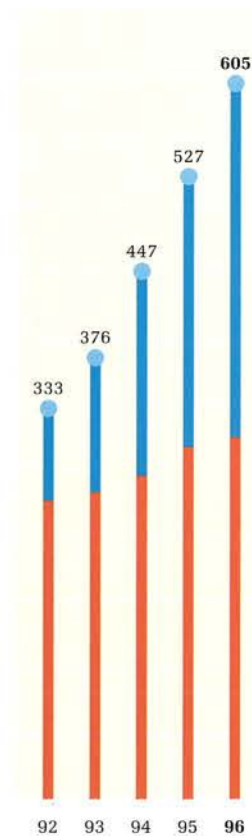
Watson's Distilled Water continues to be Hong Kong's most popular brand of bottled water.



Fortress World at Wonderful Worlds of Whampoa provides one of the largest selections of consumer and electrical appliances in one location.

Number of Retail Outlets

- Overseas
- Hong Kong



A joint venture company, in which the Group has a 20% interest, also has been awarded an aircraft maintenance licence for Hong Kong's new Chek Lap Kok Airport. The other parties in the joint venture are CNAC, British Airways and United Airlines.

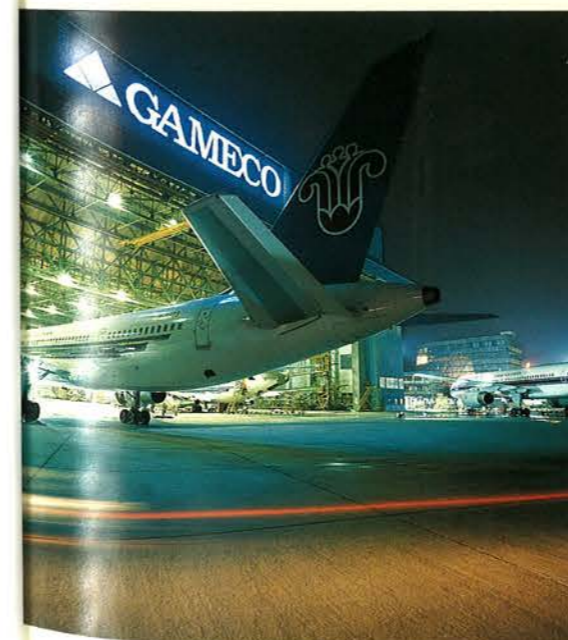
HOTELS:

The Group's two hotel properties in Hong Kong, The Sheraton Hong Kong Hotel and Towers, in which the Group has an effective 39% interest, and the wholly owned Harbour Plaza, both had a very good year with profits well ahead of expectations. The podium of The Sheraton Hong Kong Hotel is currently being up-graded into a first-class retail shopping arcade.

Despite a soft tourism market in China, the Great Wall Sheraton Hotel in Beijing had a satisfactory year, increasing its market share and room revenues. The Group continues to explore opportunities to expand its hotel operations elsewhere in China.



The swimming pool deck at The Harbour Plaza provides guests with a panoramic view of Victoria Harbour and the Hong Kong Island.



The GAMECO maintenance and servicing centre at Baiyun airport, Guangzhou.

Telecommunications

The Group's telecommunications division provides a range of wirefree, quality products and services to its customers in Hong Kong, Asia-Pacific and Europe.

In Hong Kong, the Group operates mobile, fixed-line and paging networks,

while in the UK, the Orange Personal

Communications Services network

covers 92% of the UK population.



Thousands of customers from all walks of life in Hong Kong take advantage of Hutchison Telecom's integrated range of telecommunications products and services.

Profit from the Group's telecommunications division totalled HK\$3,642 million (1995 – HK\$324 million). This result reflects the profit derived from the flotation of Orange plc.

HONG KONG OPERATIONS: Although profitability was down as a result of operating duplicate networks, 1996 was an important year for the Group's telecommunications businesses in Hong Kong. The two limited capacity analogue systems have now been almost entirely changed over to two digital systems with much greater subscriber capacity. In addition, the Group continued to build on strong foundations by concentrating on expanding its customer base, consolidating resources and enhancing service standards.

During the year, Hutchison Telecommunications (Hong Kong) Limited was established to manage all of the Group's telecom activities in Hong Kong. As a result of the reorganisation, significant benefits were achieved through the streamlining of marketing and the consolidation of operational resources of its cellular telephone, paging and fixed-line network services. The number of subscribers on the Group's cellular networks has trebled, with approximately 275,000 subscribers currently on the GSM network and over 65,000 customers on the CDMA / AMPS networks.

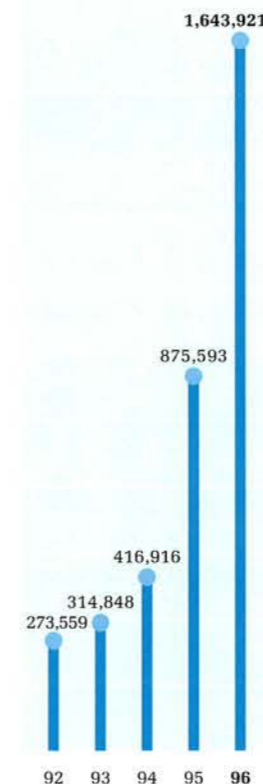
In the face of increased competition in the telecommunications sector, greater emphasis is being placed on the enhancement of network service quality. As part of this exercise, the Group has increased the number of cell sites throughout Hong Kong to more than 500. Supporting this initiative is a high-profile marketing and advertising campaign and the launch of several new handsets with innovative tariff packages. At the retail level, the company has an extensive network of 45 outlets and took advantage of synergy within the Group by promoting products and services throughout the Group's Fortress stores. Customer services were further upgraded with the establishment of a third maintenance centre in the New Territories and three dedicated customer services outlets.

To further bolster customer loyalty, the company successfully launched the Everyday Card in July, which provides a range of discounts at leading retail outlets. More than 700,000 cardholders were registered by year-end. Based on the card's strong popularity, the number of merchants participating in the programme continues to expand.



Hutchison Telecom engineers travel throughout the territory in specially equipped vans to monitor network coverage.

Cellular Telephone Subscribers
Hong Kong, Australia, India, United Kingdom and Europe



An ever-growing network of cell sites ensures improved quality of reception for Hutchison's GSM and CDMA users throughout Hong Kong.

In July, the Group was awarded one of six Personal Communications Services licences. The new licence provides additional spectrum for future growth and will allow the Group to introduce a variety of new products and services which appeal to a wider market. The service operates on the same technological platform as the GSM network. As previously announced, the CT2 and TACS networks, which were overtaken by new technology, were closed during 1996, while the AMPs network is expected to cease operations by the middle of this year.

Growth in the paging business was flat, but the Group maintained its leading 33% of the Hong Kong market by promoting a range of attractively priced service packages. In Macau, the paging business turned in an improved performance, ending the year with about 20,000 subscribers.

Good progress has been made in the infrastructural development of the Network Eight fixed-line service, with all relevant licensing requirements met in full before the year end. When the service was launched in January of this year, the company was able to provide local service to several of the main business districts of Hong Kong. By the end of this year, ATM technology for high-speed data services will also be introduced. The IDD 008 service achieved satisfactory results, ending the year with 230,000 subscribers, the majority of whom were corporate customers.

CHINA OPERATIONS: Although the Group's joint venture telecommunications equipment company, Chung Kiu Telecommunications (China) Limited, had a slow year, the development and manufacturing of a new paging unit is expected to increase revenues after it is launched this year. The company increased to five the number of cities in which it provides paging services. Sales of trunked radio systems were satisfactory. Chung Kiu is also participating in a joint venture to provide consultancy and engineering services to the Great Wall CDMA cellular networks in several provinces in China.

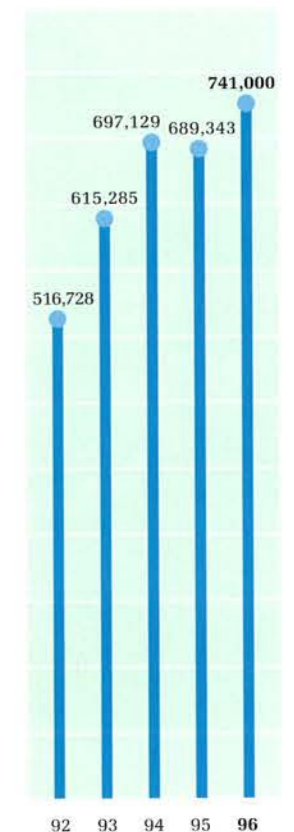
ASIA PACIFIC OPERATIONS: 1996 was a year of building and identifying opportunities for the Group's telecommunications business in the Asia Pacific region. Operating in an environment of rising consumer affluence, low teledensity and increasing privatisation of telecommunication monopolies around the region, the Group has been actively exploring potential investment opportunities. At the same time, the

The Group's mobile telecommunications business in India is expanding steadily.



Both Hutchison's GSM and CDMA networks provide full coverage throughout the Hong Kong MTR system.

Pager Subscribers
Hong Kong, Australia, United Kingdom and other Asian countries



Group consolidated and streamlined its existing operations to be more competitive in a rapidly changing industry.

The Group's joint ventures in India, Indonesia, Thailand and Australia performed satisfactorily in their respective markets, and efforts are being concentrated on product diversification and on building up their subscriber bases.

The cellular and paging joint venture operations in India celebrated their first full year of operation as a market leader in cellular services in Mumbai, with more than 50,000 subscribers, and as a dominant player in the seven cities where it provides paging services. The Group has an effective 29.4% interest in the joint venture that operates both of these businesses.

In April, the Group's 42.5% owned joint venture in Indonesia launched its paging operations in Jakarta, Bandung and Surabaya and has reported steady growth.

In Thailand, the joint venture paging operation, in which the Group has a 45% interest, reported a satisfactory result for the year. The Group's paging joint venture operation in Malaysia retained its market share and subscriber base, while in Singapore, preparations are progressing for the launch of the Group's joint venture paging network. The service is expected to roll out in April.

The 56% owned cellular service network in Australia achieved satisfactory results, while paging activities, in line with international trends in mature markets, declined due to the migration of subscribers to cellular telephones.

The wholly owned Corporate Access business, which provides telecommunications services in the Asia Pacific region using very small aperture terminals (VSAT), consolidated its operations by entering into strategic partnerships with independent distributors in its key markets.

METRO BROADCAST: Metro Broadcast Corporation, with its three lively radio stations, ended the year with encouraging gains in revenues as a result of wider support from advertisers and listeners alike. The Group has a 50% interest in this operation.

ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS: In June, AsiaSat was listed on the New York and Hong Kong stock exchanges by way of a global share offering, which was oversubscribed. The construction of the company's third communications satellite, AsiaSat 3, is progressing satisfactorily, and it is currently

The Group's Australian operations have expanded to include GSM cellular provider services.



Hutchison operates a growing network of service centres for paging customers in Thailand.



A popular DJ on one of Metro Radio's three channels in Hong Kong.

scheduled to be launched towards the end of this year. In January of this year, the Group exercised its option and sold part of its shareholding in AsiaSat to China International Trust and Investment Corp ("CITIC"). As a result, the Group's shareholding in AsiaSat has been reduced to 23%, which is the same as that currently held by both CITIC and Cable & Wireless plc. The Group made an exceptional gain of HK\$717 million from this transaction.

EUROPE OPERATIONS: In April, the sale of a minority stake of approximately 30% in Orange plc, by way of a global offering of shares, was successfully completed. Orange shares are now listed on the London Stock Exchange and on NASDAQ in the United States. The Group's effective interest was reduced to 48.22%, but this was recently increased to 49.02% following the purchase of 9.5 million shares of Orange from British Aerospace.

Orange continued its rapid growth, with the subscriber base more than doubling from 379,000 at the end of 1995 to approximately 888,000 at the present time. During 1996, Orange accounted for approximately 29% of the growth in the UK cellular telephone market and now has an 11% share of the market as a whole.

As part of its on-going network expansion programme, more than 650 operational base stations were added to the network in 1996, increasing the total to more than 2,600. As a result, the Orange network now covers over 92% of the UK population. The paging and cellular service provision businesses in the UK performed satisfactorily. The cellular service provision businesses in France and Germany achieved good growth, with subscriber bases at year-end of 189,000 and 137,000 respectively.



Hutchison Telecom is experiencing steady growth in France.



Orange retail outlets are increasingly becoming a familiar sight in the UK.

Energy, finance and investment

The Group's investments in Hongkong Electric and Husky Oil reflect the diversification of the Group's activities. In addition to power generation and distribution, and oil and gas exploration, the Group also provides consultancy services in these industries in China and regionally.



The Hongkong Electric logo prominently displayed atop the roof of Electric Centre.

Income from finance and investment came primarily from interest earned on surplus cash and dividends received. The energy, finance and investment division earned a profit of HK\$3,566 million (1995 – HK\$3,420 million).

HONGKONG ELECTRIC HOLDINGS: Hongkong Electric Holdings Limited, in which the Group's interest was recently increased from 34.6% to 35.01%, recorded a profit of HK\$4,154 million in 1996, marginally down from \$4,186 million in 1995, reflecting the absence of property development revenue during the year following completion of the South Horizons development. However, the core business operating profit showed healthy growth, rising 11.7% in the year on a 5.9% increase in electricity sales.

The company now operates seven coal-fired and seven gas-turbine units with a total generating capacity of 2,955 MW. A new 350 MW coal-fired unit is scheduled to come into operation towards the end of this year.

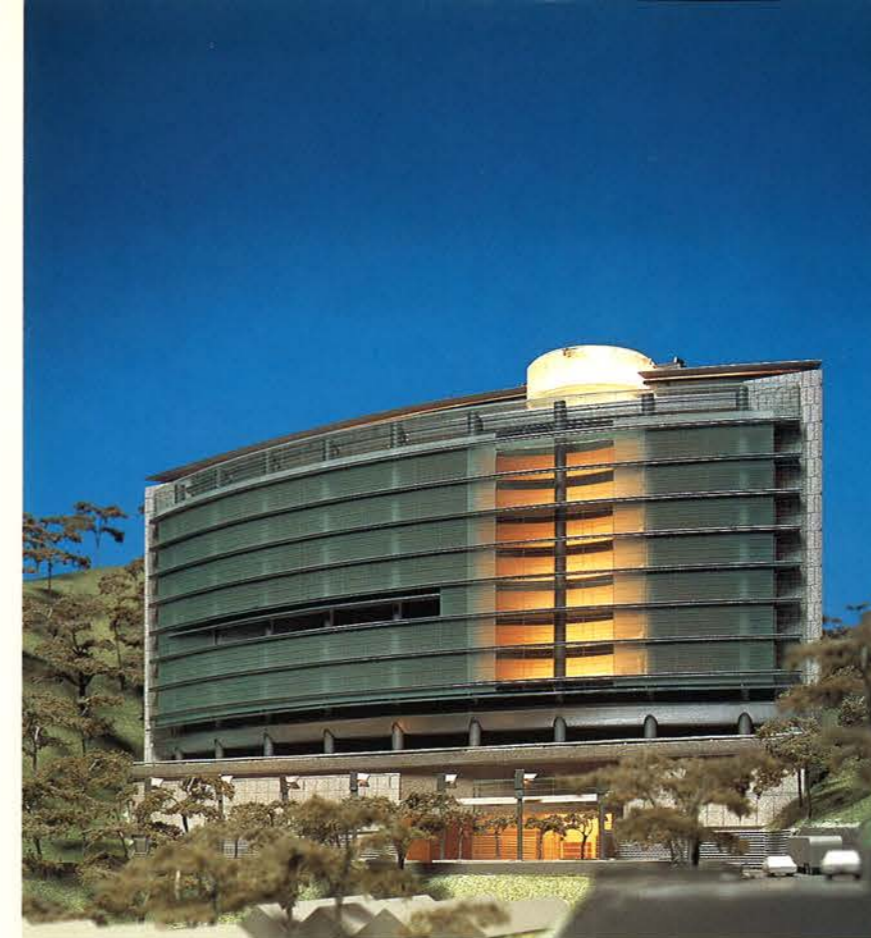
As a result of the recent reorganisation, the Group has transferred its shareholding in Hongkong Electric Holdings to Cheung Kong Infrastructure ("CKI") for new shares of CKI and has simultaneously acquired from Cheung Kong (Holdings) Limited its interest in CKI, increasing the Group's shareholding in CKI to 84.6%.

HUSKY OIL: Husky Oil's performance improved substantially in 1996, with earnings increasing by approximately 45% over the previous year.

During the year, Husky succeeded in meeting its objectives of increasing oil and gas reserves as well as meeting its overall production targets. The Bi-Provincial Upgrader continued to operate efficiently and made a positive contribution. In addition, Husky obtained an investment grade rating from two international rating agencies and successfully refinanced its debt on a stand alone basis.

Future development projects of Husky include the Terra Nova and White Rose oil fields off Canada's east coast. Approval of the development plan for Terra Nova is expected to be received by the end of this year. Construction of production facilities is expected to begin in 1998, with initial production anticipated in 2000.

Husky, in addition to holding a 42% acreage pooled interest in White Rose, is the field's operator. A three-year well delineation and testing programme will begin in 1998, with potential production starting in 2004.



A model of Hongkong Electric's new headquarters, which is scheduled for completion in 1998.



Husky's Refinery at Lloydminster processes heavy crude oil into asphalt products. The refinery has a throughput capacity of 25,000 barrels per day.



The System Control Centre at Hongkong Electric's headquarters monitors all facets of the company's supply network.

COMPASS CARD: The COMPASS credit card, in which the Group has a 50% interest, celebrated its first full year of operation with more than 120,000 card holders. During the year, several new merchants joined the bonus scheme, which now provides benefits at more than 400 retail outlets throughout Hong Kong.

GROUP LIQUIDITY AND FINANCIAL RESOURCES: The Group's capital expenditures for the year, excluding expenditures for properties under development and for resale, amounted to HK\$7,611 million (1995 – HK\$6,174 million), and these were funded from cash on hand, internal cash generation, and to the extent required by external borrowings. At 31 December 1996, the Group's borrowings, net of cash, managed funds and other listed investments, were HK\$10,416 million (1995 – HK\$11,915 million). Approximately 48% of the Group's total borrowings were denominated in HK dollars, 43% in US dollars, 8% in pounds sterling and the remaining 1% in other currencies. The non-HK dollar and non-US dollar loans are either directly tied in with the businesses conducted in the countries of the currencies concerned, or these loans are balanced by assets in the same currencies. At year-end, approximately 14% of the Group's borrowings, excluding non-interest bearing loans from minority shareholders, were repayable within one year, 56% were repayable between one to five years and 30% were repayable beyond five years. Committed borrowing facilities available to Group companies, but not drawn at 31 December 1996, amounted to the equivalent of HK\$20,501 million.

An important borrowing facility which was arranged during the year was a US\$1,500 million multiple option facility for general funding requirements, which was strongly supported by the international banking sector. The Group was the recipient of the "1996 Review of the Year Award" for this facility in the Asian Loan Deal category presented by International Financing Review.

TREASURY POLICIES AND CAPITAL STRUCTURE: The Group's overall treasury and funding policy is that of risk management and control, with transactions being directly related to the underlying businesses of the Group. Where possible, we endeavour to match the Group's assets located in other countries and denominated in the currencies of those countries with an appropriate level of borrowings in the same currencies. Forward foreign exchange contracts and interest and currency swaps are

utilised when suitable opportunities arise and, when considered appropriate, to hedge against major non-HK and non-US dollar exposures as well as assist in managing the Group's interest rate exposures.

COMMUNITY SERVICE: The Group continues to provide support to a wide range of charities, organisations and cultural and sporting events which are aimed at improving the quality of life throughout the community.

During the year, the Group extended strong support to the Community Chest, which provides funds to more than 140 member agencies. Some of the other charitable groups that received assistance from the Group included the Save the Children's Fund, UNICEF, Oxfam Hong Kong, Helping Hand and organisers of earthquake relief in China. The Group also supported a wide range of community and cultural activities, such as the Hong Kong Arts Society, the Asian Cultural Society and the World Wide Fund for Nature. A number of environmental awareness events also received assistance. In aid of education, the Group continued to provide scholarships for eligible local students to study overseas.

EMPLOYEE RELATIONS: Excluding associated companies, the Group employs 27,733 people (1995 – 29,137 people) of which 16,946 (1995 – 16,115) are employed in Hong Kong. Employee costs, excluding Directors' emoluments, amounted to HK\$5,301 million (1995 – HK\$5,120 million). All subsidiary operating companies of the Group are equal-opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The pay levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also has in place a share option scheme for its senior executives. This scheme was introduced in 1988 following approval by the shareholders. Career development opportunities along with a wide range of benefits including medical coverage, provident funds and retirement plans, and long-service awards are also provided to the employees.

During the year, many social, sporting and recreational activities were arranged for employees on a Group-wide basis. Some of the events organised for the employees included the Annual Sports and Family Day, singing and fishing competitions as well

as charity walks and other community-oriented events.

To keep skill levels up-to-date, employee development and training programmes are provided on an on-going basis throughout the Group. Financial assistance is also available for qualifying employees who wish to further their education through part-time diploma or degree-courses.

OUTLOOK: Supported by the underlying strengths of its core businesses and the strong cash flows which they continue to generate, the Group remains firmly committed to its policy of focused, controlled growth. With its sound financial footing, the Group is well positioned to maintain the pace of its expansion in Hong Kong, China and internationally.

The results for 1996 were achieved through the hard work and dedication of the employees of the Group, and I would like to join our Chairman in thanking them for their efforts throughout the year.

Canning K N Fok
Group Managing Director

Hong Kong, 26 March 1997



Funds donated by the Group help Oxfam Hong Kong provide technical training to farmers in remote parts of China.



Group employees put on an entertaining show at the HWL Sports and Family Day.



Many of Hong Kong's less fortunate benefit from the support extended by the Group to the Community Chest.

BIOGRAPHICAL DETAILS OF DIRECTORS

Li Ka-shing

aged 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 (Holdings) Limited ("Cheung Kong"), a substantial shareholder of the Company under the Securities (Disclosure of Interests) Ordinance 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 People's Republic of China and a member of both the Preparatory Committee and the Selection Committee for the Hong Kong Special Administrative Region. 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 organisations. 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 Deputy Chairman, Mr Li Tzar Kai, Richard and Executive Director, 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 Limited ("Hongkong Electric"). He is the founder of Satellite Television Asian Region Limited (STAR TV) and Chairman and Chief Executive of the Pacific Century Group.

Fok Kin Ning, Canning

aged 45, has been an Executive Director since 1984 and Group Managing Director since 1993. He is Chairman of Orange plc, Deputy Chairman of Hongkong Electric and Cheung Kong Infrastructure Holdings Limited ("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 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 and a member of the Governor's Business Council.

William Shurniak

aged 65, is Group Finance Director and has been an Executive Director since 1984. He has broad experience in banking. He is a Director of Orange plc and also a Director of Hongkong Electric and Asia Satellite Telecommunications Holdings Limited.

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 plc and Hongkong Electric 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 and Deputy Chairman of Cheung Kong and Cheung Kong Infrastructure. He holds a Master's degree in Economics.

BIOGRAPHICAL DETAILS OF DIRECTORS

Chow Nin Mow, Albert

aged 47, has been an Executive Director since 1984. He is also Deputy Managing Director of Cheung Kong and a Director of Hongkong Electric.

Kam Hing Lam

aged 50, has been an Executive Director since 1993. He is also Deputy Managing Director of Cheung Kong and Group Managing Director of Cheung Kong Infrastructure. He is also a Director of Hongkong Electric. 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 9 January 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, 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.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting to shareholders their report and statement of accounts for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiary and associated companies are shown on pages 84 to 86. The turnover and contribution to operating profit of the principal activities of the Company and its subsidiaries are as follows:

	Turnover		Operating Profit	
	1996 HK\$ millions	1995 HK\$ millions	1996 HK\$ millions	1995 HK\$ millions
By Activity				
Property	2,156	1,968	1,643	2,580
Ports and Related Services	7,813	6,548	4,008	3,630
Retail, Manufacturing and Other Services	18,102	15,959	1,528	1,129
Telecommunications	7,042	8,601	35	259
Energy, Finance and Investment	1,549	1,950	1,605	1,809
Finance Charges	-	-	(2,557)	(2,884)
	36,662	35,026	6,262	6,523
By Geographical Analysis				
Hong Kong	25,563	22,401	4,846	5,693
Asia	6,526	5,255	796	435
Europe	4,254	6,874	436	30
North America	319	496	184	365
	36,662	35,026	6,262	6,523

GROUP PROFIT

The consolidated profit and loss account is set out on page 61 and shows the Group profit for the year ended 31 December 1996.

DIVIDENDS

An interim dividend of 42 cents per share was paid to shareholders on 18 October 1996 and the directors recommend the declaration of a final dividend at the rate of HK\$1.08 per share payable on 23 May 1997 to all persons registered as holders of shares on 22 May 1997.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 20 to the accounts.

REPORT OF THE DIRECTORS

CHARITABLE DONATIONS

Donations to charities by the Group during the year amounted to HK\$52,926,000 (1995 - HK\$43,112,000).

FIXED ASSETS

Particulars of the movements of fixed assets are set out in note 12 to the accounts.

SHARE CAPITAL

During the year, 2,963,891 ordinary shares were issued on the exercise of options granted under the Senior Executive Share Option Scheme, the total consideration for these shares being HK\$24,471,799.37.

DIRECTORS

The board of directors as at 31 December 1996 comprised Li Ka-shing, Richard T K Li, Canning K N Fok, Victor T K Li, C Y K Lee, W Shurniak, Susan M F Chow, George C Magnus, A N M Chow, H L Kam, Frank J Sixt, Michael D Kadoorie, C P Langley, Li Fook-wo, Simon Murray, P A L Vine and C H Wong.

C P Langley was appointed a director on 9 January 1996. C Y K Lee resigned as a director on 12 March 1997. A N M Chow has advised that he is to resign as a director with effect from 30 April 1997. The directors would like to record their appreciation for the services of C Y K Lee and A N M Chow to the Group.

Li Ka-shing, W Shurniak, Susan M F Chow, Simon Murray and P A L Vine retire by rotation under the provisions of Article 85 and, being eligible, offer themselves for re-election.

The Directors' biographical details are set out on pages 52 and 53.

INTEREST IN CONTRACTS

No contracts of significance in relation to the Company and its subsidiaries' businesses to which the Company or a subsidiary was a party in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Cheung Kong (Holdings) Limited ("Cheung Kong"), a substantial shareholder of the Company, leases under various lease agreements of varying duration, but none in excess of three years, approximately 53,579 sq ft of office space in a building owned by the Group. The leases were entered into in the ordinary course of business and on normal commercial terms. Rent received during 1996 amounted to approximately HK\$42,000,000.

In 1996, all the existing interests of the Company in joint venture companies involved in the development, ownership, operation and/or management of toll road, toll bridges and power plants in China were transferred to Cheung Kong Infrastructure Holdings Limited ("Cheung Kong Infrastructure"), a newly incorporated subsidiary of Cheung Kong in exchange for shares in Cheung Kong Infrastructure.

On 4 September 1996, Hutchison Telephone Company Limited ("HTCL"), a 70% owned subsidiary of the Company, entered into a DCS 1800 cellular system purchase agreement with Motorola Inc under which HTCL purchased on a turn key basis a cellular system for the purposes of the PCS licence recently awarded to it. Motorola Inc is a 30% shareholder in HTCL.

On 6 January 1997, a conditional agreement was entered into between Cheung Kong, the Company and Cheung Kong Infrastructure pursuant to which it was agreed inter alia that, subject

to the shareholder approvals, the following transactions (the "Transactions") were to be implemented:

- (i) the Company and its subsidiaries were to transfer the entire issued share capitals in and shareholders' loans to certain subsidiaries holding the Group's shareholding of 707,295,862 shares in Hongkong Electric Holdings Limited ("Hongkong Electric"), representing approximately 35.01% of the issued share capital of Hongkong Electric, to Cheung Kong Infrastructure for a consideration of HK\$26.50 per share to be satisfied by the issue, at a price of HK\$21.15 per share to the Group of 886,209,945 new shares in Cheung Kong Infrastructure, representing approximately 39.3% of the enlarged issued share capital of Cheung Kong Infrastructure.
- (ii) Cheung Kong was to transfer its existing shareholding in Cheung Kong Infrastructure representing approximately 42.88% of the enlarged issued share capital of Cheung Kong Infrastructure to the Company for a consideration of HK\$21.15 per share, to be satisfied by the issue, at a price of HK\$58.50 per share to Cheung Kong of 254,316,978 new shares in the Company and the payment to Cheung Kong of approximately HK\$5,568 million in cash.

Shareholder approvals for the Transactions were obtained on 3 March 1997 and the Transactions were completed on 10 March 1997.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or a subsidiary a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate with the exception of the Senior Executive Share Option Scheme, details of which are set out in note 19 to the accounts.

DIRECTORS' SERVICE CONTRACT

There is no unexpired service contract which is not determinable by the Company within one year of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS

As at 31 December 1996, the interests of the directors in the shares of the Company and its associated corporations as required to be recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(a) Interests in the Company

Name	No. of ordinary shares				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Li Ka-shing	—	—	—	1,648,964,000 ⁽¹⁾	1,648,964,000
Richard T K Li	1,197,000	—	—	1,648,964,000 ⁽¹⁾	1,650,161,000
Victor T K Li	—	—	500,000	1,648,964,000 ⁽¹⁾	1,649,464,000
C Y K Lee	607,491	—	—	—	607,491
G C Magnus	6,000	—	—	—	6,000
A N M Chow	100,000	—	—	—	100,000
M D Kadoorie	—	—	—	14,530,996 ⁽²⁾	14,530,996
Simon Murray	—	—	—	324,000 ⁽³⁾	324,000
P A L Vine	30,000	—	—	—	30,000

Notes:

(1) The three references to 1,648,964,000 shares relate to the same block of shares in the Company comprising:

(a) 1,640,964,000 shares held by certain subsidiaries of Cheung Kong (Holdings) Limited ("Cheung Kong"). Li Ka-Shing Unity Trustee Company Limited ("TUT") as trustee of The Li Ka-Shing Unity Trust (the "LKS Unity Trust") and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong. All issued and outstanding units in the LKS Unity Trust are held by Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and by another discretionary trust. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr Li Ka-shing, Mr Li Tzar Kuoi Victor and his wife and daughter and Mr Li Tzar Kai Richard. Mr Li Ka-shing, Mr Li Tzar Kuoi Victor and Mr Li Tzar Kai Richard, as directors of the Company, are taken to be interested in such shares in the Company held by the subsidiaries of Cheung Kong by virtue of their deemed interests in the shares of Cheung Kong as discretionary beneficiaries of such discretionary trusts. In accordance with the provisions of the SDI Ordinance, Mr Li Ka-shing is also taken to be interested in such 1,640,964,000 shares by virtue of his owning more than one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited which in turn owns more than one-third of the issued share capital of the trustees of the LKS Unity Trust and the abovementioned discretionary trusts; and

(b) 8,000,000 shares comprising 5,500,000 shares held by a company controlled by the LKS Unity Trust and another unit trust and 2,500,000 shares held by such unit trust. All issued and outstanding units of such unit trust are held by discretionary trusts. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr Li Ka-shing, Mr Li Tzar Kuoi Victor and his wife and daughter and Mr Li Tzar Kai Richard and accordingly Mr Li Ka-shing, Mr Li Tzar Kuoi Victor and Mr Li Tzar Kai Richard, as directors of the Company, are taken to be interested in such 8,000,000 shares under the SDI Ordinance. In accordance with the provisions of the SDI Ordinance, Mr Li Ka-shing also is taken to be interested in the same 8,000,000 shares in the Company by virtue of his owning more than one-third of the issued share capital of Li Ka-shing Castle Holdings Limited which in turn owns more than one-third of the issued share capital of the trustees of the abovementioned unit trust and discretionary trusts.

(2) The Hon Michael D Kadoorie is deemed to be interested by virtue of the SDI Ordinance in 14,530,996 shares in the Company.

(3) Mr Simon Murray and members of his family are discretionary beneficiaries of a family trust which is interested in 324,000 shares in the Company.

(b) Interests in associated corporations

As at 31 December 1996, Mr Li Ka-shing, Mr Li Tzar Kuoi Victor and Mr Li Tzar Kai Richard, as directors of the Company, are deemed to be interested in (i) 699,545,862 shares

in Hongkong Electric Holdings Limited ("Hongkong Electric") which shares are held by certain subsidiaries of the Company, (ii) 268,905,000 shares in Asia Satellite Telecommunications Holdings Limited which shares are held by an associated company of the Company and (iii) all the shares of the subsidiary and associated companies of the Company held by the Company and its subsidiary companies by virtue of their interests in the shares of the Company as described in Note (1) above.

In addition, Mr Li Ka-shing had, as at 31 December 1996, a corporate interest in 4,600 class C common shares in Husky Oil Holdings Limited and 13,800 common shares in Husky Oil Limited. Mr Li Ka-shing, Mr Li Tzar Kuoi Victor and Mr Li Tzar Kai Richard are deemed to be interested in 1,000,000 ordinary shares in Orange plc ("Orange") which are held by the LKS Unity Trust and another unit trust as described in Note (1) above under the SDI Ordinance.

Mr Li Tzar Kai Richard had, as at 31 December 1996, a personal interest in 362,000 ordinary shares in Hongkong Electric and 250,000 ordinary shares in Orange. He also had, as at 31 December 1996, a corporate interest in 26 ordinary shares in Hutchvision Hong Kong Limited.

Mr Li Tzar Kuoi Victor had, as at 31 December 1996, a corporate interest in 250,000 ordinary shares in Orange.

Messrs Canning K N Fok and W Shurniak and Mrs Susan M F Chow had, as at 31 December 1996, personal interests in 24,390,14,634 and 14,634 ordinary shares respectively in Orange.

Mr G C Magnus is, as at 31 December 1996, a discretionary beneficiary of a family trust which owns a company which is interested in 25,000 ordinary shares in Orange.

Mr Simon Murray and members of his family are, as at 31 December 1996, discretionary beneficiaries of a family trust which is interested in 50,000 ordinary shares in Orange.

Mr P A L Vine had, as at 31 December 1996, a personal interest in 79,650 shares in Hongkong Electric.

Save as outlined above, none of the directors had, as at 31 December 1996, any interests in the ordinary shares of the Company and its associated corporations or any right to subscribe for ordinary shares of the Company or its associated corporations which has been granted and exercised as recorded in the register required to be kept under Section 29 of the SDI Ordinance since no right to subscribe for the ordinary shares of the Company or its associated corporations has been granted to any director or his spouse or children under 18 years of age since 1 September 1991, the commencement of the SDI Ordinance.

Certain directors held qualifying shares in certain subsidiaries of the Company on trust for other subsidiaries.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 1996, the register required to be kept under Section 16 (1) of the SDI Ordinance shows that the Company has been notified of the following interests in the issued ordinary share capital of the Company. These interests are in addition to those disclosed above in respect of the directors.

Name	No. of ordinary shares
Cheung Kong (Holdings) Limited	1,640,964,000 ⁽¹⁾
Continental Realty Limited	422,969,063 ⁽²⁾

Notes :

(1) This interest represents the total number of ordinary shares of the Company held by certain subsidiaries of Cheung Kong where Cheung Kong is taken to be interested in such shares under Sections 8(2) and (3) of the SDI Ordinance.

(2) This is a subsidiary of Cheung Kong and its interests in the ordinary shares of the Company is duplicated in the interests of Cheung Kong. In addition, Li Ka-Shing Unity Holdings Limited, Li Ka-Shing Unity Trustee Company Limited as trustee of The LKS Unity Trust, Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust have notified the Company that each of them is to be taken as interested in the same 1,640,964,000 shares of the Company as described in Note (1) (a) above and the same 5,500,000 shares of the Company as described in Note (1) (b) above.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CODE OF BEST PRACTICE

With the exception that non-executive directors have no set term of office but retire from office on a rotational basis, none of the directors is aware of any information that would reasonably indicate that the Company is not, or was not during the year in compliance with appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the respective percentage of purchases attributable to the Group's five largest suppliers combined and the turnover attributable to the Group's five largest customers combined was less than 30% of the total value of Group purchases and total Group turnover.

AUDITORS

The accounts have been audited by Price Waterhouse who retire and, being eligible, offer themselves for re-appointment.

By order of the board

N D McGee
Company Secretary

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 61 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare 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 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 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 Company and of the Group at 31 December 1996 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Price Waterhouse

Certified Public Accountants

Hong Kong, 26 March 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

1996 US\$ millions		Note	1996 HK\$ millions	1995 HK\$ millions
4,743	Turnover	2	36,662	35,026
810	Operating profit		6,262	6,523
470	Share of profits less losses of associated companies	4	3,631	3,902
530	Exceptional item	3	4,100	756
1,810	Profit before taxation	4	13,993	11,181
169	Taxation	7	1,311	1,133
1,641	Profit after taxation		12,682	10,048
86	Minority interests		662	481
1,555	Profit Attributable to the Shareholders	8	12,020	9,567
738	Dividends	9	5,703	4,267
817	Profit for the Year Retained	10	6,317	5,300
US 43 cents	Earnings per Share	11	HK\$ 3.32	HK\$ 2.65

CONSOLIDATED BALANCE SHEET

at 31 December 1996

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

Canning K N Fok
Director

W Shurniak
Director

BALANCE SHEET

at 31 December 1996

1996 US\$ millions		Note	1996 HK\$ millions	1995 HK\$ millions
3,026	Subsidiary companies	14	23,394	16,401
550	Current assets	17	4,250	5,000
547	Current liabilities	18	4,230	3,108
3	Net current assets		20	1,892
3,029	Employment of Capital		23,414	18,293
117	Share capital	19	905	904
2,412	Reserves	20	18,642	17,389
2,529	Shareholders' Funds		19,547	18,293
500	Long term liabilities	22	3,867	-
3,029	Capital Employed		23,414	18,293

Canning K N Fok
Director

W Shurniak
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1996

1996 US\$ millions		Note	1996 HK\$ millions	1995 HK\$ millions
1,479	Net cash inflow from operating activities	24 (a)	11,435	8,552
	Returns on investments			
310	Dividends received from associated companies		2,397	3,217
301	Interest and other dividends received		2,328	1,972
611			4,725	5,189
	Servicing of finance			
(365)	Interest paid		(2,821)	(2,808)
(57)	Dividends paid to minority shareholders		(439)	(523)
(594)	Dividends paid to shareholders		(4,594)	(3,614)
(1,016)			(7,854)	(6,945)
	Taxation			
(101)	Hong Kong profits tax paid		(785)	(432)
(22)	Overseas profits tax paid		(168)	(112)
(123)			(953)	(544)
	Investing activities			
11	Proceeds on disposal of fixed assets		82	1,331
17	Proceeds on disposal of subsidiary companies (net of cash and cash equivalents sold)	24 (b)	132	-
1,424	Proceeds on disposal of and repayments from associated companies		11,010	2,526
303	Proceeds on disposal of other investments		2,343	1,513
(1,677)	Purchase of fixed assets		(12,964)	(6,311)
34	Interest capitalised as fixed assets		261	12
(178)	Additions to deferred expenditures		(1,378)	(1,864)
(30)	Purchase of subsidiary companies (net of cash and cash equivalents acquired)	24 (c)	(229)	(1,749)
(1,086)	Purchase of and advances to associated companies		(8,394)	(2,767)
(1,178)	Additions to managed funds and other investments		(9,106)	(3,341)
(2,360)			(18,243)	(10,650)
(1,409)	Net cash outflow before financing activities		(10,890)	(4,398)
699	Net cash inflow from financing activities	24 (d)	5,404	8,348
(710)	Increase (decrease) in cash and cash equivalents	24 (e)	(5,486)	3,950

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)**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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)**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 HK\$ millions	Group 1995 HK\$ millions
Sales of goods	16,032.7	14,269.1
Rendering of services	18,268.0	18,696.2
Interest	2,209.9	1,924.9
Dividends	151.4	135.4
	36,662.0	35,025.6

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 HK\$ millions	Group 1995 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:

Credits:

	Group 1996 HK\$ millions	Group 1995 HK\$ millions
Share of profits less losses of associated companies		
Listed	1,651.6	1,593.4
Unlisted	1,979.8	2,308.3
	3,631.4	3,901.7
Gross rental income from investment properties	1,964.7	1,878.5
Less: Related outgoings	(423.7)	(415.0)
Net rental income	1,541.0	1,463.5
Dividend and interest income from managed funds and other investments		
Listed	558.3	585.8
Unlisted	333.2	186.1
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
Other loans repayable within 5 years	328.0	493.8
Other loans not wholly repayable within 5 years	395.1	487.1
	2,818.3	2,896.6
Less: Interest capitalised	(261.2)	(12.3)
	2,557.1	2,884.3
Depreciation of fixed assets	1,866.8	2,124.5
Amortisation of deferred expenditures	663.1	482.2
Operating leases		
Properties	1,375.4	1,271.7
Hire of plant and machinery	76.2	146.0
Auditors' remuneration	25.7	24.5

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 HK\$ millions	Group 1995 HK\$ millions
Fees	0.8	0.8
Basic salaries and allowances	37.4	34.2
Provident fund contributions	3.2	3.2
Bonuses	75.6	50.7
Benefit from share options exercised	68.7	6.9

The emoluments of the non-executive directors of the Company are HK\$0.3 million (1995 – 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 19.

Emoluments of all directors of the Company are analysed as below:-

HK\$	1996 Number of Directors	1995 Number of Directors
Nil – 1,000,000	7	8
2,500,001 – 3,000,000	–	1
3,500,001 – 4,000,000	–	1
4,000,001 – 4,500,000	–	1
4,500,001 – 5,000,000	2	–
5,000,001 – 5,500,000	–	1
7,500,001 – 8,000,000	1	1
8,000,001 – 8,500,000	–	1
9,000,001 – 9,500,000	–	2
11,000,001 – 11,500,000	1	–
12,500,001 – 13,000,000	1	–
18,000,001 – 18,500,000 *	–	1
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).

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) of which HK\$76.2 million (1995 – HK\$72.3 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) were used to reduce the current year's level of contributions and HK\$0.9 million (1995 – HK\$1.3 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 HK\$ millions	Group 1995 HK\$ millions
Current taxation expense		
Hong Kong		
Subsidiary companies	557.4	539.8
Associated companies	274.5	568.5
Overseas		
Subsidiary companies	209.8	87.7
Associated companies	82.7	35.4
	1,124.4	1,231.4
Deferred taxation expense (credit)		
Hong Kong		
Subsidiary companies	(1.5)	(31.9)
Associated companies	49.5	(132.4)
Overseas		
Subsidiary companies	(7.6)	–
Associated companies	146.1	65.8
	186.5	(98.5)
	1,310.9	1,132.9
Hong Kong profits tax has been provided for at the rate of 16.5% (1995 – 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 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
Arising from tax losses	258.2	31.7

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. PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS

The net profit of the Company is HK\$6,931.6 million (1995 – HK\$4,992.6 million) and is included in determining the profit attributable to the shareholders in the consolidated profit and loss account.

	Company 1996 HK\$ millions	Company 1995 HK\$ millions
9. DIVIDENDS		
Interim dividend paid of 42 cents per share (1995 – 33 cents)	1,520.5	1,193.2
Proposed final dividend of 108 cents per share (1995 – 85 cents)	4,181.9	3,073.4
	5,702.4	4,266.6

10. PROFIT FOR THE YEAR RETAINED

Profit for the year retained after deducting minority interests is as follows:

	Group 1996 HK\$ millions	Group 1995 HK\$ millions
Retained by Company and subsidiary companies		
Profit for the year	11,200.3	9,377.5
Dividends	(5,702.4)	(4,266.6)
	5,497.9	5,110.9
Retained by associated companies		
Profit for the year	3,048.5	3,289.0
Dividends	(2,228.8)	(3,099.4)
	819.7	189.6
	6,317.6	5,300.5

11. 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) and on the weighted average of 3,616,784,011 shares in issue during 1996 (1995 – 3,614,332,483 shares). Fully diluted earnings per share is not shown as the dilution is not material.

12. FIXED ASSETS – GROUP

	Investment properties HK\$ millions	Other properties HK\$ millions	Other assets HK\$ millions	1996 Total HK\$ millions	1995 Total HK\$ millions
Cost or valuation					
At 1 January	21,227.4	20,462.8	21,301.0	62,991.2	59,056.7
Exchange translation differences	–	227.8	31.2	259.0	(62.6)
Additions	154.6	9,193.7	3,615.8	12,964.1	6,311.2
Disposals	(7.1)	(2.2)	(464.7)	(474.0)	(1,367.5)
Relating to subsidiaries acquired	–	–	409.3	409.3	915.8
Relating to subsidiaries disposed	–	(104.6)	(7,650.0)	(7,754.6)	(9.0)
Revaluation	3,627.6	–	–	3,627.6	(1,670.0)
Transfer between categories	370.7	(10.3)	(360.4)	–	(183.4)
At 31 December	25,373.2	29,767.2	16,882.2	72,022.6	62,991.2
Accumulated depreciation					
At 1 January	–	967.5	7,515.4	8,482.9	6,864.8
Exchange translation differences	–	46.8	55.7	102.5	(20.2)
Charge for the year	–	368.9	1,497.9	1,866.8	2,124.5
Disposals	–	–	(327.8)	(327.8)	(402.4)
Relating to subsidiaries acquired	–	–	173.6	173.6	103.1
Relating to subsidiaries disposed	–	(18.4)	(1,444.8)	(1,463.2)	(3.5)
Transfer between categories	–	(32.2)	32.2	–	(183.4)
At 31 December	–	1,332.6	7,502.2	8,834.8	8,482.9
Net book value at 31 December	25,373.2	28,434.6	9,380.0	63,187.8	54,508.3
Cost or valuation at 31 December					
At cost	–	29,767.2	16,882.2	46,649.4	41,763.8
At valuation	25,373.2	–	–	25,373.2	21,227.4
	25,373.2	29,767.2	16,882.2	72,022.6	62,991.2

Net book value of investment and other properties comprises:

	1996 HK\$ millions	1995 HK\$ millions
Hong Kong		
Long leasehold (not less than 50 years)	48,267.4	35,605.7
Medium leasehold (less than 50 years but not less than 10 years)	163.3	119.8
Overseas		
Freehold	182.0	481.7
Long leasehold	1,989.4	1,311.2
Medium leasehold	3,189.8	3,176.2
Short leasehold (less than 10 years)	15.9	28.1
	53,807.8	40,722.7

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).

The investment properties have been revalued as at 31 December 1996 by Knight Frank & Kan, professional valuers, on an open market value basis.

13. DEFERRED EXPENDITURES	Group	Group
	1996	1995
	HK\$ millions	HK\$ millions
Deferred expenditures comprise:		
Subscribers' costs	491.8	1,516.6
Pre-operating expenses	374.0	874.8
Loan facilities fees	220.6	144.9
	1,086.4	2,536.3

14. SUBSIDIARY COMPANIES	Company	Company
	1996	1995
	HK\$ millions	HK\$ millions
Unlisted shares	728.0	728.0
Amounts due from subsidiary companies	22,665.5	15,672.8
	23,393.5	16,400.8

Particulars regarding the principal subsidiary companies are set out on pages 84 to 86.

15. ASSOCIATED COMPANIES	Group	Group
	1996	1995
	HK\$ millions	HK\$ millions
Unlisted shares	5,322.0	4,678.1
Listed shares, Hong Kong	6,732.0	6,352.6
Listed shares, overseas	741.5	—
Share of undistributed post-acquisition reserves	2,599.2	2,795.3
Investment in associated companies	15,394.7	13,826.0
Amounts due from associated companies	11,268.6	9,011.2
Amounts due to associated companies	(294.7)	(59.5)
	26,368.6	22,777.7

The market value of the listed investments at 31 December 1996 was HK\$35,502.2 million (1995 – HK\$18,008.7 million).

Particulars regarding the principal associated companies are set out on pages 84 to 86.

16. MANAGED FUNDS AND OTHER INVESTMENTS	Group	Group
	1996	1995
	HK\$ millions	HK\$ millions
Managed funds, overseas	13,169.2	9,588.0
Unlisted shares and advances	540.3	444.8
Listed shares, Hong Kong	4,554.8	2,065.6
Listed shares, overseas	1,345.8	236.4
Long term deposits	2,750.6	2,986.9
Convertible notes	189.9	643.1
	22,550.6	15,964.8

Managed funds, overseas comprise:

Listed marketable securities	9,666.2	7,236.6
Cash and cash equivalents and accrued interest	3,503.0	2,351.4
	13,169.2	9,588.0

The market value of the listed investments at 31 December 1996 was HK\$16,841.4 million (1995 – HK\$9,176.0 million).

Convertible notes carry interest and are convertible into ordinary shares of the issuers which are listed companies in Hong Kong.

17. CURRENT ASSETS	Company	Company	Group	Group
	1996	1995	1996	1995
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Stocks	—	—	2,463.9	2,689.0
Debtors	0.1	—	5,081.0	4,570.6
Dividends and other receivables from subsidiary companies	4,250.0	5,000.0	—	—
Bank balances and cash equivalents	—	—	10,839.7	16,398.6
	4,250.1	5,000.0	18,384.6	23,658.2

18. CURRENT LIABILITIES	Company 1996 HK\$ millions	Company 1995 HK\$ millions	Group 1996 HK\$ millions	Group 1995 HK\$ millions
Bank loans and overdrafts	2.8	2.7	6,156.9	14,282.5
Other loans	-	-	42.3	30.4
Creditors	45.8	32.0	9,290.5	10,770.7
Taxation	-	-	615.8	830.6
Proposed final dividend	4,181.9	3,073.4	4,181.9	3,073.4
	4,230.5	3,108.1	20,287.4	28,987.6

The bank and other loans of the Group are secured to the extent of HK\$78.2 million (1995 - Nil).

19. SHARE CAPITAL	Number of shares 1996	Number of shares 1995	Company 1996 HK\$ millions	Company 1995 HK\$ millions
Authorised:				
Ordinary shares of HK\$0.25 each	4,350,000,000	4,200,000,000	1,087.5	1,050.0
7.5% cumulative redeemable participating preference shares of HK\$1 each	402,717,856	402,717,856	402.7	402.7
			1,490.2	1,452.7
Issued and fully paid:				
Ordinary shares				
At 1 January	3,614,859,733	3,619,644,720	903.7	904.9
Senior Executive Share Option Scheme	2,963,891	1,664,013	0.7	0.4
Repurchased and cancelled	-	(6,449,000)	-	(1.6)
At 31 December	3,617,823,624	3,614,859,733	904.4	903.7

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).

20. RESERVES	Share premium HK\$ millions	Investment properties revaluation HK\$ millions	Exchange translation HK\$ millions	Retained profit HK\$ millions	1996 Total HK\$ millions	1995 Total HK\$ millions
Company						
At 1 January	13,633.4	-	-	3,755.6	17,389.0	16,820.3
Premium on exercise of share options	23.7	-	-	-	23.7	15.2
Share issue expenses	(0.2)	-	-	-	(0.2)	(0.1)
Shares repurchased and cancelled	-	-	-	-	-	(172.4)
Profit for the year retained	-	-	-	1,229.2	1,229.2	726.0
At 31 December	13,656.9	-	-	4,984.8	18,641.7	17,389.0
Group						
At 1 January	13,633.4	15,879.0	(567.2)	28,989.5	57,934.7	56,252.0
Premium on exercise of share options	23.7	-	-	-	23.7	15.2
Share issue expenses	(0.2)	-	-	-	(0.2)	(0.1)
Shares repurchased and cancelled	-	-	-	-	-	(172.4)
Revaluation surpluses (deficits)	-	3,565.8	-	-	3,565.8	(1,655.6)
Revaluation surpluses of associated companies	-	203.4	-	-	203.4	366.8
Valuation released to profit and loss account	-	(7.0)	-	-	(7.0)	(702.5)
Transfer between categories	-	(0.3)	-	0.3	-	-
Net goodwill on consolidation	-	-	-	1.4	1.4	(1,593.6)
Exchange translation differences	-	-	(294.6)	-	(294.6)	2.2
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
At 31 December	13,656.9	19,640.9	(612.5)	35,308.8	67,994.1	57,934.7
Including retained reserves of associated companies	-	570.2	413.6	2,430.0	3,413.8	3,271.0

Included in share premium of the Company and the Group is a capital redemption reserve of HK\$404.3 million (1995 - HK\$404.3 million). Reserves of the Company available for distribution to shareholders amount to HK\$4,984.8 million (1995 - HK\$3,755.6 million).

21. MINORITY INTERESTS	Group 1996 HK\$ millions	Group 1995 HK\$ millions
Equity interests	3,683.3	1,145.0
Loans – interest free	1,713.7	1,485.4
Loans – interest bearing	2,417.0	2,702.7
	7,814.0	5,333.1

The loans are unsecured and have no fixed terms of repayment.

22. LONG TERM LIABILITIES	Company 1996 HK\$ millions	Company 1995 HK\$ millions	Group 1996 HK\$ millions	Group 1995 HK\$ millions
Bank loans repayable within 5 years	–	–	19,342.2	12,847.0
Bank loans not wholly repayable within 5 years	3,867.0	–	6,975.8	5,109.9
Other loans repayable within 5 years	–	–	2,155.6	90.0
Other loans not wholly repayable within 5 years	–	–	5,980.1	8,105.8
	3,867.0	–	34,453.7	26,152.7
Creditors	–	–	5.7	21.7
	3,867.0	–	34,459.4	26,174.4

The loans are repayable as follows:

Bank loans

After 1 year, but within 2 years	–	–	3,853.9	6,402.5
After 2 years, but within 5 years	–	–	17,951.5	7,441.3
After 5 years	3,867.0	–	4,512.6	4,113.1

Other loans

After 1 year, but within 2 years	–	–	15.5	32.4
After 2 years, but within 5 years	–	–	2,149.7	65.6
After 5 years	–	–	5,970.5	8,097.8
	3,867.0	–	34,453.7	26,152.7

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).

Other loans repayable within five years include HK\$2,125.8 million (1995 – 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) of floating rate notes bearing interest at LIBOR plus 0.85% due in 2004.

23. DEFERRED TAXATION	Group 1996 HK\$ millions	Group 1995 HK\$ millions
The movements in deferred taxation, arising from accelerated depreciation allowances, are as follows:		
At 1 January	111.8	143.9
Exchange translation differences	1.9	(0.2)
Relating to subsidiaries acquired	14.1	–
Net credit for the year	(9.1)	(31.9)
	118.7	111.8
At 31 December	118.7	111.8

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
Arising from tax losses	(392.0)	(133.8)

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.

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT	Group 1996 HK\$ millions	Group 1995 HK\$ millions
(a) Reconciliation of profit before taxation to net cash inflow from operating activities		
Profit before taxation	13,993.1	11,180.9
Dividend and interest income	(2,361.3)	(2,060.3)
Interest expenses	2,557.1	2,884.3
Share of profits less losses of associated companies	(3,631.4)	(3,901.7)
Exceptional item	(4,100.0)	(756.3)
Depreciation and amortisation	2,529.9	2,606.7
Loss (profit) on sale of fixed assets	57.1	(1,067.9)
Profit on disposal of subsidiary companies, associated companies and other investments	(314.0)	(250.5)
Gain on defeasance of finance leases	–	(647.1)
Increase in stocks	(137.1)	(660.1)
Increase in debtors	(1,602.3)	(1,082.2)
Increase in creditors	4,534.9	2,323.1
Other non cash items	(91.1)	(16.9)
	11,434.9	8,552.0
Net cash inflow from operating activities	11,434.9	8,552.0

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

	Group 1996 HK\$ millions	Group 1995 HK\$ millions
(b) Disposal of subsidiary companies		
Net assets disposed of:		
Fixed assets	6,291.4	5.5
Deferred expenditures	2,134.3	-
Stocks	362.2	0.8
Debtors	1,401.0	2.3
Cash and cash equivalents	307.8	-
Bank and other loans	(5,161.5)	(2.1)
Creditors and taxation	(6,285.1)	(5.1)
Goodwill	524.3	-
Minority interests	2,085.3	(2.1)
	<u>1,659.7</u>	<u>(0.7)</u>
Profit on disposal:		
Included in operating profit	0.8	0.7
Included in exceptional item	4,100.0	-
	<u>5,760.5</u>	<u>-</u>
Satisfied by:		
Increase in net assets of associated companies	5,320.8	-
Cash consideration	439.7	-
	<u>5,760.5</u>	<u>-</u>
Less: Cash and cash equivalents sold	(307.8)	-
	<u>5,452.7</u>	<u>-</u>
(c) Purchase of subsidiary companies		
Net assets acquired:		
Fixed assets	235.7	812.7
Deferred expenditures	0.9	-
Associated companies	(81.5)	-
Managed funds and other investments	-	4.3
Stocks	-	71.8
Debtors	283.0	22.2
Cash and cash equivalents	34.1	43.3
Bank and other loans	(161.5)	-
Creditors and taxation	(142.8)	(131.9)
Deferred taxation	(14.1)	-
Goodwill	71.1	1,566.2
Minority interests	38.4	(596.1)
	<u>263.3</u>	<u>1,792.5</u>
Discharged by:		
Cash payment	263.3	1,792.5
Less: Cash and cash equivalents purchased	(34.1)	(43.3)
	<u>229.2</u>	<u>1,749.2</u>

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

	Share capital and premium HK\$ millions	Bank and other loans HK\$ millions	Minority interests HK\$ millions	Group 1996 Total HK\$ millions	Group 1995 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
Issue of ordinary share capital less expenses	24.2	-	-	24.2	15.5
New loans	-	19,113.6	2,602.8	21,716.4	14,645.5
Repayment of loans	-	(13,871.9)	(2,547.5)	(16,419.4)	(6,951.3)
Issue of shares by subsidiary companies to minorities	-	-	84.3	84.3	65.8
Redemption of subsidiary companies preference shares	-	-	(1.3)	(1.3)	(21.7)
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	<u>24.2</u>	<u>5,241.7</u>	<u>138.3</u>	<u>5,404.2</u>	<u>8,348.0</u>
Purchase of minority interests	-	-	(102.8)	(102.8)	166.2
Minority interests in profit	-	-	662.2	662.2	480.9
Dividend paid to minority interests	-	-	(438.9)	(438.9)	(523.4)
Exchange translation differences relating to subsidiary companies acquired	-	2.6	51.8	54.4	(61.2)
Relating to subsidiary companies disposed of	-	161.5	64.4	225.9	429.9
Reserves movement for repurchase of shares	-	(5,161.5)	2,085.3	(3,076.2)	(4.2)
Gain on defeasance of finance leases	-	-	-	-	174.0
Provision for defeased leases	-	-	-	-	(647.1)
Others	-	-	20.6	20.6	(10.9)
At 31 December	<u>14,561.3</u>	<u>40,615.9</u>	<u>7,814.0</u>	<u>62,991.2</u>	<u>60,241.8</u>
(e) Movement in cash and cash equivalents					
At 1 January				16,282.9	12,333.5
Increase (decrease) in cash and cash equivalents				(5,485.9)	3,949.4
At 31 December				<u>10,797.0</u>	<u>16,282.9</u>
(f) Analysis of the balances of cash and cash equivalents					
Bank balances and cash equivalents				10,839.7	16,398.6
Bank overdrafts				(42.7)	(115.7)
				<u>10,797.0</u>	<u>16,282.9</u>

25. CONTINGENT LIABILITIES	Company 1996 HK\$ millions	Company 1995 HK\$ millions	Group 1996 HK\$ millions	Group 1995 HK\$ millions
Guarantees have been executed in respect of bank and other borrowings facilities available as follows:				
To subsidiary companies	25,369.8	23,279.6	-	-
To associated companies	58.4	3,244.7	1,366.8	4,656.4

At 31 December 1996 the Company had contingent liabilities in respect of other guarantees amounting to HK\$907.6 million (1995 – HK\$1,030.2 million) and the Group had contingent liabilities in respect of other guarantees amounting to HK\$1,750.9 million (1995 – HK\$522.1 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.

26. 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).
 - ii. Container terminals, China – HK\$1,287.3 million (1995 – HK\$283.1 million).
 - iii. Container terminals, other – HK\$143.3 million (1995 – Nil).
 - iv. Telecommunications – HK\$1,117.5 million (1995 – HK\$907.5 million).
 - v. Other fixed assets – HK\$35.7 million (1995 – HK\$297.4 million).
 - vi. Investments in China ports – HK\$445.3 million (1995 – Nil).
 - vii. Investments in China properties joint venture projects – HK\$519.0 million (1995 – HK\$521.4 million).
 - viii. Other investments – HK\$125.7 million (1995 – HK\$207.8 million).
 - ix. Property developments in Hong Kong – HK\$2,180.1 million (1995 – HK\$3,277.5 million).
2. Authorised but not contracted for:
 - i. Container terminals, Hong Kong – HK\$2,823.6 million (1995 – HK\$1,740.2 million).
 - ii. Container terminals, China – HK\$2,474.4 million (1995 – HK\$1,117.8 million).
 - iii. Container terminals, other – HK\$616.0 million (1995 – Nil).
 - iv. Telecommunications – HK\$3,152.1 million (1995 – HK\$5,207.5 million).
 - v. Other fixed assets – HK\$2,312.5 million (1995 – HK\$1,481.2 million).
 - vi. Investments in China ports – HK\$220.6 million (1995 – Nil).
 - vii. Investments in Hong Kong properties joint venture projects – HK\$2,760.9 million (1995 – HK\$1,626.6 million).
 - viii. Investments in China properties joint venture projects – HK\$3,310.9 million (1995 – HK\$3,075.1 million).
 - ix. Other investments – HK\$858.7 million (1995 – HK\$809.8 million).
 - x. Property developments in Hong Kong – HK\$11,055.1 million (1995 – HK\$8,678.0 million).

26. COMMITMENTS (continued)

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).
2. Expiring in the second to fifth years inclusive – HK\$820.6 million (1995 – HK\$885.8 million).
3. Expiring after the fifth year – HK\$191.2 million (1995 – HK\$214.1 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).
2. Expiring in the second to fifth years inclusive – HK\$33.9 million (1995 – HK\$200.4 million).
3. Expiring after the fifth year – HK\$1.0 million (1995 – HK\$86.1 million).

27. 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.

28. COMPARATIVE FIGURES

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

29. 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.

30. APPROVAL OF ACCOUNTS

The accounts set out on pages 61 to 86 were approved by the board of directors on 26 March 1997.

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
Foxtan 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 Towing Company, Limited	Hong Kong	HK\$ 20,000,000	50	Tug fleet operating
# Hongkong United Dockyards Limited	Hong Kong	HK\$ 76,000,000	50	Ship repairing & general engineering
Hutchison Delta Finance Limited	Cayman Islands / Luxembourg	US\$ 3	100	Finance
Hutchison Delta Ports Limited	Cayman Islands	US\$ 2	100	Holding company
# Jiangmen International Container Terminals Limited	China	US\$ 7,793,087 RMB 20,000,000	50	Container terminal operating

PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES

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
Ports and Related Services (continued)				
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	RMB2,000,000,000	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
+ Watson Asia Beverage Company Limited	China	US\$ 2,722,500	60	Beverage manufacturing & trading
Watson Park'N Shop (Taiwan) 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

PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES

Subsidiary and associated companies	Country incorporation/ principal country of operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group	Principal activities
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 Seriting Telecom Sdn Bhd	Malaysia	MS\$ 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
Zeidane 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	Approximate gross floor area (sq ft unless otherwise stated)	Type	Estimated completion date (% completed)
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	100%	1,713,990	C	Existing
Hutchison House, 10 Harcourt Road, Hong Kong	Sec. A-H & Sec. J-L 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	I.L. 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 1	T.W.T.L. 308	100%	21,340	C	Existing
Phase 2	T.W.T.L. 316 (Plot A)	60%	120,039	C	Existing
Phase 3	T.W.T.L. 316 (Plot B)	100%	131,945	C	Existing
Castle Peak Road, Tsuen Wan, New Territories					
Park Commercial Centre, Causeway Bay, Hong Kong	Subsection of I.L. 1149	100%	106,330	C	Existing
Watson House, Wo Liu Hang Road, Shatin, 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
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%	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%)

SCHEDULE OF PRINCIPAL PROPERTIES

Description	Lot number	Group's interest	Approximate gross floor area (sq ft unless otherwise stated)	Type	Estimated completion date (% completed)
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%	1,532	R	Existing
South Horizons, Ap Lei Chau, Aberdeen, Hong Kong	R.P. of A.L.C.L.L. 121	50%	12,488	C	Existing
A residential development at Tai Po (site area approximately 164,688 sq ft)	T.P.T.L. 97	50%	41,641	C	Existing
A residential development at 77 Broadcast Drive (site area approximately 50,880 sq ft)	N.K.I.L. 5104	50%	2,785	R	Existing
A residential development at Tsing Yi Airport Railway Station (site area approximately 581,250 sq ft)	T.Y.T.L. 132	50%	131,750	R	1998 (10%)
A residential development at Ma On Shan (site area approximately 277,980 sq ft)	S.T.T.L. 446	50%	1,154,911	R	1999 (5%)
6/F of Beijing Tower, 10 Dong Chang An Jie Beijing, China	Dong Chang An Jie, Beijing	50%	1,524,856	R	1998 (30%)
Oriental Plaza Dong Chang An Jie, Beijing (site area approximately 1,018,557 sq ft)	Dong Chang An Jie, Beijing Phase 1 Phase 2 Phase 3	22% 22% 22%	1,808,396 1,722,282 2,529,602	C C C	2000 (1%) 2001 (1%) 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)	Dongguan Phase 1.1 Phase 1.2 Golf Course	10% 10% 46%	210,138 399,706 14,244,106	R R G	Existing Existing 1998 (2%)
Metropolitan Plaza, Chongqing, China (site area approximately 201,468 sq ft)	Ba Yi Lu / Zhou Yung Lu, Chongqing Phase 1 Phase 2 Phase 3	40% 40% 40%	1,102,837 324,814 437,169	C H C	1997 (75%) 1999 (15%) 1999 (10%)
Low Cost Housing, Chongqing, China (site area approximately 982,129 sq ft)	Yang He District, Chongqing Phase 1.2 Phase 1.3	50% 50%	775,008 818,064	R R	1997 (20%) 1998 (10%)

SCHEDULE OF PRINCIPAL PROPERTIES

Description	Lot number	Group's interest	Approximate gross floor area (sq ft unless otherwise stated)	Type	Estimated completion date (% completed)
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, China (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 Phase 2-4	35% 35%	165,500 3,441,789	R R	1998 (5%) 2003 (1%)
Walton Plaza Xuhui, Shanghai, China (site area approximately 346,353 sq ft)	Changsu Lu / Changle Lu Xuhui District, Shanghai Phase 2 Phase 3	35% 40%	255,591 1,343,347	R/C R/C	1999 (2%) 2000 (1%)
Pacific Plaza, Qingdao, China (site area approximately 238,192 sq ft)	Dong Hai Lu, Qingdao Phase 1 Phase 2	30% 30%	129,641 2,271	C R	Existing Existing
Royal Gate Kensington Kensington, London, United Kingdom (site area approximately 21,456 sq ft)	Kensington, London	48%	484,672 140,024	R R	1999 (5%) 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
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, Shanghai	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	Gaoshawei, 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

TEN YEAR SUMMARY

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Consolidated Profit and Loss Account										
HK\$ millions										
Turnover	10,524	12,875	17,685	15,975	19,212	21,030	24,748	30,168	35,026	36,662
Profit attributable to shareholders	2,628	3,623	6,080	4,370	4,340	3,052	6,304	8,021	9,567	12,020
Preference dividends	37	-	-	-	-	-	-	-	-	-
Profit attributable to ordinary shareholders	2,591	3,623	6,080	4,370	4,340	3,052	6,304	8,021	9,567	12,020
Ordinary dividends	1,022	1,308	1,644	1,980	2,073	1,846	2,461	3,362	4,267	5,703
Profit for the year retained	1,569	2,315	4,436	2,390	2,267	1,206	3,843	4,659	5,300	6,317
Consolidated Balance Sheet										
HK\$ millions										
Fixed assets	7,066	13,040	18,856	20,781	27,381	32,467	42,292	52,192	54,508	63,188
Deferred expenditures	-	-	-	168	894	1,240	395	1,153	2,536	1,086
Associated companies	8,036	10,559	11,229	11,690	11,377	12,569	14,434	21,705	22,778	26,369
Managed funds and other investments	3,564	3,310	3,544	3,460	5,720	6,813	14,423	13,223	15,965	22,551
Properties under development for sale	904	-	-	-	-	-	-	-	-	-
Net current assets (liabilities)	3,116	1,822	6,012	5,575	491	(3,930)	(6,807)	361	(5,329)	(1,903)
Employment of capital	22,686	28,731	39,641	41,674	45,863	49,159	64,737	88,634	90,458	111,291
Share capital	755	757	761	762	762	839	904	905	904	905
Reserves	13,641	15,094	21,752	23,834	26,893	35,004	48,157	56,252	57,935	67,994
Shareholders' funds	14,396	15,851	22,513	24,596	27,655	35,843	49,061	57,157	58,839	68,899
Minority interests	4,298	4,055	4,764	5,092	6,023	2,018	1,795	5,144	5,333	7,814
Loan stock	161	-	-	-	-	-	-	-	-	-
Long term liabilities	2,313	7,794	11,469	11,925	12,074	11,126	13,696	26,189	26,174	34,459
Deferred items	1,518	1,031	895	61	111	172	185	144	112	119
Capital employed	22,686	28,731	39,641	41,674	45,863	49,159	64,737	88,634	90,458	111,291
Performance Data										
Earnings per ordinary share - (cents)	93	120	200	143	142	96	179	222	265	332
Dividends per ordinary share - (cents)	34.6	43.0	54.0	65.0	68.0	55.0	68.0	93.0	118.0	150.0
Ordinary dividend cover	2.5	2.8	3.7	2.2	2.1	1.7	2.6	2.4	2.2	2.1
Return on ordinary shareholders' funds (%)	18.0	22.9	27.0	17.8	15.7	8.5	12.9	14.0	16.3	17.4
Current ratio	1.5	1.3	1.9	1.7	1.0	0.7	0.6	1.0	0.8	0.9
Gearing (%)	n/a	16.9	10.5	7.0	11.9	18.3	7.0	19.6	19.4	14.0
Net assets per ordinary share - book value (HK\$)	4.7	5.2	7.4	8.1	9.1	10.7	13.6	15.8	16.3	19.0

Gearing represents the ratio of net interest bearing borrowings to shareholders' funds and minority interests. Not applicable (n/a) indicates cash balances exceed borrowings. Net interest bearing borrowings is defined as total interest bearing borrowings net of bank balances and cash equivalents, long term cash deposits, managed funds and other listed investments.

NOTICE OF MEETING

Notes:

1. In order to qualify for the final dividend payable on 23 May 1997, all transfers, accompanied by the relevant share certificates must be lodged with the Company's Registrars, Wheelock Marden and Company Limited, for registration not later than 4 pm, Wednesday 14 May 1997.

2. Only members are entitled to attend and vote at the meeting.

3. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of that member. A proxy need not be a member. The Company's Articles of Association require proxy forms to be deposited at the Registered Office of the Company not later than 48 hours before the time for holding the meeting.

4. Concerning Ordinary Resolution No 1, the increase in authorised share capital is being proposed so that the mandate proposed to be given pursuant to Ordinary Resolution No 2 can, if approved, be capable of being exercised in full.

5. Concerning Ordinary Resolution No 2, the directors wish to state that they have no immediate plans to issue any new shares of the Company other than the shares that may be issued under the Senior Executive Share Option Scheme. Approval is being sought from the members under Ordinary Resolution No 2 as a general mandate for the purposes of Section 57B of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

NOTICE is hereby given that the Annual General Meeting of shareholders will be held in the Ballroom, 1st Floor, The Harbour Plaza, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday 22 May 1997 at 12:15 pm for the following purposes:

- To receive and consider the statement of accounts and reports of the directors and auditors for the year ended 31 December 1996.
- To declare a final dividend.
- To elect directors.
- To appoint auditors and authorise the directors to fix their remuneration.
- As special business to consider and, if thought fit, pass the following Ordinary Resolutions:

Ordinary Resolutions

- "THAT the authorised share capital of the Company be and is hereby increased from HK\$1,490,217,856 comprising 4,350,000,000 ordinary shares of HK\$0.25 each and 402,717,856 7½ per cent cumulative redeemable participating preference shares of HK\$1 each to HK\$1,565,217,856 comprising 4,650,000,000 ordinary shares of HK\$0.25 each and 402,717,856 7½ per cent cumulative redeemable participating preference shares of HK\$1 each by the creation of an additional 300,000,000 ordinary shares of HK\$0.25 each."
- "THAT a general mandate be and is hereby unconditionally given to the directors to issue and dispose of additional ordinary shares of the Company (in addition to ordinary shares issued under the Senior Executive Share Option Scheme) not exceeding 20% of the existing issued ordinary share capital of the Company."
- "THAT:
 - subject to paragraph (B) below, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase ordinary shares of HK\$0.25 each in the capital of the Company in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
 - the aggregate nominal amount of ordinary shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (A) above shall not exceed 10% of the aggregate nominal amount of the ordinary share capital of the Company in issue at the date of this Resolution, and the said approval shall be limited accordingly; and

6. *Concerning Ordinary Resolution No 3, an Explanatory Statement containing the information regarding the repurchase by the Company of its own shares will be sent to shareholders together with the Company's 1996 Annual Report.*

- (C) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of
- (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and
 - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting."

4. "THAT the general mandate granted to the directors to issue and dispose of additional ordinary shares pursuant to Ordinary Resolution No 2 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the ordinary share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No 3 set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued ordinary share capital of the Company at the date of this Resolution."

The register of members will be closed from 15 May 1997 to 22 May 1997 both days inclusive.

By order of the board

N D McGee
Company Secretary

Hong Kong, 26 March 1997

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