Business Review

“**In 2003, CKI's overseas investments recorded an impressive performance.** Profit contribution from the Group's projects in Australia and Mainland China was HK$1.6 billion, an increase of 27 per cent. over last year. This significant contribution generated from investments outside of Hong Kong helped alleviate the impact of Hongkong Electric's rare decline in profit.

Benefiting from the fast paced economic development in Mainland China and Australia, our energy and transportation infrastructure investments achieved substantial organic growth. The strong growth of these investments managed to offset Hongkong Electric's decline in profit and generated an 8 per cent. increase in profit before tax and a 1 per cent. increase in profit after tax attributable to shareholders. 2003 marked the eighth year of continued profit growth for the Group.

Hongkong Electric is CKI's largest investment. During the year, Hongkong Electric's profit was affected by a one-off tax provision due to a change in accounting policy, an increase in corporate tax and the outbreak of SARS. Profit generated by Hongkong Electric dropped 8.6 per cent., while Hongkong Electric's profit contribution to CKI decreased by 11 per cent. Despite such challenges, CKI continued to report satisfactory profits, reflecting the Group's portfolio of strong and solid investments.

Hongkong Electric is indeed a prime asset. It possesses the characteristics of a classic public utility, generating substantial steady income. It has brought reliable profit contributions to CKI year after year. As the negative factors that occurred in 2003 were mostly one-off incidences, Hongkong Electric will continue to be a solid and secure investment of the Group. It is anticipated that the performance of investments in Australia and Mainland China will continue to benefit from the thriving economies of both countries. Growth prospects for the future are bright.

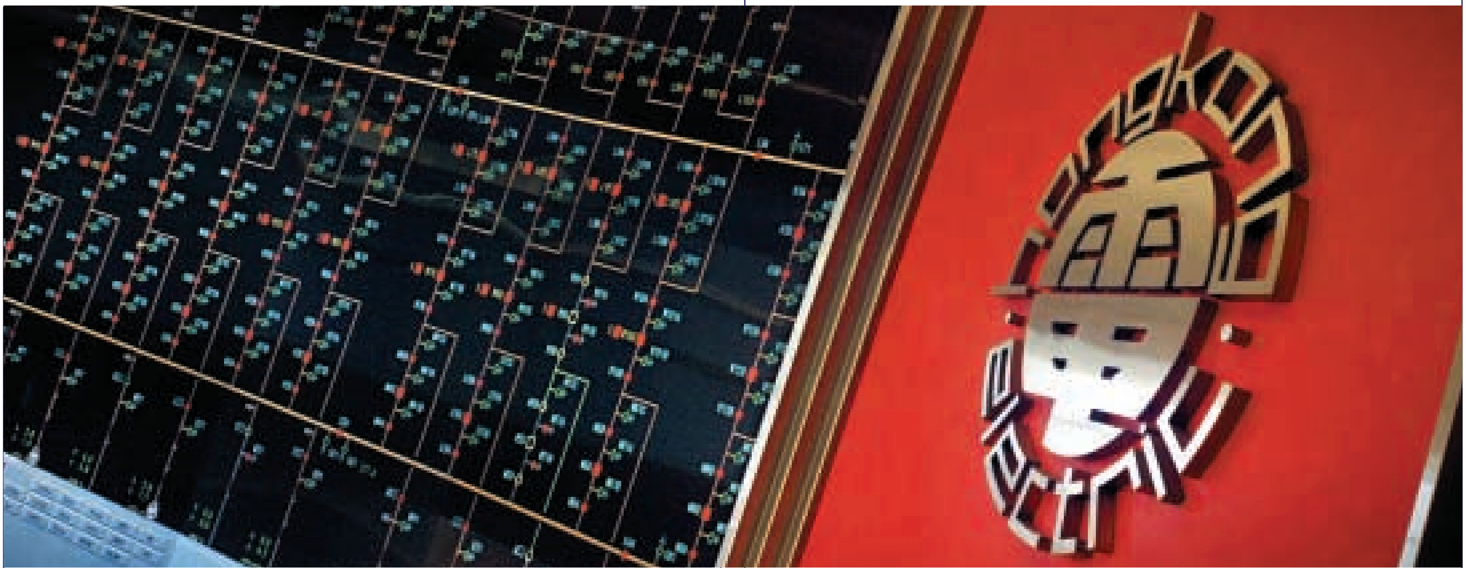
Over the years, CKI has made investments in infrastructure projects in a number of places around the world and has developed into a major infrastructure player in the global arena. The Group has a solid foundation and a strong financial base. Looking forward, it is expected that the worldwide economy will brighten up and more investment opportunities will emerge. With cash on hand of HK$7.2 billion and a low net debt to equity ratio of 18 per cent., CKI will proactively seek quality investment projects, and continue its course on the growth roadmap.”

H.L. Kam
Group Managing Director
Hong Kong, 9th March, 2004

Investment in Hongkong Electric

Hongkong Electric plays a major role in supplying reliable power to Hong Kong Island, Ap Lei Chau and Lamma Island.
With a 38.87% interest in Hongkong Electric, CKI benefits from a stable income generated by the public utility year after year.

Investment in Hongkong Electric



The state-of-the-art Supervisory Control and Data Acquisition (SCADA) system at Ap Lei Chau uses some of the most advanced remote control and monitoring technologies to help Hongkong Electric maintain exceptional reliability around the clock.

Hongkong Electric reported a net profit of HK$6,057 million in 2003, representing an 8.6% drop over 2002. The performance of Hongkong Electric was affected by a change in accounting rules relating to deferred tax, an increase in the corporate tax rate, as well as a soft domestic economy caused by the Severe Acute Respiratory Syndrome ("SARS") epidemic. Despite these factors, Hongkong Electric continued to generate a substantial profit contribution of 58% for the Group in 2003.

Hong Kong Operations

Hongkong Electric performed steadily in 2003 despite a challenging year for its core business of generating, transmitting and distributing power to Hong Kong Island, Ap Lei Chau and Lamma Island. Hongkong Electric maintained the exceptionally high reliability rating of 99.999% around the clock for the eighth consecutive year and achieved or surpassed all of its pledged service standards. In the process, it was able to control costs and improve productivity in an effort to maximise shareholder value.

The unexpected onset of the SARS epidemic had a major negative impact on Hong Kong's economy, local business, and the livelihood of the Company's customers, particularly those in the retail, restaurant, hotel and business services sectors. As a result, consumption of electricity declined during the SARS period and unit sales were only 0.4% above that of 2002. Low consumption growth was the major contributing factor to the Company's inability to earn its full Permitted Return for 2003 in accordance with the provisions of the Scheme of Control.

The other significant factor affecting earnings in 2003 was an increase in tax charges and provisions resulting from the introduction of the new Statement of Standard Accounting Practice on Income Taxes and an increase in tax rate. This resulted in a HK$94 million increase in current tax and a non-cash accounting item for a one-off provision for deferred tax of HK$431 million.

Work on the extension of the Lamma Power Station continued in 2003. Site formation work and piling for the first 300 MW power unit was substantially completed, although commissioning will be deferred by one year to 2006 because of less than expected maximum demand growth.

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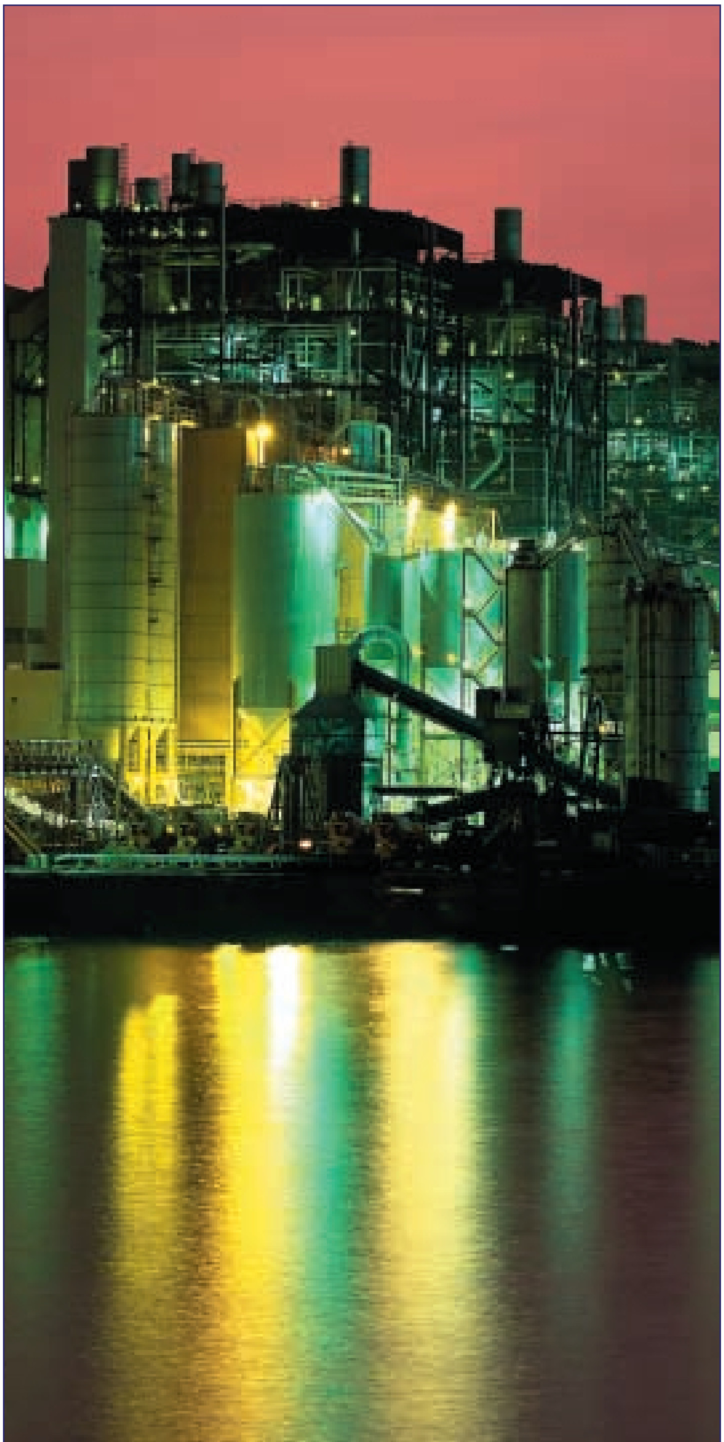
Regular inspection of turbine generators is a part of Hongkong Electric's continuous, preventive maintenance schedule. This constant attention to detail underpins Hongkong Electric's impressive 99.999% reliability rating.

Overseas Operations

Hongkong Electric's Australian operations continued to register strong financial growth in 2003. The contribution to the Group from ETSA Utilities, Powercor and CitiPower – all owned in equal partnership with CKI – increased by 30% over last year.



(above) With total installed capacity of 3,305 MW, Lamma Power Station provides clean, reliable energy to Hongkong Electric's many customers.

(right) Lamma Power Station at night showing important environmental protection facilities: ash silos (foreground) and boilers fitted with low NOx burners (background).

(below) Hong Kong's spectacular nightview is powered by Hongkong Electric, the sole electricity supplier on Hong Kong Island.

Infrastructure Investments – Energy

CKI has a strong portfolio of infrastructure investments in the energy sector. Providing solid and steady cash flow from their predominantly regulated returns, these investments have proven to be secure sources of profit contribution for the Group. CKI, together with Hongkong Electric, is one of the biggest overseas investors in Australia with a portfolio worth over HK$40 billion, serving over 2.5 million customers and employing over 2,600 staff. The Group has also invested HK$3 billion in China's rapidly growing power sector.

Infrastructure Investments – Energy

Australia Energy

CitiPower I Pty Limited

CitiPower was jointly acquired by CKI and Hongkong Electric in 2002 and is engaged in the operation of the electricity distribution network in the central business district and inner suburban areas of Melbourne. CitiPower, which serves over 270,000 customers, is the most reliable power distribution network in Australia with a reliability rating of 99.994%.

Regular power line maintenance ensures optimal performance for ETSA Utilities, the sole electricity distributor for South Australia.

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CitiPower is the most reliable power distribution network in Australia with a reliability rating of 99.994%.

2003 represented CitiPower's first full year of ownership under CKI and Hongkong Electric. The company has recorded a strong financial performance with a 2% growth in electricity consumption, and 9% growth in network revenue as well as continued improvements in productivity.

ETSA Utilities

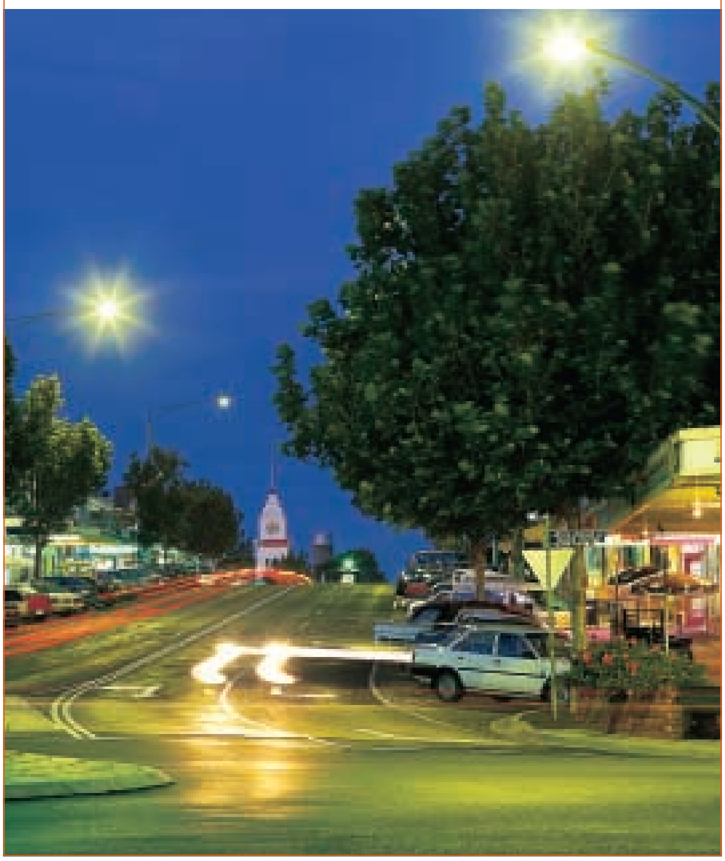
ETSA Utilities has been jointly owned by CKI and Hongkong Electric since 2000 and has proven to be a secure and premium investment. As the sole electricity distributor in the state of South Australia with a customer base of over 760,000 users, ETSA Utilities has recorded another year of solid financial and operational performance in 2003.

Powercor Australia Limited

Powercor was acquired by CKI and Hongkong Electric in 2000 and is the largest electricity distributor in the state of Victoria. With a network that reaches approximately 65% of the state and serving over 620,000 customers, Powercor has established itself as a secure and high yield investment for the Group.

2003 marked a year of continued growth for Powercor as strong growth in the real estate and housing sector in Victoria boosted demand. 16,000 new customer connections as well as a best-ever achievement in supply reliability were recorded during the year.

Powercor lights up around 65% of Victoria, providing reliable electricity supply to over 620,000 customers.



Envestra serves the natural gas needs of over 900,000 consumers in every Australian state except Western Australia through an extensive gas distribution network.

Envestra Limited

CKI has held a 19% stake in Envestra, the largest listed natural gas distributor in Australia, since 1999. With a natural gas distribution network that spans over 18,000 kilometres and over 1,110 kilometres of transmission pipelines, Envestra serves over 900,000 consumers across all states except Western Australia; this accounts for 30% of Australia's total gas consumption.

In 2003, CKI's fifth year of investment, Envestra continued to generate an attractive cash yield, amounting to approximately 11% p.a.

China Power

The Group's China power investment portfolio comprises assets that generate over 1,900 MW in gross capacity. In 2003, these investments performed well, delivered considerable cash inflow and generated satisfactory profits for CKI.

CKI holds a 45% stake in the Zhuhai Power Station, which consists of two 700 MW coal-fired units. 2003 represented a year of strong growth for the operations and a new electricity generation record of 8.6 billion kWh was set. This exceeded the minimum purchase requirement stipulated in the power off-take contract of 6.8 billion kWh by 27%. The plant also achieved an excellent safety record of over 200 days of safe operation. The safe, reliable and efficient operation of the Zhuhai Power Plant plays a contributing role in the economic development in Zhuhai City and the Pearl River Delta region.

The Group also holds a 45% stake in the Siping Cogen Power Project, comprising three generator sets totalling 200 MW. This project supplies reliable power to the Jilin power grid in northeastern China and operated accident-free for a consecutive period of 1,208 days as of December 31, 2003. The Qinyang Power Plants, of which CKI has a 49% stake, performed well in 2003. During the year, the equivalent of 6,512 full load operating hours was generated; this represented 18.4% more than the annual minimum capacity of the off-take contract. At the Fushun Cogen Power Plants in Liaoning, a marginal drop of 4% in power generation was recorded, while total heat sold during the year posted an 8.5% growth though the winter of 2003 was unusually warm.

Zhuhai Power Plant, CKI's largest energy investment in China, performed strongly in 2003 and enjoyed an excellent safety record.

Business Review

Infrastructure Investments – Transportation

CKI's transportation infrastructure projects continued to drive profits for the Group in 2003. The Group's transportation operations in China recorded double-digit growth in toll revenue during the year; and construction of the Sydney Cross City Tunnel is ahead of schedule.

Infrastructure Investments – Transportation

transportation investment in China, increased 21% over last year. Comparable growth is anticipated in 2004 as new highways connecting to the Ring Road are near completion. The Panyu Beidou Bridge located south of Guangzhou also achieved 21% growth in toll revenue over last year while the Shenzhen-Shantou Highway (Eastern Section) and the Shantou Bay Bridge registered 14% and 9% year-on-year growth respectively. The Chaolian Bridge posted 30% toll revenue growth; the Jianghe Highway reported double-digit toll revenue growth; and the Jiangsha Highway continued to provide good investment returns for the Group in 2003.

The Shantou Bay Bridge was a steady performer for the Group with a 9% rise in toll revenue in 2003.

China Transportation

China's economy continued to boom and vehicle ownership soared in 2003. This phenomenon has fuelled the growth of CKI's China transportation projects.

Guangdong Province has become an engine of growth for southern China. The majority of CKI's toll roads and bridges in Guangdong have benefited from increased economic activities and the consequent surge in traffic flow led to double-digit growth in 2003. Toll revenue from the Guangzhou East-South-West Ring Road, the Group's largest

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CKI's transportation business comprises investments in 500 km of toll roads and bridges in five provinces in China.

Outside of Guangdong, CKI's toll roads also achieved strong performance. The Tangle Highway in Tangshan, Hebei posted a 13% growth in toll revenue due to increased activities at the nearby Jing-Tang Port. In Henan, with the completion of a major road rehabilitation programme, the traffic flow on the 107 National Highway at Zhumadian increased significantly, resulting in a considerable revenue growth of 34% over last year. In Shenyang and Changsha, the toll roads and bridges continued to show a steady performance.

Benefiting from increased car ownership and better economic conditions, the Panyu Beidou Bridge in Guangdong registered a 21% increase in toll revenue.

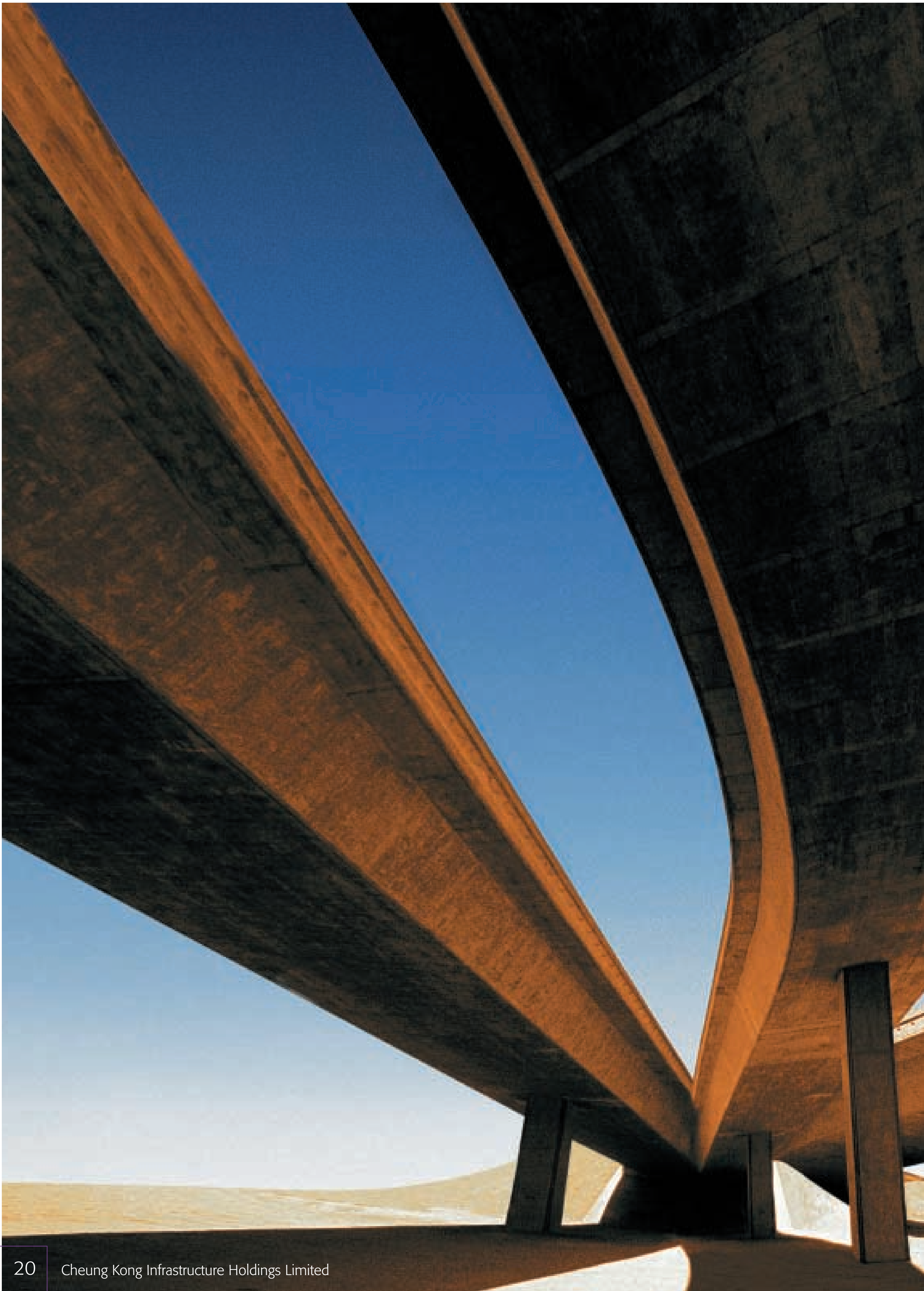
Hong Kong Eastern Harbour Crossing Tunnel

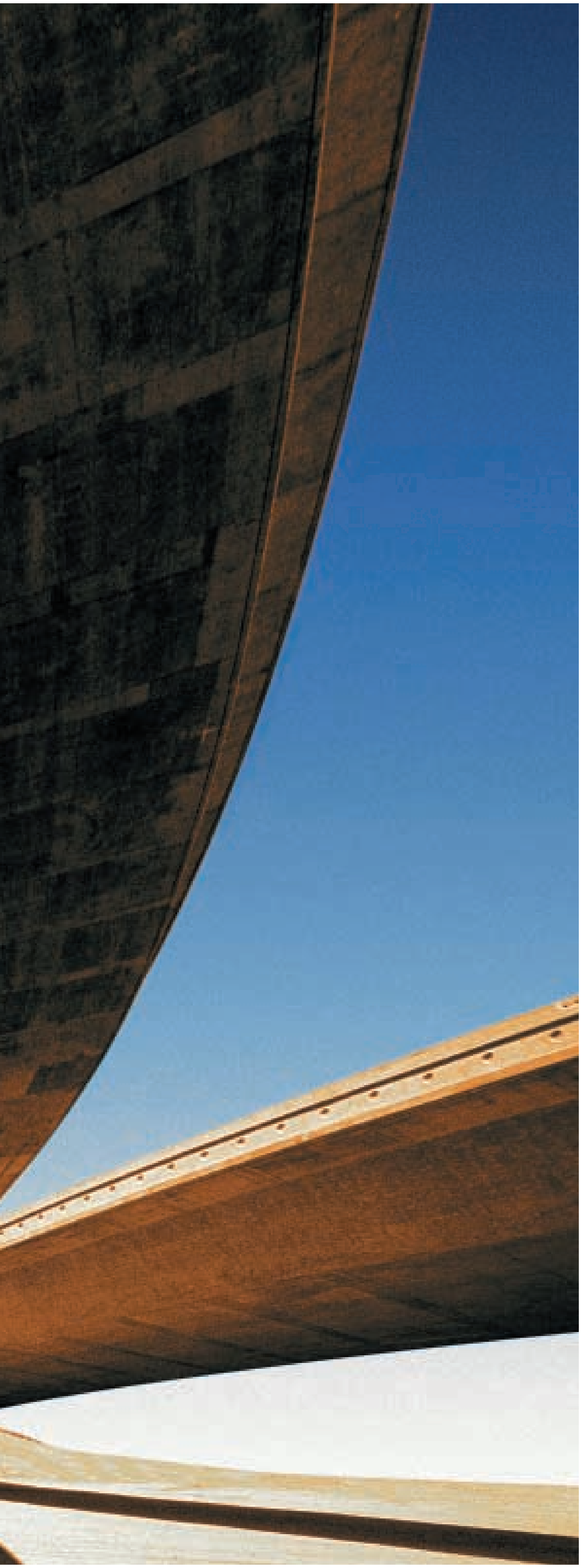
CKI has a 50% stake in the Eastern Harbour Crossing Company Limited, which owns the rail tunnel connecting eastern Hong Kong with eastern Kowloon. During the year, the tunnel continued to provide satisfactory returns and steady cash flow for the Group.

The Sydney Cross City Tunnel

Construction for the Sydney Cross City Tunnel is within budget and ahead of schedule. This A$1 billion toll tunnel, of which CKI has a 50% stake, represents the Group's first diversification in the transportation sector outside of Hong Kong and Mainland China. Once completed, the Cross City Tunnel will improve east-west travel across Sydney's central business district, reduce travel time, improve access for all commuters and help improve air quality in the city. It is expected that a favourable investment return will be generated from this premium asset.

The ground breaking ceremony for the A$1 billion Sydney Cross City Tunnel project marked CKI's first diversification in transportation outside of Hong Kong and Mainland China.





Infrastructure Related Business

CKI has been a market leader in infrastructure materials for many years. Due to the slowdown in construction, the Group's infrastructure materials business faced a challenging year in 2003. The Group has also launched a number of environmental initiatives over the past few years. They are expected to play a meaningful role in environmental protection as sustainable development increases in importance on the global agenda.

Infrastructure Related Business

Infrastructure Materials

Hong Kong Cement, Concrete and Aggregates

The challenging market conditions that have affected Hong Kong in recent years continued to adversely impact the cement and concrete industries in 2003. Weak construction activities caused both volume and prices to decline. This was exacerbated by the Government's cut back in the construction and provision of public housing. The unfavourable market conditions drove total cement consumption in Hong Kong down to a new low. Concrete consumption was also very weak due to a lack of new projects in the territory.

In light of the difficult times, both Green Island Cement and Anderson Asia made every effort to continue reducing costs and improving efficiency and productivity. Although representing a modest percentage of CKI's total profit contribution, they continued to maintain strong cash balances and inflow.

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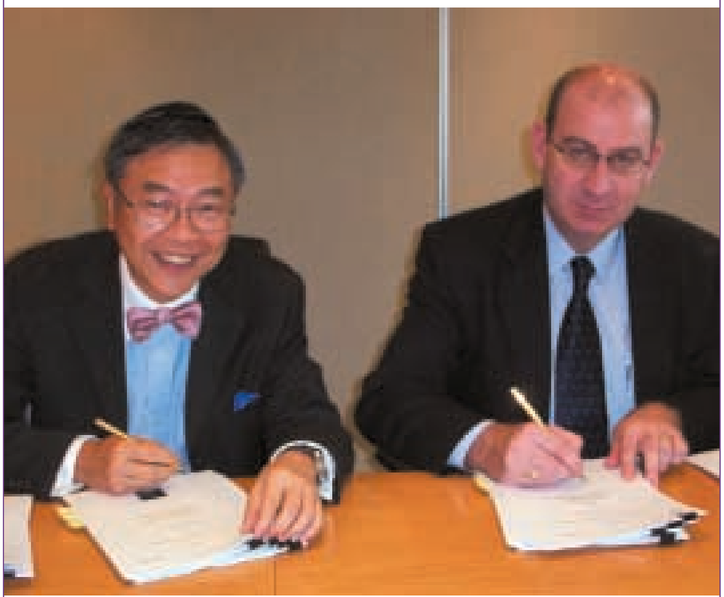
While demand for concrete and cement was down in 2003, both Green Island Cement and Anderson Asia still attained strong cash balances and inflow.

Merger between Anderson Asia and Hanson

In a key strategic move to further solidify its market position and counteract a bearish business environment, Anderson Asia is in the process of merging with the Hong Kong operations of Hanson PLC, one of the leading building materials suppliers in the world.

The new company – Alliance Construction Materials Limited – will become Hong Kong's largest supplier of concrete and aggregates and is estimated to account for approximately one-third of the territory's market share. The merger will facilitate the maximisation of cost savings and efficiency enhancement. The new company will now have four quarries in Hong Kong and Mainland China with an aggregate reserve adequate for consumption for the next decade. Completion of the merger is scheduled to take place within 2004.

The Anderson Asia-Hanson merger will facilitate the maximisation of cost savings and efficiency.



Green Island Cement is a pioneer in the recycling of waste products, using over 10% of waste-derived materials in its cement production.

Asphalt

Profits for Anderson Asphalt, one of Hong Kong's largest asphalt producers, pavement contractors and recyclers, improved year-on-year in 2003 on the strength of its contracting operations in Mainland China, Hong Kong and the Philippines. During the year, Anderson Asphalt completed paving mastic, a niche asphalt product specially designed for bridge paving, for the Jiangyin Bridge in Jiangsu province. The project yielded good profit contribution for Anderson Asphalt and plans to seek similar opportunities in China are in place. The refurbishment of the North Luzon Expressway in the Philippines is also progressing smoothly.

Environmental Sustainability Initiatives

The Group continued to pursue initiatives on environmental sustainability in 2003. A study is conducted by Green Island International together with the Hong Kong University of Science and Technology regarding the conversion of municipal solid waste into energy using a high temperature co-combustion process. Another environmental initiative involves a clean energy pilot project for Hong Kong, which features a small hydrogen generator at Tap Shek Kok and a 41-seater bus driven by a hydrogen-powered internal combustion engine.

The Lam Tei Quarry operated by Anderson Asia produces aggregates to meet the needs of the local construction industry.