



CKI's Road to Success

As the Group embarks upon its tenth year since listing, the time is ripe to reflect on our achievements to date. CKI has earned a reputation for quality infrastructure projects, good financial returns and a strong balance sheet. Through hard work and shrewd investments, we have become one of the leading players on the global infrastructure stage, and I am pleased to share CKI's story with you.

The Birth of CKI as a Listed Entity

CKI was listed on the Main Board of The Stock Exchange of Hong Kong in 1996 as a spin-off vehicle for the Cheung Kong Group's infrastructure businesses. Named "Deal of the Year" by *Institutional Investor* magazine, the Group's IPO was more than 20 times over-subscribed and widely distributed internationally. At this point, our portfolio was mainly focused on Hong Kong and Mainland China. Our businesses included toll roads, toll bridges and power plants on the Mainland, and infrastructure-related businesses in cement, concrete, asphalt and aggregates in Hong Kong and Mainland China. As at 31st December, 1996, the Group's market capitalization was HK\$28 billion and ranked the 19th largest company listed on the Hong Kong Stock Exchange. Within a year of listing, CKI was named a constituent stock of the Hang Seng Index – an impressive feat for such a young company.

Cheung Kong Group Reorganization Strengthens CKI

In 1997, the Cheung Kong Group underwent a major reorganization to consolidate the different business areas of its listed entities. As a result, CKI acquired a controlling shareholding in Hongkong Electric Holdings Limited, the sole electricity generator and distributor to Hong Kong Island and Lamma Island. At the same time, CKI also became a subsidiary of Hutchison Whampoa Limited. The reorganization was crucial in making the Group a stronger infrastructure company. The acquisition of Hongkong Electric substantially increased CKI's recurring income and capital base, thereby fortifying our financing capacity for capturing future growth opportunities. Hongkong Electric has been the Group's largest profit contributor ever since.

Embarking on a Strategy of Diversification and Globalization

Infrastructure opportunities around the world were plentiful in the late '90s. Privatization was one of the key industry watchwords. At the same time, a large number of companies had decided to return to their core business and divest their non-core interests. As a result, there were numerous opportunities for infrastructure investment in solid markets such as Australia and the UK. The Group grasped these possibilities and adapted its business strategy to suit the changing global infrastructure market. A strategy of diversification and globalization to drive future growth was embarked upon.

The First Foray Into Australia

The Group expanded into the Australian market for the first time in 1999 with the acquisition of a 19.97% stake in Envestra Limited, the largest listed natural gas distributor in the country. With a distribution network spanning over 18,700 kilometres and serving approximately 960,000 customers, Envestra is a prime asset. It continues to represent a stable, high yield investment that generates double-digit cash returns to the Group.

Expansion of Australian Energy Portfolio

Since the acquisition of Envestra, CKI has found the infrastructure market in Australia to be a very sound landscape for investment. The government policy of privatization has presented numerous investment opportunities for the Group. With a stable regulatory environment, strong rule of law, and booming economic growth, Australia has been a very fruitful market for us. From 2000 onwards, CKI quickly built up an impressive portfolio of energy assets in Australia with a series of joint 50/50 acquisitions together with Hongkong Electric: CitiPower I Pty Ltd., which distributes electricity to the central business district and inner suburban areas of Melbourne; Powercor Australia Limited, the largest electricity distributor in the state of Victoria that serves



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approximately 65% of the state with approximately 643,000 customers; and ETSA Utilities, the sole electricity distributor in the state of South Australia with a customer base of approximately 768,000. These investments have been profoundly successful, generating robust double-digit cash returns to the Group. They also significantly altered the Group's profit contribution by business segment and geographic region.

CKI Sparks

The success of our Australian investments culminated in the listing of Spark Infrastructure on the Australian Stock Exchange at the end of 2005. The listing represented an unprecedented corporate finance initiative for CKI. It also marked the first time that the Group has extended its operations to managing an infrastructure fund. As part of the transaction, CKI sold a stake in CitiPower, Powercor and ETSA Utilities to Spark Infrastructure, thereby realizing the value of our assets in the market. On completion of the entire deal that includes acquisition of part of Hongkong Electric's interests in the assets, CKI, together with Hongkong Electric, retains a 51% majority shareholding in CitiPower, Powercor and ETSA Utilities; and CKI itself holds a 9.9% stake in Spark Infrastructure, as well as booked a one-off gain of HK\$3.7 billion.

Transportation a Growth Driver in Australia

In addition to energy, the Group has also embarked on transportation projects in Australia. The Cross City Tunnel in Sydney, which heralds CKI's first transportation project outside China, commenced operation in August 2005. Over the course of the next 30 years, the Group expects to reap steadily growing cash returns from this investment. The Group also holds a 40% equity stake in the Lane Cove Tunnel, which is poised to complete Sydney's new ring road system. The Tunnel, now under construction, is on schedule to be completed.

Diversification Into the UK Market

The Group further extended its global footprint in 2004 by diversifying into the United Kingdom's gas sector. CKI won the tender for Northern Gas Networks Limited, one of the eight major distribution networks in the United Kingdom that serves a total population of 6.7 million. The project was worth around GBP1.4 billion (approximately HK\$20 billion). Completion of the acquisition took place in 2005 and double-digit returns on equity and cash yields are expected to be booked from this premium asset.

Water – A New Business Area

Also in 2004, CKI diversified into the global water industry through acquisitions in Australia and the United Kingdom. A 49% stake was acquired in AquaTower, the exclusive potable water supplier of four regional towns in Victoria. The Group made its first foray into water assets in the United Kingdom with the 100% acquisition of Cambridge Water, a pedigree water distributor that supplies a population of approximately 300,000.

CKI Comes of Age

In our relatively short history, the Group has truly come of age as a global player in the infrastructure arena. We have grown from a Greater China-focused company into an international infrastructure enterprise with diverse businesses across the world. Our market capitalization stood at HK\$55,003 million as at 31st December, 2005 as compared to HK\$28,044 million as at 31st December, 1996, and the size of our assets amounts to HK\$44,555 million versus HK\$11,359 million ten years ago. To adapt to changing market conditions, we have matured in a pragmatic and responsive way. Our prudent investment philosophy and strict acquisition criteria have ensured the success of all of our major projects. All performance indicators show the leaps and bounds made by the Group over the last ten years.

A Bright Future for CKI

We now look forward to the next ten years with relish and optimism. With our strong financials, renowned deal-making reputation and the tremendous expertise of our management team, continued business expansion and diversification are expected. In the capital-intensive infrastructure industry, we are one of the few companies in the world with the capabilities and keen interest. We will keep a close eye on developments in the Asian, North American, Australian and European infrastructure markets and will aim to continue the strong growth momentum we achieved over the past ten years.

H L Kam

Group Managing Director

Hong Kong, 16th March, 2006