# BUSINESS REVIEW

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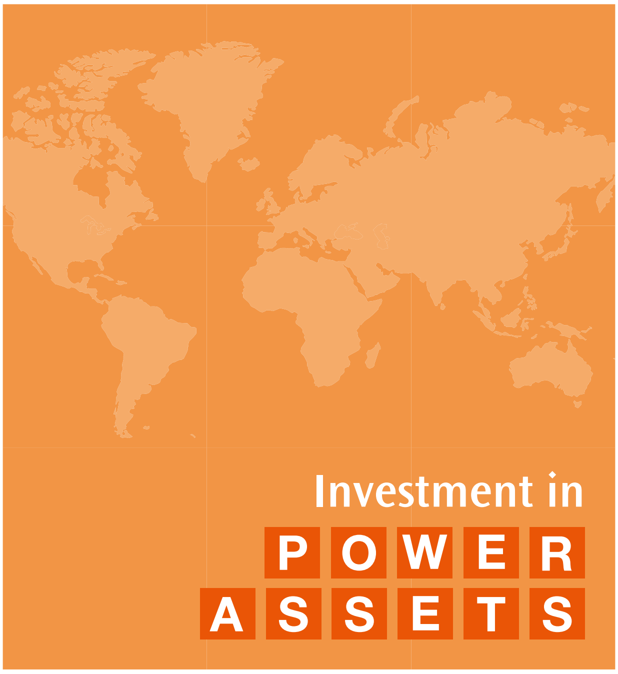


## CKI is the major shareholder of Power Assets, with a 38.87% stake in the company. 2011 was a milestone year for Power Assets during which earnings from international businesses surpassed those from Hong Kong for the first time.

In 2011, Power Assets achieved an outstanding performance, powered by the growth of its global investment portfolio.

For the year ended 31st December, 2011, Power Assets' profit was HK$9,075 million, an increase of 26% over the previous year. This significant rise can be attributed to the substantial earnings growth from operations outside of Hong Kong, which increased by 80% to HK$4,563 million. Earnings from the company's Hong Kong operations, on the other hand, were HK$4,512 million, a marginal 3% decline over the previous year.

### OPERATIONS OUTSIDE HONG KONG

Power Assets currently has investments in the United Kingdom, Australia, New Zealand, Canada, Mainland China and Thailand. These businesses all performed well in 2011.

The acquisition of a 40% interest in UK Power Networks in 2010 has significantly enhanced Power Assets' international portfolio, generating a strong income stream in 2011. The financial performance of UK Power Networks, which supplies electricity to over eight million customers in London and the East and South East of England, has been exceptional. Operational performance also recorded very good progress.

Also acquired in 2010, a 25% interest in Seabank Power provided a revenue stream to Power Assets that was above budget during the year under review. A major scheduled overhaul and lifetime extension of its two gas-fired combined-cycle gas turbine generation units was completed without any lost time or environmental incidents.

Northern Gas Networks achieved a good performance in 2011. Demand was high as a result of the cold winter weather.

The investment in UK Power Networks has significantly enhanced Power Assets' international portfolio.

Power Assets' Australian businesses performed well during the year. ETSA Utilities, the sole electricity distributor for the state of South Australia, met all key financial targets in 2011. Regulated revenues exceeded targets due to higher network tariffs resulting from the 2010-2015 regulatory reset and appeal outcome. CitiPower and Powercor in the State of Victoria made stable contribution to Power Assets' earnings during the year, and significant improvement was attained in network reliability.

Wellington Electricity in New Zealand maintained a good network performance in 2011 and generated stable operational results.

In Canada, Stanley Power completed the acquisition of the interests in the 220 MW Meridian Cogeneration gas-fired plant in Saskatchewan which it did not previously own in April 2011. This has provided an immediate income stream to Power Assets. Stanley Power also has a 49.99% interest in TransAlta Cogeneration, L.P., which holds stakes in five power generation plants in Canada. They all performed well in 2011.

In Mainland China, good performance was achieved by the 1,400 MW Zhuhai Plant and the 1,200 MW Jinwan Plant. Total power sales from the Zhuhai and Jinwan Plants were 11% and 7% higher respectively as compared with the previous year. The Dali Wind Farm in Yunnan Province and Laoting Wind Farm in Hebei Province operated smoothly during the year, with total unit sales amounting to 202 GWh of electricity, offsetting 194,000 tonnes of carbon emissions.

In Thailand, the Ratchaburi Power Company Limited recorded a successful year in 2011.

Good performance was achieved by Zhuhai Power Plant and Jinwan Power Plant.

A world-class supply reliability rating of over 99.999% was maintained by HK Electric.

## HONG KONG OPERATIONS

In Hong Kong, Power Assets through its subsidiary, The Hongkong Electric Company, Limited ("HK Electric"), generates, transmits and distributes electricity to more than 560,000 customers on Hong Kong Island and Lamma Island.

In 2011, the financial performance of HK Electric reported a slight decline.

As global commodity prices continue to fluctuate, fuel costs continued to apply pressure on electricity tariffs. Both coal and liquefied natural gas prices were at higher levels in 2011 and this trend is expected to continue into 2012.

A world-class supply reliability rating of over 99.999% was achieved, a record maintained since 1997. During the year, HK Electric expanded its transmission and distribution network and undertook various initiatives to enhance reliability.

Progress was made on the environmental protection front:

- Investments were made to install facilities at the Lamma Power Station to lower emissions and to increase the use of renewable energy and cleaner fuels;
- Total coal consumption was lowered by 19% as compared to 2008; while gas consumption doubled over the same period, contributing to 33% of total electricity supply in 2011;
- As compared with 2008, emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates in 2011 had decreased by 84%, 39% and 64% respectively in 2011;
- The wind turbine, Lamma Winds, generated 868 MWh of electricity in 2011; since commissioning in 2006, it has offset more than 4,400 tonnes of carbon dioxide emissions;
- In its first full year of operation, the 550 kW thin-film photovoltaic ("TFPV") solar power system installed on the building roofs of Lamma Power Station has generated 691 MWh of green electricity. Plans are in place to install further 450 kW TFPV panels to expand the solar power system; and
- A wind measurement programme for the proposed 100 MW offshore wind farm project has begun operation in the Southwest Lamma Channel.

Lamma Winds generated 868 MWh of electricity in 2011.


## In the United Kingdom, CKI has an extensive infrastructure network that connects people and businesses to electricity, gas and water. In 2011, the Group added Northumbrian Water to its existing portfolio, which also comprises UK Power Networks, Northern Gas Networks, Seabank Power and Southern Water.

### UK POWER NETWORKS HOLDINGS LIMITED

CKI holds a 40% stake in UK Power Networks.

UK Power Networks owns, operates and manages three of the 14 regulated electricity distribution networks in the United Kingdom. Its licensed distribution networks are in London, the South East and the East of England. UK Power Networks is one of the largest electricity distribution network owners in the United Kingdom, covering a service area of approximately 30,000 square kilometres. UK Power Networks' customer base totals over eight million. It distributes approximately 30% of the total power demand in the United Kingdom.

In addition to its regulated networks, UK Power Networks operates a number of private networks for clients, including the London Underground, the British Airports Authority and the Ministry of Defence. It is also constructing and operating the distribution network for the London 2012 Olympic Park.

In 2011, UK Power Networks achieved a strong financial performance, with a growth in total revenue resulting from the profile of annual revenues arising from the last distribution price control settlement which came into effect from 1st April, 2010. Profit after tax recorded an increase due to higher profits from operating activities coupled with the impact of lower corporation tax rates introduced during the year. The business has continued with its planned programme of investments in its networks, investing over GBP550 million in 2011. Cost reduction initiatives were also implemented to reduce the cost of back office and support functions.

Significant progress was made during the year to improve network performance and to minimize the impact of power interruptions. Customer Interruptions were reduced by around 30% and Customer Minutes Lost was reduced by around 40%. In addition, the number of customers off supply during the year for more than 18 hours was reduced by 90% and the number of customers off supply during the year for more than 8 hours was reduced by 60%.

Good progress was also made in terms of safety performance with the number of Lost Time Injuries decreased by 40% from the previous year. Customer service improvements have also been made.

Work on preparing the electricity distribution infrastructure for the Olympic Park and other Olympic venues for the July 2012 Olympic Games in London has progressed ahead of schedule and is close to completion.

In recognition of its significantly improved operating performance, UK Power Networks was shortlisted in the "Utility of the Year" category for the annual awards run by Utility Week magazine.

## SEABANK POWER LIMITED

CKI holds a 25% stake in Seabank Power, while Power Assets also holds a further 25% interest. The business owns and operates a 1,140 MW combined cycle gas turbine power plant near Bristol in the United Kingdom.

Seabank Power provided its first full year of profit contribution to CKI in 2011.

In 2011, Seabank Power provided its first full year of profit contribution to the Group. With a long-term offtake contract in place, Seabank Power provides CKI with steady cash returns.

The Seabank power plant underwent two major scheduled outages without any lost time incidents, significant injuries or environmental occurrences. Lifetime-extension maintenance work for Module I was completed resulting in an approximate life extension of a further 100,000 operating hours.

In December 2011, Seabank Power established an agreement with Scottish and Southern Energy – a 50% shareholder of the business – to have an option to jointly develop a new power plant adjacent to the existing one.

## NORTHERN GAS NETWORKS LIMITED

CKI, together with Power Assets, hold an 88.4% stake in Northern Gas Networks.

Operating, maintaining, repairing and developing the North of England Gas Distribution Network in the United Kingdom, Northern Gas Networks represents one of the eight distribution networks in the country. The business serves a population of 6.7 million people. Its gas distribution pipelines span 37,000 kilometres.

Despite difficult operational conditions stemming from adverse winter weather in the United Kingdom at the start of 2011, Northern Gas Networks delivered strong revenue and profit contribution, both in excess of budget plans. It continued to generate significant and predictable returns to CKI.

During the year, Northern Gas Networks has achieved productivity improvements and identified cost reduction areas to ensure that it remains benchmarked as one of the most efficient gas distributors in the United Kingdom. Northern Gas Networks has been named the best performing network again by Ofgem, the national regulator, in its benchmarking analysis for the 2010/11 Regulatory Year. This is the sixth consecutive year Northern Gas Networks receives this accolade.

In terms of safety, significant improvements have been made in key safety targets, namely lost time injuries to employees and contractors, as well as injuries to members of the public as a result of streetwork activities.

A strong performance was achieved in relation to customer service, with a 24% year-on-year reduction in customer complaints.

Northern Gas Networks is the only gas distribution business in the United Kingdom to hold both the ISO 14001 Environment Accreditation for the whole business and the Occupational Health & Safety OHSAS 18001 Accreditation.

Looking ahead, the main focus for Northern Gas Networks in 2012 will be the negotiation of the next eight-year regulatory reset, which will commence on 1st April, 2013. Northern Gas Networks is confident of a good outcome from the discussion.

## NORTHUMBRIAN WATER GROUP LIMITED

CKI holds a 40% stake in Northumbrian Water, following the acquisition of this asset in October 2011. Since completion, the investment has already generated 2.5 months of immediate profit contribution to the Group.

Northumbrian Water represents one of the ten regulated water and sewerage companies in England and Wales. It supplies 1,250 mega-litres of fresh, clean drinking water to 4.5 million people in the North East and South East of England every day, as well as returning wastewater from 2.7 million people in the North East safely to the environment. Northumbrian Water has a water network of 25,624 kilometres and a sewerage network of 29,681 kilometres.

Over 93% of Northumbrian Water's income is derived from regulated revenue. It is currently halfway through a five-year regulatory period.

Northumbrian Water also operates Kielder Reservoir, the largest man-made reservoir in northern Europe, and controls a number of special purpose companies which have water and wastewater contracts in Scotland, Ireland and Gibraltar.

High levels of customer satisfaction have been achieved by Northumbrian Water. It has received the Queen's Award for Industry in the category of Sustainable Development.

Mr. H L Kam, Group Managing Director of CKI (centre) was given a tour of Northumbrian Water's facilities on the day the acquisition was completed.

## CAMBRIDGE WATER PLC

In 2011, CKI disposed of its 100% shareholding in Cambridge Water. The asset was sold for an enterprise value of GBP74.8 million (approximately HK$960 million) to comply with relevant merger rules in the United Kingdom for the acquisition of Northumbrian Water.

Until the business was disposed of in August, Cambridge Water provided CKI with stable cashflow in the first seven months in 2011.

## SOUTHERN WATER

CKI has a 4.75% strategic stake in Southern Water, a regulated business which supplies fresh, quality drinking water to about one million households, as well as treats and recycles wastewater from nearly two million households across Sussex, Kent, Hampshire and the Isle of Wight.

# Infrastructure Investment in AUSTRALIA

**In Australia, CKI has an extensive portfolio of electricity distribution assets that connects customers in the states of South Australia and Victoria. Together with Power Assets, the Group holds a majority stake in ETSA Utilities, CitiPower and Powercor. In addition, CKI also holds interests in Spark Infrastructure, Envestra and AquaTower.**

## ETSA UTILITIES

CKI, together with Power Assets, holds a 51% interest in ETSA Utilities, the primary electricity distributor for the state of South Australia.

ETSA Utilities manages a regulated electricity distribution network that serves more than 825,000 residential and business customers. The network has a route length of more than 87,500 kilometres, and includes more than 400 zone substations, 72,000 transformers and 723,000 poles.

In 2011, ETSA Utilities continued to meet all key financial targets. Higher network tariffs were levied as a result of the 2010-2015 regulatory reset and appeal outcome of the final determination of the Australian Energy Regulator. The non-regulated business of ETSA Utilities also grew in 2011. With long-term contracts secured during the year, future prospects of this business are positive.

ETSA Utilities has remained focused on maintaining reliability and improving customer service performance during the year. To enhance customer service, a new suite of customer self-service applications have been developed by ETSA Utilities, including Power@MyPlace™, a free SMS service that advises registered customers of interruptions to their electricity supply, as well as provides estimated restoration times. ETSA Utilities was recently conferred the South Australian Large Business of the Year Award as well as several other awards for customer service excellence at the 2011 Customer Service Institute Awards.

ETSA Utilities continued to meet all key financial targets.

As an industry leader in safety, ETSA Utilities' Safety Management System was certified in early 2011 to comply with Australian Standard AS 4801 and the International Standards OHSAS 18001.

## CHEDHA HOLDINGS PTY LTD.

Together with Power Assets, CKI has a 51% shareholding in CHEDHA Holdings, the holding company of CitiPower and Powercor.

CitiPower supplies electricity to more than 310,000 customers in Melbourne's CBD and inner suburbs. It operates one of the most reliable urban and rural electricity networks in Australia.

Powercor is Victoria's largest electricity distributor, supplying electricity to regional and rural centres in central and western Victoria, and Melbourne's outer western suburbs. It services approximately 720,000 customers. Additionally, Powercor also operates a successful non-regulated business.

A capital works programme, almost 20% larger than that of 2010, was successfully completed during the year. The 2011 Advancing Metering Infrastructure programme milestones were all successfully passed. More than 500,000 smart meters out of 1.1 million have been installed by CHEDHA. Two major infrastructure upgrades – the Metro Project and the CBD Security of Supply Project – progressed well in Melbourne's CBD. Upon completion, they would enhance electricity supply capacity and security.

An electricity reliability benchmarking report released in 2011 by the Energy Supply Association of Australia showed the CitiPower and Powercor networks to have performed strongly against its 16 peer distribution businesses across Australia. The report found that CitiPower customers experienced the lowest average number of minutes off supply annually.

In terms of customer service, both CitiPower and Powercor performed well. The 2011 Community Reputation Index, which benchmarked the businesses against other Victorian and South Australian electricity distributors, revealed that CitiPower's community reputation index scored rose by 7% in 2011. Meanwhile, Powercor enjoyed its eleventh successive years as most reputable electricity distributor, with a year-on-year rise in the index score of 2%.

Powercor is Victoria's largest electricity distributor.

CitiPower and Powercor were again successful in winning national and state awards at the 2011 Australian Service Excellence Awards conducted by the Customer Service Institute of Australia.

## SPARK INFRASTRUCTURE GROUP

CKI holds an 8.5% stake in Spark Infrastructure, a leading Australian utility infrastructure group that is listed on the Australian Securities Exchange. The company is engaged in investing in relatively low risk regulated utility infrastructure assets with stable cash flows.

During the year, CKI has received a one-off gain of HK$145 million generated by the disposal of the Group's interest in the Manager of Spark Infrastructure.

In 2011, Spark Infrastructure continued to generate stable operational cash distributions to CKI.

## ENVESTRA LIMITED

CKI has a strategic interest of approximately 19% in Envestra, one of Australia's largest natural gas distribution companies.

Envestra serves over 1.1 million consumers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

AquaTower provided CKI with stable returns.

Good returns were delivered to the Group by Envestra in 2011.

## AQUATOWER PTY LTD

CKI holds a 49% interest in AquaTower, the exclusive supplier of potable water to four regional towns in Victoria. It serves about 25,000 people.

With a steady performance in 2011, AquaTower provided CKI with stable returns.

Spark Infrastructure continued to generate stable operational cash distributions to CKI.

# Infrastructure Investment in NEW ZEALAND

## With a 50% stake in Wellington Electricity, CKI distributes electricity to about 164,000 homes and businesses in New Zealand's capital city and surrounding area.

### WELLINGTON ELECTRICITY LINES LIMITED

Wellington Electricity is jointly owned by CKI and Power Assets, each with a 50% shareholding.

Wellington Electricity's core business is electricity distribution, delivering power to about 164,000 homes and businesses in the Wellington, Porirua and Hutt Valley regions of New Zealand. It has a largely underground network spanning some 4,600 kilometres.

In 2011, Wellington Electricity delivered a stable operating performance. Turnover increased 3% in 2011. Consistent contributions were provided to CKI with the meeting of financial targets as the business continues to grow its systems and procedures.

However, profit contribution to CKI decreased by 24% to HK$73 million due to taxation and refinancing matters. The 2010 results benefitted from a deferred tax credit which did not recur in 2011; in addition, the project loan guaranteed by the shareholders which was obtained at a lower interest rate at the time of acquisition was refinanced during the year by a non-recourse facility at a higher interest rate, adversely affecting the contribution to the Group.

In regard to operation safety, reliability and customer service, goals were all attained. Good performance was achieved.


Wellington Electricity delivered a stable operating performance.

# Infrastructure Investment in CANADA

## CKI provides electricity to customers in Canada through its investment in Stanley Power, which holds stakes in several electricity generating plants throughout the country.

### STANLEY POWER INC.

CKI and Power Assets jointly own Stanley Power; they each hold a 50% stake. Stanley Power's portfolio is made up of six electricity generating plants in Canada with a total installed capacity of 1,362 MW.

Stanley Power owns a 49.99% interest in TransAlta Cogeneration, L.P., which has ownership stakes in five power plants, comprising four natural gas-fired cogeneration plants in Alberta and Ontario, and a coal-fired generation plant in Alberta.

The acquisition of the Meridian Cogeneration Plant has enhanced the Group's portfolio and revenue stream in Canada.

In April 2011, Stanley Power completed the acquisition of an additional shareholding in the 220 MW Meridian Cogeneration Plant, a gas-fired plant in Saskatchewan. The consideration for CKI's additional interest was approximately HK$359 million (CAD45.7 million) and Stanley Power now has a 100% interest in the asset. The Meridian Cogeneration Plant has a long-term power purchase agreement and a steam supply contract in place through till 2025. The acquisition has enhanced the Group's portfolio and revenue stream in Canada.

Stanley Power delivered a satisfactory performance and continued to provide CKI with reliable and secure returns in 2011.

Stanley Power continued to provide CKI with reliable and secure returns.

Stanley Power's portfolio is made up of six electricity generating plants in Canada with a total installed capacity of 1,362 MW.


## CKI connects customers to destinations in various provinces in Mainland China through a toll road portfolio that spans about 400 kilometres.

### SHANTOU BAY BRIDGE

CKI has a 30% stake in the Shantou Bay Bridge. An increase of 9.8% in toll revenue was recorded in 2011. This is comparable to previous year's growth. Profitability rose by 5.5%. This can be attributed to increased revenue.

### SHEN-SHAN HIGHWAY (EASTERN SECTION)

Good performance was achieved by Shen-Shan Highway, of which CKI has a 33.5% interest. Due to a 6% growth in toll revenue and a 34% reduction in finance expenses, overall earnings increased 18% in the year.

### TANGSHAN TANGLE ROAD

The Group has a 51% interest in Tangshan Tangle Road. As a result of the robust economic growth of the Tangshan area, this project achieved a strong performance in 2011 with a 42% increase in toll revenue. Net profit distributable to shareholders rose 40% accordingly.

Shantou Bay Bridge recorded a 9.8% increase in toll revenue.


Tangshan Road achieved a strong performance in 2011 with a 42% increase in toll revenue.

## CHANGSHA WUJIALING AND WUYILU BRIDGES

CKI has a 44.2% stake in the Changsha Wujialing and Wuyilu Bridges. Growth of 5.5% was recorded in net profit for the year.


CKI's toll road and bridge investments in Mainland China achieved satisfactory performance.

## OTHER TOLL ROADS AND BRIDGES

CKI's other toll road and bridge investments in Mainland China, comprising Jiangmen Chaolian Bridge, Jiangmen Jiangsha Highway, National Highway 107 (Zhumadian Sections) and Panyu Beidou Bridge, all achieved satisfactory performances in 2011. Steady cash returns were generated for the Group.

# Investment in INFRA-STRUCTURE RELATED BUSINESS

## CKI is one of the leading infrastructure materials suppliers in Hong Kong, with businesses in cement, concrete and aggregates. Development of the new cement production facility in Yunfu and the new quarry in Huidong are expected to be completed in 2012.

An overall satisfactory performance was recorded for CKI's materials businesses in 2011, with profit contribution increased by 10% as compared with the previous year. Growth was fuelled by continued building and infrastructure construction activities in the region, such as the Guangzhou-Shenzhen-Hong Kong Express Rail Link project.

### CEMENT

The Group's cement operations are carried out by Green Island Cement. It continues to be an environmentally friendly manufacturer of cement products for the Hong Kong market. Price and volume of cement continued to improve as the construction scene remained active in Hong Kong. However, the profitability of this business was partly eroded by higher coal costs.

In Mainland China, a satisfactory result was recorded by the Yunfu cement plant. The development of a new flagship cement production facility in Yunfu, with an annual production capacity of 1.5 million tonnes, is expected to be completed and production commenced by the end of 2012.

## CONCRETE AND AGGREGATES

CKI carries out its concrete and aggregates businesses through Alliance Construction Materials Limited, a 50/50 joint venture between the Group and HeidelbergCement AG. This business has maintained a leading position in Hong Kong's market.

An overall satisfactory performance was recorded for CKI's materials business.


Alliance recorded an increase in selling prices and volume of its concrete and aggregates business.

The business benefited from increased construction activity with the commencement of 10 major infrastructure projects by the Government. During the year, both selling prices and volume of concrete and aggregates increased as compared to last year. As the infrastructure projects continue to progress, sales volume is expected to grow further in 2012.

Through a separate joint venture, Alliance is also developing a new quarry in Huidong, Guangdong. The project is expected to start full production by the first half of 2012.