



Li Tzar Kuoi, Victor (Chairman)

## TO OUR SHAREHOLDERS

**We are pleased to report that Cheung Kong Infrastructure Holdings Limited (“CKI”) continued to grow steadily in year 2000. Net profit for the year ended 31st December, 2000 was HK\$3,228 million, an increase of 3 per cent. from the previous year. Earnings per share were HK\$1.43.**

The Board of Directors is recommending a final dividend of HK\$0.40 per share. Together with the interim dividend of HK\$0.20 per share, this will bring the total dividend for the year to HK\$0.60 per share, a 43 per cent. increase from the HK\$0.42 per share paid in respect of 1999. The proposed dividend will be paid on 15th May, 2001 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members on 10th May, 2001.

The year 2000 witnessed the bursting of the New Economy bubble and signs of a slowdown in the US and global economies. CKI’s prudent financial management has enabled us to weather the

## Globalisation and Diversification on Solid Foundations

situation and maintain a steady growth during the year. Our strategy of "Globalisation and Diversification on Solid Foundations" has played an important role in helping us build on our existing businesses :

### 1. Overall Performance

The Group's full-year net profit continued to record steady growth during the year, rising 3 per cent. The respective growth of profit contribution of the three core businesses was as follows:

Infrastructure Materials and Infrastructure-related Businesses	- 44%
Energy	+ 52%
Transportation	+ 9%

### 2. Infrastructure Materials and Infrastructure-related Businesses

The Group's infrastructure materials business continued to record a profit, notwithstanding a larger than expected drop of 44 per cent. in profit contribution. This impact, resulting from the slowdown of infrastructure materials business, has been mitigated through the development and growth of our other infrastructure-related businesses:

- The decline of our infrastructure materials business during the year under review was the result of a general business downturn in the construction industry led by reductions in government-subsidised housing and slowdown in the construction of infrastructure projects. The impact posed upon our subsidiaries, Green Island Cement (Holdings) Limited and Anderson Asia (Holdings) Limited, who are market leaders in the local materials industry, were therefore unavoidably great.
- In response to cyclical movements in the local infrastructure materials industry, challenging market conditions and further price erosion in the materials industry, the Group continued to launch plans to improve its business operations locally while exploring new opportunities overseas. The Group acquired a 63.7 per cent. stake in Polyphalt Inc., a Canadian-listed company engaged in the development and commercialisation of polymer modified asphalt products in March 2000. This acquisition has extended CKI Materials businesses from Hong Kong, the Mainland and the Philippines to Canada in North America.

## Chairman's Letter (cont'd)

- Besides geographical expansion, the Group also made remarkable strides in venturing into new industries. The belief that commercial interests and environmental concerns can produce a win/win formula is the primary impetus behind CKI's drive into the environmental protection industry. Our investments in environmentally friendly fuel projects in the Mainland and Canada are good examples. CKI entered into the LPG business in Shenyang in early 2000, a move which complemented the Mainland Chinese Government's active promotion for the use of environmentally friendly fuel.

In August last year, CKI acquired a 12.9 per cent. stake in and formed a joint venture with Canadian-listed Stuart Energy Systems Corporation ("Stuart"), a global leader in the development and provision of fuel-grade hydrogen generation systems. A CKI subsidiary was also granted the exclusive rights in the Asia Pacific Region for the marketing of Stuart's hydrogen fuel technology.

- Electronic infrastructure is another new investment area of CKI. Earlier last year, CKI and German-listed Israeli-based On Track Innovations Limited formed a joint venture to develop the patented "EYECON" microprocessor-based contactless smart card business in Hong Kong and the Asia Pacific Region.

### 3. Energy

The energy division remained the largest profit contributor accounting for 78 per cent. of the Group's profit contribution. This represents a rise of 52 per cent. as compared to 1999. This strong growth is a prime example of the success of our strategy of "Globalisation and Diversification on Solid Foundations".

- Hongkong Electric Holdings Limited ("Hongkong Electric"), a listed company in Hong Kong, continued to provide steady earnings and cash income for the Group. Its profit increased by

4.7 per cent. in 2000. During the year under review, CKI increased its holding in Hongkong Electric from 37.63 per cent. to 38.87 per cent.

- Power investments in Mainland China continued to be another source of steady earnings for the Group. The Zhuhai power station, a RMB1.4 billion investment, commenced operation in 2000 and has begun to make profit contributions.
- In addition to our investments in Hong Kong and the Mainland, another major factor for the strong growth in the energy division is the profit contribution from our three major investments in Australia. The investment in Envestra Limited in mid-1999, our first venture beyond Asia, made CKI the single largest shareholder of the largest listed natural gas distribution company in Australia. In 2000, CKI together with Hongkong Electric, acquired two Australian power operators – ETSA Utilities which has the right to operate electricity distribution in the state of South Australia for a period of 200 years; and Powercor Australia Limited, an electricity distributor and retail operator in the state of Victoria. The two investments, which amount to a total of A\$5.6 billion (approximately HK\$24 billion), made CKI and Hongkong Electric the largest electricity distributor in Australia, serving over 1.3 million customers. Since all three Australian projects stated above were in operations when CKI made the investments, they immediately provided steady income for the Group upon acquisitions, and became new sources of profit contribution.

### 4. Transportation

A number of projects in CKI Transportation have reached harvesting stage and are providing long-term recurrent income for the Group. Year 2000 was another year of satisfactory growth for the division, with profit contribution rising 9 per cent. compared to 1999.

The Guangzhou East-South-West Ring Road, a RMB2 billion investment of the Group, commenced operation in the middle of 2000, one year ahead of schedule. As an important part of Guangdong province's transportation network, the Ring Road has become a solid income generator for CKI Transportation since its opening. The 3.25 km Beidou Bridge in Panyu was also completed on schedule at the end of 2000.

## **5. Financial Management**

As a leading global infrastructure company, CKI has investments outside Hong Kong totalling HK\$23 billion as at the end of 2000 of which investments in the Mainland and in Australia amount to HK\$11 billion and HK\$12 billion respectively. The Group's net debt-to-equity ratio stood at 35 per cent., with cash on hand of over HK\$2 billion and debt of HK\$11 billion. With a solid financial position and strong cash flow, the Group has the financial strengths to ensure continuous steady growth and the capability to aggressively pursue high quality capital-intensive infrastructure projects.

Over the past year, the Group has followed its principle of prudent financial management. Appropriate financing schemes were also implemented to manage currency risks and to maintain proper gearing to generate better shareholder returns. In April 2000, the Group successfully arranged an A\$2.05 billion debt financing programme for ETSA Utilities in capital markets.

## **Outlook**

In recent years, the continuing slowdown of the infrastructure materials market has caused an impact on the Group. We are pleased to say that our strong analytical abilities, steadfast enterprising spirit and flexible approach have helped CKI weather this rough transitional period. We will draw on the experience gained during this period and continue to implement our strategy of "Globalisation and Diversification on Solid Foundations" to drive the Group's future growth.

Looking ahead, China's impending WTO entry, the prospect of lower interest rates worldwide and other favourable factors should stimulate flagging economies and present plentiful business opportunities for the Group, enabling us to further pursue our ongoing initiatives of globalisation and diversification.

For CKI, our geographical expansion plan will continue. Investments beyond Hong Kong and the Mainland will grow as they already have in the case of the Group's investments in Australia. The Group first started investments in Australia in 1999 and by now, Australian investments already account for more than 50 per cent. of the Group's total investments outside of Hong Kong. Going forward, CKI will be keeping a close eye on opportunities in the Asian, North American and European infrastructure markets. With our strong financial position, we will seize upon every opportunity to consolidate our position as a leading multi-national infrastructure company.

Following our past success formula of geographical expansion from Hong Kong and the Mainland to Australia, and industry diversification from power generation to power distribution, CKI will continue to grow based on our existing businesses. The Infrastructure Materials division will be repositioned to become an integral part of the larger "Infrastructure Materials and Infrastructure-related Businesses" division, which includes our ventures in the electronic infrastructure and environmental industries initiated last year. We will continue to explore new business grounds and target to attain new heights.

I would like to thank the Board of Directors and our staff for their hard work and dedication. I would also like to thank our shareholders for their continued support of our vision.

## **LI TZAR KUOI, VICTOR**

Chairman

Hong Kong, 15th March, 2001