



**H.L. Kam** (Group Managing Director)

**Cheung Kong Infrastructure Holdings Limited (CKI) was listed on the Hong Kong Stock Exchange in 1996. Since then, CKI has become Hong Kong's largest infrastructure company in terms of market capitalisation. The Group has recorded continuous year on year growth over the past five years and instigated significant development in its core businesses. During this time, the Group has also extended its footprint from Mainland China and Hong Kong to Canada and Australia.**

**Much of this development is attributable to CKI's "Globalisation and Diversification" strategy started two years ago. The Group embarked on this effort to expand beyond Mainland China and Hong Kong, and to carry out initiatives to enrich its investment portfolio by incorporating businesses which could create synergies with existing ones.**

# Group Managing Director's Report

## Solid Portfolio Global Infrastructure Sound Financial Strategy Business Diversity

### **Year 2000 Review**

The year 2000 reflected CKI's successful consolidation and evolutionary changes with a number of milestone achievements.

### **Energy: Distinguished Achievements**

With a premium asset like that of Hongkong Electric Holdings Limited (Hongkong Electric), CKI Energy has been the Group's largest profit contributor over the years. Profit contribution growth from this division during the year was 52%. One major reason of this strong growth was the milestone achievement of the Group's acquisitions in Australia following its globalisation strategy.

CKI's energy projects in Mainland China and Hong Kong continued to record satisfactory performance. A substantial increase in profit contribution was achieved in this business segment last year, due to the completion of one of the largest power plants in China - the Zhuhai Power Plant, which had been planned for since 1993. The completion of the plant marked the full operation of all of the Group's power projects in the Mainland.

During the past year, the power industry in China witnessed continued high oil prices along with pressure to reduce power tariffs. In view of the circumstances, CKI started to consolidate its China power portfolio – one such move was the sale of the Nanhai Jiangnan Power Plant at a premium. At the same time, CKI has also launched programmes to strengthen the operations of its other power projects, in anticipation of the growing market demand post China's WTO entry. This reflects CKI's flexible investment philosophy of implementing timely expansion or consolidation decisions as appropriate.

## Group Managing Director's Report (cont'd)

Hongkong Electric continues to be a stable source of revenue stream for CKI. During the year 2000, the Group further increased its stake in Hongkong Electric to 38.87 per cent. A 50:50 partnership was also formed between CKI and Hongkong Electric to acquire ETSA Utilities and Powercor Australia Limited (Powercor) in Australia.

The acquisition of ETSA Utilities, South Australia's sole electricity distributor, and Powercor, Victoria's electricity distributor and retailer, were testaments to the Group's globalisation strategy in action. Together with the earlier investment in Australia's largest natural gas distributor Envestra Limited (Envestra) in 1999, the Group has now invested close to A\$3 billion (approximately HK\$12 billion) in Australia. This made Australia the Group's largest investment market outside Hong Kong within a span of one-and-a-half years.

Envestra's investment marked CKI's first foray into the gas industry; the subsequent acquisition of ETSA Utilities and Powercor marked its diversification from power generation to power distribution. These moves markedly enriched CKI's energy portfolio.

As all three Australian projects had already been operational for many years, they started generating profit contribution for the Group immediately after the transactions were completed.

The Australian investment demonstrates the success of the Group's "Globalisation and Diversification" strategy. Going forward, CKI will continue to apply its experience and expertise in the energy industry to capture further opportunities in the existing markets of Mainland China, Hong Kong and Australia, and also fresh opportunities in North America and Europe.

### **Transportation: A Mature Portfolio**

In 2000, the Group's transportation business continued to perform satisfactorily, recording nine per cent. growth in profit contribution. An important milestone accomplishment during the year was the completion of the Guangzhou East-South-West Ring Road a year ahead of schedule. As the Group's largest transportation investment in the Mainland, the Ring Road has now become an important source of revenue. The Beidou Bridge in Panyu also commenced service during the year. With the completion of these two projects, transportation has now become a mature portfolio of the Group.

CKI's other toll roads and bridges in the Mainland have all reported satisfactory results and have provided steady income for the Group. While new projects were developed, the transportation division also consolidated its business by reducing its interest in the Shenyang road joint ventures.

The transportation division will follow the success formula of the energy division by diversifying its business and expanding geographically. The Group will continue to identify new transportation opportunities in Hong Kong, Mainland China, South Korea, Australia and other territories around the globe.

### **Infrastructure Materials – A New Positioning**

Amongst the three core group businesses, the materials division underwent the most changes.

The reduction in public housing and the slowdown in the construction of infrastructure projects resulted in a 44 per cent. decline in profit contribution of the Group's materials division. Nevertheless, the Group's subsidiaries Green Island Cement (Holdings) Limited (Green Island Cement) and Anderson Asia (Holdings) Limited – market leaders in the industry – managed to continue generating respectable profit by streamlining its operations.

The materials industry is a cyclical business which follows closely the trend of the economy. The Group anticipated the downturn at an early stage and took strategic steps to mitigate the potential adverse impact. While focusing on increasing operational efficiency for the infrastructure materials business, the Group also re-positioned this business division under a broader scope of "Infrastructure Materials and Infrastructure-related Businesses". The portfolio under this business division will be widened to include hi-tech infrastructure materials, environmental projects and electronic infrastructure investments.

In March last year, the Group made an investment in the Canadian-listed polymer modified asphalt developer and distributor Polyphalt Inc. In August 2000, the Group acquired a stake in the world leader in hydrogen fuel technology – Canadian-listed Stuart Energy Systems Corporation (Stuart Energy), and formed a joint venture to distribute its hydrogen products in Asia Pacific on an exclusive basis. The Group also participated in the Liquefied Petroleum Gas (LPG) business in Shenyang, China last year. With the growing concern for environmental protection and increasing demand for related industries, it is expected that there will be great market potential in this arena. The Group is currently conducting negotiations on various projects in this direction.

The Group has also made forays in the electronic infrastructure business. Early last year, CKI and German-listed Israeli-based leader in smart card technology, On Track Innovations Limited (OTI), formed a joint venture to bring OTI's "EYECON" contactless smart card technology to Asia Pacific on an exclusive basis. The Group is currently actively pursuing electronic infrastructure opportunities in biometrics and other smart card related technologies.

### **Looking Ahead**

During the past year, the Group has followed its two key strategic directions closely: "Globalisation" and "Diversification". The strategy for the coming year will remain the same.

#### **Globalisation and Diversification on Solid Foundations**

Geographically, Hong Kong accounted for 65 per cent. of the profit contribution of the Group in 2000. While this proportion has decreased due to its globalisation initiatives, Hong Kong will continue to be an important base for the Group's business in the foreseeable future.

The Group's HK\$10 billion investment in the Mainland is expected to generate steady cash flow. China's impending entry into the WTO and the upcoming developments in western China will provide a plethora of opportunities for the Group in the coming years.

Investments in Australia and Canada marked the starting point of the Group's globalisation initiatives, fully demonstrating the Group's diversity of its investment strategy.

The acquisition of Envestra helped the Group establish a foothold in the Australian market and marked its first foray into the natural gas business. Investment in ETSA Utilities and Powercor broke further ground for the Group's power business. CKI's diversification efforts from electricity to natural gas, and from power generation to electricity distribution, as well as its geographic expansion from Mainland/Hong Kong to Australia, fully illustrate the Group's strategic direction of "Globalisation and Diversification". Within one and a half years, the Group's investment in Australia has surpassed that in the Mainland.

In Canada, the Group obtained a solid headstart in the North American market by becoming major shareholders of Canadian-listed Polyphalt Inc. and Stuart Energy. The strategy is to invest in listed companies and then make plans to develop large-scale projects based on experience generated from the investments.

The successful globalisation initiatives have broadened the Group's horizons. CKI will continue to actively pursue suitable business opportunities in Hong Kong, Mainland China, Australia and Canada, as well as other parts of the world.

### **Consolidation and Growth**

The Group has a well-defined set of strategies for future development. The energy and transportation sectors have matured. It is anticipated that they would continue to grow organically and geographically following the "Globalisation and Diversification" strategy. The infrastructure materials and infrastructure-related businesses sector has just been re-positioned and is well poised to develop further in the environmental industry, electronic infrastructure and other infrastructure related businesses.

The Group's strong financial position is the key to maintaining continued growth. Organic growth of existing projects and the addition of new investments will strengthen the Group's profit base. CKI is well-prepared to meet new challenges and to explore new investment opportunities in anticipation of high returns in the future.

"Knowing when to expand and when to consolidate" is another of the Group's operating philosophy. CKI's growth strategy includes maintaining steady returns from its existing projects as well as consolidating its existing portfolio. There were times in the past when capital was scarce and interest rates were high in the Mainland, which led to the formation of many Sino-foreign joint ventures. Today, capital has become more readily available and interest rates have come down. Many Mainland joint venture partners are offering preferential terms to buy back their operations. The case of Nanhai Jiangnan Power Plant is an example of such a move where CKI sold back its interest to the Chinese partner at a premium.

### **Award-winning Excellence in Management**

Throughout the years, CKI has been widely recognised for its prudent financial management, acute market sense and visionary foresight. In 2000, the Group received high ratings from influential credit-rating agencies along with accolades from various organisations, reaffirming that the Group's management and business philosophies are evolving in the right direction.

### **Acknowledgment**

Derek K.C. Liu, Managing Director of Green Island Cement, has resigned from the Group to pursue a future in the academic field. Mr Liu joined the Company in 1992 and has made valuable contributions to the Group's development during his tenure. After his departure, he will act as the Group's consultant in environmental initiatives and will continue to share his experience and expertise with us. His dedication and loyalty have been highly appreciated. I would like to thank Mr. Liu and wish him all the best.

Lastly, I would like to take this opportunity to express my gratitude to the Board, Management and all the employees at CKI for their concerted efforts in contributing to the Group's success.

### **H.L. KAM**

Group Managing Director

Hong Kong, 15th March, 2001