



Review of Operations

ENERGY

In the energy sector, CKI has a 38.87 per cent. shareholding in Hongkong Electric Holdings Limited. Together with its power portfolio in four provinces in China, CKI Energy has interest in power plants of a total installed capacity of approximately 6,000 MW. The acquisition of ETSA Utilities in the State of South Australia and Powercor Australia Limited in the State of Victoria has made CKI the largest electricity distributor in Australia. CKI is the largest shareholder in Envestra Limited, the largest listed natural gas distributor in Australia, which supplies gas to over 850,000 consumers nationwide.

TRANSPORTATION

With the early completion of the entire 39-km Guangzhou East-South-West Ring Road, and the on-schedule opening of Panyu Beidou Bridge in January 2001, CKI's entire transportation portfolio of over 600 km of toll roads and bridges in five provinces in China are in operation. The Group also holds a 50 per cent stake in Eastern Harbour Crossing Company Limited, the concessionaire holder operating the rail part of the Hong Kong Eastern Harbour Crossing Tunnel.

INFRASTRUCTURE MATERIALS AND INFRASTRUCTURE-RELATED BUSINESSES

Amid a consolidation of the regional infrastructure materials market, Green Island Cement (Holdings) Limited and Anderson Asia (Holdings) Limited continue to maintain leading market positions in the cement and concrete businesses. Following the strategy of globalisation and diversification, CKI invested during the year in the Canadian-listed asphalt technology company Polyphalt Inc.; the Canadian-listed hydrogen fuelling technology company Stuart Energy Systems Corporation and the environmentally friendly LPG business in Shenyang, China. Coupled with the pioneering electronic infrastructure business of OTI's "EYECON" contactless smart card, a new business division under "Infrastructure Materials and Infrastructure-related Businesses" was formed to cover the fast expanding and more diversified initiatives of infrastructure materials, environmental business, electronic infrastructure and other infrastructure-related activities.

Energy

ETSA Utilities and Powercor together have made CKI-Hongkong Electric the largest electricity distributor in Australia, serving over 1.3 million customers in the states of South Australia and Victoria.





Energy

Leapfrog Increase in Profit Contribution

CKI Energy reported a leapfrog increase in profit contribution of 52 per cent. in 2000. The amount generated also accounted for 78 per cent. of the Group's total profit contribution during the year. The strong performance is testament of the Group's strategy of "Globalisation and Diversification on Solid Foundations".

During the year, CKI Energy has established three stable and sizeable revenue streams which include Hongkong Electric, China Power, and Australian Energy. These three strong pillars provide a solid foundation from which CKI Energy builds a broad-based portfolio of reliable cashflow. Further expansion opportunities will be sought from (i) the geographical base of these revenue streams – Hong Kong, the Mainland, and Australia – as well as North America, Europe and other

Hongkong Electric continued to improve its existing facilities with expansion plans calling for a 1,800 MW extension of the Lamma Island power station. In the Mainland, Hongkong Electric acquired a 3 per cent. stake in the Guangdong Liquefied Natural Gas (LNG) project, the first LNG receiving terminal project in the country. It also took up a strategic investment stake in CNOOC Limited, which was recently listed in Hong Kong and New York.



Powercor's network covers seven of Victoria's eight largest provincial centres providing electricity to an area of over 150,000 square km i.e. over half of the state.

Envestra owns about 17,250 kilometres of natural gas distribution networks and 1,110 kilometres of transmission pipelines.



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Hongkong Electric, Hong Kong
Envestra Limited, New South Wales, Australia
ETSA Utilities, South Australia, Australia
Powercor Australia Ltd, Victoria, Australia
Fushun Cogen Power Plants, Liaoning
Nanghai Power Plant I, Guangdong
Qinyang Power Plants, Henan
Shantou Chaoyang Power Plant, Guangdong
Shantou Chenghai Power Plant, Guangdong
Shantou Tuopu Power Plant, Guangdong
Siping Cogen Power Plants, Jilin
Zhuhai Power Plant, Guangdong

parts of Asia; and (ii) the diversification of industry from the business nature of these pillars – electricity generation, electricity distribution, and gas distribution.

Hongkong Electric

Hongkong Electric is a premium asset for CKI. Last year Hongkong Electric brought in stable cash revenue which constituted over half of the Group's energy investment return. In view of Hongkong Electric's secure nature and bright prospects, CKI continued to increase its stake in Hongkong Electric from 37.63 per cent. in 1999 to 38.87 per cent. in 2000 through scrip dividend and accumulation.

China Power

The commencement of the Zhuhai Power Plant operation is an important milestone for CKI's China power portfolio. It marked the completion of all of CKI's power plants in the provinces of Guangdong, Liaoning, Henan and Jilin. The Group's interest in the China power portfolio aggregates to over 2,500 MW.

The Zhuhai Power Plant is the Group's largest power investment in the Mainland. The first unit of the 2x700 MW Zhuhai Power Plant was completed in April 2000. During the peak summer season in 2000, it set an impressive record of over 100 days of continuous and safe operation. Since February 2001, the second unit has also been fully operational. The successful operation of the Zhuhai Power Plant demonstrates the Group's strong capabilities in planning, constructing and managing quality, efficient and reliable power projects in the Mainland.

The China power market presents opportunities as well as challenges in the coming year. With the impending accession of China to the WTO and the increasing demand for electricity in the Mainland, an increasing number of investment opportunities for power plants is foreseen. CKI will closely follow such opportunities and make appropriate investments as they arise.

High oil price environment, tightening power tariff regulatory policy, and the

ETSA Utilities is a secure and premium long-term investment for the Group. Since the company was already in operation upon its privatisation, ETSA Utilities generated immediate and steady profit for the Group upon completion of transaction. An A\$2.05 billion off-balance sheet financing was arranged successfully for the investment, enabling the Group a favourable equity return in the investment. Shortly after the acquisition, ETSA Utilities received a credit rating of A- by Standard & Poor's, and A3 by Moody's, the highest ratings received by a

Victoria. Performance of both operations has exceeded the initial projection of the Group. As both operations are of common ownership, incremental returns could be generated from potential synergistic values between the adjoining networks as well as non-regulated revenues such as telecommunications and field services through existing infrastructure and installation of additional optical fibre.



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gradual establishment of power pool with competitive grid tariffs have put increasing pressure on the execution of some of the offtake contracts and the enforcement of assured-return guarantees. To alleviate the situation, CKI began divestments of certain plants at a premium; one such move was the disposal of the Group's 36.4 per cent. interest in the Nanhai Jiangnan Power Plant to the Chinese partner at a capital gain.

Australian Energy

The privatisation of South Australia's power industry gave CKI an opportunity to establish a foothold in Australia's electricity distribution business. In December 1999, CKI and Hongkong Electric formed a 50:50 joint venture to acquire ETSA Utilities, South Australia's electricity distribution business, under a 200-year lease arrangement.

privately owned Australian electricity distributor. Domestic medium term note issue in an aggregate of A\$1.6 billion, one of the largest non-government financing transactions in Australia, was successfully arranged in the domestic capital markets and won several major awards in the Australian financial sector.

In August 2000, the CKI and Hongkong Electric 50:50 partnership acquired Powercor Australia Ltd., largest of five electricity distributors and retailers in the state of Victoria. A low-risk business, the company received high credit ratings of A- from Standard & Poor's and A3 from Moody's subsequent to the acquisition.

ETSA Utilities and Powercor together have made the CKI-Hongkong Electric partnership the largest electricity distributor in Australia serving over 1.3 million customers in South Australia and

CKI has branched out to the gas industry through the acquisition of Envestra Limited, the largest listed natural gas distributor in Australia which serves over 850,000 customers throughout the country.

At present, CKI Energy's investment in Australia amounts to A\$2.9 billion (approximately HK\$12 billion). These new acquisitions were key factors leading to the leapfrog growth in contribution from the energy sector in 2000.