



H.L. KAM (Group Managing Director)

Year 2001 Review

With a globalised and diversified business portfolio, 2001 has been a year of both harvest and consolidation for CKI.

Hongkong Electric

Hongkong Electric has been a reliable revenue base for CKI and its profit contributions have borne great significance to the Group's overall financial strength. With a dividend pay-out ratio of approximately 60 per cent., it has been the largest revenue stream for CKI over the years.

CKI currently holds 38.87 per cent. of Hongkong Electric and will continue to derive major profit contributions from this investment.

Australian Infrastructure

CKI's Australian investments comprising Envestra, ETSA Utilities and Powercor, all performed to our satisfaction during the year.

Envestra, the largest listed natural gas distributor in Australia, of which CKI is the biggest shareholder, generated a double-digit cash yield to CKI last year. ETSA Utilities, the sole electricity distributor in the State of South Australia, and Powercor, the largest electricity distributor in the State of Victoria, also delivered a year of strong operating performance. In 2001, the entire portfolio in Australia accounted for approximately one quarter of the Group's total profit contribution.

All three Australian assets are regulated and capital intensive businesses which provide secure returns. Their strong performance suggest that capital intensive projects with reliable and steady returns under a regulatory regime are in line with CKI's investment criteria.

China Portfolio

With the completion of the Zhuhai Power Plant in February 2001, CKI's HK\$8 billion China portfolio came into full operation. Currently, we have interests in a power portfolio of over 2,000 MW in gross capacity and a

transportation portfolio spanning approximately 500 km of toll roads and bridges. During the year, CKI's China assets have performed satisfactorily and generated meaningful cash flow and earnings for the Group, despite a prudent provision made for the divestment of certain assets.

Infrastructure Materials and Infrastructure-related Businesses

Although profit contributions from the infrastructure materials division saw a drop of 35 per cent. amid a year of continued depression in the construction industry, it remains a profitable business delivering good cash inflow for the Group. During the year, rigorous cost control measures were implemented; and we are fully prepared to take on new opportunities when the market rebounds.

The Group's Canadian investments, Polyphalt and Stuart Energy, faced a difficult year due to slow economic growth in North America. The situation is expected to improve with a prospective market recovery.

Consolidation of the Group's Infrastructure Investments

During the year, the disposal of Nanhai Power Plant I investment and Powercor's retail business has generated one-off gains of HK\$221 million and HK\$351 million respectively to the Group.

As a prudent accounting measure, a provision of HK\$500 million has been put aside against China investments.

Future Outlook

In 2001, CKI continued to enjoy profit growth for the sixth consecutive year since its listing. Looking ahead, we will continue our active search for new capital intensive investment opportunities around the globe.

Strong Financial Position

CKI has a sufficiently strong financial capacity to pursue new infrastructure investments and acquisitions.

- Cash in hand of over HK\$4 billion as of end 2001 resulting from strong on-going cash inflow from our businesses and one-off gains from our divestment activities
- Strong balance sheet in a low gearing position of 16 per cent. (net debt to equity), and an equity base of approximately HK\$26.8 billion as of end 2001
- "A - " credit rating by Standard & Poor's, with "Stable" outlook reaffirmed

Increasing Infrastructure Opportunities

Recently, we have witnessed the emergence of a number of new investment opportunities in many parts of the world, some of which are privatisation of state-owned assets while others are secondary sales of privately-owned assets. A number of these opportunities are either regulated businesses, offering secure returns, or capital intensive infrastructure projects which provide steady revenue stream and favourable returns. The Group's project development team has been working closely on a number of transportation projects and regulated assets, with a few already in the final negotiation stage.

Grow from Solid Foundations, Venture towards New Heights

In the current environment of increasing investment opportunities and with its solid foundation supported by a strong balance sheet and rich cash position, CKI plans to continue with its globalisation strategy and venture towards new heights.

Finally, I would like to take this opportunity to thank the Board, management and all of our employees for their contributions to the results we achieved.

H.L. KAM

Group Managing Director

Hong Kong, 14th March, 2002