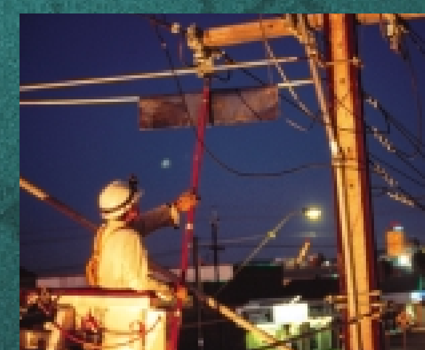



Review of Operations



Investment in Hongkong Electric

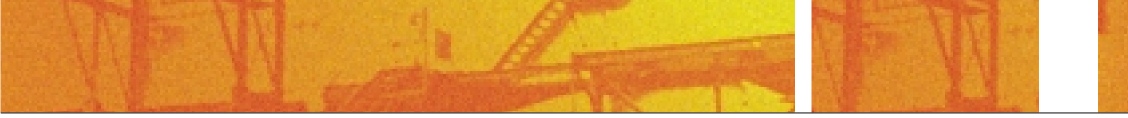
Hongkong Electric has consistently maintained a reliability of supply of 99.999%.

In 2001, more than half of CKI's profits were attributable to contributions from Hongkong Electric Holdings Limited ("Hongkong Electric"). Over the years, Hongkong Electric has been a premium asset to CKI, providing a reliable and secure income base to the Group. Responsible for the generation, transmission and distribution of power to Hong Kong Island, Ap Lei Chau and Lamma Island, Hongkong Electric is one of the two electricity suppliers in Hong Kong. It is a listed company with a market capitalisation of HK$62 billion as at 31st December, 2001. Hongkong Electric has a total installed capacity of 3,305 MW. CKI currently holds 38.87 per cent. of the company.

Hongkong Electric

Hongkong Electric reported a net profit of HK$6,507 million in 2001, a 17.6 per cent. increase from 2000.

The substantial increment is a result of both organic growth of the company's core business in Hong Kong as well as the exceptional performance of Hongkong Electric's overseas investments. In Hong Kong, there was increased demand for electricity during the year despite depressing economic conditions. From abroad, a one-off gain was generated through the sale of the non-core retail business of Powercor Australia Limited; in addition to strong operating performance from the Australian electricity distribution businesses of ETSA Utilities and Powercor throughout the year.



CKI has increased its stake in Hongkong Electric, a premium asset generating stable and secure cash revenue to the Group, from about 35 per cent. at the time of acquisition in 1997 to 38.87 per cent. in 2000. Over the years, the investment has proven to be a reliable earning base to the Group, as well as a key source of cash through steady dividend growth every year.

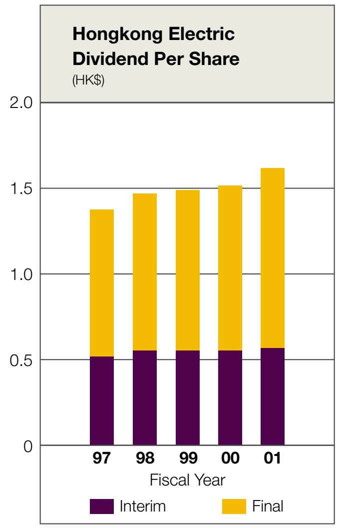
Hongkong Electric is one of the two electricity suppliers in Hong Kong serving Hong Kong Island, Ap Lei Chau and Lamma Island. The company has an installed capacity of 3,305 MW, and has plans to expand its power generation capacity with the 1,800 MW extension of the Lamma Power Station.

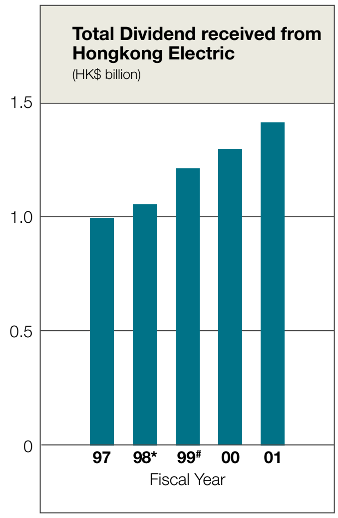
In 2000, Hongkong Electric initiated its investments overseas. Together with CKI, Hongkong Electric acquired ETSA Utilities and Powercor. Hongkong Electric has also taken a strategic stake in the Guangdong Liquefied Natural Gas project in Shenzhen in 2000.

Hongkong Electric is committed to minimising the impact of its operations on the environment.

"As a major public utility in Hong Kong, Hongkong Electric is committed to not only providing a reliable, efficient and adequate electricity supply to our customers, but also to striving for excellence in customer service and in all aspects of our operation."

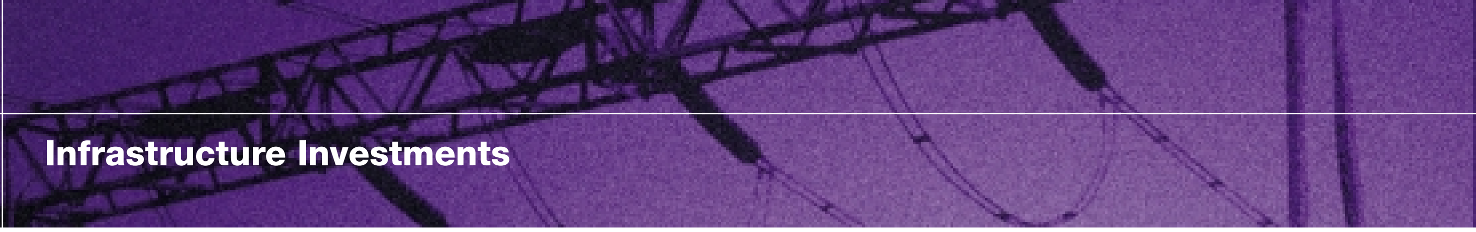
K.S. Tso, *Group Managing Director, Hongkong Electric Holdings Limited.*





* Final dividend in form of scrip (FY98)
\# Interim and final dividends in form of scrip (FY99)

Design and planning for the construction of the first gas-fired combined cycle unit for the Lamma Power Station extension is well underway.



Infrastructure Investments

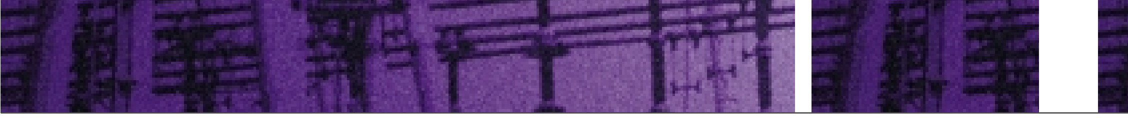
CKI's Infrastructure Investments currently comprise energy and transportation investments in Australia and China. In Australia, the CKI - Hongkong Electric partnership has become the largest electricity distributor with the acquisitions of ETSA Utilities and Powercor, serving over 1.3 million customers in the states of South Australia and Victoria. In China, the Group's assets in Infrastructure Investments amount to HK$8 billion. Infrastructure Investments have become the Group's second biggest profit contributor, and plans are in place to continue to expand as more new investments such as the Sydney Cross City Tunnel project in Australia materialise.

ETSA serves the entire State of South Australia with customers amounting to 747,000.

Australian Infrastructure accounted for one quarter of the Group's revenue

CKI made its first infrastructure investment in Australia in 1999 when it became one of the largest shareholders of Envestra Limited, the largest listed natural gas distributor in Australia. Since then, CKI has steadily expanded its infrastructure portfolio in Australia and acquired ETSA Utilities and Powercor Australia Limited in January 2000 and September 2000 respectively in partnership with Hongkong Electric.

Revenues from the Group's Australian assets totalled over HK$1 billion in the year, accounting for approximately 25 per cent. of CKI's total profit contribution. This satisfactory growth is attributable to the better than forecast operational performance of the Australian businesses in 2001, as well as the disposal of the unregulated retail portion of Powercor.



"Our focus on managing and maintaining the distribution network enables us to concentrate our efforts on achieving high levels of service, reliability, safety and efficiency for our customers."

Basil Scarsella
Chief Executive Officer, ETSA Utilities

ETSA Utilities

In January 2000, through a privatisation programme, CKI together with Hongkong Electric acquired the regulated power distribution business of ETSA Utilities at a consideration of A$3.25 billion. The lease period is for 200 years. The company serves a total of 747,000 customers in the entire State of South Australia with power distribution network covering over 178,200 square km.

Powercor's network covers seven of Victoria's eight provincial centers providing electricity to an area of over 150,000 square km.

During the year, ETSA Utilities was reaffirmed with ratings of "A-/Stable" by Standard & Poor's and "A3" by Moody's with "Stable" outlook.

Powercor Australia Limited

Powercor was acquired by CKI and Hongkong Electric in September 2000 at a consideration of A$2.315 billion. At the time of acquisition, it comprised the regulated power distribution business, covering an area of over 150,000 square km, with 590,000 customers in the State of Victoria; and the retail operations.

In June 2001, a one-off gain totalling HK$700 million to CKI and Hong Kong Electric was achieved through the disposal of the unregulated retail portion at a consideration of A$315 million. In addition to the sales proceeds, Powercor will also achieve additional profits by providing a one-year transitional service to the purchaser, Origin Energy Limited, until May 2002.

During the year, Powercor continued to receive favourable credit rating of "A3" by Moody's with "Stable" outlook, and reaffirmed with rating of "A-" by Standard & Poor's with an improved outlook to "Positive".

Investment in Envestra Limited

Envestra is the largest listed natural gas distributor in Australia, capturing approximately 30 per cent. of Australia's gas consumption. It is a low risk investment with strong and secure cash flows under the stapled securities financial structure.

Envestra owns distribution networks and transmission pipelines that deliver natural gas to 875,000 homes and businesses around the nation.

In the fiscal year ended 30th June, 2001, a total distribution of A$0.0925/share was paid out, providing a cash yield of approximately 10.5 per cent. p.a. to CKI.

In March 2002, CKI subscribed additional new shares through the Company's share placement exercise and maintained its shareholding at the 19 per cent. level.

"Powercor Australia's strategic vision is to be a leader in the distribution business in Australia with outstanding performance. We strive to excel in financial performance, productivity, supply reliability, customer services, and community perception."

C.T. Wan
Director & Chief Executive Officer, Powercor Australia Limited

Infrastructure Investments (Cont'd)

With the completion of the second unit of the Zhuhai Power Plant, CKI's China power portfolio has come into full operation.

Hong Kong Eastern Harbour Crossing Tunnel

In Hong Kong, the Group has taken up a 50 per cent. stake in the Eastern Harbour Crossing Company Limited, which owns the rail tunnel connecting eastern Hong Kong and eastern Kowloon. During the year, the tunnel generated satisfactory returns as well as stable cash flow for the Group.

China Transportation

Despite the global economic downturn, the Group's toll road and bridge investments in China continued to maintain satisfactory growth.

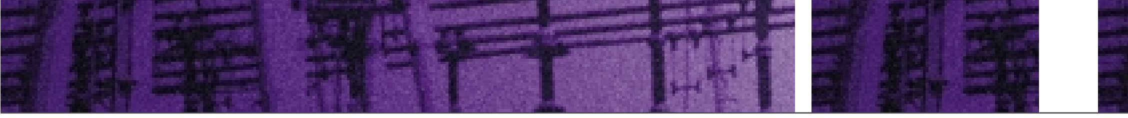
CKI's joint ventures in Mainland China own and operate approximately 500 km of toll roads and bridges spanning the provinces of Guangdong, Hunan, Henan, Hebei and Liaoning.

In Guangzhou, the Guangzhou East-South-West Ring Road is a vital route connecting the eastern, western and southern parts of Guangzhou and provides a key link with major transportation corridors such as the Guang-Fo Expressway and Guang-Shen Expressway. The Ring Road has reported steady growth in revenue since its opening in June 2000.

In Panyu, the Beidou Bridge and its connecting roads were opened to traffic on schedule in January 2001. Toll revenue showed a steady growth and operating results generally met with expectations. The current emphasis of the Guangzhou Government on accelerating and expanding the development of Panyu as a major economic unit of Guangzhou will lead to higher revenue growth for the Bridge, which is one of the key routes connecting the southern and northern parts of Panyu. An exciting milestone of this project was the ISO 9001 (year 2000 version) certification awarded by the Hong Kong Quality Assurance Association (HKQAA) during its first year of operation. The award, the first in Panyu, reflects the Group's continued commitment to quality management and operational efficiency.

In the Shantou areas, the opening of new connecting links to the Group's Shen-Shan Highway has boosted growth in its toll revenue as well as that of the connecting Shantou Bay Bridge, which is also owned and operated by CKI's PRC joint venture.

In Henan, the joint venture company which operates the 114-km Zhumadian section of the dual two-lane Class Two National Highway 107 reported significant growth in toll revenue from the previous year due to an increase in toll rates in April 2001. The project continued to contribute favourable returns to the Group. In Hunan, the Wujialing Bridge and the Wuyilu Bridge reported steady growth in operating revenue.



China Power

With the completion of the second unit of the Zhuhai Power Plant (2 x 700 MW coal-fired units) on 5th February, 2001, CKI's China Power portfolio of over 2,000 MW in gross capacity has come into full operation.

During the year, both units of the Zhuhai Power Plant have been operating smoothly and safely with profound reliability and efficiency, and have supplied power to the Guangdong Province in excess of the contractual annual minimum quantity. Apart from being able to service the project debts, the investment has provided shareholders better-than-expected returns.

CKI's joint venture in Mainland China own and operate approximately 500 km of toll roads and bridges spanning five provinces.

In Jilin Province, the Siping Cogen Power Plants were in their fourth year of operations with all three generator sets in stable operation and in full compliance with the domestic environmental requirements. In addition to power generation, the facilities also supply steam to the nearby commercial and residential community spreading over an area of two million square meters. In recognition of the achievement of the plants, the provincial power bureau has recently awarded the Siping Cogen Power Plants with the honourable accolade of "2001's First Class Fossil Power Plant of the Province".

Steady performances were maintained in the Fushun Cogen Power Plants and Qinyang Power Plants, similar to those of prior years.

Consolidation of China Portfolio and Prudent Provision

During the year, the disposal of Nanhai Power Plant I investment was completed and recorded a one-off gain of HK$221 million. The Group's consolidation strategy also involved impending sales of certain toll roads and power plant investments including the Nanhai Road Network and Shantou Power Plants.

Adopting a prudent accounting approach, the Group has decided to make a provision of HK$500 million against its China infrastructure portfolio of approximately HK$8 billion.

Although divestment of assets has inevitably led to a short-term decline in profit contributions from the China portfolio, it will enhance the Group's financial position and make room for capturing new investment opportunities.

An exciting milestone of Panyu Beidou Bridge was achieved when the project was awarded the ISO 9001 certification.

Infrastructure Materials and Infrastructure-related Businesses encompass both the Group's established operations in infrastructure materials and new ventures in environmental and electronic infrastructure. While Green Island Cement and Anderson Asia are well recognised market leaders in the local markets of cement and concrete respectively, Polyphalt and Stuart Energy are overseas acquisitions marketing new solutions for environmentally friendly materials and energy globally.

Green Island Cement and Anderson Asia are well recognised market leaders in Hong Kong.

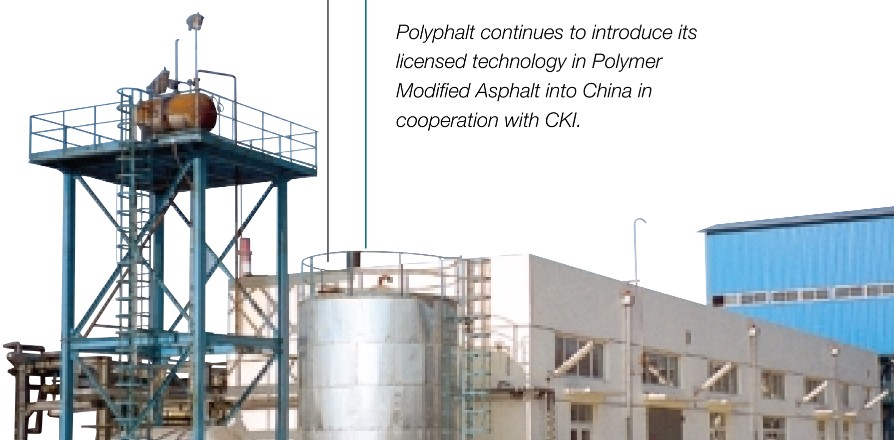
CKI Materials Operation

Consumption of infrastructure materials has been continually on the decline as a result of the shrinking construction market. Reduced demand has been accompanied by lower prices due to intense competition and strong deflationary pressure. Profit contribution of the CKI materials division suffered a reduction of 35 per cent.

In the face of such challenging market conditions, both Green Island Cement (Holdings) Limited and Anderson Asia (Holdings) Limited continued to maintain their respective leadership positions in the domestic cement and concrete market. Aggressive cost containment measures and operations streamlining exercises were implemented to further improve efficiency. The company is currently well prepared to seize new opportunities when the market recovers.

During the year, while the infrastructure materials industry remained sluggish in southern China as a result of the slackened construction industry, the demand for high performance cement and concrete needed for infrastructure

Polyphalt continues to introduce its licensed technology in Polymer Modified Asphalt into China in cooperation with CKI.



and modern high rise construction increased. Therefore, although the Group's products are priced at the top end of the market, our cement production facilities and concrete operations in China observed satisfactory growth in revenues.

Polyphalt Inc.

Performance of Polyphalt, a Canadian based asphalt technology company of which CKI holds a 63.5 per cent. stake, was below forecast in 2001 due to the slow economic situation in North America. Business is expected to turn around in the coming year in line with possible recovery ahead.

Polyphalt continues to introduce its licensed technology in Polymer Modified Asphalt into China in cooperation with CKI. In June 2001, a joint venture was established with Liaohe Refinery in Liaoning Province, the largest asphalt producing refiner in northern China under China National Petroleum Corporation.

Stuart Energy Systems Corp.

CKI holds a 12.5 per cent. stake in the Canadian-listed hydrogen fuelling technology company, Stuart Energy Systems Corp., as part of its investment in environmentally friendly energy. CKI is also the exclusive distributor for the hydrogen fuelling technology in the Asia Pacific market and has been working closely with Stuart Energy to develop and provide hydrogen solutions to the industrial, power and transportation markets.

Water Business

The Group's water treatment joint venture in Yueyang, Hunan Province reported satisfactory performance last year and contributed a steady profit. While water quality has shown further improvement, it is expected that the water tariff will be adjusted in 2002.

Electronic Infrastructure

The integration of smart cards and appropriate biometrics for security and identification applications has gained much prominence as people have become increasingly conscious about security nowadays. In 2001, riding on an exclusive licensing arrangement with the Chinese University of Hong Kong on its patented fingerprint matching technology, bioSecure Systems Limited was established for the development of biometrics applications such as facial recognition, fingerprint verification and hand geometry verification.

The annual growth rate of the biometrics market is forecast to exceed 60 per cent. in the next one to two years.

The Group's water treatment joint venture in Yueyang, Hunan Province, reported satisfactory performance last year.

Environmental Awards and Achievements

The Group received several environmental awards and achievements during the year; they include :

- Anderson Asphalt won the 2001 BEC Environmental Performance Award in the 2001 Hong Kong Award for Industry.
- Green Island Cement was awarded an ISO14001 accreditation for its environmental management system in the cement production facilities at Tap Shek Kok.
- Ready Mixed Concrete was awarded an ISO14001 accreditation for its excellence in environmental conservation for one of its batching plants.
- CKI won the 2001 Green Award at the Canadian Chamber of Commerce's Annual Business Excellence Awards.