




INVESTMENT IN HONGKONG ELECTRIC





CKI holds a 38.87% stake in Hongkong Electric, a premium asset with the core business of generating, transmitting and distributing power to Hong Kong Island and Lamma Island. Hongkong Electric serves over 550,000 customers in the territory and has attained outstanding supply reliability in excess of 99.999%.

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Hong Kong Electric's Lamma Power Station has a total installed capacity of 3,420 MW, serving customers on Hong Kong Island and Lamma Island with reliable energy.

Hongkong Electric reported a mixed performance for 2005. The core electricity supply business in Hong Kong reported stagnant growth as compared with the previous year, while overseas investments generated excellent results and helped to achieve a profit level of over HK\$8 billion.

Hong Kong Operations

For 2005, Hongkong Electric reported unit sales growth in electricity of 1.5%. Of the 10,755 million kWh of electricity sold, commercial sales made up 73.2%, domestic sales 22.7% and industrial sales 4.1%. The maximum demand in 2005 was 2,565 MW as compared with 2,588 MW in 2004. Supply reliability was in excess of 99.999%, the ninth consecutive year such level has been achieved.

During the year, Hongkong Electric completed construction for Hong Kong's first wind turbine, a good renewable energy showcase. Situated on Lamma Island, the 800 kW turbine started to generate electricity in September 2005.

As part of Hongkong Electric's continuing programme to lower emissions and reduce dependence on its coal-fired plant, substantial headway was made in the construction of natural gas facilities. The Liquefied Natural Gas Terminal in Shenzhen is under construction and the laying of the 93 kilometre submarine gas pipeline from Shenzhen to Lamma Power Station was completed with preparation work being carried out for receiving gas.



Hongkong Electric completed construction for Hong Kong's first wind turbine, which started to generate electricity in 2005.

The price of coal remained high for most of 2005, presenting challenges for Hongkong Electric. This was mitigated in part by the adjustment of the varieties of coal burned.

Work on Unit L9, a new 300 MW class gas-fired combined-cycle unit at Lamma Power Station, has progressed steadily and is on schedule for completion.

The acquisition of a 19.9% stake in Northern Gas Networks in the United Kingdom was completed in June 2005. Additionally, financial arrangements for the construction of a 1,400 MW gas fired power station in Ratchaburi Province, Thailand were concluded in early 2005. Hongkong Electric will hold a 25% interest in the project. Construction is scheduled to commence in 2006.

Overseas Operations

The Australian operations of Hongkong Electric, which includes ETSA Utilities, Powercor and CitiPower, continued to perform well in 2005. Through a combination of increased electricity consumption and customer growth, as well as a continued focus on operational efficiency, a solid financial performance was achieved. In December 2005, Hongkong Electric sold 22.07% of its attributable interest in the three Australian power assets, realizing a gain of HK\$1.56 billion. It will continue to benefit from the earnings generated by the remaining 27.93% ownership in the companies.



For the ninth consecutive year, Hongkong Electric achieved supply reliability in excess of 99.999%.



INFRASTRUCTURE INVESTMENTS – ENERGY





CKI's strong portfolio of energy investments has continued to generate steady cash flow and lucrative returns. The reach of the Group's infrastructure investments in the arena of energy now span across Australia, Mainland China and the United Kingdom.

INFRASTRUCTURE INVESTMENTS – ENERGY



Australian Energy

ETSA Utilities

ETSA Utilities is the sole electricity distributor in the state of South Australia, serving approximately 768,000 customers. During 2005, the business has surpassed its key financial targets and maintained good safety performance.

A satisfactory power distribution tariff reset was concluded during the year. With pricing details for the five-year period from 1st July, 2005 confirmed, stable revenues and returns are expected.

CHEDHA Holdings Pty Ltd.

CHEDHA is the holding company of Powercor and CitiPower. The regular five-year power distribution tariff reset exercise for these two power distribution companies was concluded in October 2005. Price certainty and stable returns are expected for the next five years (2006-2010).

Powercor Australia Limited

Powercor is the largest electricity distributor in Victoria, serving approximately 643,000 customers. Despite some severe weather during 2005, Powercor recorded its best-ever year in terms of supply reliability, exceeding all regulatory benchmarks.

ETSA Utilities is the sole electricity distributor in South Australia, serving approximately 768,000 customers.

CitiPower I Pty Ltd.

Through its distribution network, CitiPower delivers electricity to over 280,000 premises across Melbourne's central business district and inner suburbs. New records were set for supply reliability during the year.

Spark Infrastructure Group

In December 2005, CKI sold a 49% stake in ETSA Utilities, Powercor and CitiPower to Spark Infrastructure Group, which was subsequently listed on the Australian Stock Exchange. A significant one-off gain of over HK\$3.7 billion was booked from this disposal in the fiscal year 2005.

CKI owns a 9.9% direct stake in Spark Infrastructure, as well as acts as a Manager of the Fund.

After the disposal, CKI bought approximately 22.07% of these assets from Hongkong Electric.

Upon the completion of the transactions, the Group, along with Hongkong Electric, retains a direct 51% shareholding in the power distribution assets.

The Spark transaction was a significant milestone for CKI. It realized the underlying value of the prime Australian investments made since 2000. The transaction also strengthens CKI's financial resources, allowing the Group to pursue more capital-intensive investments in the global infrastructure arena.



Envestra distributes natural gas to around 960,000 customers in Australia.

Envestra Limited

Envestra is the largest listed natural gas distributor in Australia with a distribution network that serves approximately 960,000 customers and spans over 18,700 kilometres.

Currently, the Group holds a 17.14% stake in this company, which has been contributing a double-digit cash yield to the Group for the past seven years.



CitiPower delivers electricity to over 280,000 premises across Melbourne's central business district and inner suburbs.

INFRASTRUCTURE INVESTMENTS – ENERGY



Zhuhai Power Plant reported an outstanding performance in 2005 with electricity sales around 24% over the annual minimum quantity stipulated in the power purchase contract.

China Power

CKI's power portfolio in China continues to be a substantial profit generator for the Group, providing secure double-digit returns.

The Group holds a 45% stake in Phase 1 (Units 1&2) of the Zhuhai Power Plant, which consists of 2 x 700 MW coal-fired units. In 2005, Phase 1 reported another year of outstanding performance as electricity sales reached around 24% over the annual minimum quantity stipulated in the power purchase contract. With a record 934 days of safe operation, the Zhuhai Power Plant represents one of the most efficient, reliable and safe plants in

the country. With the national demand for power surging by 13% in 2005, it is expected that the Zhuhai Power Plant will continue to play a vital role in the economic development of the region.

In June 2005, CKI and its partner, Guangdong Yudean, extended the scope of its cooperation with an agreement to build and operate Units 3&4 of the Zhuhai Power Plant. The construction work for the extension, which features two 600 MW power generation units, is now progressing smoothly.

CKI also holds a 45% stake in the Siping Cogen Power Plants, which comprise three generator sets of 200 MW in total capacity. In 2005, the

plant generated 1,104 million kWh of electricity and supplied 2.16 million GJ of heat, breaking the records set in 2004. Supplying reliable power to the Jilin power grid, the plant has operated safely without accident for a consecutive period of 1,965 days. In spite of increasing price pressure on coal, the Group managed to contain its costs and assured returns were achieved for CKI.



The construction work for the extension to the Zhuhai Power Plant (Units 3&4), which features two 600 MW power generation units, is now progressing smoothly.

UK Gas

The acquisition of Northern Gas Networks Limited was completed in June 2005. CKI owns a 40% stake in this GBP1.4 billion capital-intensive investment which is generating a predictable strong project cashflow and double-digit equity returns to shareholders. This significant addition to the Group's energy portfolio is poised to be a substantial revenue generator in the future.

Northern Gas Networks is engaged in the safe and continuous delivery of gas through 36,000 kilometres of pipelines to 2.5 million users in the North of England, serving major cities such as Leeds, Newcastle, Sunderland, Bradford and Middlesbrough.

Since the completion of CKI's acquisition, Northern Gas Networks has met or exceeded a range of business performance targets, covering mains replacement, delivery of emergency services, customer services and financial goals.



Northern Gas Networks is poised to be a substantial revenue generator for CKI.



INFRASTRUCTURE INVESTMENTS – TRANSPORTATION





CKI holds a diverse portfolio of investments in transportation infrastructure projects in Mainland China, Hong Kong and Australia. These investments continue to drive solid returns and steady cashflow for the Group.



The return on investment for the Shantou Bay Bridge project has remained respectable.

China Transportation

CKI's portfolio of toll roads in Mainland China continued to deliver a solid performance in 2005.

The Group's transportation projects in Guangdong Province have generally enjoyed solid growth during the year. The Guangzhou East-South-West Ring Road continued to register double-digit growth in traffic volume and toll revenue, as compared with last year. A very respectable performance has also been posted by the Panyu Beidou Bridge. The joint venture companies of Jiangsha Highway and the Chaolian Bridge in Jiangmen have continued to perform well, deriving steady income from government-sponsored payments for the implementation of the annual fee system in Jiangmen.

The major rehabilitation programme undertaken for a 39-kilometre section of the Shenzhen-Shantou Highway (East) has now been completed. Through careful scheduling of lane closures, the impact of the rehabilitation work on the project has been kept to a minimum. The return on investment for the Shantou Bay Bridge project has remained respectable.

Outside of Guangdong, the joint venture companies of the Changsha Bridge projects have continued to generate secure double-digit cash returns to the Group. For the National Highway 107 (Zhumadian sections), an increase in toll rates has been approved. However, because of highway rehabilitation work and traffic diversion to a nearby expressway, the performance of the Zhumadian project has fallen short of expectations this year. The buyback transactions for the Shenyang Road project by CKI's joint venture partners have proceeded according to the completion schedule in the buyback agreement.

Hongkong Eastern Harbour Crossing Tunnel

CKI possesses a 50% stake in the Eastern Harbour Crossing Company Limited, the owner and operator of the rail tunnel which connects eastern Hong Kong Island with Kowloon. In 2005, the tunnel continued to generate stable cash returns to the Group.

Australian Toll Road Projects

The Sydney Cross City Tunnel

CKI is a 50% shareholder in the Cross City Tunnel, which is designed to improve east-west travel across the central business district in Sydney. The A\$1 billion project opened ahead of schedule in August 2005.

The A\$1 billion Cross City Tunnel in Sydney, Australia opened two months ahead of schedule in August 2005.



Steady progress is being made on the construction work for the Lane Cove Tunnel in Sydney, Australia.

The Lane Cove Tunnel

The Group is the biggest shareholder of the Lane Cove Tunnel Company Pty Ltd. with a 40% equity stake. The Lane Cove Tunnel will run under Epping Road and will complete the crucial link between Gore Hill Freeway and the M2 Motorway at North Ryde, representing the final stage of the most significant ring road built for Sydney. Steady progress is being made on the construction work.





INFRASTRUCTURE INVESTMENTS – WATER





CKI expanded into the global water industry in 2004 and now has a presence in Australia and the United Kingdom with two robust businesses that have generated stable profit contribution to the Group.

INFRASTRUCTURE INVESTMENTS – WATER



Cambridge Water's new pricing structure is to be in place for the next five years through to 31st March, 2010.

Cambridge Water

100% owned by the Group, Cambridge Water supplies a population of approximately 300,000 in an area that spans over 1,100 square kilometres. It has an integrated distribution system, made up of 7 service reservoirs, 10 water towers and 2,200 kilometres of water mains.

2005 represents the first full-year of contribution from Cambridge Water. During the year under review, Cambridge Water commenced its new price review with a price increase of 11.8% (before taking into account the Consumer Price Index adjustment). This new pricing structure is to be in place for five years from 1st April, 2005 until 31st March, 2010. CKI has been very pleased with the double-digit returns achieved so far.

AquaTower

CKI holds a 49% stake in AquaTower, the exclusive potable water supplier of four regional towns in Victoria, Australia. Serving a population of approximately 50,000 people, this asset has brought stable returns to the Group.



A secure and prime water plant asset, AquaTower serves a population of approximately 50,000 people.



Cambridge Water supplies a population of approximately 300,000 in an area that spans over 1,100 square kilometres.



INFRASTRUCTURE RELATED BUSINESS





CKI is the market leader in the infrastructure materials sector in Hong Kong. While market conditions remain challenging, the Group has consolidated its position and made adjustments according to the economic climate.

INFRASTRUCTURE RELATED BUSINESS



CKI is the market leader in the infrastructure materials sector in Hong Kong, where market conditions remain challenging.

Cement and Asphalt

In Hong Kong, the cement market remained depressed as construction activity in the territory reached new lows during the year. The volume of sales is still low and there is increasing pressure from rising energy and transportation costs. The overall operating landscape has been very weak, impacting on the Group's business. In spite of these conditions, Green Island Cement continues to be a cash generating business for CKI.

As for the Group's cement operations in Yunfu, Mainland China, business was adversely affected by an oversupply situation, increasing competition and a deteriorating operating environment.

In view of the continual weakening of the market and business conditions, an impairment of HK\$790 million has been made against certain infrastructure materials assets in Hong Kong and Mainland China during the year.

Concrete and Aggregates

2005 represents the first full year after the merger between Anderson Asia's concrete and aggregates operations and the Hong Kong arm of Hanson PLC. The new company, Alliance Construction Materials Limited, is the market leader in the territory's struggling concrete and aggregates industries. After a series of cost cutting measures, the asset reported its first year of operating profit.



Green Island International's patented technology for the innovative thermal treatment of waste has been developed together with the Hong Kong University of Science and Technology.



Alliance Construction Materials Limited reported operating profit in 2005.

Waste Treatment Initiatives

Working with the Hong Kong University of Science and Technology, Green Island International has developed a home-grown patented technology known as "co-combustion", an innovative thermal treatment for waste. The emission results from Green Island International's pilot plant have been excellent. When combined with the Group's cement plant operations, the co-combustion process represents an effective viable solution to Hong Kong's waste disposal problems. Green Island International is now studying the feasibility of commercializing the project on a larger scale.