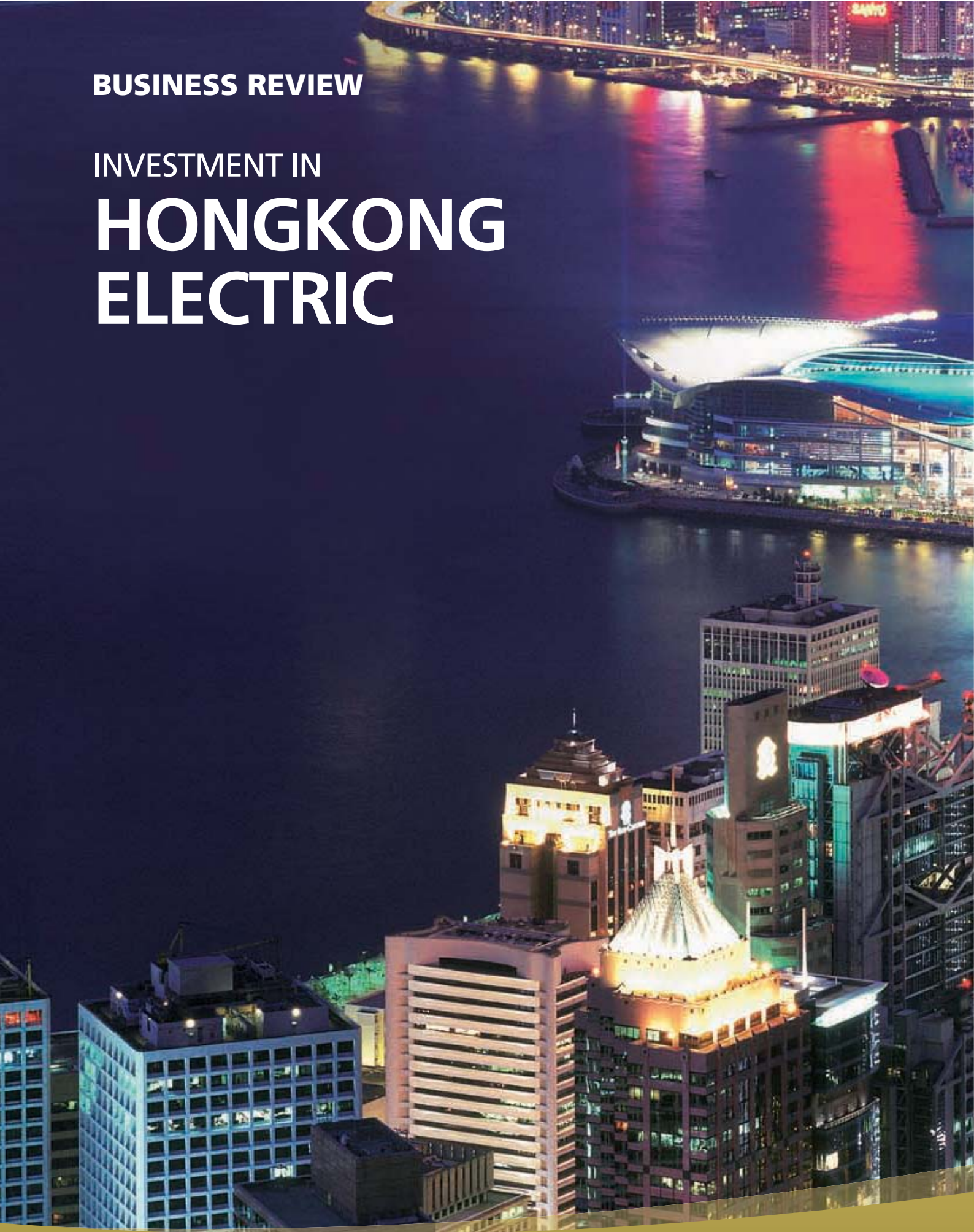


**BUSINESS REVIEW**

INVESTMENT IN

# HONGKONG ELECTRIC





CKI is the major shareholder of Hongkong Electric, a publicly listed company in Hong Kong, which is responsible for the generation, transmission and distribution of power to Hong Kong Island and Lamma Island. Hongkong Electric has a total installed capacity of 3,756 MW, serving more than 550,000 customers.

# INVESTMENT IN HONGKONG ELECTRIC



Hongkong Electric maintained supply reliability of over 99.999%, a standard consistently achieved since 1997.

Hongkong Electric recorded a stable performance in 2007. Consolidated net profit after tax was HK\$7,448 million, an increase of 8.9% over the previous year. Earnings from Hong Kong operations were HK\$6,727 million, a rise of 9.0% as a result of higher unit sales of electricity, the impact of no special rebate in 2007 and higher interest income. Earnings from Hongkong Electric's international operations were HK\$721 million, a 7.8% increase over 2006 primarily due to higher earnings from its Australian energy businesses.

## **HONG KONG OPERATIONS**

In 2007, Hongkong Electric's unit sales of electricity grew by 1.1%, an improvement as compared with 0.2% growth recorded in 2006. The period under review saw the number of domestic and commercial customers increase slightly, while the number of industrial sector customers recorded a slight decrease.

Supply reliability was maintained at over 99.999% in 2007, a standard consistently achieved by Hongkong Electric since 1997.

Hongkong Electric's emission reduction programme at the Lamma Power Station progressed well in 2007, as the company steadily moves towards achieving the Hong Kong Government's emission targets. The first gas fired combined cycle unit, Unit 9, generated 17% of the electricity sent out from the Lamma Power Station. This has helped to reduce Hongkong Electric's overall emission levels.

Initiatives to raise awareness and promote public understanding of renewable energy in Hong Kong were also successful. The 800 kW Lamma Winds wind turbine and exhibition centre has continued to be a popular renewable energy attraction.

In early 2008, a new Scheme of Control Agreement was signed by Hongkong Electric and the Hong Kong Government for ten years commencing 1 January 2009, with a Government option to extend the agreement for a further term of 5 years. The agreement provides for a 9.99% permitted rate of return on average net fixed assets other than for renewable energy fixed assets for which the permitted return is 11%. The new Scheme of Control Agreement provides a certain and stable long-term regulatory framework for Hong Kong's electricity industry.

### **INTERNATIONAL OPERATIONS**

The overseas energy businesses of Hongkong Electric performed well during the year to enhance overall profitability.

The Australian electricity distribution businesses in South Australia and Victoria delivered good results, with higher revenue recorded.

In the United Kingdom, Hongkong Electric holds a 19.9% stake in Northern Gas Networks Limited. Very satisfactory growth was recorded by this business during the year, in excess of initial forecasts.



Good progress was made in Hongkong Electric's emission reduction programme as the company steadily moves towards achieving the Hong Kong Government's emission targets.

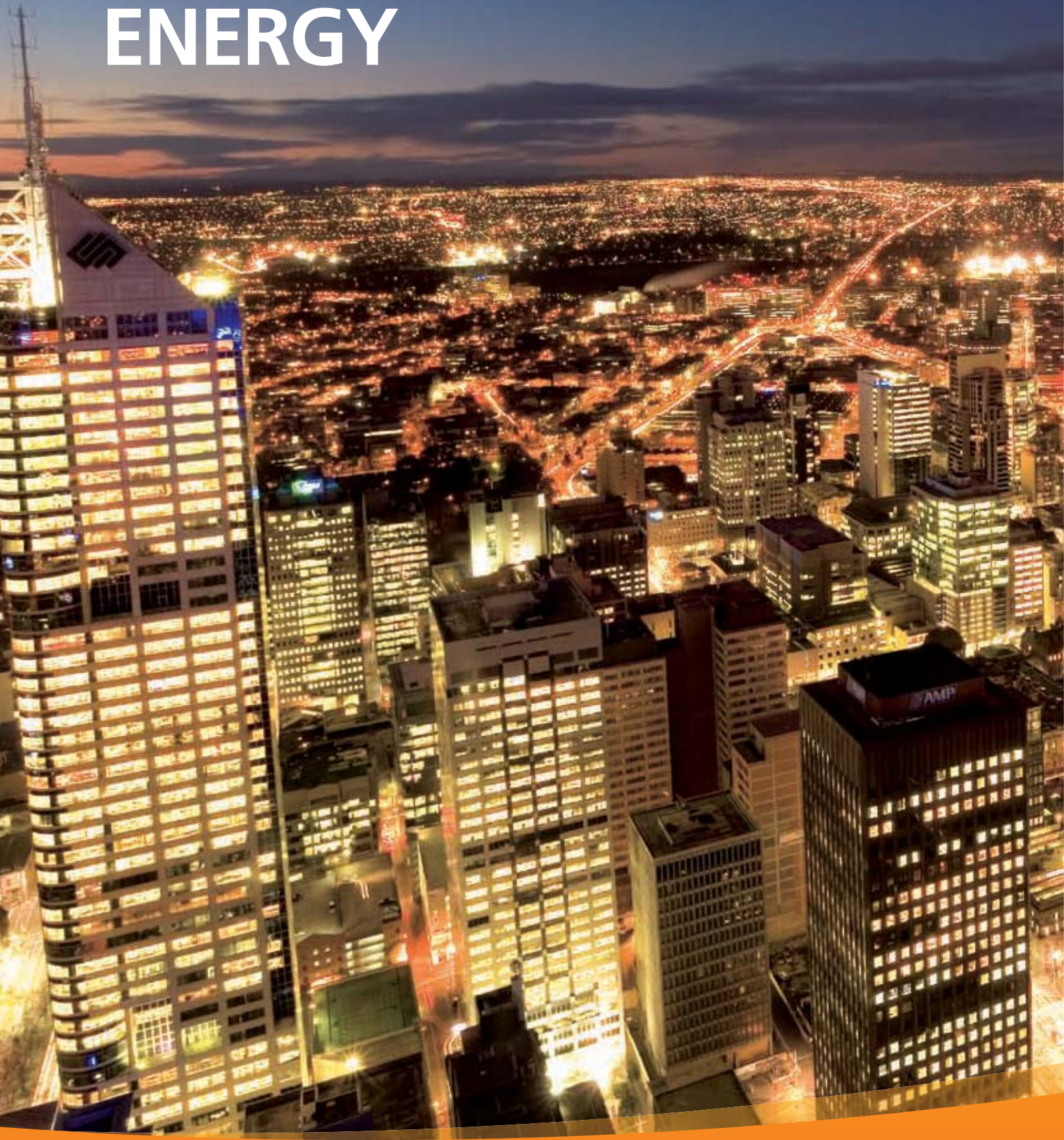
Construction of the 1,400 MW gas fired Ratchaburi Power Station in Thailand is progressing well. The first 700 MW unit commenced commercial operation in early March 2008, while the second unit is scheduled for commissioning in June 2008.

In Canada, Hongkong Electric acquired a 50% stake in Stanley Power Inc. at the end of 2007. Stanley Power holds a 49.99% interest in TransAlta Cogeneration, L.P., which has interests in six power plants in Canada.

**BUSINESS REVIEW**

**INFRASTRUCTURE INVESTMENTS**

**ENERGY**





CKI's extensive portfolio of energy investments span across Mainland China, Australia, the United Kingdom and Canada. As a major source of profit generation for the Group, CKI's energy assets have consistently delivered stable cashflows and good investment returns.

# INFRASTRUCTURE INVESTMENTS

# ENERGY



ETSA Utilities, the electricity distribution business for the state of South Australia, recorded strong performance.



CitiPower supplies electricity to Melbourne's central business district and inner suburbs.

## AUSTRALIAN ENERGY

CKI, together with Hongkong Electric, is the largest electricity distributor in Australia, with operations in the states of South Australia and Victoria. CKI is also a strategic shareholder in Australia's largest listed natural gas distribution company.

### ETSA Utilities

ETSA Utilities, which employs about 1,700 people, is the electricity distribution business for the state of South Australia. The primary role of ETSA Utilities is the safe and reliable delivery of electricity from high voltage transmission network connection points to residential and business customers throughout the state. Serving over 792,000 customers, ETSA Utilities supports a network comprising 382 zone substations and powerlines covering a route length of 85,500 kilometres.

In 2007, ETSA Utilities recorded a strong performance through enhanced regulated revenue and an increase in the scope of its non-regulated businesses.

CKI together with Hongkong Electric own a 51% stake in this electricity distribution business.

### CHEDHA Holdings Pty Ltd.

CHEDHA Holdings is the holding company of Powercor and CitiPower, in which CKI and Hongkong Electric hold a combined 51% stake. During the year, these electricity distribution businesses generated strong cash returns to CKI, exceeding projections.



Powercor is Victoria's largest electricity distributor, supplying electricity to regional and rural centres in central and western Victoria, and Melbourne's outer suburbs.

#### ***Powercor Australia Limited***

Powercor is Victoria's largest electricity distributor, supplying electricity to regional and rural centres in central and western Victoria, and Melbourne's outer western suburbs. Powercor services approximately 673,000 customers. It also has three successful non-regulated businesses: Powercor Network Services, Powercor IT and Customer Services.

#### ***CitiPower I Pty Ltd.***

CitiPower, which operates the most reliable electricity network in Australia, supplies electricity to approximately 300,000 customers in Melbourne's central business district and inner suburbs.

#### **Spark Infrastructure Group**

Spark Infrastructure is a leading Australian utility infrastructure investment group with a portfolio that comprises 49% interests in each of CitiPower, Powercor and ETSA Utilities. CKI holds an 8.7% stake in Spark Infrastructure, as well as is a joint asset manager of this infrastructure investment group. During the year, Spark Infrastructure performed well on the back of good results from its infrastructure investments.

#### **Envestra Limited**

Envestra is Australia's largest natural gas distribution company. It owns about 20,000 kilometres of natural gas distribution pipelines and 1,000 kilometres of transmission pipelines, serving around one million consumers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory. Revenue is generated by charging retailers for the transportation of natural gas through these networks. In 2007, the company celebrated its 10th year of listing on the Australian Stock Exchange.

The Group holds a 16.8% stake in Envestra, a distribution asset that continues to generate double-digit cash yields for CKI.



## BUSINESS REVIEW

### INFRASTRUCTURE INVESTMENTS

#### ENERGY

#### CHINA POWER

Amidst strong economic growth and an indefatigable appetite for power in Mainland China, the Group's energy portfolio performed very well.

The Zhuhai Power Plant remains a key project in CKI's power portfolio in Mainland China, delivering an outstanding performance in 2007. Achieving over 6,000 operating hours, this represented excess generation of more than 25% over the Annual Minimum Quantity. In addition, the flue gas desulfurization plant was put into commercial operation at the beginning of 2007.

As an extension to the Zhuhai Power Plant, Jinwan Phase 1 Power Plant project was commissioned and has provided profit contribution since February 2007. It has added 1,200 MW of generating capacity to CKI's operations in Zhuhai. Both units generated 6.2 billion kWh of power during the year, representing a very satisfactory utilization rate for a newly commissioned power generation plant. Equipped with an advanced flue gas desulfurization system, the efficiency of Jinwan Phase 1 Power Plant project has complied with all relevant regulations.

In October 2007, CKI signed an agreement to develop the Jinwan Phase 2 Power Plant project, which will comprise two new power plant units with total installed capacity of 2,000 MW. The project feasibility report, evaluation of major equipment bids and contract negotiation, as well as preliminary plant design, are all in progress. Following the requisite government approvals, construction will begin on Jinwan Phase 2 Power Plant project and operations are expected to commence in 2010.

Given the strong growth of power demand in the Pearl River Delta region, the power plant operations in Zhuhai are expected to play a key role in CKI's Mainland China portfolio for many years to come.

CKI also holds a 45% stake in the Siping Cogen Power Plants in Jilin, which have a total capacity of 200 MW. The output of the Siping Plants achieved a record performance in 2007, with about 1.4 billion kWh of electricity generated. Heat sold during the year increased to 2.89 million GJ, an increase of 18% over last year.



As an extension to the Zhuhai Power Plant, Jinwan Phase 1 Power Plant project was commissioned and has provided profit contribution since February 2007.



Northern Gas Networks distributes gas to homes and businesses in the North of England, across an area with a total population of 6.7 million.

### **UK GAS**

Northern Gas Networks Limited is responsible for distributing gas to homes and businesses across the North of England, an area covering West, East and North Yorkshire, as well as the North East and Northern Cumbria. Its network comprises 36,000 kilometres of gas pipes and its network area comprises large cities such as Newcastle, York, Sunderland, Leeds, Hull and Bradford and a significant rural area including North Yorkshire and Cumbria, with a total population of 6.7 million.

CKI holds a 40% stake in this business. Returns to date have exceeded the Group's initial forecasts. Following the satisfactory conclusion of the tariff reset in December 2007, Northern Gas Networks is expected to provide secure and predictable returns to CKI for the ensuing regulatory period 2008-2013. During the year, Northern Gas Networks was named the most efficient gas network by the United Kingdom's gas and electricity regulator, setting new benchmarks for the entire industry.

### **ELECTRICITY IN CANADA**

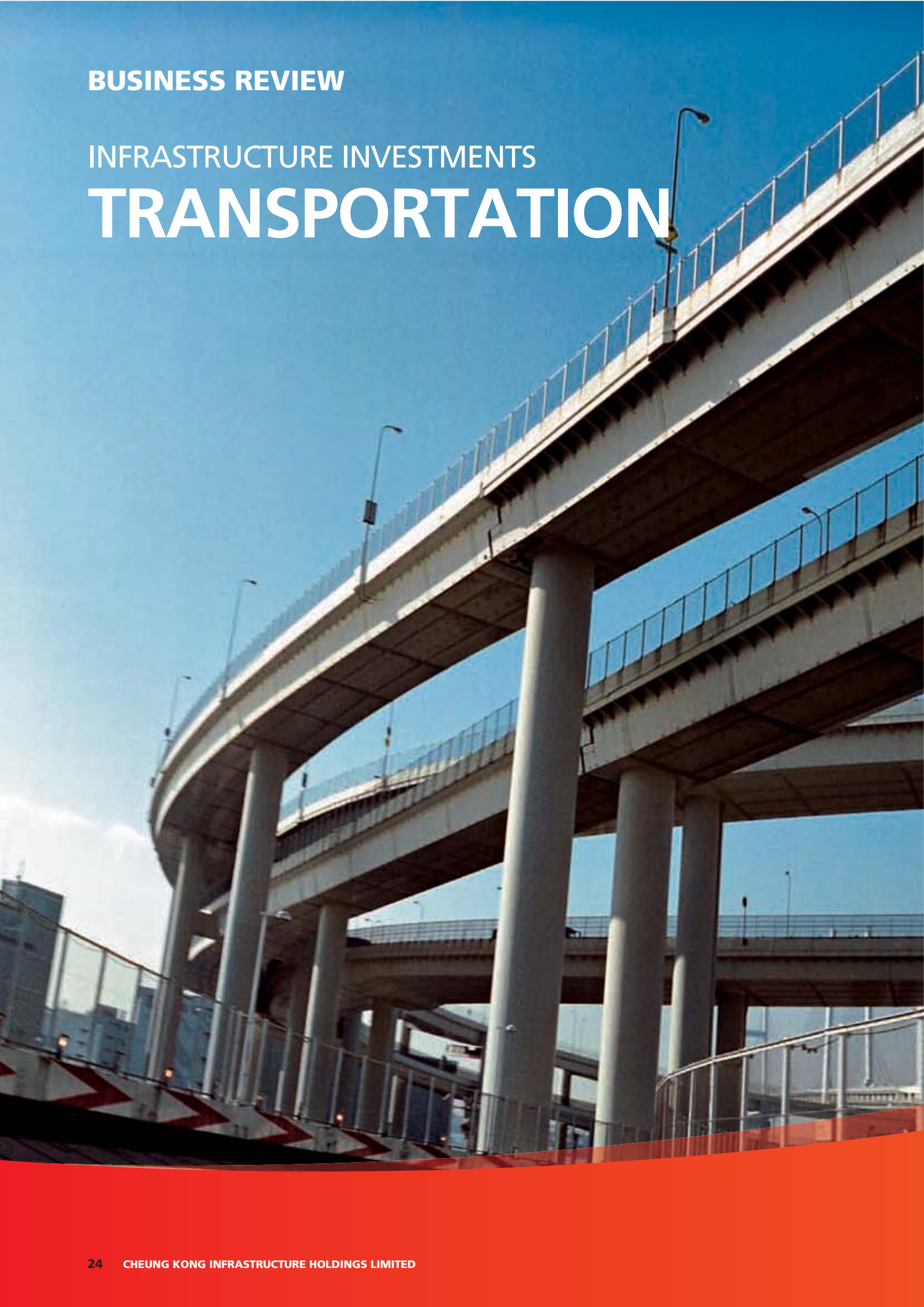
TransAlta Power, L.P. owns a 49.99% interest in TransAlta Cogeneration, L.P., which has stakes in six Canadian generating plants. They include five natural-gas powered cogeneration plants in Alberta, Saskatchewan and Ontario, and a coal-fired generation plant in Alberta. The plants have a total generating capacity of 1,362 MW of electric power.

In 2007, CKI acquired and privatized TransAlta Power, which was previously listed on the Toronto Stock Exchange. This marked the Group's first electricity generation investment in North America. The business is now jointly owned by CKI and Hongkong Electric, and is expected to provide immediate cashflow and attractive returns to CKI.

**BUSINESS REVIEW**

**INFRASTRUCTURE INVESTMENTS**

# **TRANSPORTATION**





CKI's transportation investments comprise projects in Mainland China and Australia. Overall, this portfolio generates stable cashflow and steady returns to the Group.

# INFRASTRUCTURE INVESTMENTS

# TRANSPORTATION

## CHINA TRANSPORTATION

CKI's portfolio of toll roads in Mainland China achieved a stable performance in 2007. As a result of strong growth in Guangdong Province, both the Shen-Shan Highway (Eastern Section) and Shantou Bay Bridge delivered good performances during the year. Toll road income increased, with double-digit growth in revenue as compared with last year. A one-off gain of HK\$815 million was recorded from the sale of the Group's stake in the Guangzhou East-South-West Ring Road to its Chinese partner.



The Shen-Shan Highway (Eastern Section) recorded double-digit growth in toll revenue during the year.



Boosted by strong growth in Guangdong Province, Shantou Bay Bridge performed well in 2007.

### **AUSTRALIAN PROJECT**

In early 2007, the Group reduced its 40% stake in the Lane Cove Tunnel to 19%. Subsequently, following its opening in March 2007, traffic levels for the tunnel have been lower than expected. In light of this, a full provision has been made against the remaining carrying value of this investment.

**BUSINESS REVIEW**

**INFRASTRUCTURE INVESTMENTS**

# **WATER**



With investments in the United Kingdom and Australia, CKI's water businesses have delivered stable returns.



# INFRASTRUCTURE INVESTMENTS

# WATER



Southern Water is a regulated business which supplies water to approximately 2.3 million people and wastewater services to 4.3 million people in the United Kingdom.

## **CAMBRIDGE WATER PLC**

Supplying fresh water to customers in an area of 1,175 sq km in South Cambridgeshire in the United Kingdom, Cambridge Water serves a population of approximately 300,000.

During the year, Cambridge Water achieved a satisfactory performance and generated good returns for CKI.

## **SOUTHERN WATER GROUP**

Southern Water is a regulated business which supplies water to approximately 2.3 million people and wastewater services to 4.3 million people in the United Kingdom. Its geographical reach covers an area of 10,550 sq km in the counties of Kent, East and West Sussex, Hampshire, and the Isle of Wight, as well as a part of Wiltshire, Berkshire and Surrey.

Following its acquisition in 2007, CKI now has a 4.75% stake in Southern Water, taking advantage of a strategic investment opportunity that will provide immediate earnings accretion and cashflow to the Group.

## **AQUATOWER PTY LIMITED**

AquaTower is the exclusive potable water supplier of four regional towns in Victoria, Australia. The company provides an essential service to around 25,000 people.

CKI holds a 49% interest in AquaTower. This project has generated stable contributions during the year.



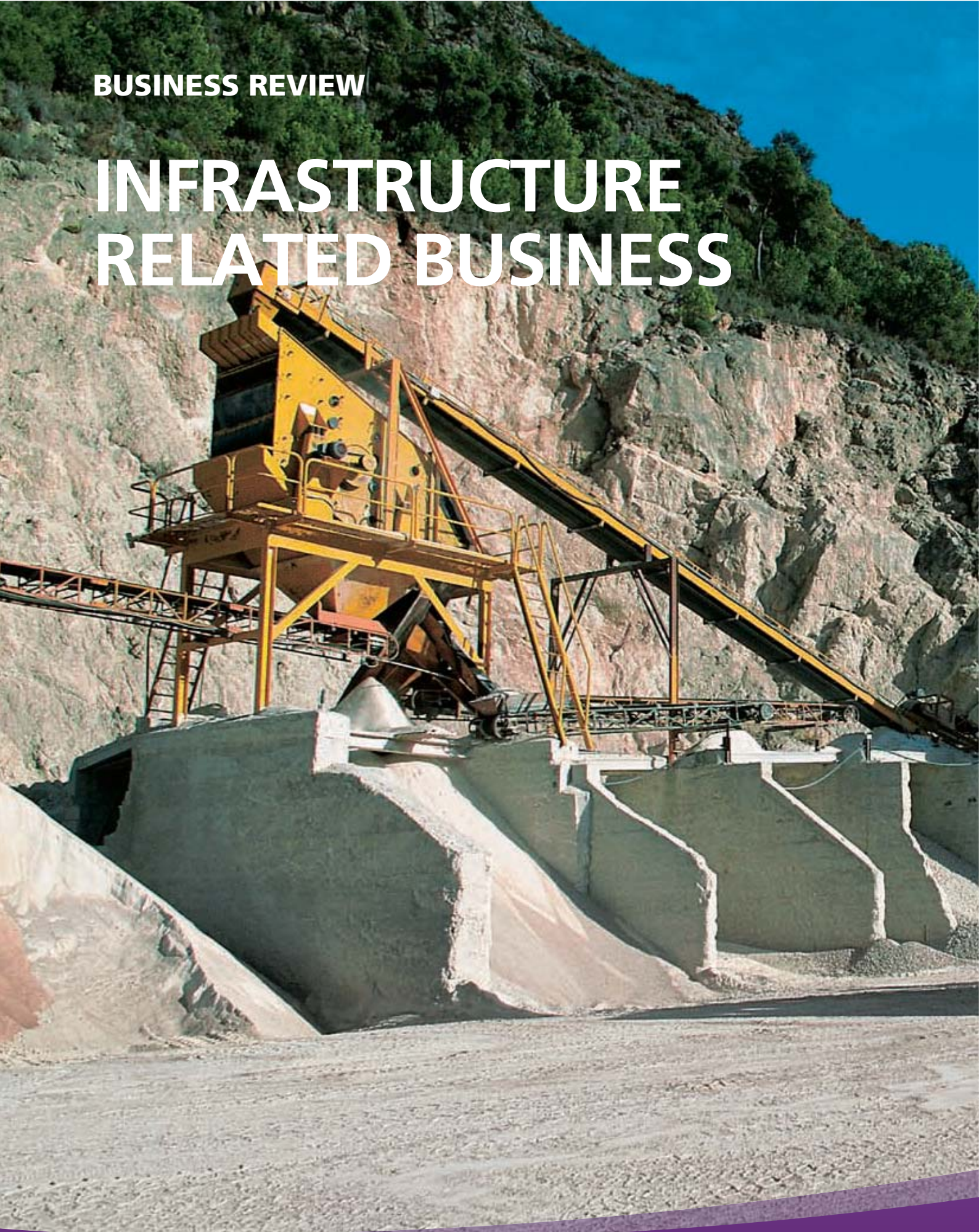
Cambridge Water in the United Kingdom achieved a satisfactory performance and generated good returns for CKI.



AquaTower is the exclusive potable water supplier of four regional towns in Victoria, Australia.

**BUSINESS REVIEW**

# **INFRASTRUCTURE RELATED BUSINESS**





The Group is Hong Kong's leading infrastructure materials company in cement, concrete and aggregates businesses.

# INFRASTRUCTURE RELATED BUSINESS



Green Island Cement and Alliance currently supply the Stonecutters Bridge project in Hong Kong with a specialty blend of cement and concrete to achieve the 100-year design life specified.

Overall, the performance of CKI's materials businesses improved as compared to the previous few years. Profit contribution from materials operations in Hong Kong and Mainland China increased by 30% over the same period in 2006 as a result of effective cost savings, higher selling prices and improved margins. Outlook for the construction industry in Hong Kong is more optimistic as a result of the Government's plan to develop more major infrastructure projects in the coming few years.

## **CEMENT**

In 2007, despite the rising cost of coal and mounting freight charges, Green Island Cement Company Limited achieved a stable performance.



Alliance is one of the largest suppliers of aggregates in Hong Kong.

In Mainland China, benefiting from the growing cement demand arising from increasing construction activity in the Guangdong region, the Group's cement operations in Yunfu recorded a continual improvement in profit margin.

### **CONCRETE AND AGGREGATES**

Alliance Construction Materials Limited, a 50/50 joint venture between CKI and Hanson PLC, maintained its market leadership position in Hong Kong's concrete industry. The company reported a satisfactory performance in 2007, with increased profit contribution through disciplined pricing and cost management.

In support of its concrete business, Alliance is also engaged in the supply of aggregates. It holds an interest in all three quarries in Hong Kong and is one of the largest suppliers of aggregates in the territory. Alliance is exploring future reserve opportunities in the Pearl River Delta region to expand its sources of aggregates supply.