

CHAIRMAN'S LETTER



HIGHLIGHTS

- Profit increased by 30% to reach HK\$4,772 million
- Total dividend for 2007 of HK\$1.10 per share, an increase of 10%
- Strong operating performance in all businesses:
 - Hongkong Electric – up 9%
 - China portfolio – increased by 78%
 - Australia portfolio – 352% rise
 - UK portfolio – up 45%
 - Materials business – increased by 30%
- Milestones in 2007:
 - Commissioning of Jinwan Phase 1 Power Plant in Mainland China
 - Extension of Jinwan Phase 2 Power Plant
 - Acquisition of TransAlta Power in Canada
 - Acquisition of strategic stake in UK Southern Water
- Strong balance sheet, cash on hand of HK\$8,217 million, ready for future acquisitions

Cheung Kong Infrastructure Holdings Limited (“CKI” or the “Group”) reached new heights in 2007.

For the year ended 31st December, 2007, CKI’s group turnover and its share of turnover of jointly controlled entities was HK\$5.9 billion, an increase of 23 per cent over the same period last year. Audited profit attributable to shareholders was HK\$4.8 billion, a significant increase of 30 per cent over 2006. Earnings per share were HK\$2.12.

CKI continues to have a very strong balance sheet. Cash on hand amounted to HK\$8.2 billion as at 31st December, 2007, while debt was HK\$7.6 billion, resulting in no net debt at the corporate level. Our “A-” rating from Standard and Poor’s has been maintained for the 11th consecutive year since listing.

The Board of Directors of CKI (the “Board”) has recommended a final dividend of HK\$0.83 per share. Together with the interim dividend of HK\$0.27 per share, this will bring the total dividend for the year to HK\$1.10 per share, a 10 per cent increase over last year. This represents 11 years of dividend growth every year since the Group’s listing in 1996. The proposed dividend will be paid on 20th May, 2008 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members of the Company on 15th May, 2008.

Several new projects were concluded in the year adding to the robust portfolio of businesses CKI has built up over the years, which now comprise:

- A power generation portfolio in Hong Kong, Mainland China and Canada that exceeds 10,000 MW;
- Electricity distribution networks in Hong Kong and Australia;
- Gas distribution businesses in the United Kingdom and Australia;
- Water assets in the United Kingdom and Australia; and
- Toll roads and bridges that cover approximately 400 kilometres in various provinces throughout Mainland China.

2007 OPERATIONS REVIEW

Hongkong Electric

Profit contribution from Hongkong Electric Holdings Limited ("Hongkong Electric") recorded growth of 9 per cent, amounting to HK\$2.9 billion in 2007. Hongkong Electric entered into a new Scheme of Control Agreement with the Hong Kong Government which provides for a fixed permitted return on average net fixed assets for ten years from January 2009, with a Government option to extend the agreement for a further term of five years. This agreement removes uncertainties surrounding the electricity industry in Hong Kong and under this long-term stable regulatory framework, Hongkong Electric will continue to make a steady profit contribution to CKI.

International Infrastructure Investments

Mainland China

Profit contribution from CKI's China portfolio in 2007 was HK\$1.6 billion, an increase of 78 per cent over the same period last year.

The Group's energy investments reported solid performance on the back of increasing electricity demand in Mainland China.

Zhuhai Power Plant continued to be a solid performer in our China portfolio in 2007. An extension to the Zhuhai Power Plant, Jinwan Phase 1 Power Plant project, was commissioned in February 2007. This project added 1,200 MW of electricity generation capacity, providing additional profit contribution to the Group. 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.

CKI's Siping Cogen Power Plants in Jilin also performed well during the year.

The Group's portfolio of toll roads in Mainland China achieved stable performance in 2007. A one-off gain of HK\$815 million was recorded arising from the sale of our stake in the Guangzhou East-South-West Ring Road to our joint venture partner.

Australia

Profit contribution from the Group's Australian businesses increased over three-fold to HK\$289 million.

The electricity distribution businesses delivered good operating results in 2007. ETSA Utilities, CitiPower I Pty Ltd. and Powercor Australia Limited recorded enhanced returns through both increased regulated revenue and expanded non-regulated business activities.

Our strategic investments in two listed energy companies in Australia, namely Envestra Limited and Spark Infrastructure Group, performed well during the year.

In early 2007, the Group divested 21 per cent of its 40 per cent stake in the Lane Cove Tunnel in Sydney, Australia, bringing its shareholding down to 19 per cent. Subsequently, after tunnel opening in March 2007, traffic levels have been significantly lower than expected. As a result, full provision has been made against the remaining carrying value of this investment.

United Kingdom

In the United Kingdom, a 45 per cent increase was reported by our water and gas businesses, with a total profit contribution of HK\$458 million.

Strong growth was achieved by Northern Gas Networks Limited ("Northern Gas Networks"). The regulatory reset for the period 2008-2013 was completed in December 2007. This will provide Northern Gas Networks with a high degree of income certainty for the next five years.

In the water business, stable cash and profit returns were generated by Cambridge Water PLC during the period under review.

Our portfolio of investments in the United Kingdom was extended with the acquisition of a stake in Southern Water Group ("Southern Water") in the fourth quarter of 2007. Southern Water is a regulated water and sewage company in the United Kingdom, with an enterprise value of approximately HK\$66 billion (GBP 4.2 billion). Our 4.75 per cent stake in Southern Water provides immediate earning accretion and good returns.

New Market – Canada

2007 marked our first electricity generation investment in North America. CKI acquired and subsequently privatised TransAlta Power, L.P. ("TransAlta Power"), which was previously listed on the Toronto Stock Exchange. TransAlta Power has stakes in six Canadian power plants with a total generating capacity of 1,362 MW. The total cost of acquisition was HK\$5 billion (C\$630 million). CKI subsequently divested 50 per cent of its interest to Hongkong Electric. The acquisition represents a springboard for CKI into the Canadian electricity market and provides an immediate cashflow stream and profit contribution to the Group in 2008.

Materials business

Our materials business performed well in 2007. With the resurgence of the property and infrastructure markets, the demand for the materials business improved and generated a profit contribution of HK\$143 million, up 30 per cent from last year.

PROSPECTS

CKI is in a formidable position to capitalise on development opportunities which are generally expected to arise in the near term.

The regulatory settlements for Hongkong Electric and Northern Gas Networks have been completed and uncertainties resolved.

The strong recurring cashflow generated from our regulated businesses underpin the Group's long-term stability, while contributions from our global portfolio continue to grow. The prospects for CKI's infrastructure investments are bright, with the pace of organic growth experienced to date expected to continue.

At present, our cash on hand stands at HK\$8.2 billion, while debt stands at HK\$7.6 billion, resulting in no net debt at the corporate level. With the Group's solid balance sheet, we are well-positioned to pursue new expansion opportunities.

The ongoing global credit crisis means that ready cash is a vital commodity. CKI's strong recurring cashflow and ample cash reserves should prove to be very timely in such circumstances. We look forward to leveraging on our position of strength to take advantage of potential opportunities for further expansion and diversification.

I would like to take this opportunity to thank the Board, management and staff of CKI for their dedication and efforts, as well as our shareholders for their unwavering support of the Group.

Li Tzar Kuoi, Victor

Chairman

Hong Kong, 17th March, 2008