

BUSINESS REVIEW

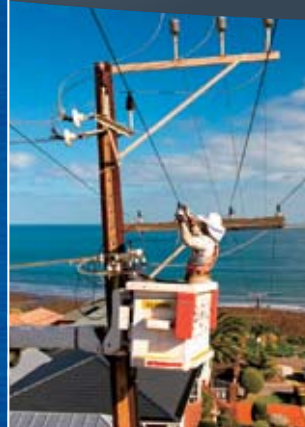
Investment In
HK ELECTRIC



Infrastructure
Investment In
CHINA



Infrastructure
Investment In
AUSTRALIA



Infrastructure
Investment In
**NEW
ZEALAND**



Infrastructure
Investment In

**UNITED
KINGDOM**



Infrastructure
Investment In

CANADA



Investment In

**INFRASTRUCTURE
RELATED BUSINESS**



Investment In HK ELECTRIC

With a 38.87% interest in the company, CKI is HK Electric's major shareholder. Through an installed capacity of 3,736 MW in Hong Kong, HK Electric generates, transmits and distributes power to more than 560,000 customers on Hong Kong Island and Lamma Island. HK Electric's growing portfolio of international investments also delivers strong recurring income.

For the year ended 31 December 2009, HK Electric's audited consolidated net profit after tax was HK\$6,697 million, a decrease of 17% as compared with last year. The primary reason for this drop was the 34% reduction in Hong Kong earnings, which amounted to HK\$4,646 million. During the year, HK Electric's international operations grew and earnings from this sector doubled to HK\$2,051 million in 2009.

HONG KONG OPERATIONS

In 2009, earnings from Hong Kong operations were reduced due to the lower rate of permitted return allowed under the new Scheme of Control Agreement, which commenced on 1 January 2009, as well as the lower cash deposit balances and deposit interest rates.

Despite various energy saving initiatives, unit sales of electricity increased by 0.5% as a result of a warmer summer. A slight increase was recorded in the number of domestic and commercial customers, while the number of industrial customers declined.

▼ Supply reliability was maintained at over 99.999%, higher than HK Electric's pledged service standards.



Supply reliability was maintained at over 99.999%, in excess of HK Electric's pledged service standards. Gas-fired units generated approximately 20% of the electricity sent out from Lamma Power Station, with the remainder being generated by coal-fired units.

A reduction in emission levels was recorded during the year through the commissioning of an additional flue gas desulphurisation plant and the increased consumption of natural gas, as well as efficient operation and maintenance activities.

The 800 kW Lamma Winds wind turbine operated satisfactorily during the year, with an increased capacity factor. Earlier in 2010, HK Electric further proposed the development of a 100 MW offshore wind farm in the south west Lamma channel.

INTERNATIONAL OPERATIONS

Strong operating results were achieved by HK Electric's businesses outside of Hong Kong. Earnings from international investments doubled in 2009. Total earnings arising from activities outside of Hong Kong increased from approximately 13% in 2008 to over 30% in 2009. This reflects the success of HK Electric's diversification strategy.

In April 2009, HK Electric acquired interests in three power plants in Mainland China to add to its portfolio. These investments performed ahead of expectations during the year and generated satisfactory returns.

▼ HK Electric's first battery charging station for electric vehicles opened at the end of 2009.



During the year, HK Electric also increased its stake in Northern Gas Networks. Overall, increased revenue was reported by this quality asset in 2009.

The 48 MW wind project in Dali, Yunnan province and the 49.5 MW wind project in Leting, Hebei province achieved commercial operations in January and October 2009 respectively and are operating satisfactorily. In Thailand, the 25% owned Ratchaburi Power Company provided its first full year of contribution to HK Electric.

The Australian electricity distribution businesses in South Australia and Victoria recorded a strong year with increased revenue, while stable returns were generated by Stanley Power in Canada. In New Zealand, HK Electric benefited from the first full year of operations from the 50% owned Wellington Electricity distribution network.

▼ The wind power project in Dali, Yunnan province commenced commercial operations in January 2009.



Infrastructure Investment In CHINA

CKI's portfolio of China investments comprises a number of toll road projects, spanning nearly 400 kilometres, in various provinces throughout the country. The transportation portfolio in China continues to make a stable contribution to the cashflow and profitability of the Group.

SHANTOU BAY BRIDGE

CKI has a 30% interest in the Shantou Bay Bridge. This project registered a satisfactory 4.7% growth in toll revenue during the year. Profitability was enhanced by 7% year-on-year as a result of increased revenue and the reduction of operational and financial expenses.

SHEN-SHAN HIGHWAY (EASTERN SECTION)

Shen-Shan Highway, in which CKI has a 33.5% interest, performed well in 2009 and reported a positive growth in profitability during the year. Revenue grew by a satisfactory 5.8% despite traffic

▼ The Changsha Bridges delivered good performance during the year.



▼ Shantou Bay Bridge registered a satisfactory 4.7% growth in toll revenue in 2009.



volume having been affected by renovation works in the western section of the Shen-Shan Highway. In terms of profitability, a 20% increase was achieved over that of the previous year. If the impact of yuan appreciation was excluded, the earnings in 2009 would actually have been more than 40% higher than 2008. These excellent results were generated from increased toll revenue, reduction of operating costs and savings in finance expenses.

TANGSHAN TANGLE ROAD

CKI has a 51% stake in Tangshan Tangle Road. In 2009, the project achieved an outstanding performance.

Revenue surged two-fold, mainly attributable to a new toll rate based on tonnage, as well as increased economic activity and traffic flow in the Tangshan area.

OTHER TOLL ROADS AND BRIDGES

Other toll roads and bridges, comprising the Changsha Bridges, Jiangmen Chaolian Bridge, Jiangmen Jiangsha Highway, National Highway 107 (Zhumadian Sections) and Panyu Beidou Bridge, delivered good performances during the year and generated stable cash returns.

▼ An outstanding performance was achieved by Tangshan Tangle Road during the year.

▼ Stable cash returns were generated by National Highway 107 (Zhumadian Sections).



▲ Jiangmen Chaolian Bridge is a 2-kilometre dual two-lane bridge.

▲ The dual three-lane Panyu Beidou Bridge is 3 kilometres long.

▲ Shen-Shan Highway performed well in 2009 and reported a positive growth in profitability.

▲ Jiangmen Jiangsha Highway is a 21-kilometre Class 1 highway.

Infrastructure Investment In AUSTRALIA

2009 marked the tenth anniversary of CKI's investment in the Australian infrastructure sector. Today, the Group's portfolio comprises a number of quality energy investments in the country. Together with HK Electric, CKI holds a majority stake in the power distribution businesses of ETSA Utilities, Powercor and CitiPower. In addition, CKI also has interests in Spark Infrastructure and Envestra.

ETSA UTILITIES

CKI, together with HK Electric, holds a 51% interest in ETSA Utilities, South Australia's primary electricity distributor and one of the largest companies in the state.

ETSA Utilities is engaged in building, extending, maintaining and upgrading the South Australian electricity distribution network. Electricity is delivered from the transmission network and directly-connected generators to more than 800,000 residential and business customers. The network has a route length of over 86,000 kilometres, including 402 zone substations and more than 69,000 distribution transformers and 723,000 Stobie poles.

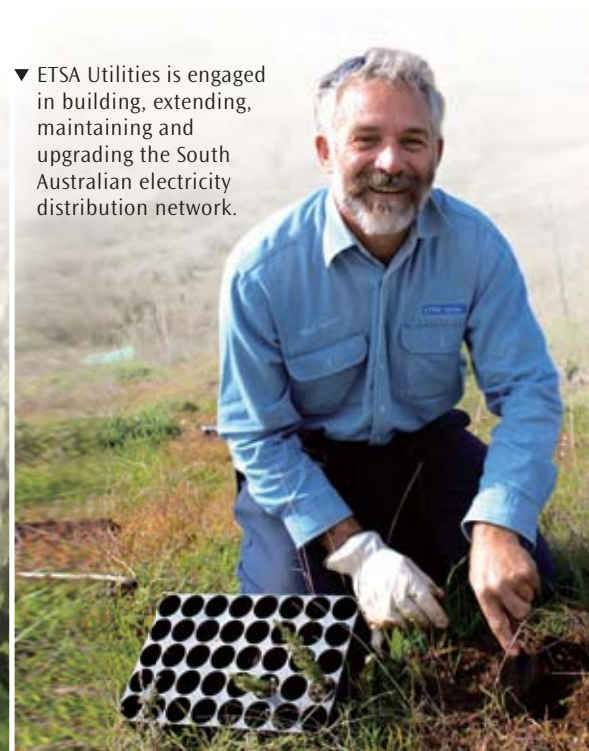
In 2009, ETSA Utilities exceeded all key financial targets, with profit and cashflow being particularly strong. Total distribution revenue, customer numbers and volume of sales all grew during the year under review.

ETSA Utilities is dedicated to achieving high levels of customer service, reliability, safety and efficiency. In terms of safety performance, key targets relating to Lost Time Injuries and Medical Treatment Injuries were achieved. ETSA Utilities also won the top national safety award for "Best Workplace Health and Safety

▼ ETSA Utilities is the primary electricity distributor in South Australia.



▼ ETSA Utilities is engaged in building, extending, maintaining and upgrading the South Australian electricity distribution network.



Management System” from Safe Work Australia. Customer service performance was sound, with all regulated targets for service timeliness, call centre performance and complaints handling being achieved.

Apart from the regulated side of the electricity distribution business, ETSA Utilities also provides electrical infrastructure project management, construction and maintenance services for business organisations and government bodies. Despite tough market conditions, contributions from unregulated activities exceeded target.

During the year, ETSA Utilities submitted its proposal for the 2010-2015 regulatory control period to the Australian Energy Regulator (“AER”). The AER will make its final decision on ETSA Utilities’ revised proposal by April 2010.

CHEDHA HOLDINGS PTY LTD.

CHEDHA Holdings is the holding company of Powercor and CitiPower, in which CKI and HK Electric jointly own a 51% stake.

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. It is the largest of the five electricity distribution networks in Victoria and covers around 150,000 square kilometres. Powercor services 698,000

distribution customers, and operates a range of successful non-regulated services. These are carried out by Powercor Network Services, an engineering, design and construction services company; and CHED Services, an information technology services business.

CitiPower supplies electricity to more than 310,000 distribution customers in Melbourne’s CBD and inner suburbs. This company is reputedly the most reliable electricity network in Australia.

Despite a year of uncertainties on the economic and environmental fronts, CHEDHA Holdings performed well in 2009, surpassing all key financial targets, meeting all important project milestones and earning significant recognition from customers and the community.

In 2009, Powercor/CitiPower received the *Emergency Recovery Award* from the Edison Electricity Institute of the USA. In addition, a number of awards were received from the Customer Service Institute of Australia, including *Large Business (National and State Awards)*, *Help Desk Award (Victoria)* and *Customer Service Manager of the Year (National and State Awards)*.

Following several years of detailed preparation by Powercor and CitiPower, the roll out of Advanced Metering Infrastructure (Smart Meters) commenced

▼ CHEDHA Holdings performed well in 2009, surpassing all key financial targets.

▼ 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.



◀ ETSA Utilities’ total distribution revenue, customer numbers and volume of sales all grew during the year.

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in late 2009, and by the end of the year, more than 10,000 smart meters were installed, slightly ahead of schedule. The pace of this roll out is expected to ramp up significantly in 2010.

Late in 2009, Powercor and CitiPower submitted their proposals for the regulatory period 2011-2015 to the AER. A final determination is expected to be handed down in October 2010.

SPARK INFRASTRUCTURE GROUP

CKI holds an 8.5% stake in Spark Infrastructure and is also the joint asset manager of this specialist infrastructure fund. Spark Infrastructure's objective is to invest in regulated utility infrastructure.

Spark Infrastructure's current portfolio comprises a 49% interest in three high quality Australian electricity distribution businesses, ETSA Utilities in South Australia and Powercor and CitiPower in Victoria.

▼ CitiPower supplies electricity to more than 310,000 customers in Melbourne's CBD and inner suburbs.

▼ A number of accolades were received by Powercor and CitiPower during the year.



Spark Infrastructure was listed on the Australian Securities Exchange in December 2005 and, as at 31 December 2009, had a market capitalisation of around A\$1.4 billion.

In 2009, Spark Infrastructure achieved steady cash distributions for CKI.

ENVESTRA LIMITED

With an over 18% stake in Envestra, CKI holds a strategic interest in one of Australia's largest natural gas distribution companies.

Envestra owns about 21,000 kilometres of natural gas distribution networks and 1,000 kilometres of transmission pipelines, serving over one million consumers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory. On average, each domestic consumer generates around A\$275 in revenue for Envestra per year.

During 2009, Envestra continued to deliver a stable cash yield to CKI.

AQUATOWER PTY LIMITED

The Group holds a 49% interest in AquaTower, the exclusive potable water supplier for around 25,000 people across four regional towns in Victoria, Australia.

In 2009, AquaTower achieved excellent operational performance. It continues to generate attractive returns for CKI. Throughout the year under review, the treatment plants reported no lost time injuries.

◀ AquaTower is the exclusive potable water supplier for around 25,000 people across four regional towns in Victoria, Australia.

Infrastructure Investment In **NEW ZEALAND**

CKI owns 50% interest in Wellington Electricity, the electricity distributor of the capital city of New Zealand.

WELLINGTON ELECTRICITY LINES LIMITED

CKI and HK Electric have an equal shareholding in Wellington Electricity, each owning 50% of the company.

Wellington Electricity delivers electricity to 163,000 homes and businesses in New Zealand's capital city, Wellington, and the surrounding greater Wellington area. With a network spanning 4,600 kilometres, it is characterised by a high customer density and a high proportion of underground assets, particularly in the CBD of Wellington City.

2009 represented the first full year of profit contribution from Wellington Electricity, providing CKI with a satisfactory return and steady income stream. During the year, distribution revenue was higher than budget due to colder (than normal) winter temperatures.

Wellington Electricity is committed to providing a high level of reliability in the delivery of electricity to its customers – underlying reliability has continued to perform solidly; and customer service related measures have been in line with expectations.

▼ In 2009, Wellington Electricity delivered its first full year of contribution to CKI.



◀ Wellington Electricity delivers electricity to 163,000 homes and businesses in New Zealand's capital city, Wellington, and the surrounding greater Wellington area.

Infrastructure Investment In UNITED KINGDOM

CKI's portfolio of investments in the United Kingdom comprises both gas and water businesses. The Group holds a substantial interest in Northern Gas Networks, owns Cambridge Water and holds a strategic investment in Southern Water.

NORTHERN GAS NETWORKS LIMITED

In 2009, CKI further extended its investment in Northern Gas Networks from 40% to approximately 47.1%. Through this increase in shareholding, the Group has strategically enhanced its investment in this quality asset. Together with HK Electric, CKI now jointly holds an 88.4% stake in Northern Gas Networks.

Northern Gas Networks is responsible for distributing gas to homes and businesses across the north of England, an area covering West, East & North Yorkshire, the North East and northern Cumbria. One of the eight gas distribution networks in the United Kingdom, Northern Gas Networks has 37,000 kilometres of gas distribution pipeline that delivers gas to approximately 2.6 million homes and businesses.

In 2009, Northern Gas Networks continued to deliver cost reductions and productivity improvements to ensure it remains benchmarked as one of the most efficient gas distributors in the United Kingdom.

All key operational targets and licence standards of service have been met or exceeded during the year. Significant safety improvements have been made, with a 29% reduction in the number of employee and

▼ In 2009, CKI further extended its investment in Northern Gas Networks by increasing its shareholding to approximately 47.1%.



◀ One of the eight gas distribution networks in the United Kingdom, Northern Gas Networks distributes gas to homes and businesses in the north of England.



contractor recorded injuries. A strong performance was delivered in relation to customer service, with all key measures remaining in line with or improved from the previous year.

CAMBRIDGE WATER PLC

Cambridge Water is 100% owned by CKI and has been supplying fresh, clean drinking water for more than 150 years. The company supplies excellent quality, underground water – pumped from boreholes – to South Cambridgeshire in the United Kingdom. It serves an area of 453 square miles which includes Cambridge and extends to Ramsey in the north, Balsham in the east, Gamlingay in the west and Melbourn in the south. The network covers a population of 300,000, with 125,000 customers.

In 2009, Cambridge Water generated stable returns for CKI. The company has outperformed its financial targets for the fifth year since it has been under CKI's ownership. During the year, Cambridge Water won a contract to supply the world famous racing stable, Godolphin Racing, with water to its Snailwell Gallops.

In addition, Cambridge Water was recognised as a top performing company within the water industry. The regulator, Ofwat, ranked Cambridge Water as number

one for its asset management plan, and the company was rewarded for its “industry leading service and quality performance” in the recent price determination. At the same time, customer complaints had been reduced for the third successive year, placing Cambridge Water at the top of the industry league table.

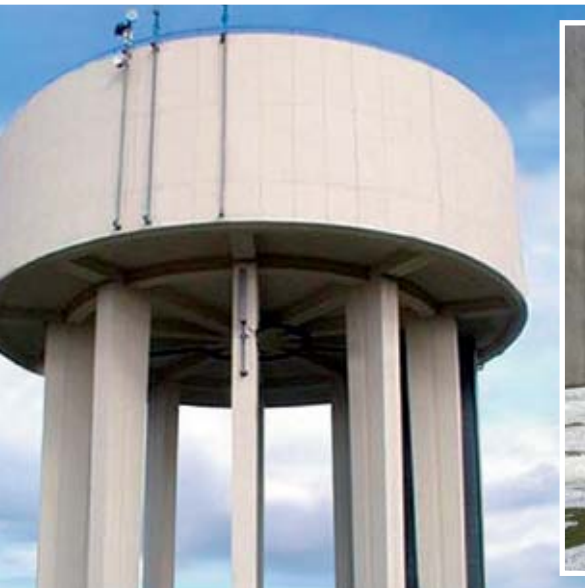
SOUTHERN WATER

CKI has a 4.75% strategic stake in Southern Water, a regulated business which supplies fresh, quality drinking water to more than one million households and treats and recycles wastewater from nearly two million households across Sussex, Kent, Hampshire and the Isle of Wight.

Each day, 555 million litres of drinking water are supplied from 90 water treatment works along more than 13,600 kilometres of water mains to customers' taps. Nearly 69% of water is taken from underground sources; 26% from rivers; and 5% from storage reservoirs. Southern Water also treats and recycles 1,300 million litres of wastewater each day at 371 treatment works after it is pumped through a sewer network of more than 21,500 kilometres.

Stable returns were provided by Southern Water to CKI in 2009.

▼ Cambridge Water supplies fresh, clean drinking water to South Cambridgeshire in the United Kingdom.



▼ CKI has a strategic stake in Southern Water, which provided stable returns in 2009.



Infrastructure Investment In CANADA

In Canada, CKI holds stakes in six electricity generation plants through Stanley Power.

STANLEY POWER INC.

Stanley Power is jointly owned by CKI and HK Electric on a 50/50 basis.

Stanley Power has a 49.99% interest in TransAlta Cogeneration L.P., which holds stakes in six electricity generation plants in Canada. The plants have a total generating capacity of 1,362 MW and comprise five natural gas-fired cogeneration plants in Alberta, Saskatchewan and Ontario, and a coal-fired generation plant in Alberta. All six plants have long-term offtake contracts that provide a predictable income stream.

Solid and stable results were delivered to CKI by Stanley Power in 2009, with the financial performance being enhanced by the recording of a benefit from a reduction in income tax rates. With power purchase agreements in place, the power plants in TransAlta Cogeneration L.P.'s portfolio all performed well in 2009. This was in spite of the challenges presented by lower energy prices resulting from lower energy demand.

2009 was highlighted by significant capital expenditures on equipment upgrades in three of the power plants. The upgrades were all completed on budget and on time, resulting in material improvements in efficiency and reliability, as well as an increase in generating capacity and a reduction in greenhouse gas emissions.



◀ With a total generating capacity of 1,362 MW, CKI's portfolio in Canada comprises five natural gas-fired cogeneration plants in Alberta, Saskatchewan and Ontario, and a coal-fired generation plant in Alberta.



◀ Solid and stable results were delivered by the Canadian investments in 2009.

Investment In **INFRASTRUCTURE RELATED BUSINESS**

As Hong Kong's leading infrastructure materials supplier, CKI has cement, concrete and aggregates businesses.

CKI's materials businesses have benefited from increased construction activity in Hong Kong. Profit contribution increased by 15% to HK\$146 million in 2009. With a number of major infrastructure projects currently in the pipeline, the prospects for the construction industry are very encouraging.

CEMENT

An improved performance was achieved by Green Island Cement (Holdings) Limited during the course of the year.

The Yunfu cement plant in Mainland China also performed well, benefitting from continued demand from the Guangdong region. In terms of production, a record year was achieved in 2009.

In the first quarter of 2010, Green Island expanded its operations in Mainland China through plans to develop new flagship cement production facilities in Yunfu, at an investment cost of HK\$700 million. The new facilities are poised to enhance profitability for the Group's materials business in Mainland China.

CONCRETE AND AGGREGATES

Alliance Construction Materials Limited, a 50/50 joint venture between CKI and HeidelbergCement AG, maintained its market leadership position in Hong Kong's concrete industry and reported profitability in line with expectations.

Alliance is also engaged in the supply of aggregates to support its concrete business and is one of the largest suppliers of aggregates in the territory.

In addition, through a separate joint venture, Alliance is developing a new quarry in Hui Dong, Guangdong.



- ▲ CKI's materials business have benefited from increased construction activity in Hong Kong.
- ◀ Alliance maintained its market leadership position in Hong Kong's concrete industry and reported profitability in line with expectations.