

Chairman's Letter



“2003 is a year of realignment and satisfactory organic growth for CKI.”

Highlights

In 2003,

- Profit before tax was HK\$4,185 million, an increase of 8%
- Profit after tax attributable to shareholders was HK\$3,349 million, an increase of 1%
- Annual dividend growth of 5%

Seven consecutive years of sustained growth

Hongkong Electric generated a substantial profit contribution: HK\$2,281 million

Infrastructure investments achieved YoY profit contribution growth of 21%

- 28% profit contribution growth in Australian infrastructure projects
- 13% profit contribution growth in China investments

Strong financial platform, poised for future growth

- Cash-on-hand of HK\$7.2 billion
- Net debt to equity ratio of 18%

Driving Our Core Businesses

CKI continues to be the largest diversified infrastructure investment company listed on the Stock Exchange of Hong Kong, and has established a strong position as a significant player in the global infrastructure arena. This is attributable to the steady performance and effective management of our core businesses of energy, transportation and infrastructure related business.

1. Energy – Powering Our Strong Foundations

Hongkong Electric continues to be a major profit contributor to the Group. In 2003, contribution was HK\$2,281 million, accounting for 58 per cent. of the Group's total profit contribution. Compared to last year, this represents a drop of 11 per cent. This was largely caused by a change in accounting standards relating to deferred tax which led to a substantial one-off provision, an increase in the corporate tax rate; and a soft domestic economy caused by the SARS epidemic. The fundamentals of Hongkong Electric remain sound, and its overseas investments continue to perform very well.

Profit contribution from our energy businesses in 2003 was HK\$1,461 million, representing 37 per cent. of the Group's total profit contribution. The portfolio of Australian energy investments showed improved performance in 2003 with an increase of 28 per cent. in profit contribution as compared to 2002. Gas distributor, Envestra Limited, as well as power distributors, ETSA Utilities, Powercor Australia Limited and CitiPower I Pty Ltd. ("CitiPower"), have provided solid revenue streams during the year. The strong performance was attributable to organic growth, a first full-year contribution from CitiPower, and the strength of the Australian dollar.

Energy investments in the Mainland delivered another year of growth, contributing HK\$476 million to the Group, an increase of 14 per cent. from the previous year. This represents 12 per cent. of the Group's total profit contribution. Zhuhai Power Plant, our largest power investment in the Mainland, surpassed power targets and has recorded its best performance to date. The other three coal-fire plants, namely Fushun Cogen Power Plants in Liaoning, Qinyang Power Plants in Henan and Siping Cogen Power Plants in Jilin, operated smoothly and made steady contributions during the year.

THE GROWTH ROADMAP

We are pleased to report that Cheung Kong Infrastructure Holdings Limited ("CKI" or the "Group") achieved another year of growth in 2003. Profit before tax was HK\$4,185 million, an increase of 8 per cent. over last year; and profit after tax attributable to shareholders was HK\$3,349 million, an increase of 1 per cent. from the previous year. In 2003, the results of Hongkong Electric Holdings Limited ("Hongkong Electric"), an associate of CKI, were adversely affected by tax related issues including an increase in tax rate, and the substantial one-off provision for deferred tax due to a change in accounting standards. The Group's profit after tax was therefore affected. Earnings per share were HK\$1.49.

The Board of Directors is recommending a final dividend of HK\$0.50 per share. Together with the interim dividend of HK\$0.215 per share, this will bring the total dividend for the year to HK\$0.715 per share, a 5 per cent. increase from the HK\$0.68 per share paid for 2002. The proposed dividend will be paid on 18th May, 2004 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members on 13th May, 2004.

In a year of worldwide turmoil characterised by war, the threat of terrorism and Severe Acute Respiratory Syndrome ("SARS"), a year-on-year profit growth has been maintained for the seventh consecutive year. Hongkong Electric continued to provide a substantial profit contribution to the Group, and strong performance in the Australian and Chinese operations provided steady overall growth.

“The Group is eminently positioned to invest in new infrastructure projects in 2004.”

“Our investments in the Mainland and Australia are well placed for strong growth as the economies of both countries continue to thrive.”

2. Transportation – Steering Towards Future Growth

Against the backdrop of China's growing economy and soaring GDP, our transportation business in the Mainland continued to report organic growth in 2003. More than half of our transportation projects in the Mainland generated double-digit growth in toll revenue. In particular, toll revenue from the Guangzhou East-South-West Ring Road, and the National Highway 107 at Zhumadian increased 20 per cent. and 34 per cent. respectively over last year.

In Australia, the construction of the Sydney Cross City Tunnel, a two-kilometre cross city tollway tunnel linking Sydney's eastern suburbs with the western side of the city, is making steady progress. Under effective management control, the project is proceeding on budget and construction is ahead of schedule.

3. Infrastructure Related Business – Solidifying Market Leadership Position

2003 was another challenging year for the Group's infrastructure related business. Infrastructure materials have faced competitive prices and downward volume trends in the region and this has impacted on contribution from this sector. With the general economy picking up and the property markets showing signs of recovery, the demand for cement, concrete and aggregate is expected to increase. The Group looks forward to better prospects for its materials business.

A merger of the concrete and quarry operations of Anderson Asia (Holdings) Limited (“Anderson Asia”) and the Hong Kong operations of Hanson PLC, one of the leading building materials suppliers in the world, was announced in early 2004. This move will create the

largest concrete and quarry supplier in Hong Kong strengthening the Group's market standing in the supply of infrastructure materials. It will also lead to consolidation and maximisation of operational efficiency.

On Course on the Growth Roadmap

2003 represented a year of consolidation and re-alignment for CKI. Given the unsettling macro landscape of last year, we sustained satisfactory organic growth. Looking ahead, as the economy improves in Hong Kong, it is expected that Hongkong Electric and the infrastructure related business will benefit during the recovery. Our investments in the Mainland and Australia are well placed for strong growth as the economies of both countries continue to thrive. With our strong financials, cash-on-hand of HK\$7.2 billion and low net debt to equity ratio of 18 per cent., the Group is very well positioned to make new, secure and profitable investments as we progress along our growth roadmap.

Mr. Barrie Cook has retired as an Executive Director of the Company. He has been with the Group for the last 21 years developing the materials division which comprises Green Island Cement (Holdings) Limited and Anderson Asia. Barrie has been one of Hong Kong's leading pioneers of environmental sustainability and has introduced a number of major environmental initiatives to both CKI and Hong Kong. I would like to extend my thanks and appreciation to him for his diligent efforts and am pleased to say that he will remain as part of CKI as a Non-executive Director.

Finally, I would like to offer my thanks to the Board of Directors and our staff for their commitment, dedication and hard work, and to all our shareholders for their support and confidence in the Group.

LI TZAR KUOI, VICTOR

Chairman

Hong Kong, 9th March, 2004