We are currently witnessing very turbulent times in the global financial markets. The subprime mortgage meltdown in the United States has rapidly grown into a full-size global economic crisis of an enormity not seen since the Great Depression in the 1930s.

Against this volatile economic landscape, Cheung Kong Infrastructure Holdings Limited (“CKI” or the “Group”) achieved a steady performance in 2008, both in terms of financial and operating results.

During this challenging time, CKI stands out as a profitable company, with satisfactory operating results across a diverse portfolio of infrastructure assets and a formidable balance sheet. Profit contribution from operations increased by 14% to HK$6,075 million in 2008.

Profit attributable to shareholders was HK$4,423 million in 2008, a decrease of 7.3% as compared to last year. The financial results were negatively impacted by mark-to-market adjustments arising from fluctuations in currency and financial markets.

With a strong balance sheet, we believe we are in a good position to face upcoming market difficulties in the near term and to grasp opportunities for continued growth.
SHARE PRICE PERFORMANCE
During the year, our share price has outperformed the Hang Seng Index. CKI’s share price closed at exactly the same price of HK$29.15 on 31st December, 2008 as it did on 31st December, 2007. In comparison, during the same period, the Hang Seng Index fell by 48%. This reflects investor confidence in CKI’s business model and operating strategies, particularly amidst such testing financial times.

12 YEARS OF DIVIDEND GROWTH
A total dividend of HK$1.135 per share will be distributed for 2008, a 3.2% increase over last year. This is the 12th consecutive year that CKI has maintained a trend of dividend growth since listing.

Dividends Per Share (HK$)

STRONG BALANCE SHEET
As at 31 December 2008, cash and deposits totalled HK$5,481 million, while debt was HK$6,743 million, resulting in a conservative net debt to equity ratio of 3%. Accordingly, CKI continues to maintain a strong balance sheet. The Group has maintained an “A-” rating by Standard & Poor’s since 1997.

LOOKING BACK ON 2008
CKI’s diverse portfolio comprises infrastructure assets in Hong Kong, Mainland China, Australia, New Zealand, the United Kingdom and Canada.

The Group’s long-term stability is underpinned by strong recurring cashflow from our regulated businesses. In fact, about 90% of profit is generated from regulated businesses or under offtake contracts with pass-through provisions. As a result, our income and cashflow are very stable and predictable.

The demand for the services provided by the Group’s assets – such as electricity, gas, water and roads – remain stable, regardless of the macro-economic landscape. CKI’s portfolio is characteristically resilient in nature.
ELECTRICITY GENERATION
CKI has an electricity generation portfolio in Hong Kong, Mainland China and Canada totalling approximately 8,000 MW.

Through Hongkong Electric Holdings Limited (“HK Electric”), power is generated, transmitted and distributed to Hong Kong Island and Lamma Island. A stable performance was recorded by HK Electric in 2008, the last year under the previous 15-year Scheme of Control Agreement (“SCA”). A new SCA was signed with the Hong Kong Government, effective for 10 years commencing 1st January 2009 and featuring a lower rate of permitted return on average net fixed assets of 9.99%. While this rate of permitted return has been lowered, the new SCA does provide a certain and stable long-term framework for future operation.

In 2008, both the Jinwan Phase 1 Power Plant project in Mainland China and Stanley Power, which holds CKI’s electricity investments in Canada, delivered their first full year of profit contributions to CKI.

The Zhuhai Power Plant also recorded another good performance during the year under review.

GAS
Our gas distribution businesses are in the United Kingdom and Australia. Northern Gas Networks in the United Kingdom performed well in 2008. During the year, a new regulatory settlement commenced which will result in secure returns over the next five years. Our strategic investment in Envestra in Australia also delivered a stable cash yield to CKI.

WATER
The Group’s water assets are located in the United Kingdom and Australia. Cambridge Water provided stable cashflow to the Group and the first full year of profit contribution was received from CKI’s strategic stake in Southern Water. Our investment in AquaTower in Australia also generated steady returns.

TOLL ROADS
CKI’s portfolio of toll roads and bridges cover approximately 400 kilometres in various provinces throughout Mainland China. Overall, this portfolio performed well in 2008, with steady increases recorded in terms of both traffic and toll revenue.

MATERIALS
In 2008, the performance of our materials business was impacted by high fuel prices and rising freight charges.

INVESTMENTS AND DIVESTMENTS
We intend to continuously refine our portfolio of infrastructure assets to maximise shareholder value.

INVESTMENTS
To strengthen our portfolio, we have always pursued acquisition opportunities which meet stringent investment criteria.

In 2007, we acquired, through Stanley Power, a 49.99% interest in TransAlta Cogeneration L.P., which has stakes in six Canadian electricity generating plants. The business is now jointly owned by CKI and HK Electric and provides attractive returns.
The Wellington Electricity Distribution Network, which supplies electricity to the city of Wellington, was acquired in 2008. Also jointly owned with HK Electric, the project has generated profit returns since July last year.

Both of these recent transactions have satisfied the key characteristics of our acquisition strategy. They offer immediate and stable cashflow to CKI and are located in stable and mature markets, protected by a sound legal framework. Stanley Power and the Wellington Electricity Distribution Network are quality assets that strengthen and add value to our portfolio.

DIVESTMENTS
In addition to making timely and strategic acquisitions, we will also consider divestments that unlock the value of our portfolio should appropriate opportunities arise.

In 2007, a one-off gain of HK$815 million was generated from the sale of the Group’s stake in the Guangzhou East-South-West Ring Road to our Chinese partner. In 2008, our stake in Fushun Cogen Power Plants were also divested for a consideration of HK$112 million.

CKI also announced the divestment of three power plants in Mainland China to HK Electric in February 2009. Subject to completion, this will generate a one-off gain of approximately HK$1,348 million, expected to be booked in the first half of 2009.

TREASURY
In 2008, the financial results were negatively impacted by mark-to-market adjustments arising from fluctuations in currency and financial markets. Going forward, we will continue to closely monitor the Group’s investments on a regular basis.

LOOKING AHEAD
Our business strategy has proven to be successful in the past. In the future, we will continue with our existing strategy to enhance the organic growth of our infrastructure operations, as well as to refine our portfolio through timely acquisitions and divestments.

On the acquisition front, we will continue to focus on regulated assets that will deliver attractive returns and steady cashflow to the Group. We will also adhere strictly to our stringent investment criteria.

Upon the completion of the divestment of our three power plants in Mainland China, CKI will have cash and deposits totalling over HK$11 billion. This enhances our substantial cash resources from which we can finance future acquisitions. Given the current macro-economic environment in which over-gearing and refinancing risk are major challenges for the infrastructure industry, there may be more attractive acquisition opportunities on the horizon for companies like CKI which have a strong balance sheet and net cash position. CKI is well-placed to pursue good investment targets and to capitalise on development opportunities that could potentially arise in the near term.

H L Kam
Group Managing Director
Hong Kong, 19th March, 2009