

BUSINESS REVIEW

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* Completion of the acquisition is expected to take place in the second quarter of 2013



Infrastructure Investment in
NEW ZEALAND



Infrastructure Investment in
CANADA



Infrastructure Investment in
AUSTRALIA



Investment in
**INFRASTRUCTURE
RELATED BUSINESS**





Infrastructure Investment in
CHINA



Investment in
POWER ASSETS



Infrastructure Investment in
UNITED KINGDOM





Investment in **POWER ASSETS**

With a shareholding of 38.87%, CKI is the major shareholder of Power Assets. Driven by the performance of the global portfolio, Power Assets achieved satisfactory growth in 2012.

In 2012, Power Assets continued its growth momentum. Increases in both revenue and profit were reported, mainly attributable to the growth of its global portfolio.

For the year ended 31st December, 2012, Power Assets achieved profit growth of 7% to HK\$9,729 million. Profits from operations outside of Hong Kong increased 12% to HK\$5,108 million, representing 53% of Power Assets' total earnings for 2012. Hong Kong operations generated HK\$4,621 million in profit, 2% higher than the year before.

OPERATIONS OUTSIDE OF HONG KONG

Power Assets' global portfolio encompasses investments in the United Kingdom, Australia, New Zealand, Canada, Mainland China and Thailand.

The investments in the United Kingdom achieved a strong performance in 2012, significantly contributing to Power Assets' overall profit growth. UK Power Networks has been crucial to the growth of the United Kingdom portfolio, with its financial performance bolstered by increased revenues and lower operating costs. UK Power Networks was also widely recognised for its successful and reliable delivery of power to the London Olympics.

Northern Gas Networks performed well in 2012, delivering increased throughput and improved customer service standards.

Profit growth was achieved by Seabank Power through enhanced operational efficiencies.

In October 2012, Power Assets expanded further into the United Kingdom's gas distribution market with the acquisition of a 30% stake in Wales & West Utilities, one of the eight major gas distribution networks in the United Kingdom.

The Australian businesses of Power Assets remained stable during the year under review. To reinforce its role as an electricity distributor, ETSA Utilities was rebranded as SA Power Networks. CitiPower and Powercor made stable contributions during the year and were recognised for their customer service efforts. In September 2012, Power Assets entered into Australia's renewable energy transmission business through a new joint venture, Transmission Operations Australia, in Victoria.

In Mainland China, Power Assets reported a decline in overall earnings and total units sold, mainly due to relatively low demand for the coal-fired generation. As compared with 2011, operations in Canada, Thailand and New Zealand delivered weaker performances.

HONG KONG OPERATIONS

Through its subsidiary, The Hongkong Electric Company, Limited ("HK Electric"), Power Assets generates, transmits and distributes electricity to more than 567,000 customers on Hong Kong Island and Lamma Island.

In 2012, performance of HK Electric remained satisfactory. Unit sales of electricity were slightly higher than in 2011.

HK Electric is committed to maintaining high efficiency and a world-class supply reliability. During the year, regular system upgrades have been conducted; generation, transmission and distribution equipment was subjected to advanced predictive and diagnostic maintenance; and leading-edge information technology control systems were put into place.

Continued progress was made by HK Electric in its efforts to use cleaner fuels and bring renewable energy to Hong Kong:

- The proportion of natural gas in HK Electric's fuel mix continues to be over 30%;
- A full-year wind measurement at the proposed offshore wind farm site at Southwest Lamma was completed in February 2013. The results will be incorporated in a feasibility study report to be submitted to the HKSAR Government; and
- The capacity of the solar power system at Lamma Power Station was nearly doubled to 934 kW.

Power Assets has been recognised by global institutions for its corporate social responsibility efforts, and has been included in the Dow Jones Sustainability Asia Pacific Index; it is also the first Hong Kong company in the Global 500 Carbon Disclosure Leadership Index.



■ Power Assets acquired a 30% stake in Wales & West Utilities in October 2012.



Infrastructure Investment in UNITED KINGDOM

CKI's investments in the United Kingdom span electricity, gas and water infrastructure businesses. In 2012, the Group's portfolio was fortified by the acquisition of Wales & West Utilities. Today, the infrastructure network of CKI distributes approximately 30% of the country's electricity, provides gas distribution service to an area which covers about 22% of the nation's population, as well as supplies water in the North East and South East of England.

UK POWER NETWORKS HOLDINGS LIMITED

CKI and Power Assets each own a 40% interest in UK Power Networks.

UK Power Networks owns, operates and manages three of the 14 regulated electricity distribution networks in the United Kingdom. The three licensed distribution networks, which total a length of approximately 186,000 kilometres, service London, the South East and the East of England. UK Power Networks is one of the largest electricity distribution network owners in the country, spanning a service area of approximately 30,000 square kilometres. Over eight million connected customers are powered by UK Power Networks. The company distributes approximately 30% of the total power demand in the country.

In addition to the three regulated networks, UK Power Networks operates a number of private networks on behalf of its clients, including the London Underground, the British Airports Authority, the Ministry of Defence and the London 2012 Olympic Park.

During the year under review, UK Power Networks continued to deliver a strong financial performance. Growth was achieved in revenue as well as profit contribution to CKI.

UK Power Networks played an important part in the success of the London 2012 Olympic and Paralympic Games. Reliable power supplies were provided by UK Power Networks throughout the Games in more than 30 game venues. The achievements of UK Power Networks during the Games were highly commended by the Prime Minister of the United Kingdom, the Mayor of London, the International Olympic Committee, as well as the national energy regulator Ofgem.

UK Power Networks continued with its planned programme of investments in its regulated networks business, investing nearly GBP600 million in 2012. The network performance showed continuous enhancements. In terms of Customer Interruptions and Customer Minutes Lost, UK Power Networks outperformed the targets set by Ofgem significantly.

In recognition of its achievements in the London 2012 Olympic and Paralympic Games and continuing improved performance, UK Power Networks was named “Utility of the Year”, designated for the best utility across the gas, water and electricity sector in the United Kingdom, at the 2012 Utility Industry Achievement Awards. In addition, the accomplishments of UK Power

Networks in installing and managing the electricity network for the Olympic Park earned the company a separate accolade of “Team of the Year”.

NORTHUMBRIAN WATER GROUP LIMITED

CKI owns a 40% interest in Northumbrian Water.

Northumbrian Water is one of the ten regulated water and sewerage companies in England and Wales. With a network comprising about 25,500 kilometres of mains and about 29,700 kilometres of sewers, Northumbrian Water supplies drinking water to 4.5 million people in the North East and South East of England, as well as collects and treats wastewater from 2.7 million people in the North East.

In addition, Northumbrian Water operates Kielder Reservoir, the largest man-made reservoir in northern Europe, as well as owns a number of special purpose companies which are involved in long term water and wastewater contracts in Scotland, Ireland and Gibraltar.

Northumbrian Water provided its first full year profit contribution to CKI in 2012. The financial performance of its business is in line with expectations.

During the year, about GBP240 million was invested by Northumbrian Water in capital expenditure projects which were aimed at ensuring the continued provision of sustainable water and wastewater services.



■ UK Power Networks was named “Utility of the Year”.



■ Northumbrian Water provided its first full year profit contribution to CKI in 2012.

The second Advanced Anaerobic Digestion (AAD) plant of Northumbrian Water commenced operation at Howdon in the North East of England. With two AAD plants, Northumbrian Water is the first in the country to use over 99% of the treated sludge to produce renewable energy.

In 2012, Northumbrian Water was the only water company in the United Kingdom to be awarded the highest level of five stars in the “Recognised for Excellence” programme organised by the British Quality Foundation. Northumbrian Water also won a number of accolades honouring its outstanding performance in the areas of safety, sustainability and customer service.

NORTHERN GAS NETWORKS LIMITED

In conjunction with Power Assets, CKI has an 88.4% shareholding in Northern Gas Networks.

Northern Gas Networks operates, maintains, repairs and develops the North of England gas distribution network in the United Kingdom. It is one of the eight gas distribution networks in the country. With a network of 37,000 kilometres of gas distribution pipelines, the company’s service area is approximately 25,000 square kilometres, covering a population of 6.7 million.

The overall financial performance of Northern Gas Networks was very strong in 2012, with good profit contribution growth to CKI recorded.

During the year, Northern Gas Networks invested around GBP35 million in capital expenditure projects, the primary focus of which was to reinforce and extend its network, as well as to improve the information technology infrastructure.

Northern Gas Networks was ranked by Ofgem as the most efficient gas distribution network in its benchmarking analysis of the 2011/12 regulatory year. This is the seventh consecutive year that Northern Gas Networks has received this recognition.

In the area of safety, Northern Gas Networks was again awarded the OHSAS 18001 Occupational Health & Safety Accreditation for the entire business. It is the only gas distribution network in the country which holds this standard along with the ISO 14001 Environment Accreditation.

The regulatory reset for gas distribution network operators was completed in 2012. This reset is poised to give considerable stability and predictability to the company for eight years, commencing in 2013. The result of the reset is challenging, but within management’s expectations; the built-in incentives for outperforming regulatory targets could further drive the business performance in the future.



■ Northern Gas Networks was ranked by Ofgem as the most efficient gas distribution network.

WALES & WEST UTILITIES LIMITED

In October 2012, a consortium led by CKI completed the acquisition of 100% of Wales & West Utilities. The enterprise value of the transaction was approximately HK\$24.265 billion (about GBP1.957 billion). CKI and Power Assets each hold a 30% stake in Wales & West Utilities.

Wales & West Utilities is one of the eight major gas distribution networks in the United Kingdom. The company has a service coverage area of 42,000 square kilometres, and provides service to a population of 7.5 million in Wales and the South West of England. The pipelines of Wales & West Utilities span a length of 35,000 kilometres.

Post-acquisition, the two months of operational performance reported by Wales & West Utilities was satisfactory and in line with CKI's expectations. However, due to a non-cash mark-to-market impact

on derivative instruments arising from the inherited financing structure, CKI reported an accounting loss for Wales & West Utilities.

Wales & West Utilities is an award winning gas distribution network in the United Kingdom. The company was awarded the "Customer Services Awards" by the Institution of Gas Engineers and Managers for four consecutive years since 2009. It also won the "Supply Chain Award" for the second year as well as the "Customer Care Award" at the 2012 Utility Industry Achievement Awards.

As mentioned above, the regulatory reset for gas distribution network operators was completed in 2012. In common with Northern Gas Networks, Wales & West Utilities' management believe the outcome of the reset is challenging, but within expectations; and efforts would be launched to attain the incentives which would be awarded when regulatory targets are outperformed to increase the revenue further.



■ Mr. H L Kam, Group Managing Director of CKI (left) was given a tour of Wales & West Utilities' facilities on the day the acquisition was completed.

SEABANK POWER LIMITED

CKI and Power Assets each hold a 25% stake in Seabank Power.

Seabank Power owns and operates a combined cycle gas turbine power plant with a capacity of approximately 1,140 MW near Bristol. In 2012, profit contribution made by the company to CKI saw a significant increase over 2011, when profits were impacted by a scheduled maintenance outage. As the company has a long-term offtake contract in place to sell the electricity generated, the business should deliver steady returns to CKI.

Seabank Power continued to deliver an outstanding performance in regard to safety and environment. There were no Lost Time Incidents or Environmental Reportable Incidents during the year. In addition, the company continued to receive the ISO 14001 Environmental Accreditation.

SOUTHERN WATER SERVICES LIMITED

CKI has a 4.75% strategic interest in Southern Water, a regulated business which supplies fresh, quality drinking water to a population of more than 2.4 million, as well as treats and recycles wastewater from 4.4 million people in the South East of England across Sussex, Kent, Hampshire and the Isle of Wight.



■ Seabank Power continued to deliver an outstanding performance in regard to safety and environment.



Infrastructure Investment in AUSTRALIA

CKI, in conjunction with Power Assets, represents the largest power distributor in Australia. The Group has investments in SA Power Networks and Victoria Power Networks which distribute electricity to the entire state of South Australia and over 65% of the state of Victoria respectively. CKI's other Australian assets include Spark Infrastructure, Envestra and AquaTower. In 2012, CKI's portfolio in the country was further enriched by the formation of Transmission Operations Australia.

SA POWER NETWORKS

Together with Power Assets, CKI owns a 51% stake in SA Power Networks, the primary electricity distributor in the state of South Australia.

Formerly known as ETSA Utilities, the company changed its name to SA Power Networks in September 2012 to reflect its continuing commitment to serving South Australia.

SA Power Networks manages a regulated distribution network which supplies electricity to over 834,000 customers.

In 2012, SA Power Networks continued to meet all key financial targets. Revenues from the regulated business exceeded targets, and the non-regulated business of SA Power Networks also outperformed targets.

During the year, SA Power Networks maintained high levels of safety, reliability and customer service. In terms of safety, SA Power Networks' Safety Management System continued to be in line with Australian Standard AS/NZS 4801 and the International Standard

OHSAS 18001. The reliability target relating to the annual minutes without supply per customer was achieved. SA Power Networks was also awarded a number of state-level accolades in the Australian Service Excellence Awards organised by the Customer Service Institute of Australia.

VICTORIA POWER NETWORKS PTY LTD

CKI and Power Assets jointly own a 51% interest in Victoria Power Networks, the holding company of CitiPower and Powercor. The company was known as CHEDHA Holdings before it was renamed in December 2012.

CitiPower owns and operates a distribution network which supplies electricity to approximately 320,000 customers in Melbourne's CBD and inner suburbs. These customers include some of Australia's largest companies, transport systems and sporting venues.

Powercor is the largest electricity distributor in the state of Victoria. Its network serves approximately 740,000 customers in central and western Victoria, as well as the western suburbs of Melbourne. In addition, Powercor operates a successful non-regulated business. It is one of the most reliable rural electricity distributors in Australia.



■ CitiPower supplies electricity in Melbourne's CBD and inner suburbs.

Victoria Power Networks' capital works programme, almost 20% larger than that of 2011, was successfully completed during the year. The Advanced Metering Infrastructure programme also achieved remarkable progress, with more than 800,000 smart meters installed so far out of a target of 1.1 million.

According to an electricity reliability benchmarking report released by the Energy Supply Association of Australia in 2012, both CitiPower and Powercor showed a very strong performance in comparison with 16 peer distribution businesses across the country. In terms of unplanned and planned power interruptions, CitiPower customers experienced the lowest average number of minutes of power lost annually. During the year, CitiPower also achieved a reliability rating of 99.99% network availability while Powercor delivered 99.98%.

In 2012, CitiPower and Powercor gave an excellent performance in customer service. CitiPower and Powercor were jointly named "Power Utility of the Year – Australia" in the 2012 Asian Power Awards for their Faults Management Mobility Project, through which faults are despatched to field crews electronically leading to significant improvement in efficiency and timeliness of faults response. Additionally, in the Customer Service Institute of Australia's Australian Service Excellence Awards, CitiPower and Powercor won the "Best of the Best 2012" award, as well as a number of accolades at both the national and state levels.

ENVESTRA LIMITED

With a shareholding of approximately 19% in Envestra, CKI holds a strategic interest in one of the largest natural gas distribution companies in Australia.

Envestra owns a natural gas distribution network which serves over 1.1 million customers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

During the year, Envestra reported growth in profit contribution and provided steady cash flows for CKI.

SPARK INFRASTRUCTURE GROUP

CKI holds an 8.5% stake in Spark Infrastructure, a leading Australian utility infrastructure group listed on the Australian Securities Exchange. The company's major business is to make investments in quality regulated utility infrastructure assets which incur low risks and provide stable returns.

The portfolio of Spark Infrastructure includes a 49% stake in three high quality Australian electricity distribution businesses, namely SA Power Networks, CitiPower and Powercor.

In 2012, Spark Infrastructure continued to generate attractive cash distributions for CKI.

TRANSMISSION OPERATIONS (AUSTRALIA) PTY LTD

During the year under review, CKI and Power Assets formed Transmission Operations Australia on a 50/50 basis. This is the Group's first investment in

the renewable energy power transmission sector in Australia. The investment amount of the project is HK\$268.1 million (A\$33.6 million).

Transmission Operations Australia will own and operate a transmission network which is now under construction. Through the network, renewable energy will be transferred from the wind turbines at the 130 MW Mt Mercer Wind Farm to Victoria's power grid.

The network is expected to be completed in November 2013. On completion, the high voltage network will comprise 21 kilometres of overhead power lines, two transformers, and a terminal station.

AQUATOWER PTY LTD

CKI has a 49% interest in AquaTower, the exclusive potable water supplier to four regional towns in Victoria. It serves approximately 25,000 people.

AquaTower generated stable returns and achieved an increase in profit contribution to CKI in 2012.



■ Spark Infrastructure continued to generate attractive cash distributions for CKI.



■ AquaTower is the exclusive potable water supplier to four regional towns in Victoria.

Infrastructure Investment in NEW ZEALAND

CKI owns a 50% stake in Wellington Electricity, an electricity distributor whose service area covers New Zealand's capital city and the surrounding area.

In January 2013, CKI signed an agreement to acquire EnviroWaste, a leading waste management company with national coverage in New Zealand. Completion of the acquisition is expected to be in the second quarter of 2013.

WELLINGTON ELECTRICITY LINES LIMITED

CKI and Power Assets each own a 50% stake in Wellington Electricity.

Wellington Electricity owns and manages an electricity network which serves approximately 165,000 domestic, commercial and industrial customers in the Wellington, Porirua and Hutt Valley regions of New Zealand. Spanning over 4,600 kilometres, the network is characterised by its high customer density and large proportion of underground assets in the central Wellington City area.

The operating performance of Wellington Electricity continued to be satisfactory during the year.

Wellington Electricity is dedicated to maintaining a high level of reliability and safety performance. The reliability of the network was in line with expectations despite the impact of some extreme weather conditions during the year. In 2012, the new public safety management system of the company was awarded a



three-year certificate of compliance with New Zealand standard NZS 7901.

ENVIRO WASTE SERVICES LIMITED

In January 2013, CKI announced its expansion into the arena of waste management infrastructure in New Zealand through the acquisition of 100% of EnviroWaste. The cash consideration of the acquisition will be approximately HK\$3.18 billion (NZ\$490 million).

EnviroWaste is a diversified, vertically integrated waste management business that has national coverage. It is one of only two vertically integrated waste collection and disposal companies operating throughout New Zealand, offering waste-related services to approximately half a million commercial and residential sources via collection services, landfills and transfer stations across the country.

EnviroWaste owns and manages Hampton Downs, the largest landfill measured by remaining capacity in New Zealand. Situated on an area of 360 hectares outside of Auckland, Hampton Downs accounts for approximately 30% of annual landfill volumes in Greater Auckland. The landfill is consented to receive waste until 2030 while having a capacity to receive waste for many decades to come.

It is expected that completion of the transaction will take place in the second quarter of 2013.



Infrastructure Investment in CANADA

CKI holds an attractive portfolio of electricity generating plants in Canada through its 50% interest in Stanley Power.

STANLEY POWER INC.

Stanley Power is jointly owned by CKI and Power Assets on a 50/50 basis. The company currently has interests in six electricity generating plants in Canada, totaling a generating capacity of 1,362 MW.

Stanley Power holds a 49.99% stake in TransAlta Cogeneration, L.P., which has ownership stakes in five electricity generation plants, including four natural gas-fired cogeneration plants in Alberta and Ontario, and one coal-fired generation plant in Alberta.

In addition, Stanley Power owns a 100% stake in the Meridian Cogeneration Plant, a natural gas-fired plant

in the province of Saskatchewan with an installed capacity of 220 MW. The plant sells electricity under a long-term power purchase agreement to Saskatchewan Power Corporation, and has a long-term steam supply contract with Husky Energy Inc., both lasting until 2025. In 2012, a major overhaul of one of the gas turbines and the steam turbine at the plant was successfully completed on time and on budget.

Overall, Stanley Power's portfolio of power plants continued to provide CKI with a solid income stream during the year under review.



■ Stanley Power has interests in six electricity generating plants in Canada.



Infrastructure Investment in CHINA

In Mainland China, CKI's investments in transportation infrastructure comprise about 400 kilometres of toll roads and bridges in various provinces.

SHEN-SHAN HIGHWAY (EASTERN SECTION)

CKI has a 33.5% shareholding in Shen-Shan Highway (Eastern Section). This project delivered a satisfactory performance during the year. A 4.7% increase in toll revenue was recorded. Overall earnings are comparable to that of the previous year.

SHANTOU BAY BRIDGE

CKI owns a 30% stake in Shantou Bay Bridge. Satisfactory growth of 6.4% in toll revenue was reported in 2012. Despite being partially offset by higher renovation cost, the increase in revenue resulted in a year-on-year increase of 4.8% in profitability.

TANGSHAN TANGLE ROAD

CKI has a 51% interest in Tangshan Tangle Road. Benefitting from the maintenance works carried out by the competing roads and continued growth of economic activity in the area, Tangshan Tangle Road delivered an outstanding performance in 2012. Toll revenue achieved growth of 25.9%. The net profit distributable to shareholders also increased by 20.4%.

JIANGMEN CHAOLIAN BRIDGE

Jiangmen Chaolian Bridge, in which the Group holds a 50% interest, implemented an annual ticket system after the suspension of the toll gates in February 2012. A rise of 7.4% in revenue and an increase of 3.7% in earnings were reported during the period under review.

OTHER TOLL ROADS AND BRIDGES

Other toll roads and bridges of CKI, comprising Jiangmen Jiangsha Highway, National Highway 107 (Zhumadian Sections), Changsha Wujialing and Wuyilu Bridges, as well as Panyu Beidou Bridge, all achieved performances in line with expectation during the year and delivered stable cash returns.



■ Tangshan Tangle Road achieved growth of 25.9% in toll revenue.



■ Toll roads and bridges of CKI all achieved performances in line with expectation.



Investment in INFRASTRUCTURE RELATED BUSINESS

CKI has businesses in cement, concrete and aggregates, as well as asphalt. The Group is the largest supplier of cement, concrete and asphalt in Hong Kong.

CKI's materials business achieved an overall satisfactory performance in 2012. Profit contribution recorded a 15% increase, which can be attributed to improved market conditions in Hong Kong.

CEMENT

CKI's cement operations are performed by Green Island Cement. Good results were reported from Hong Kong operations in 2012. Volume and margins of cement saw an increase over last year.

In Mainland China, the Yunfu cement plant made steady progress during the year. In addition, a new flagship cement production facility in Yunfu, with an annual production capacity of 1.5 million tonnes, commenced production in early 2013.

CONCRETE, AGGREGATES AND ASPHALT

CKI operates its concrete and aggregates businesses through Alliance Construction Materials Limited, a 50/50 joint venture between the Group and HeidelbergCement AG. As the biggest concrete producer in Hong Kong's market, Alliance performed well in 2012 with a healthy order book.

Through a separate joint venture, Alliance's new quarry in Huidong, Guangdong commenced operation in 2012. A new crushing plant, with a production capacity of 650 tonnes per hour, was commissioned.

The asphalt operations of CKI, which are carried out by Anderson Asphalt, also achieved satisfactory results in 2012.



■ Anderson Asphalt achieved satisfactory results in 2012.



■ A new flagship cement production facility in Yunfu commenced production in early 2013.



■ Alliance is the biggest concrete producer in Hong Kong's market.