Since listing, CKI has journeyed a successful path of globalisation and diversification to reach new heights in profitability.
GLOBALISATION AND DIVERSIFICATION STRATEGY FUELS GROWTH

PROFITABILITY SURPASSES HK$10B

In 2013, CKI has achieved another momentous milestone. Profitability topped the HK$10 billion mark as the Group reported another record performance since listing in 1996. Over the past 17 years, CKI has a strong track record of growth across many parameters – profitability, dividend and market capitalisation among many others.

The Group has employed a strategy of globalisation and diversification to achieve this stellar performance. At its inception, CKI was a Greater China-focused business with a portfolio of investments in cement, power plants and toll roads across Hong Kong and Mainland China. Today, the Group represents one of the leading global infrastructure players with diversified investments in electricity generation, transmission and distribution; gas distribution; water and wastewater services; toll roads; infrastructure materials; and waste management. CKI’s portfolio spans across Hong Kong, Mainland China, the United Kingdom, the Netherlands, Australia, New Zealand and Canada.

Over the years, the Group has successfully acquired businesses in new industries and markets that have added value to the portfolio and delivered stable returns. This strategy of globalisation and diversification has been the cornerstone of CKI’s continued growth momentum.

WASTE MANAGEMENT – A NEW CHAPTER IN 2013

In 2013, CKI diversified into waste management business, marking the beginning of a new chapter for the Group.

In the beginning of the year, CKI extended its geographical presence in New Zealand and expanded into the business of waste management through the acquisition of EnviroWaste. The cash consideration for the transaction was approximately HK$3.2 billion (approximately NZ$490 million) and the acquisition was completed in April 2013.

EnviroWaste is one of the leading waste management companies in New Zealand. It comprises two core businesses: (1) garbage collection through a fleet of around 300 vehicles; and (2) landfill operation, namely the largest one in New Zealand that is situated close to Auckland. EnviroWaste plays a pivotal role in helping resolve the waste problems in New Zealand.

EnviroWaste has generated immediate and stable returns to CKI after completion.
Subsequently, CKI led a consortium to acquire AVR, the largest energy-from-waste player in the Netherlands, for an enterprise value of approximately HK$9.7 billion (approximately EUR940 million). This represents CKI’s first investment in continental Europe.

AVR is an energy-from-waste (“EfW”) plant that earns revenue by generating steam, heat and electricity through processing waste. In addition to income from energy generated, AVR receives a gate fee for the waste that it handles. This environmentally-friendly facility helps to resolve the waste problems faced by the Netherlands and other neighbouring European countries.

The investment is expected to provide steady returns to CKI.

**A SUCCESSFUL PATH OF GLOBALISATION AND DIVERSIFICATION**

Since listing, CKI has journeyed a successful path of globalisation and diversification to reach new heights in profitability. This course can be broadly divided into two parts: (1) the pre-millennium period from 1996-1999; and (2) a post-millennium period from 2000-2013.

**Pre-Millennium**

**Greater China**

In the period since CKI listed in 1996 through to 1999, the Group was mainly engaged in businesses in Greater China. During this short three-year period, CKI quickly established itself as one of the major infrastructure investors in Mainland China. It had investments that spanned 7 provinces in Mainland China, including over 700 kilometres of toll roads and 3,000 MW of power generation capacity.
In 1997, following a reorganisation of the Cheung Kong Group, CKI acquired a 38.87% stake in Power Assets Holdings Limited (formerly called Hongkong Electric Holdings Limited), whose core business at the time was to supply electricity to Hong Kong Island and Lamma Island.

Since then, CKI and Power Assets have been strategic partners in many overseas expansion opportunities. As Power Assets’ global portfolio became increasingly diverse, its earnings from overseas business began to surpass those from Hong Kong operations in 2011. In early 2014, Power Assets spun off its Hong Kong electricity arm with a listing on the Stock Exchange of Hong Kong.

**Post-Millennium**
In the post-millennium period from 2000 till today, CKI has been incredibly busy acquiring and consolidating new projects into its portfolio.

**Australia**
A critical point in the Group’s globalisation and diversification strategy came in the late ‘90s as CKI expanded into the Australian market.

In July 1999, the Group made its first entrance into Australia through a strategic investment in Envestra, one of the largest natural gas distributors in the country. Within months of this, CKI expanded into electricity distribution by privatising ETSA Utilities (now renamed SA Power Networks), the primary electricity distributor for South Australia.

In 2000, CKI acquired Powercor, the largest electricity distributor in the state of Victoria. Later in 2002, the Group acquired CitiPower, an electricity distribution network that serves Melbourne’s CBD and inner suburbs. Today, both Powercor and CitiPower are amalgamated into Victoria Power Networks.

CKI rapidly grew its investment portfolio in Australia. Today, the Group represents one of the biggest electricity distributors in Australia.
The Group made a further investment in Australia in 2012 and expanded into the renewable energy power transmission sector with a power transmission link project in Victoria.

CKI’s investment history in Australia is a microcosm of the Group’s overall expansion strategy. CKI is committed to developing a growth pattern or momentum in the markets in which it operates, progressing and expanding over time. The Group tends to enter new markets with smaller investments to take the opportunity to learn about the business, gain valuable experience in the local environment, build a strong network of business relationships, and understand the regulatory framework. Once the management team of CKI is comfortable with this investment environment, the Group pursues more acquisition opportunities.

**United Kingdom**

In the United Kingdom market, a similar pattern of growth has emerged.

In 2004, CKI made its first foray into the United Kingdom with a relatively small investment in Cambridge Water. Based on a very positive experience in the United Kingdom business environment, the Group has actively pursued more investment opportunities - culminating in Northern Gas Networks in 2005 and Southern Water in 2007.

Over the past few years, CKI has significantly accelerated its expansion plans in the United Kingdom. In 2010, the Group invested in Seabank Power, extending its portfolio into the realm of electricity generation in the United Kingdom. This was rapidly followed by the acquisition of UK Power Networks in 2010, Northumbrian Water in 2011 and Wales & West Utilities in 2012.

The Group is now one of the largest foreign investors in the United Kingdom. CKI’s electricity distribution networks serve around 30% of the total power demand in the United Kingdom while its gas distribution networks serve about 22% of the country’s population. Water services are provided to approximately 7 million people, whilst wastewater services are also provided to approximately 7 million.

**Canada**

In 2007, CKI branched out to the Canadian market. CKI and Power Assets now jointly own Canadian Power (formerly known as Stanley Power), which has interests in 6 power plants. They are located in the provinces of Ontario, Alberta and Saskatchewan. In 2011, the Group expanded its portfolio, increasing the stake in the Meridian Cogeneration Plant in Saskatchewan to 100% in conjunction with Power Assets.

**New Zealand**

In 2008, the Group expanded into electricity distribution in New Zealand with the acquisition of Wellington Electricity. Since then, CKI has amassed considerable knowledge on New Zealand’s business environment and studied numerous investment opportunities. This allowed the Group to successfully acquire EnviroWaste in 2013 and enter into a new market – waste management.

**A STRATEGY FOR SUCCESS**

Through a strategy of globalisation and diversification, CKI has evolved from a Greater China-focused infrastructure company to a leading global player with operations around the world.
The Group has been concentrated on pursuing investment opportunities that generate strong, recurrent and steady cash flows. While CKI’s portfolio is diversified in terms of geography and industry, the Group has been focused on targeting projects that fit with its stringent investment criteria. There are common parameters across all of CKI’s investments — in terms of both the countries that the Group invests in, as well as in terms of the industries that it invests in.

In regards to geography, the Group looks to invest in countries that offer the following: (1) welcoming environment for foreign investments; (2) low sovereignty risk; (3) good enforcement of contractual obligations; (4) transparent legal systems; (5) strong financial frameworks; (6) ease of communications; (7) familiar business environments; (8) well established regulatory regimes; and (9) accessibility of local governments.

In regards to industry focus, the Group seeks to invest in business fields that offer the following: (1) regulatory frameworks supported by long term contracts ensuring certainty and security of future returns; (2) immediate cash flow and profit contribution; (3) areas in which the Group has prior experience or is familiar with; and (4) synergies with investments of CKI or other Cheung Kong Group member companies.
GROUP MANAGING DIRECTOR’S REPORT

STRONG FINANCIAL FOUNDATION

Underpinning the Group’s successful growth strategies is a strong financial foundation. Despite an active acquisition trail over the past years, CKI has cash on hand of HK$5,958 million and a net debt to net total capital ratio of 8%. The Group has maintained its “A-” rating from Standard & Poor’s since it was first rated in 1997.

This foundation provides CKI with a firm financial platform on which to build its business for future growth.

TAKING MORE STRIDES ON PATH OF GLOBALISATION AND DIVERSIFICATION

Looking ahead, CKI will continue to seek growth for stakeholders by pursuing its strategies of globalisation and diversification. In 2013, the acquisitions of EnviroWaste and AVR clearly illustrate this commitment to continued expansion.

The Group will continue to look for opportunities in countries and industries that it has already invested in. At the same time, CKI will also pursue new investment opportunities in different sectors and markets around the world.

The Group is confident of achieving success as it continues its path of globalisation and diversification.

H L KAM
Group Managing Director