In this Group Managing Director’s Report, I am pleased to outline our track to success and highlight the significant milestones along the process of **globalisation** and **diversification** that supported the realisation of CKI’s vision of becoming a leading global infrastructure company.

H L KAM
Group Managing Director
GROUP MANAGING DIRECTOR’S REPORT

CKI: A Globalisation and Diversification Growth Story

22 years ago, when CKI was listed on the Stock Exchange of Hong Kong in July 1996, we had a vision to become a leading global infrastructure company — one that makes the world a better place through a variety of infrastructure investments and developments in different parts of the world.

With a market capitalisation of HK$17 billion at listing in 1996, CKI initially focused on the China infrastructure and infrastructure materials businesses in the Greater China Area. It now boasts a market capitalisation of HK$157 billion as at 31st December, 2018, (nine times the market capitalisation at listing 22 years ago) through a series of globalisation and diversification initiatives.

Today, CKI is one of the world’s leading global infrastructure companies, with businesses in the UK, Continental Europe, Canada, Australia, New Zealand, Hong Kong and Mainland China. In this Group Managing Director’s Report, I am pleased to outline our track to success and highlight the significant milestones along the process of globalisation and diversification that supported the realisation of CKI’s vision of becoming a leading global infrastructure company.

QUALITY ACQUISITIONS OVER THE YEARS

One of the drivers of CKI’s sustained business growth is the continuous expansion of our business portfolio through strategic acquisitions of quality assets over the years. During the 18-year period from 2000 to 2018, there had been an average of 1.5 acquisitions a year.

THE PATH TO GLOBALISATION

CKI had embarked on a course of geographic expansion to reach the scale of operations today.

Establishing a Foothold in Greater China

Our business began with a focus mainly on Hong Kong and Mainland China. When the Group was listed in 1996, our investments included toll roads, toll bridges and power plants on the Mainland, and infrastructure related businesses in cement, concrete, asphalt and aggregates in Hong Kong and Mainland China. The Group quickly became one of the major infrastructure investors in Greater China.
Partnership with Power Assets in Overseas Expansion

In 1997, following a reorganisation of the CK Group, CKI acquired a 35% stake in Hongkong Electric Holdings Limited (now renamed Power Assets Holdings Limited with CKI currently owning a 35.96% interest).

Since then, CKI and Power Assets have partnered together on many overseas energy projects. As Power Assets’ global portfolio became increasingly diverse, earnings from its overseas business began to surpass those of its Hong Kong operations in 2011.

In 2009, Power Assets acquired the Mainland China power plant assets from CKI.

In 2014, Power Assets spun off its Hong Kong electricity arm as a Business Trust and listed it on the Stock Exchange of Hong Kong.

First Overseas Foray Embarked in Australia

In July 1999, CKI made its first foray overseas with an A$100 million acquisition of a 19.97% stake in Envestra, one of the largest natural gas distributors in Australia at that time. Since then, we have continued to expand our presence in Australia with the following investments:

- ETSA Utilities (now renamed SA Power Networks) – the primary electricity distributor for South Australia (enterprise value at acquisition in 1999 was A$3.4 billion);
- Powercor – the largest electricity distributor in the state of Victoria (enterprise value at acquisition in 2000 was A$2.3 billion);
- CitiPower – an electricity distribution network serving the central business district and inner suburban areas of Melbourne (enterprise value at acquisition in 2002 was A$1.4 billion). Both Powercor and CitiPower are now amalgamated with Victoria Power Networks;
- Envestra (now renamed Australian Gas Networks) – one of the largest listed natural gas distributors in Australia. CKI consortium privatised Envestra in 2014 (enterprise value at privatisation was A$4.6 billion); and
- DUET Group – one of the largest listed diversified utility companies, comprising four operating energy companies. CKI consortium privatised DUET in 2017 (enterprise value at privatisation was approximately A$13 billion), and integrated the management of three of its four businesses with existing management teams of CKI businesses in Australia:
  - United Energy, one of the five electricity distribution networks in the state of Victoria, is now managed alongside with the management team of Victoria Power Networks to enhance synergy;
  - Multinet Gas, a gas distribution network in the state of Victoria, is now managed alongside with the management team of Australian Gas Networks to create synergies;
  - Dampier Bunbury Pipeline, the principal gas transmission pipeline in Western Australia, is now managed alongside with the management team of Australian Gas Networks to create synergies; and
  - Energy Developments Limited, headquartered in Queensland, continues with the existing management to own and operate power generation facilities in clean energy and remote energy across different states of Australia.

CKI has now become one of the largest foreign investors in Australia, serving Australian communities in the sectors of electricity distribution, gas transmission and distribution, renewable and low greenhouse gas emissions energy solutions across different states of the country.
Capturing Growth Opportunities in the United Kingdom

In 2004, CKI extended its footprint to the UK with a small investment in Cambridge Water. Since then, the Group has continued to make acquisitions over the years. Outlined below are the major investments we have made in the UK:

- **UK Power Networks** – owns and manages three of the 14 regulated electricity distribution networks in the UK (enterprise value at acquisition in 2010 was £5.8 billion);
- **Northern Gas Networks and Wales & West Gas Networks**, which owns Wales & West Utilities – two of the eight major gas distribution networks in Great Britain (enterprise value of Northern Gas Networks at acquisition in 2005 was £1.4 billion and enterprise value of Wales & West Gas Networks at acquisition in 2012 was £2.0 billion);
- **Seabank Power** – a 1,150 MW gas-fired power plant near Bristol (enterprise value at acquisition in 2010 was £212 million);
- **Northumbrian Water** – one of the ten regulated water and sewerage companies in England and Wales (enterprise value at acquisition in 2011 was £4.8 billion). (Cambridge Water was divested in the same year to enable us to meet regulatory requirements for the Northumbrian Water acquisition); and
- **UK Rails** – the holding company of Eversholt Rail Group, one of the three major rolling stock companies in the country (enterprise value at acquisition in 2015 was £2.5 billion). Through this investment, CKI embarked on its first venture into the transportation infrastructure industry in the UK.

CKI is one of the largest foreign investors in the UK today, providing different essential services across the electricity, gas, water and transportation sectors.

Expanding into Continental Europe

On the heels of its success in the UK, CKI expanded its investment portfolio in 2013 to include Continental Europe. Currently, CKI has investments in:

- **Dutch Enviro Energy**, which owns AVR – the largest energy-from-waste company in the Netherlands (enterprise value at acquisition in 2013 was EUR940 million);
- **Portugal Renewable Energy**, which owns Iberwind – one of the largest wind power companies in Portugal (enterprise value at acquisition in 2015 was EUR978 million); and
- **ista** – headquartered in Germany, a provider of sub-metering and consumption-based billing services for water and heat in Germany as well as other countries including France, Denmark, Luxemburg, the Netherlands, Norway and Sweden (enterprise value at acquisition in 2017 was EUR6 billion).

Spreading our Coverage to Canada

In 2007, CKI began investing in Canada. Currently, CKI owns a stake in:

- **Canadian Power** – which has interests in six power plants that are located in the provinces of Ontario, Alberta and Saskatchewan (enterprise value at acquisition in 2007 was C$630 million);
- **Park’N Fly** – the largest off-airport car park provider in Canada (enterprise value at acquisition in 2014 was C$381 million);
- **Canadian Midstream Assets** – an investment which comprises 2,200km of oil pipelines, two storage facilities and ancillary assets in Canada (enterprise value at acquisition in 2016 was C$2.3 billion); and
- **Reliance Home Comfort** – the largest water heater and HVAC (heating, ventilation and air conditioning) equipment rental company in Canada (enterprise value at acquisition in 2017 was approximately C$4.6 billion).
Further Extending Geographic Coverage to New Zealand

CKI completed its first investment in New Zealand in 2008. Today, the Group owns and operates two businesses in the country:

- Wellington Electricity – the electricity distributor in Wellington, the capital city of New Zealand, and the surrounding greater Wellington area (enterprise value at acquisition in 2008 was NZ$785 million); and
- EnviroNZ – one of the leading waste management companies in the country (enterprise value at acquisition in 2013 was NZ$490 million).

A GLOBAL PORTFOLIO OF QUALITY ASSETS

Through our Globalisation efforts, CKI has become one of the biggest foreign investors in a number of countries, and has built a sizeable portfolio of quality assets in countries where we have investments. This quality portfolio, coupled with its large scale operations and critical mass, has helped to build a strong foundation of operational excellence and sustainable earnings growth for CKI in the past decade, and is expected to continue well into the future.

THE PATH TO BUSINESS DIVERSIFICATION

CKI adopts a two-pronged approach to diversification. Concurrent to our geographic expansion to tap new markets, we have also gained major footholds in different industries over the years. In the early years, we focused primarily on traditional infrastructure businesses, but since then we have diligently developed a balanced and diversified portfolio comprising a variety of capital intensive businesses that yield steady recurring earnings and cash flow.
Today, CKI is one the biggest energy infrastructure players on the international stage, especially in the regulated utility business. As at 2018, CKI holds investments in electricity distribution in the UK, Australia and New Zealand; gas distribution in the UK and Australia; as well as investment in water in the UK. In addition, CKI has investments in traditional power plants in the UK and Canada, wind farms in Portugal, an energy-from-waste plant in the Netherlands, as well as renewable and remote energy in Australia. Furthermore, CKI has gas transmission investments in Australia, and oil transmission investment in Canada.

CKI has also been in transportation infrastructure business for many years. Currently, CKI has investments in toll roads in China, rolling stock leasing in the UK and off-airport car parks across six provinces in Canada.

Additionally, CKI owns and operates a waste management company in New Zealand, and a few companies in cement, concrete, aggregate and other infrastructure related materials in Hong Kong and Mainland China.

In 2017, CKI started exploring opportunities in household infrastructure, and now has investment in a Canadian company in water heating and related equipment rental business and a German company that provides sub-metering and billing services for water and heat.

### Diversified Portfolio of Quality Assets

<table>
<thead>
<tr>
<th>United Kingdom</th>
<th>Continental Europe</th>
<th>Canada</th>
<th>Australia</th>
<th>New Zealand</th>
<th>Hong Kong and Mainland China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electricity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation</td>
<td>Seabank Power</td>
<td>Portugal Renewable Energy</td>
<td>Canadian Power</td>
<td>Energy Developments</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dutch Enviro Energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>UK Power Networks</td>
<td></td>
<td></td>
<td></td>
<td>Wellington Electricity</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Dampier Bunbury Pipeline</td>
</tr>
<tr>
<td></td>
<td>Northern Gas Networks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wales &amp; West Gas Networks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Australian Gas Networks</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Multinet Gas</td>
</tr>
<tr>
<td><strong>Oil Transmission</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Canadian Midstream Assets</td>
</tr>
<tr>
<td><strong>Water</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Northumbrian Water</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Southern Water</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Mainland China Toll Roads</td>
</tr>
<tr>
<td></td>
<td>UK Rails</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Park’N Fly</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Infrastructure Materials</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Green Island Cement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Alliance Construction</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Materials</td>
</tr>
<tr>
<td><strong>Waste Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>EnviroNZ</td>
</tr>
<tr>
<td><strong>Household Infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ista</td>
</tr>
<tr>
<td></td>
<td>Reliance Home Comfort</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As illustrated above, CKI has achieved a number of major milestones on its Path to Business Diversification. It is anticipated that there will be good opportunities for further growth along this Diversification Path.
GROUP MANAGING DIRECTOR’S REPORT

SHAREHOLDER VALUE SUBSTANTIALLY ENHANCED

Through the past 22 years of continuous Globalisation and Diversification, CKI has built a diversified portfolio of quality assets in a variety of infrastructure businesses across different parts of the world. The financial results during this period are encouraging, and shareholder value has been substantially enhanced.

- Share price of CKI was HK$59.3*, 4.7 times of the IPO price of HK$12.65;
- Market capitalisation was HK$157* billion, 9 times the market capitalisation at IPO;
- The cumulative dividend since listing amounts to HK$27.679 per share, more than double the IPO listing price of HK$12.65; and
- The annualised total return to shareholders is about 11% per annum.

* As at 31st December, 2018

The earnings and cash flow generated are able to sustain a higher annual dividend every year for 22 consecutive years since listing in 1996. CKI is likely to be one of the few public companies in the world that has been capable of sustaining such yearly dividend increases every year since listing.

COMMITMENT TO CONTINUOUS GROWTH AND DEVELOPMENT

To sustain business growth going forward, we will continue to pursue the Path to Globalisation and Diversification with a three-pronged strategy:

(1) to continue to explore further acquisition opportunities;
(2) to nurture organic growth from the newly acquired businesses and the existing businesses; and
(3) to maintain a strong balance sheet to fund and support internal expansion and external acquisitions.

We have achieved a clear record of success on our Path to Globalisation and Diversification, expanding our asset portfolio to include more industries and more countries over the past two decades to sustain business growth. We take this opportunity to express our appreciation to some 30,000 colleagues around the world, at all levels of operation and management, who have all contributed in no small part with their dedication and commitment to excellence. While we look forward to achieving greater heights in the years ahead, we dedicate our Group’s accomplishments to all our colleagues who form the foundation of our success.

H L KAM
Group Managing Director
20th March, 2019