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CHEUNG KONG INFRASTRUCTURE

HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

VERY SUBSTANTIAL ACQUISITION

On 31st August, 2004, the Purchaser, a non wholly-owned subsidiary of the Company, the Seller and Blackwater entered into the Agreement, pursuant to which the Purchaser has an option to require the Seller to sell to it, and the Seller has an option to require the Purchaser to purchase from it, the entire issued share capital of Blackwater. Blackwater is a newly formed wholly-owned subsidiary of the Seller that will, at Completion, own the North of England Gas Distribution Network business in the United Kingdom presently carried on by the Seller.

The consideration for the Sale Shares, which will be payable by the Purchaser to the Seller in cash on Completion, is £1,393,700,000 less the aggregate amount of intra-group indebtedness. At Completion the Purchaser will procure that Blackwater repays to the Seller intra-group indebtedness of an amount of approximately £870,000,000. The consideration for the Sale Shares will be payable in cash and both the consideration for the Sale Shares and the repayment of outstanding indebtedness to the Seller will be subject to adjustment following the preparation of completion accounts. The adjustment is not subject to a cap. The consideration will be funded by shareholders equity of the Purchaser and external bank borrowings.

The Company is a diversified infrastructure investment company with a focus in the development, investment and operation of infrastructure businesses currently in Hong Kong, Mainland China, Australia, the United Kingdom, Canada and the Philippines.

The Acquisition reflects the Company's strategy of investing in infrastructure opportunities around the world, leveraging the Group's strong financial position and solid experience in infrastructure.

The Company has long seen the United Kingdom as an important market offering attractive investment opportunities. The Acquisition represents consolidation of the Company's position in the United Kingdom following its acquisition of Cambridge Water PLC earlier this year.

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules.

A circular containing, inter alia, further information on the Acquisition and a notice of the SGM will be despatched to the Shareholders in accordance with the relevant requirements of the Listing Rules.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company at 9:30 a.m. on 31st August, 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 1st September, 2004.

AGREEMENT

Date

31st August, 2004

Parties

Purchaser
Seller
Blackwater

Conditions precedent

Completion is conditional upon:

- (i) completion of the Hive Down Agreement in accordance with its terms;
- (ii) HSE having confirmed in writing its acceptance of the amended safety cases of each of the Seller and Blackwater in accordance with GS(M)R;
- (iii) the Authority having given its consent to the sale of the Sale Shares to the Purchaser under Blackwater's gas transporter license;
- (iv) the approval of the transaction contemplated by the Agreement by the Shareholders or, if permitted under the Listing Rules, obtaining a written consent or approval of the transaction contemplated by the Agreement by a Shareholder or group of Shareholders together holding over 50% of the issued Shares; and
- (v) notification, if any, of the Acquisition to the European Commission under Council Regulation (EC) 139/2004 concerning control of concentrations between undertakings being dealt with by the Commission in accordance with the Agreement.

None of the Conditions may be waived save with the express written agreement of both the Seller and the Purchaser.

Prior to Completion, the Seller may terminate the transaction if (a) the Authority indicates that it will require the Seller to place its retained gas distribution business into separate legal entities; or (b) the Authority decides that any income received by the Seller in respect of services to be provided to Blackwater is not permissible revenue under the terms of the Seller's gas transporter licence; or (c) there is a change in applicable pensions legislation in the United Kingdom which has the effect of requiring an employer to make a payment on ceasing to participate in an occupational pension scheme; or (d) there is a reasonable likelihood that the Seller will be required to make any payment on the cessation of the participation of the employees of Blackwater in the Seller's occupational pension scheme in respect of the period prior to the hive down of the North of England Gas Distribution business to Blackwater; or (e) the Seller's occupational pension scheme is terminated between the date of the hive down of the North of England Gas Distribution business to Blackwater and the date of Completion. If the Seller exercises its right to terminate the transaction on the basis of (a), (b), (c), (d) or (e) above, it shall pay to the Purchaser a fee of £13,980,000. This fee will also be payable by the Seller to the Purchaser if the Agreement is terminated as a result of the Seller failing to use all reasonable endeavours to procure the satisfaction of the Conditions referred to in paragraphs (i), (ii) and (iii) above.

Cheung Kong Infrastructure Holdings Limited

The Purchaser will be obliged to pay to the Seller a break fee of £13,980,000 if (a) the Purchaser fails to pay the consideration payable for the Sale Shares or procure the repayment by Blackwater of the outstanding intra-group indebtedness at Completion; or (b) the Agreement is terminated as a result of the Purchaser failing to use all reasonable endeavours to procure the satisfaction of the Conditions referred to in paragraphs (ii), (iii), (iv) and (v) above; or (c) the Condition referred to in paragraph (iii) above is not satisfied as a result of the Purchaser being the proposed owner of the North of England Gas distribution business or as a result of the proposed financing structure adopted by the Purchaser; or (d) the Condition referred to in paragraph (iv) is not satisfied. If a break fee becomes payable by the Purchaser as a result of the Condition set out in paragraph (iv) above not being satisfied, the Company agrees to pay the proportion of such fee which would otherwise be attributable to the Foundation and United Utilities.

In addition, if prior to Completion, a fundamental adverse change under the terms of the Agreement occurs which the Seller fails to remedy the Purchaser shall be entitled to terminate the transaction. No break fee will be payable by the Seller or the Purchaser in such circumstances.

Completion

Subject to the fulfilment of the Conditions and to the termination rights referred to above, Completion shall take place on the first day of the month following service of the first (in time) Option Exercise Notice to be served or at such other time as the Seller and Purchaser shall agree.

If the Conditions are not satisfied or waived by 1st July, 2005 (or such later date as the Seller and the Purchaser, each acting reasonably, may agree), or it is agreed between the Seller and the Purchaser (acting reasonably) that a Condition is incapable of being satisfied, the Agreement shall automatically terminate and the Acquisition will not proceed. The Agreement shall terminate if Completion has not taken place on or before 29th August, 2005, unless such failure to complete by such date is as a result of the parties being unable to agree upon the occurrence of a fundamental adverse change and an independent expert subsequently determines that no fundamental adverse change has occurred.

CONSIDERATION

The consideration for the Sale Shares, which will be payable by the Purchaser to the Seller in cash on Completion, is £1,393,700,000 less the aggregate amount of intra-group indebtedness. At Completion the Purchaser will procure that Blackwater repays to the Seller intra-group indebtedness of an amount of approximately £870,000,000. Blackwater will fund this payment through an external bank facility. The facility is non-recourse to the Company and the other shareholders of the Purchaser. The consideration for the Sale Shares will be payable in cash and both the cash consideration and the repayment of outstanding indebtedness to the Seller will be subject to adjustment following the preparation of completion accounts. The adjustment is not subject to a cap. The consideration will be funded by shareholders equity of the Purchaser and external bank borrowings.

The Company has undertaken to the Seller that it will procure that the Subsidiaries will subscribe in cash at par for not less than (a) if the Purchaser is obliged to pay a break fee to the Seller as a result of a failure by the Purchaser to satisfy the Condition referred to in paragraph (iv) above, 13,980,000 shares of £1 each of the Purchaser (equal to 100% of the entire issued share capital of the Purchaser); or (b) in all other circumstances, 9,758,040 shares of £1 each of the Purchaser (equal to 69.8% of the

entire issued share capital of the Purchaser) prior to Completion or the date on which any break fee is payable by the Purchaser to the Seller (whichever is earlier). The reason for this is that if a break fee becomes payable by the Purchaser as a result of the Condition set out in paragraph (iv) above not being satisfied, the Company agrees to pay the proportion of such fee which would otherwise be attributable to the Foundation and United Utilities.

The consideration was arrived at following a competitive auction process conducted by NGT and after arm's length negotiations between the Purchaser and the Seller.

GENERAL NATURE OF THE TRANSACTION

Summary

NGT, through its wholly-owned subsidiary, the Seller, owns, operates and develops the substantial majority of the natural gas transmission and distribution system in the United Kingdom. NGT publicly announced in December 2003 that it was seeking indicative offers for five of the eight regional gas distribution networks in the United Kingdom. Following a successful bidding process, the Purchaser was chosen as the preferred bidder for the North of England gas distribution network. As a result, on 31st August, 2004, the Purchaser, a non wholly-owned subsidiary of the Company, the Seller and Blackwater entered into the Agreement, pursuant to which the Purchaser has an option to require the Seller to sell to it, and the Seller has an option to require the Purchaser to purchase from it, the entire issued share capital of Blackwater. On or prior to Completion, the North of England Gas Distribution Network business in the United Kingdom presently carried on by the Seller will be sold to Blackwater in accordance with the terms of the Hive Down Agreement.

The Purchaser is a consortium vehicle, the shareholders of which comprise wholly-owned subsidiaries of the Foundation and United Utilities, and the Subsidiaries. As a result of the aggregate shareholding interests of the Subsidiaries, the Purchaser is a non wholly-owned subsidiary of the Company. Each of the Subsidiaries, and the wholly-owned subsidiaries of the Foundation and United Utilities will, at the same time as the Agreement is signed, enter into a shareholders' agreement to govern their relationship as shareholders in the Purchaser.

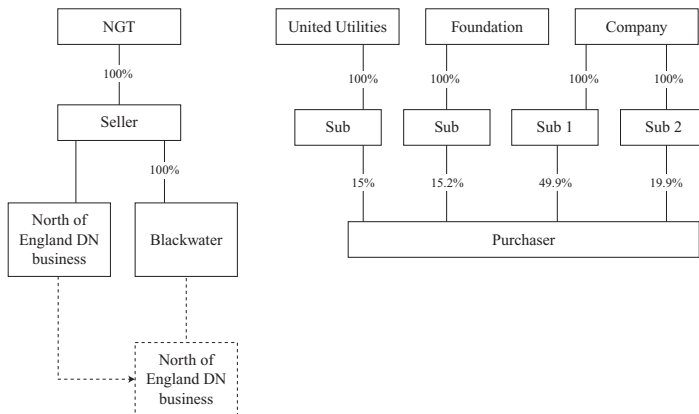
It is the Company's intention, prior to Completion, to on-sell part of its interest in Blackwater. However, no formal agreements have yet been reached with any party in respect of such a transaction.

Blackwater's gas transporter license contains some restrictions on the categories of person to whom shares in Blackwater may be transferred.

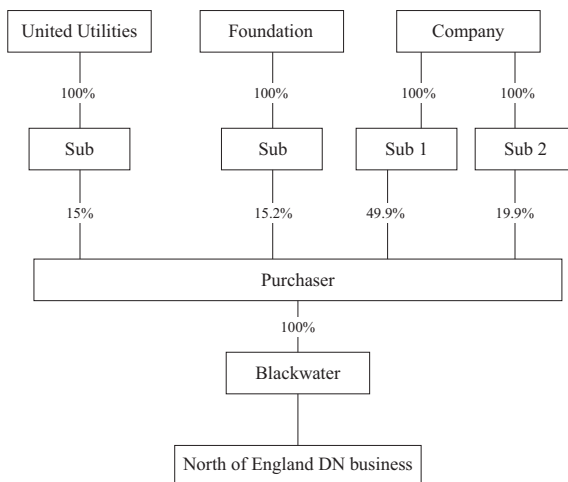
Structure

The following is the relevant shareholding structure of Blackwater before and after the Acquisition:

Before the Acquisition



After the Acquisition



For the financial year ended 31st March, 2003, the unaudited operating profit, before taxation and interest (adjusted to accounting principles generally accepted in Hong Kong), of the North of England Gas Distribution business was £116 million (HK\$1,624 million). The corresponding figure for the year ended 31st March, 2002 was £109 million (HK\$1,526 million).

Cheung Kong Infrastructure Holdings Limited

As referred to above, after on-selling part of its interest in Blackwater, the Company's interest is expected to be less than 50%. The results and assets and liabilities of Blackwater would be incorporated in the Company's financial statements using the equity method of accounting.

To the best of the knowledge, information and belief of the Directors of the Company having made all reasonable enquiries (i) the Foundation and United Utilities are not connected persons (as defined under the Listing Rules) of the Company and (ii) the formation of the Purchaser, with the Foundation and United Utilities as shareholders, does not constitute a connected transaction (as defined under the Listing Rules) of the Company.

INFORMATION ON BLACKWATER AND THE NORTH OF ENGLAND GAS DISTRIBUTION NETWORK

Blackwater is a newly formed wholly-owned subsidiary of the Seller that will, at Completion, own the North of England Gas Distribution Network business in the United Kingdom presently carried on by the Seller. The assets included in the business include (i) the pipeline infrastructure required to transport the gas from the national gas transmission network in the United Kingdom to consumer's premises within the network's region - comprising approximately 36,000 kilometres of distribution gas mains; (ii) the property, warehouses and fleet utilized in the network's operations; (iii) the contracts, intellectual property rights, policies and procedures and licenses necessary to operate the network; (iv) a network management team with significant knowledge of the gas transportation industry and extensive experience in running gas distribution networks in the United Kingdom.

The region serviced by the North of England Gas Distribution network extends south from the Scottish border to South Yorkshire and has coastlines on both the east and west sides of the region. The region contains a mixture of large cities (Newcastle, Middlesbrough, Leeds and Bradford) and a significant rural area including North Yorkshire and Cumbria, and has a total population of 6.7 million. The region benefits from Leeds' growing position as an important regional financial and commercial centre, the rapid expansion of development along the River Tyne, and a number of large industrial consumers based along the North Sea coastline.

The regulated assets value of the North of England Gas Distribution business as at 31st March, 2004 was approximately £1,207,000,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is a diversified infrastructure investment company with a focus in the development, investment and operation of infrastructure businesses currently in Hong Kong, Mainland China, Australia, the United Kingdom, Canada and the Philippines.

The Acquisition reflects the Company's strategy of investing in infrastructure opportunities around the world, leveraging the Group's strong financial position and solid experience in infrastructure.

The Company has long seen the United Kingdom as an important market offering attractive investment opportunities. The Acquisition represents consolidation of the Company's position in the United Kingdom following its acquisition of Cambridge Water PLC earlier this year.

The Directors of the Company believe the terms of the transaction are fair and reasonable and in the interests of the Shareholders as a whole.

GENERAL

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and will accordingly be subject to the approval of the Shareholders. To the best of the knowledge, information and belief of the Directors of the Company having made all reasonable enquiries, none of the Shareholders will be required to abstain from voting at the SGM. A circular containing, inter alia, further information on the Acquisition and a notice of SGM will be despatched to the Shareholders in accordance with the relevant requirements of the Listing Rules.

As at the date of this announcement, the Executive Directors of the Company are Mr. LI Tzar Kuoi, Victor (Chairman), Mr. KAM Hing Lam (Group Managing Director), Mr. George Colin MAGNUS (Deputy Chairman), Mr. FOK Kin Ning, Canning (Deputy Chairman), Mr. IP Tak Chuen, Edmond (Deputy Chairman), Mr. KWAN Bing Sing, Eric (Deputy Managing Director), Mrs. CHOW WOO Mo Fong, Susan, Mr. Frank John SIXT, and Mr. TSO Kai Sum; and the Non-executive Directors are Mr. CHEONG Ying Chew, Henry (Independent Non-executive Director), Mrs. LEE Pui Ling, Angelina (Independent Non-executive Director) and Mr. Barrie COOK.

NGT, of which the Seller is a wholly owned subsidiary, whose shares are listed on the London Stock Exchange and New York Stock Exchange, is an international energy delivery business, whose principal activities are in the regulated electricity and gas industries. In the United Kingdom, NGT owns and operates the high-voltage electricity transmission network in England and Wales, and the United Kingdom's natural gas transportation system. To the best of the knowledge, information and belief of the Directors of the Company having made all reasonable enquiries (i) the Seller and NGT and their respective ultimate beneficial owners are third parties independent of the Company and connected persons (as defined under the Listing Rules) of the Company; and (ii) the Seller and NGT and their respective ultimate beneficial owners are not connected persons (as defined under the Listing Rules) of the Company.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company at 9:30 a.m. on 31st August, 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 1st September, 2004.

DEFINITIONS

“Acquisition”	the acquisition of the Sale Shares by the Purchaser pursuant to the Agreement
“Agreement”	the option deed dated 31st August, 2004 relating to the sale and purchase of the Sale Shares and the transaction documents to be entered into under such agreement
“Authority”	the Gas and Electricity Markets Authority for the United Kingdom
“Blackwater”	Blackwater F Limited (registered in England with registered number 5167070)
“Company”	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 1038)
“Completion”	completion of the Agreement in accordance with its terms
“Conditions”	the conditions to Completion set out in the Agreement

Cheung Kong Infrastructure Holdings Limited

“the Foundation”	Li Ka Shing (Overseas) Foundation, a company limited by guarantee incorporated in the Cayman Islands for charitable purposes
“Group”	the Company and its subsidiaries
“GS(M)R”	the Gas Safety (Management) Regulations 1996 of the United Kingdom
“Hive Down Agreement”	the agreement dated of even date with the Agreement relating to the acquisition by Blackwater of the North of England Gas Distribution Network business of the Seller
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region, the People’s Republic of China
“£”	Pounds Sterling, the lawful currency of the United Kingdom
“HSE”	the Health and Safety Executive of the United Kingdom
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“NGT”	National Grid Transco plc, whose shares are listed on the London Stock Exchange and New York Stock Exchange
“Option Exercise Notice”	the call option exercise notice or put option exercise notice, as the case may be, to be given in accordance with the terms of the Agreement
“Purchaser”	Gas Network Limited (registered in England with registered number 5213525), a non wholly-owned subsidiary of the Company
“Sale Shares”	100 ordinary shares of £1 each in the share capital of Blackwater, being the entire issued share capital of Blackwater at Completion
“Seller”	Transco plc (registered in England with registered number 2006000), a wholly owned subsidiary of NGT
“SGM”	a special general meeting of the Company to be held to approve the Acquisition and the transactions contemplated thereunder
“Shares”	ordinary shares of HK\$1 each in the capital of the Company
“Shareholders”	Shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries”	Able Venture Profits Limited and Alpha Central Profits Limited, both incorporated in the British Virgin Islands with limited liability and both of which are wholly owned subsidiaries of the Company
“United Utilities”	United Utilities plc, whose shares are listed on the London Stock Exchange

Note: the figures in £ are translated into HK\$ at the rate of £1 = HK\$14.0 throughout this announcement for indication purposes only.

By Order of the Board
CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED
Eirene Yeung
Company Secretary

Hong Kong, 31st August, 2004

Please also refer to the published version of this announcement in The Standard dated 1 September 2004.