THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Cheung Kong Infrastructure Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

VERY SUBSTANTIAL DISPOSALS
AND
MAJOR TRANSACTIONS

A letter from the Board is set out on pages 5 to 20 of this circular.

A notice dated 25th November, 2005 convening a SGM of the Company to be held at the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, on Tuesday, 13th December, 2005 at 10:30 a.m. is set out on pages 186 to 187 of this circular.

Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or at any adjourned meeting thereof) should you so wish.

25th November, 2005

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"Acquisitions"	the acquisition by the Company from HEH of an attributable interest in ETSA of approximately 22.07% and an attributable interest in CHEDHA of approximately 22.07% pursuant to the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 9th November, 2005 entered into between the Company and HEH relating to the Acquisitions
"Acquisition Conditions"	conditions precedent in respect of the completion of the Acquisitions
"Acquisition Consideration"	the aggregate consideration payable by the Company to HEH for the Acquisitions
"Asset Companies"	ETSA, Powercor and CitiPower
"associate(s)", "connected person(s)" and "substantial shareholder(s)"	have the meanings ascribed to them under the Listing Rules
"ASX"	Australian Stock Exchange Limited
"Board"	the board of Directors
"CHEDHA"	CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd., a company incorporated in Australia with limited liability and the holding company of Powercor and CitiPower
"CHEDHA Disposal"	the disposal by the Company of its 49% attributable interest in CHEDHA to the Fund
"CitiPower"	the CitiPower electricity distribution business carried on in Victoria, Australia
"CKI Sub 1"	CKI Spark Holdings No. One Limited, a company incorporated in the Bahamas with limited liability

"CKI Sub 2"	CKI Spark Holdings No. Two Limited, a company incorporated in the Bahamas with limited liability
"Company"	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
"Director(s)"	the director(s) of the Company
"Disposals"	the ETSA Disposal and the CHEDHA Disposal
"Disposal Conditions"	conditions precedent in respect of the completion of the Disposals
"Disposal Consideration"	the aggregate consideration payable by the Fund to the Company for the Disposals
"Enlarged Group"	the Group immediately after the completion of the Disposals and the completion of the Acquisitions
"ETSA"	ETSA Utilities, a partnership established in South Australia which owns and manages the ETSA electricity distribution business carried on in South Australia
"ETSA Disposal"	the disposal by the Company of its 49% attributable interest in ETSA to the Fund
"Fund"	Spark Infrastructure Fund, a stapled group to be listed on the ASX consisting of Spark Infrastructure RE Limited (as responsible entity for the Spark Infrastructure Trust), Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited and Spark Infrastructure Holdings International Limited
"Fund Shares"	the stapled securities of the Fund to be listed on the ASX
"Group"	the Company and its subsidiaries

"HEH"	Hongkong Electric Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 006)
"HEH Directors"	the directors of HEH
"HEH EGM"	an extraordinary general meeting of HEH to be held for the purpose of approving the Acquisitions and the related transactions and matters contemplated under the Acquisition Agreement
"HEH Independent Shareholders"	HEH Shareholders other than the Company and its associates
"HEH Reorganization"	the reorganization of HEH's 50% interest in CHEDHA immediately after completion of the Disposals so that Newco will hold 100% interest in CHEDHA and HEH will hold 50% of the issued share capital of Newco
"HEH Shareholders"	shareholders of HEH
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HWL"	Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 013)
"Implementation Deed"	the implementation deed dated 8th November, 2005 entered into among, inter alia, the Company, the Fund and Newco in relation to the Disposals and the IPO
"Independent Third Party(ies)"	independent third party(ies) who is/are independent of and not connected with the directors, chief executive or substantial shareholders of the Company and its subsidiaries and associates of any of them (as defined under the Listing Rules)
"IPO"	the initial public offering of the Fund Shares
"IPO Price"	the offer price of the Fund Shares in respect of the initial public offering to be made by the Fund in connection with its proposed listing on ASX

"Joint Lead Managers"	Deutsche Bank AG, Merrill Lynch International (Australia) Limited and Citigroup Global Markets Australia Pty Limited
"Latest Practicable Date"	18th November, 2005, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Newco"	CHEDHA Holdings Pty Ltd., a company incorporated in Victoria, Australia with limited liability
"Powercor"	the Powercor electricity distribution business carried on in Victoria, Australia
"Remaining Group"	the Group immediately after the completion of the Disposals but prior to the completion of the Acquisitions
"SFO"	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held for the purpose of approving, inter alia, the Disposals and the Acquisitions
"Shareholder(s)"	the shareholder(s) of the Company
"Shareholders Agreement"	the shareholders agreement to be entered into between wholly-owned subsidiaries of the Company and HEH on completion of the Acquisitions to regulate the affairs of CKI Sub 1 and CKI Sub 2
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"A$"	Australian dollars, the lawful currency of Australia
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"£"	pounds sterling, the lawful currency of the United Kingdom

For the purpose of illustration only and unless otherwise stated, A$ to HK$ is translated at a rate of A$1.00 = HK$5.73 and £ to HK$ is translated at a rate of £1.00 = HK$14 throughout this circular.

CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

Board of Directors:

Executive Directors

LI Tzar Kuoi,Victor
(Chairman)

KAM Hing Lam
(Group Managing Director)

IP Tak Chuen, Edmond
(Deputy Chairman)

KWAN Bing Sing, Eric
(Deputy Managing Director)

FOK Kin Ning, Canning
(Deputy Chairman)

Independent Non-executive Directors

CHEONG Ying Chew, Henry
KWOK Eva Lee
SNG Sow-Mei (PHOON Sui Moy, alias POON Sow Mei)
Colin Stevens RUSSEL
LAN Hong Tsung, David

Executive Directors

CHOW WOO Mo Fong, Susan
Frank John SIXT
TSO Kai Sum

Non-executive Directors

LEE Pui Ling, Angelina
Barrie COOK
George Colin MAGNUS

Company Secretary:
Eirene YEUNG

Registered office:
Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal Place of Business:
12th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

25th November, 2005

Dear Shareholder(s),

VERY SUBSTANTIAL DISPOSALS AND MAJOR TRANSACTIONS

INTRODUCTION

On 9th November, 2005, the Company announced that the Implementation Deed was entered into in respect of the Disposals. Further details of the Disposals, including the Disposal Conditions, are set out in the section headed "Implementation Deed" in Part A of this letter.

On 9th November, 2005, the Company announced that the Acquisition Agreement was entered into in respect of the Acquisitions. Further details of the Acquisitions, including the Acquisition Conditions, are set out in the section headed "Acquisition Agreement" in Part B of this letter.

The purpose of this circular is to provide you with further details relating to, among other things, the Disposals and the Acquisitions and to give you the notice of SGM.

PART A — IMPLEMENTATION DEED

Date

8th November, 2005

Parties

Including, among others:

(i) the Company;

(ii) the Fund; and

(iii) Newco.

Prior to completion of the Disposals, the Fund, Newco and their ultimate beneficial owners are, to the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, Independent Third Parties.

Assets to be disposed

The Company's 49% attributable interest in ETSA and 49% attributable interest in CHEDHA.

Disposal Consideration

The Disposal Consideration will be the aggregate of (i) the gross proceeds of the IPO from the sale of a 49% attributable interest in each of ETSA and CHEDHA which will be based on the IPO Price; and (ii) the proceeds of a bank financing to be undertaken by the Fund in the amount of approximately A$425 million (approximately HK$2,435 million). The Disposal Consideration will be payable on completion of the Disposals.

The Fund is currently applying for a listing on the ASX. The IPO Price will be determined by way of a bookbuilding process and is currently expected to be between A$1.80 (approximately HK$10.31) and (but could be more than) A$2.00 (approximately

HK$11.46) per Fund Share. Based on the said price range, the minimum and the maximum Disposal Consideration will be approximately A$2,241 million (approximately HK$12,841 million) and (but could be more than) approximately A$2,443 million (approximately HK$13,998 million) respectively. Such price range was reached as a result of arm's length negotiations between the Company and the Joint Lead Managers with respect to the IPO. The Company has agreed that part of the Disposal Consideration shall be used to settle all costs relating to the IPO which are estimated to be approximately A$136 million (approximately HK$779 million) and part of the Disposal Consideration (between A$180 million (approximately HK$1,031 million) and A$200 million (approximately HK$1,146 million)) as subscription money to subscribe upon completion of the Disposals such number of Fund Shares representing 9.9% of the issued stapled securities of the Fund (after giving effect to the IPO) at the IPO Price.

The balance of the Disposal Consideration, expected to be between approximately A$1,925 million (approximately HK$11,030 million) and (but could be more than) approximately A$2,107 million (approximately HK$12,073 million), will be payable to the Company in cash.

The Disposal Consideration was determined after arm's length negotiations between the Company and the Fund.

The Directors consider that the terms of the Implementation Deed are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Disposal Conditions

Completion of the Disposals is conditional upon:

(i) the Shareholders approving at the SGM the Disposals;

(ii) approval by the Directors of the IPO Price; and

(iii) the listing of the Fund Shares on the ASX.

If the above conditions are not satisfied on or before 31st December, 2005 (or such later date as is agreed by the parties to the Implementation Deed), the Implementation Deed shall lapse and the Disposals will not proceed.

Completion of the Disposals

Completion of the Disposals will take place on 21st December, 2005 if all the Disposal Conditions have been satisfied. The Disposals will take the form of:

(i) the Company transferring upon completion of the Disposals its 49% attributable interest in ETSA to the Fund;

(ii) the Company transferring upon completion of the Disposals its 50% attributable interest in CHEDHA to Newco; and

(iii) Newco issuing upon completion of the Disposals a 2% interest in Newco (equivalent to 1% attributable interest in CHEDHA) to the Company.

Financial effects of and reason for the Disposals

The Company is a diversified infrastructure 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 Fund is a new public vehicle with stapled securities in Australia and is currently applying for a listing on the ASX. The total amount to be raised by the Fund from the IPO (including bank debt of approximately A$425 million (approximately HK$2,435 million)) is expected to be between approximately A$2,241 million (approximately HK$12,841 million) and (but could be more than) approximately A$2,443 million (approximately HK$13,998 million). The net cash proceeds from the IPO described above will be paid to the Company as the balance of the Disposal Consideration. Newco is currently a wholly-owned subsidiary of the Fund. Both the Fund and Newco have not carried on any active business activities prior to the date of the Implementation Deed.

The Fund will be managed by a newly formed management company which is jointly owned by the Company and Deutsche Asset Management Limited. The Fund's objective is to invest in utility and infrastructure assets in Australia and globally. The investments will largely focus on transmission and distribution assets which offer predictable and stable cash flows, facilitate the payment of predictable distributions to security holders and offer the potential for long term capital growth. The Disposals will enable the Company to re-allocate capital and to pursue new and larger acquisitions in the global utility and infrastructure markets and support further growth. Based on the book value and the Disposal Consideration, the Company will record a gain between approximately A$570 million (approximately HK$3,266 million) and approximately A$778 million (approximately HK$4,458 million). By acquiring a 9.9% interest in the Fund, the Company will be able to maintain its role as an asset owner in the Asset Companies while participating in the growth of the Fund. The Directors believe that the Disposals and the listing of the Fund will enhance the potential growth of the Company through its interest in another publicly listed group in Australia and provide opportunities for the future growth of the Company.

Immediately after the Disposals and the HEH Reorganization but without taking into account the Acquisitions, the Company will retain an indirect 1% interest in the Asset Companies and hold a 9.9% interest in the Fund which will then own a 49% interest in the Asset Companies. The Company's indirect interest in each of ETSA and CHEDHA will be approximately 5.85%. The Company's interests in ETSA, CHEDHA and the Fund will be accounted for as "non-current financial asset held for resale" in the Company's accounts after the Disposals.

Based on the unaudited pro forma financial information of the Remaining Group following the Disposals for the six months ended 30th June, 2005 which has been prepared to illustrate the effect of the Disposals, as shown in Appendix III, the Remaining Group's unaudited profit attributable to the Shareholders for the six months ended 30th June, 2005, based on the maximum and the minimum IPO Price, amounted to approximately HK$6,614 million and approximately HK$5,458 million respectively and the unaudited total assets and total liabilities as at that date, based on the maximum and the minimum IPO Price, amounted to approximately HK$43,775 million and approximately HK$9,015 million, and approximately HK$42,619 million and approximately HK$9,015 million respectively.

The above unaudited pro forma financial information and that set out in Appendix III is for information purposes only and should not be taken as an indication of the future financial performance of the Remaining Group. Such information does not take account of the Acquisitions.

Proceeds from the Disposals

The net cash proceeds from the Disposals to be received by the Company which are expected to be between approximately A$1,925 million (approximately HK$11,030 million) and (but could be more than) approximately A$2,107 million (approximately HK$12,073 million) will be used as to not more than approximately A$1,083 million (approximately HK$6,206 million) for settling certain bank loans and the balance (which is expected to be between approximately A$842 million (approximately HK$4,825 million) and (but could be more than) approximately A$1,512 million (approximately HK$8,664 million)) will be held by the Company as working capital (part of which may be used to settle the Acquisition Consideration).

General nature of the Disposals

The Disposals constitute very substantial disposal transactions for the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.49 of the Listing Rules, the Disposals are conditional upon approval by the Shareholders at the SGM. To the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, the Fund, Newco and their ultimate beneficial owners are Independent Third Parties and none of the directors, chief executive or substantial shareholders of the Company and its subsidiaries and associates of any of them has any interest in the Disposals, other than through their interest in the Company (if any). No Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Disposals at the SGM. On 9th November, 2005, the Company received from Hutchison Infrastructure Holdings Limited their confirmation that they will vote in favour of the resolution for approving the Disposals at the SGM. Hutchison Infrastructure Holdings Limited (a wholly-owned subsidiary of HWL) holds approximately 84.58% of the issued share capital of the Company which has no interest in the Implementation Deed other than through its equity interest in the Company.

Recommendation

The Directors believe that the terms of the Disposals are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolution numbered (1) set out in the notice of SGM contained in this circular.

PART B — ACQUISITION AGREEMENT

Date

9th November, 2005

Parties

(i) The Company; and

(ii) HEH.

Assets to be acquired

(i) approximately 22.07% attributable interest in ETSA; and

(ii) approximately 22.07% attributable interest in CHEDHA.

Acquisition Consideration

The Acquisition Consideration will be payable in full and in cash upon completion of the Acquisitions. The Acquisition Consideration will be determined by reference to the aggregate of (i) the gross proceeds of the IPO; and (ii) the proceeds of a bank financing to be undertaken by the Fund (estimated to be approximately A$425 million (approximately HK$2,435 million)) after deducting all the costs relating to the IPO as follows:

Acquisition Consideration = (gross proceeds from IPO + proceeds of the Fund's bank financing - costs of IPO) x 22.0745/49

The Fund is currently applying for a listing on the ASX. The IPO Price will be determined by way of a bookbuilding process and is currently expected to be between A$1.80 (approximately HK$10.31) and (but could be more than) A$2.00 (approximately HK$11.46) per Fund Share. Based on the said price range, the gross proceeds from the IPO (together with the proceeds of the Fund's bank financing) is currently expected to be between approximately A$2,241 million (approximately HK$12,841 million) and (but could be more than) approximately A$2,443 million (approximately HK$13,998 million) and the estimated costs of the IPO are expected to be approximately A$136 million (approximately HK$779 million). Accordingly, the minimum and the maximum Acquisition Consideration is expected to be between approximately A$948 million (approximately HK$5,432 million) and (but could be more than) approximately A$1,039 million (approximately HK$5,953 million) respectively. As mentioned above, such price range was reached after arm's length negotiations between the Company and the Joint Lead Managers with respect to the IPO. The Acquisition Consideration and the basis for determining the same were determined after arm's length negotiations between the parties to the Acquisition Agreement. The parties thereto considered that a price established in the public market in connection with the IPO was a fair means of establishing the fair values of ETSA and CHEDHA.

Acquisition Conditions

Completion of the Acquisitions is conditional upon:

(i) the Shareholders approving at the SGM the Acquisitions;

(ii) the HEH Independent Shareholders approving at the HEH EGM the Acquisitions and the related transactions and matters contemplated under the Acquisition Agreement as required under the Listing Rules;

(iii) approval by the Directors and the HEH Directors of the IPO Price;

(iv) the completion of the HEH Reorganization; and

(v) the listing of the Fund Shares on the ASX.

If the above conditions are not satisfied on or before 31st December, 2005 (or such later date as is agreed by the parties to the Acquisition Agreement), the Acquisition Agreement shall lapse and the Acquisitions will not proceed.

In addition, if (a) at the SGM, the Shareholders fail to give the approval contemplated in Acquisition Condition (i) above; or (b) at the HEH EGM, the HEH Independent Shareholders fail to give the approval contemplated in Acquisition Condition (ii) above; or (c) the Directors or the HEH Directors fail to give the approval contemplated in Acquisition Condition (iii) above, then upon the first occurrence of either of (a), (b) or (c) the Acquisition Agreement shall lapse and the Acquisitions will not proceed.

Completion

Completion of the Acquisitions will take place on 21st December, 2005 if all the Acquisition Conditions have been satisfied.

Currently, HEH has a 50% attributable interest in each of ETSA and CHEDHA. The Acquisitions will take the form of:

(i) HEH transferring upon completion of the Acquisitions its 50% attributable interest in CHEDHA to CKI Sub 1, which will be owned upon completion of the Acquisitions as to approximately 45.24% by the Company and as to approximately 54.76% by HEH. CKI Sub 1 is an investment holding company and will not have any asset (other than a 1% attributable interest in CHEDHA) or liability immediately before completion of the Acquisitions. After completion of the Acquisitions, the only asset of CKI Sub 1 will be a 51% attributable interest in CHEDHA, and HEH's attributable interest in CHEDHA will be reduced from 50% to approximately 27.93%; and

(ii) HEH transferring upon completion of the Acquisitions its 50% attributable interest in ETSA through CKI Utilities Development Limited and HEI Utilities Development Limited to CKI Sub 2, which will be owned upon completion of the Acquisitions as to approximately 45.24% by the Company and as to approximately 54.76% by HEH. CKI Sub 2 is an investment holding company and will not have any asset (other than a 1% attributable interest in ETSA) or liability immediately before completion of the Acquisitions. After completion of the Acquisitions, the only asset of CKI Sub 2 will be a 51% attributable interest in ETSA, and HEH's attributable interest in ETSA will be reduced from 50% to approximately 27.93%.

The Acquisition Consideration will be calculated as set out under "Acquisition Consideration" above and the proceeds will be remitted to HEH in cash upon completion of the Acquisitions.

Financial effects of and reason for the Acquisitions

The principal activity of the HEH group is the generation of electricity and its transmission and distribution to Hong Kong Island. HEH is currently a 50/50 partner with the Company in the Asset Companies and is also a joint partner in a gas distribution network business in the United Kingdom with the Company.

After completion of the Disposals and the Acquisitions, each of the Company and HEH will hold approximately a 27.93% attributable interest in ETSA and CHEDHA respectively (Please refer to the charts on pages 16 to 18).

Based on the unaudited pro forma financial information of the Enlarged Group for the six months ended 30th June, 2005 which has been prepared to illustrate the effect of the Acquisitions as shown in Appendix IV, the Enlarged Group's share of HEH's profit realized from the Acquisitions for the six months ended 30th June, 2005 based on the maximum and the minimum IPO Price amounted to approximately HK$811 million and approximately HK$608 million respectively and the unaudited total assets and total liabilities as at that date based on the maximum and the minimum IPO Price amounted to approximately HK$44,586 million and approximately HK$9,015 million, and approximately HK$43,227 million and approximately HK$9,015 million respectively.

The above unaudited pro forma financial information and that set out in Appendix IV is for information purposes only and should not be taken as an indication of the future financial performance of the Enlarged Group.

HEH has been a partner of the Company in the Asset Companies since the time they were acquired and an opportunity is to be given to HEH to dispose of a percentage of its interest in the Asset Companies on the same basis as the Company so that HEH will continue to hold the same attributable interest as the Company in the Asset Companies. This would enable HEH to re-allocate its capital for future use while at the same time continue to share in the future growth of the Asset Companies through its continuing interest in the Asset Companies.

The Company will use the proceeds received from the Disposals, and if necessary, internal resources, for settlement of the Acquisition Consideration.

General nature of the Acquisitions

The Acquisitions constitute major transactions for the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.40 of the Listing Rules, the Acquisitions are conditional upon approval by the Shareholders at the SGM. To the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, none of the Shareholders will be required to abstain from voting at the SGM and none of the directors, chief executive or substantial shareholders of the Company and its subsidiaries and associates of any of them has any interest in the Acquisitions, other than through their interest in the Company (if any).

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, HEH is not a connected person of the Company. On 9th November, 2005, the Company received from Hutchison Infrastructure Holdings Limited their confirmation that they will vote in favour of the resolution for approving the Acquisitions at the SGM. Hutchison Infrastructure Holdings Limited (a wholly-owned subsidiary of HWL) holds approximately 84.58% of the issued share capital of the Company which has no interest in the Acquisition Agreement other than through its equity interest in the Company.

Recommendation

The Directors believe that the terms of the Acquisitions are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolution numbered (2) set out in the notice of SGM contained in this circular.

PART C — OTHER INFORMATION

INFORMATION OF THE COMPANY AND THE GROUP

The Company is a diversified infrastructure 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.

TREND OF THE BUSINESS AND FINANCIAL AND TRADING PROSPECTS

As mentioned in the Company's 2005 interim report, from being primarily focused on infrastructure in China, the Company now has substantial investments in Hong Kong, Mainland China, Australia and the United Kingdom. Capitalising on its strong balance sheet, management expertise and the opportunities in the global infrastructure sector, the Group aims to continue this momentum of sustained growth in the coming years.

INFORMATION ON THE ASSET COMPANIES

ETSA is the owner and manager of South Australia's only significant electricity distributor which delivers electricity to approximately 768,000 customers over an area of approximately 178,200 square kilometers. HEH currently has a 50% attributable interest in ETSA. ETSA is a partnership established in South Australia and HEH's 50% attributable interest therein is governed by a partnership agreement between the partners.

Upon completion of the Disposals and the Acquisitions, ETSA will be owned as to 49% by the Fund and as to 51% by CKI Sub 2, which will in turn be owned as to approximately 54.76% by HEH and as to approximately 45.24% by the Company. On completion of the Acquisitions, the partners of ETSA will comprise wholly-owned subsidiaries of CKI Sub 2 and the Fund respectively, and will enter into an amended partnership agreement to govern the relationship of the partners and the management of the partnership. Under the said partnership agreement, ETSA is controlled by a partnership board, which, with the exception of certain fundamental corporate matters, operates on a simple majority vote basis. Neither the Fund nor CKI Sub 2 will have control of the partnership board. Each of the partners of ETSA has the right to participate in any request of funding by ETSA in proportion to their respective capital shares provided that none of the partners has the obligation to advance any funding to ETSA. No disposition of the partnership interests other than to existing partners is permitted without the consents of all other partners. The owners of the partners of ETSA will enter into an agreement on completion of the Acquisitions, pursuant to which any transfer of shares in the partner companies shall be subject to the pre-emptive right of the other parties to that agreement.

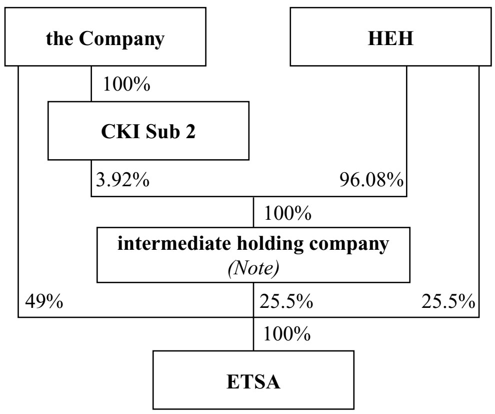
Upon completion of the Disposals and the Acquisitions, Newco will be owned as to 49% by the Fund and as to 51% by CKI Sub 1, which will in turn be owned as to approximately 54.76% by HEH and as to approximately 45.24% by the Company. Newco is a special purpose vehicle which is used for the holding of the 100% attributable interest in CHEDHA.

CHEDHA is the holding company of Powercor and CitiPower. Powercor is the owner and manager of the largest electricity distributor in Victoria, Australia which delivers electricity to approximately 643,000 customers across 150,000 square kilometers in Victoria's regional west. CitiPower is the owner and manager of the electricity distribution network servicing the Melbourne central business district and inner suburbs. The CitiPower network covers 157 square kilometers and includes distribution to all major offices of the government and private sector within Melbourne's central business district, as well as other landmarks such as the Melbourne Cricket Ground and Federation Square. On completion of the Acquisitions, HEH, the Company (which is a connected person of HEH), and the Fund will enter into a shareholders' agreement to regulate the affairs of Newco. Under the terms of the said agreement, Newco will be under the control of a board of directors, which will operate, except for certain fundamental corporate matters, on a simple majority vote basis. Neither the Fund nor CKI Sub 1 will have control of Newco. All fundings of Newco by shareholders will be on a pro rata basis unless any shareholder prefers not to participate and no shareholder can be requested to contribute any funding without its agreement. Shares in Newco may be transferred subject to the terms of a pre-emptive rights regime.

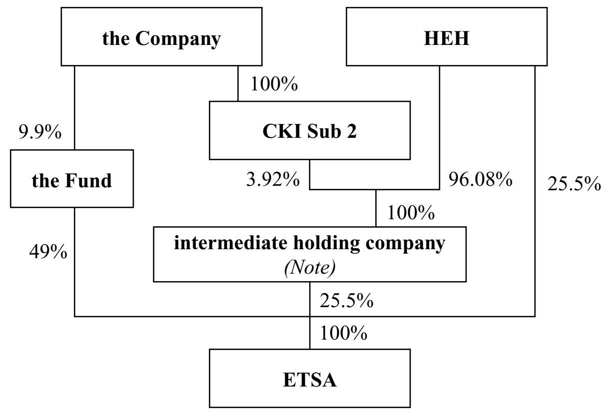
The following charts show the simplified shareholding structures of the Asset Companies before and after the Disposals and the Acquisitions:

ETSA

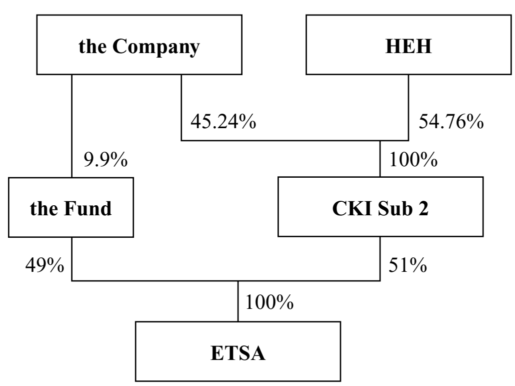
Before the Disposals



After the Disposals

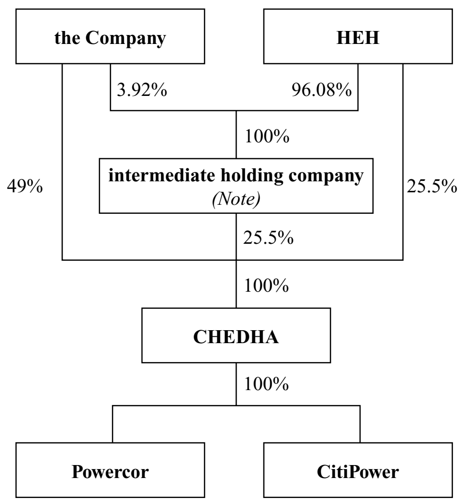


After the Disposals and the Acquisitions

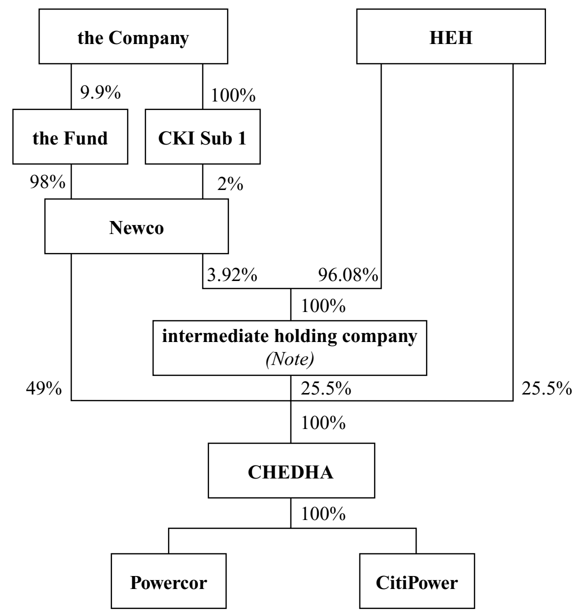


CHEDHA

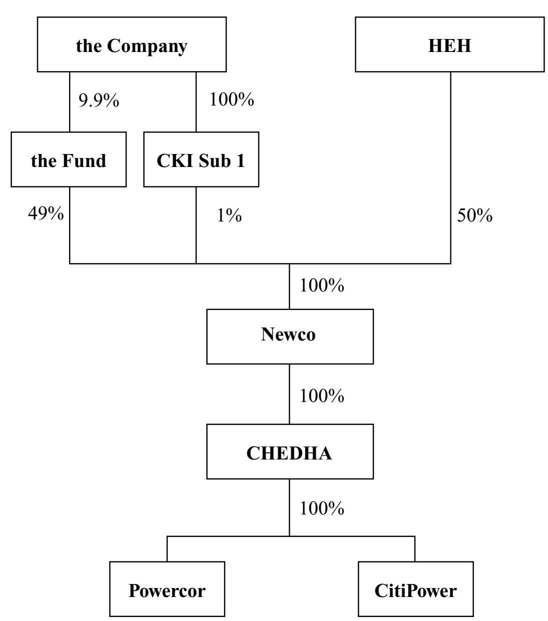
Before the Disposals



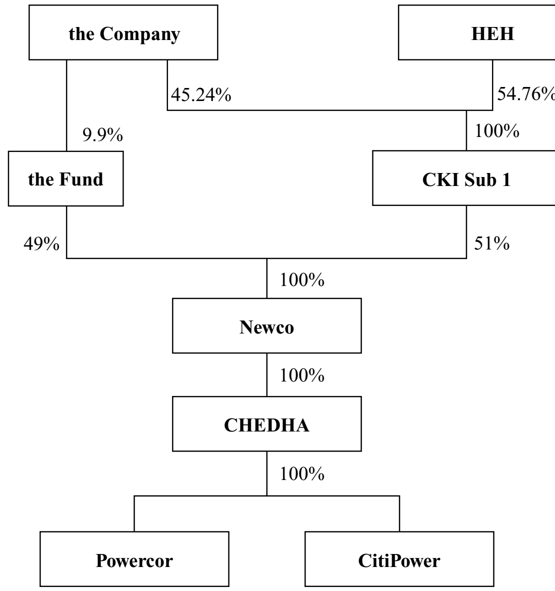
After the Disposals but before the HEH Reorganization



After the Disposals and the HEH Reorganization



After the Disposals, the HEH Reorganization and the Acquisitions



* *the percentage figures set out above are approximate figures only*

Note: These intermediate holding companies are investment holding companies only and do not have any assets (other than their respective 25.5% interest in ETSA and CHEDHA) or liabilities. The Company and HEH have procured each of their wholly-owned subsidiaries that are registered holders of their interests in these intermediate holding companies to enter into a shareholders agreement to regulate the affairs of these intermediate holding companies such that all decisions by their boards and shareholders must be unanimous. None of these intermediate holding companies is accounted for as a subsidiary of the Company or HEH.

For the financial year ended 31st December, 2004, the audited net profit/(loss) of ETSA and CHEDHA, before and after taxation and extraordinary items, and the corresponding figures for the year ended 31st December, 2003 were as follows:

	For the year ended 31st December, 2003		**For the year ended 31st December, 2004**	
	before taxation and extraordinary items	**after taxation and extraordinary items**	**before taxation and extraordinary items**	**after taxation and extraordinary items**
	A$ million	A$ million	A$ million	A$ million
ETSA	(15)	(22)	5	(8)
CHEDHA	90	54	107	179

The audited net asset/(liabilities) value of ETSA and CHEDHA as at 31st December, 2004 and the corresponding figures as at 31st December, 2003 were as follows:

	As at 31st December, 2003	**As at 31st December, 2004**
	A$ million	A$ million
ETSA	(88)	(96)
CHEDHA	338	516

The Company's interests in ETSA and CHEDHA are accounted for as "interests in associates" in the Company's accounts since the acquisition of such interests and before the Disposals. The results and the assets and liabilities of ETSA and CHEDHA are incorporated in the Company's accounts using the equity method of accounting. On completion of the Acquisitions, a wholly-owned subsidiary of each of the Company and HEH which are registered holders of their interests in CKI Sub 1 and CKI Sub 2 will enter into the Shareholders Agreement to regulate the affairs of CKI Sub 1 and CKI Sub 2. Under the Shareholders Agreement, all decisions by the board and the shareholders of CKI Sub 1 and CKI Sub 2 must be unanimous and there will be no funding or transfer of shares without the agreement of all the shareholders. After completion of the Disposals and the Acquisitions, the Company's interests in CKI Sub 1, CKI Sub 2, Newco, ETSA and CHEDHA will be accounted for as "interests in associates" in the Company's accounts and the Fund will be accounted for as "non-current financial asset held for resale" in the Company' accounts.

SPECIAL GENERAL MEETING

A notice convening the SGM at which ordinary resolutions will be proposed to the Shareholders to consider and, if thought fit, to approve the Disposals and the Acquisitions and all matters relating thereto is set out on pages 186 to 187 of this circular. No Shareholder is required to abstain from voting in respect of the proposed resolutions to approve the Disposals and the Acquisitions at the SGM.

The Chairman of the SGM will exercise his power under the Company's Bye-law 66 to put each of the resolutions in the notice of SGM to a vote by way of a poll.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjourned meeting thereof) should you wish to do so.

An announcement will be made by the Company following the conclusion of the SGM to inform you of the results of the SGM.

FURTHER INFORMATION

Your attention is drawn to the appendices to this circular.

Yours faithfully,
LI TZAR KUOI, VICTOR
Chairman

(A) ACCOUNTANTS' REPORT OF THE GROUP

The following is the text of the accountants' report prepared for inclusion in this circular from the independent reporting accountants of the Company, Deloitte Touche Tohmatsu.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

25th November, 2005

The Directors
Cheung Kong Infrastructure Holdings Limited

Dear Sirs,

We set out below our report on the financial information of Cheung Kong Infrastructure Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and the six months ended 30th June, 2005 (the "Relevant Periods") for inclusion in the circular of the Company dated 25th November, 2005 (the "Circular") in connection with the proposed very substantial disposals of 49% equity interests in South Australian Utilities Partnership (trading as "ETSA Utilities") and CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited ("CHEDHA") (the "Disposals") followed by the proposed major acquisitions of approximately 22.07% equity interests in ETSA Utilities and CHEDHA (the "Acquisitions").

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

We have acted as auditors of the Group throughout the Relevant Periods.

We have examined the audited financial statements of the Company and the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") except that the scope of our audit was limited as explained below.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and the six months ended 30th June, 2005 and the consolidated balance sheets of the Group as at 31st December, 2002, 31st December, 2003 and 31st December, 2004 and 30th June, 2005 together with the notes thereon (the "Financial Information") set out in this report have been prepared from the Underlying Financial Statements after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

Included in the Financial Information for the six months ended 30th June, 2005 are amounts of HK$967 million and HK$15,917 million in respect of the Group's share of the profit for the six months ended 30th June, 2005 and the Group's share of net assets as at 30th June, 2005 in a major associate, Hongkong Electric Holdings Limited (the "HK Electric"). The Group's share of profit and net assets of HK Electric have been calculated using the financial statements of HK Electric for the six months ended 30th June, 2005. An audit has not been carried out on these financial statements and consequently we were unable to obtain adequate assurance as to the Group's share of the profit of HK Electric for the six months ended 30th June, 2005 and the Group's share of net assets in HK Electric as at 30th June, 2005. There were no other satisfactory audit procedures that we could adopt to verify these amounts. Any adjustment to these figures would affect the profit for the period ended 30th June, 2005 and the net assets as at 30th June, 2005.

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the Group's share of the profit for the six months ended 30th June, 2005 and the Group's share of net assets at 30th June, 2005 in HK Electric, in our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 and of the profit and cash flows of the Group for each of the periods then ended.

The Financial Information of the Group for the six months ended 30th June, 2004, set out in sections A to F ("2004 Interim Financial Information") has been compiled based on the consolidation working papers prepared by the Group's management for the purposes of preparation of the interim financial report of the Group for the six months ended 30th June, 2004 (the "2004 Interim Financial Report"), after making adjustments in accordance with the accounting policies adopted by the Group in the latest financial period. The 2004 Interim Financial Report was reviewed by the audit committee of the Company and distributed to the shareholders on 2nd September, 2004. We have reviewed the 2004 Interim Financial Information in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. Our review consisted principally of making enquiries of the management and applying analytical procedures to this financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 2004 Interim Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 2004 Interim Financial Information.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

HK$ million	*Notes*	Year ended 31st December, 2002	Year ended 31st December, 2003	Year ended 31st December, 2004	Six months ended 30th June, 2004 (unaudited)	Six months ended 30th June, 2005
Group turnover	*5*	2,533	2,468	2,507	1,135	1,135
Other operating income	*6*	378	341	361	166	389
Operating costs	*7*	(2,051)	(1,807)	(2,117)	(803)	(907)
Operating profit	*8*	860	1,002	751	498	617
Finance costs	*9*	(624)	(630)	(644)	(340)	(337)
Share of results of associates		3,081	3,150	3,168	1,283	1,384
Share of results of jointly controlled entities		453	611	623	320	312
Profit before taxation		3,770	4,133	3,898	1,761	1,976
Taxation	*10*	(576)	(872)	(378)	(378)	(112)
Profit for the year/period		3,194	3,261	3,520	1,383	1,864
Attributable to:						
Shareholders of the Company	*11*	3,199	3,271	3,523	1,385	1,866
Minority shareholders		(5)	(10)	(3)	(2)	(2)
		3,194	3,261	3,520	1,383	1,864
Earnings per share	*12*	1.42	1.45	1.56	0.61	0.83
Dividends	*13*					
Interim dividend paid		485	485	496	496	541
Proposed final dividend		1,048	1,127	1,285	N/A	N/A
		1,533	1,612	1,781	496	541

CONSOLIDATED BALANCE SHEETS

HK$ million	*Notes*	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Non-current assets					
Property, plant and equipment	*14*	1,587	1,410	1,864	1,793
Investment properties		–	–	–	39
Leasehold land	*15*	405	394	383	341
Interests in associates	*17*	22,012	23,334	25,261	28,508
Interests in jointly controlled entities	*18*	4,538	4,836	4,801	5,066
Interests in infrastructure project investments	*19*	2,465	1,948	1,855	762
Investments in securities	*20*	803	2,091	1,188	1,177
Derivative financial instruments	*21*	–	–	–	390
Goodwill	*22*	–	–	257	243
Other non-current assets	*23*	43	36	14	10
		31,853	34,049	35,623	38,329
Current assets					
Inventories	*24*	188	164	163	156
Interests in infrastructure project investments	*19*	–	–	–	171
Debtors and prepayments	*25*	742	670	878	944
Bank balances and deposits		7,191	7,243	9,029	6,074
		8,121	8,077	10,070	7,345
Current liabilities					
Bank and other loans	*26*	2,269	1,258	371	2,955
Creditors and accruals	*27*	571	642	839	846
Taxation		99	109	104	114
		2,939	2,009	1,314	3,915
Net current assets		5,182	6,068	8,756	3,430
Total assets less current liabilities		37,035	40,117	44,379	41,759
Non-current liabilities					
Bank and other loans	*26*	10,376	11,079	13,040	10,541
Derivative financial instruments	*21*	–	–	–	384
Deferred tax liabilities	*28*	111	151	344	366
Other non-current liabilities	*29 (c)*	–	–	15	15
		10,487	11,230	13,399	11,306
Net assets		26,548	28,887	30,980	30,453
Representing:					
Share capital	*30*	2,254	2,254	2,254	2,254
Reserves		24,075	26,424	28,520	27,995
Equity attributable to shareholders of the Company		26,329	28,678	30,774	30,249
Minority interests		219	209	206	204
Total equity		26,548	28,887	30,980	30,453

BALANCE SHEETS OF THE COMPANY

HK$ million	*Notes*	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Non-current assets					
Property, plant and equipment	*14*	4	2	1	–
Interests in subsidiaries	*16*	28,421	28,573	28,720	22,757
		28,425	28,575	28,721	22,757
Current assets					
Debtors and prepayments	*25*	7	7	8	8
Amount due by subsidiaries		–	–	–	6,441
Dividend receivable		1,682	1,709	1,899	–
Bank balances and deposits		4	4	4	1
		1,693	1,720	1,911	6,450
Current liabilities					
Creditors and accruals	*27*	152	159	229	141
Net current assets		1,541	1,561	1,682	6,309
Net assets		29,966	30,136	30,403	29,066
Representing:					
Share capital	*30*	2,254	2,254	2,254	2,254
Reserves	*32*	27,712	27,882	28,149	26,812
Total equity		29,966	30,136	30,403	29,066

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
HK$ million	Share capital	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Hedge reserve	Retained profits	Proposed dividends	Sub-Total	Minority shareholders	Total
GROUP											
At 1st January, 2002	2,254	3,836	6,079	80	(28)	–	11,361	947	24,529	224	24,753
Deficit on revaluation of non-trading securities	–	–	–	(9)	–	–	–	–	(9)	–	(9)
Deferred tax charge on revaluation surplus of non-trading securities	–	–	–	(18)	–	–	–	–	(18)	–	(18)
Exchange translation differences	–	–	–	–	150	–	–	–	150	–	150
Net gain (loss) not recognised in the consolidated income statement	–	–	–	(27)	150	–	–	–	123	–	123
Surplus realised on disposals of non-trading securities	–	–	–	(90)	–	–	–	–	(90)	–	(90)
Profit for the year	–	–	–	–	–	–	3,199	–	3,199	(5)	3,194
Total recognised income and expense for the year	–	–	–	(117)	150	–	3,199	–	3,232	(5)	3,227
Final dividend for the year 2001 paid	–	–	–-	–-	–	–	–	(947)	(947)	–	(947)
Proposed interim dividend	–	–	–	–	–	–	(485)	485	–	–	–
Interim dividend paid	–	–	–	–	–	–	–	(485)	(485)	–	(485)
Proposed final dividend	–	–	–	–	–	–	(1,048)	1,048	–	–	–
At 31st December, 2002	2,254	3,836	6,079	(37)	122	–	13,027	1,048	26,329	219	26,548
Surplus on revaluation of non-trading securities	–	–	–	44	–	–	–	–	44	–	44
Deferred tax charge on revaluation surplus of non-trading securities	–	–	–	(23)	–	–	–	–	(23)	–	(23)
Exchange translation differences	–	–	–	–	607	–	–	–	607	–	607
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years	–	–	(36)	–	–	–	–	–	(36)	–	(36)
Net gain (loss) not recognised in the consolidated income statement	–	–	(36)	21	607	–	–	–	592	–	592
Profit for the year	–	–	–	–	–	–	3,271	–	3,271	(10)	3,261
Total recognised income and expense for the year	–	–	(36)	21	607	–	3,271	–	3,863	(10)	3,853
Released to income statement on disposal of a subsidiary	–	–	19	–	–	–	–	–	19	–	19
Final dividend for the year 2002 paid	–	–	–	–	–	–	–	(1,048)	(1,048)	–	(1,048)
Proposed interim dividend	–	–	–	–	–	–	(485)	485	–	–	–
Interim dividend paid	–	–	–	–	–	–	–	(485)	(485)	–	(485)
Proposed final dividend	–	–	–	–	–	–	(1,127)	1,127	–	–	–
At 31st December, 2003	2,254	3,836	6,062	(16)	729	–	14,686	1,127	28,678	209	28,887

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Cont'd)

	Attributable to shareholders of the Company										
HK$ million	Share capital	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Hedge reserve	Retained profits	Proposed dividends	Sub-Total	Minority shareholders	Total
Surplus on revaluation of non-trading securities	–	–	–	144	–	–	–	–	144	–	144
Deferred tax charge on revaluation surplus of non-trading securities	–	–	–	(39)	–	–	–	–	(39)	–	(39)
Exchange translation differences	–	–	–	–	125	–	–	–	125	–	125
Net gain not recognised in the consolidated income statement	–	–	–	105	125	–	–	–	230	–	230
Revaluation surplus realised upon disposals of non-trading securities	–	–	–	(54)	–	–	–	–	(54)	–	(54)
Impairment loss recognised in respect of non-trading securities	–	–	–	20	–	–	–	–	20	–	20
Profit for the year	–	–	–	–	–	–	3,523	–	3,523	(3)	3,520
Total recognised income and expense for the year	–	–	–	71	125	–	3,523	–	3,719	(3)	3,716
Final dividend for the year 2003 paid	–	–	–	–	–	–	–	(1,127)	(1,127)	–	(1,127)
Proposed interim dividend	–	–	–	–	–	–	(496)	496	–	–	–
Interim dividend paid	–	–	–	–	–	–	–	(496)	(496)	–	(496)
Proposed final dividend	–	–	–	–	–	–	(1,285)	1,285	–	–	–
At 31st December, 2004	2,254	3,836	6,062	55	854	–	16,428	1,285	30,774	206	30,980
Opening adjustments arising from adoption of HKAS 39	–	–	–	–	–	(356)	(748)	–	(1,104)	–	(1,104)
At 1st January, 2005	2,254	3,836	6,062	55	854	(356)	15,680	1,285	29,670	206	29,876
Deficit on revaluation of available-for-sale investments	–	–	–	(14)	–	–	–	–	(14)	–	(14)
Exchange translation differences	–	–	–	–	(38)	–	–	–	(38)	–	(38)
Gain on cash flow hedges	–	–	–	–	–	14	–	–	14	–	14
Share of reserve of associates	–	–	–	–	–	36	–	–	36	–	36
Revaluation deficit and exchange translation surplus released upon disposals of available-for-sale investments	–	–	–	15	(15)	–	–	–	–	–	–
Net gain (loss) not recognised in the consolidated income statement	–	–	–	1	(53)	50	–	-	(2)	–	(2)
Profit for the period	–	–	–	–	–	–	1,866	–	1,866	(2)	1,864
Total recognised income and expense for the period	–	–	–	1	(53)	50	1,866	–	1,864	(2)	1,862
Final dividend for the year 2004 paid	–	–	–	–	–	–	–	(1,285)	(1,285)	–	(1,285)
At 30th June, 2005	2,254	3,836	6,062	56	801	(306)	17,546	–	30,249	204	30,453

CONSOLIDATED CASH FLOW STATEMENTS

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
OPERATING ACTIVITIES					
Profit before taxation	3,770	4,133	3,898	1,761	1,976
Share of results of associates	(3,081)	(3,150)	(3,168)	(1,283)	(1,384)
Share of results of jointly controlled entities	(453)	(611)	(623)	(320)	(312)
Interest income from loans granted to associates	(608)	(792)	(863)	(432)	(436)
Interest income	(140)	(175)	(174)	(90)	(126)
Finance lease income	(5)	(4)	(3)	(2)	(1)
Income from infrastructure project investments	(277)	(212)	(178)	(92)	(73)
Finance costs	624	630	644	340	337
Depreciation	182	170	160	81	66
Amortisation of leasehold land	11	11	11	5	5
Loss (gain) on disposals of property, plant and equipment	7	4	(3)	(4)	–
Gain on disposal of infrastructure project investment	–	(11)	–	–	(14)
(Gain) loss on disposals of subsidiaries	(51)	19	(22)	(22)	–
Allowance for amounts due by unlisted associates	19	49	30	5	–
Allowance for interests in jointly controlled entities	19	–	–	–	–
Allowance for investment in an associate	–	–	1	–	–
Amortisation of costs of infrastructure project investments	138	107	85	45	–
Gain on disposals of listed securities	(97)	–	(85)	(27)	–
Unrealised holding loss (gain) on unlisted equity securities	91	(40)	61	20	–
Change in fair values of investments in securities	–	–	–	–	20
Change in fair value of short term trading security	–	–	–	–	(34)
Impairment losses	53	30	250	–	–

CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

	Year ended 31st December,			Six months ended 30th June,	
HK$ million	**2002**	**2003**	**2004**	**2004**	**2005**
				(unaudited)	
Pension costs of defined benefit retirement plans	9	9	24	19	(4)
Amortisation of other non-current assets	1	1	–	–	–
Loss on disposals of other non-current assets	–	9	–	–	–
Unrealised exchange loss/(gain)	161	195	113	(18)	(123)
Returns received from jointly controlled entities	562	744	751	624	234
Returns received from infrastructure project investments	396	262	188	122	107
Interest received from associates	151	314	406	138	147
Contributions to defined benefit retirement plans	(21)	(20)	(9)	(5)	4
Operating cash flows before changes in working capital	1,461	1,672	1,494	865	389
Decrease (increase) in inventories	18	24	(3)	11	1
Decrease (increase) in debtors and prepayments	125	(61)	(138)	(90)	(165)
(Decrease) increase in creditors and accruals	(179)	53	5	(77)	61
Exchange translation differences	(9)	(47)	(29)	3	(10)
Cash generated from operations	1,416	1,641	1,329	712	276
Income taxes (paid) refunded	(14)	2	(22)	(10)	5
Net cash from operating activities	1,402	1,643	1,307	702	281

CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

HK$ million	Notes	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
INVESTING ACTIVITIES						
Purchases of property, plant and equipment		(111)	(90)	(77)	(25)	(44)
Disposals of property, plant and equipment		3	66	44	31	6
Acquisitions of subsidiaries	*33*	–	–	(705)	(697)	–
Disposals of subsidiaries	*34*	803	(11)	50	49	–
Acquisitions of an associate		–	–	(132)	–	(3,287)
Advances to associates		(2,309)	(352)	(42)	(42)	(31)
Repayments from associates		48	2,108	–	–	1
Advances from an associate		15	–	–	–	–
Acquisitions of a jointly controlled entity		–	–	(10)	–	–
Advance to a jointly controlled entity		–	(15)	(179)	(155)	–
Repayment from a jointly controlled entity		–	–	15	21	31
Disposals of infrastructure project investment		–	61	–	–	196
Purchases of securities		(333)	(1,037)	(78)	–	–
Disposals of listed securities		246	–	1,132	405	–
Repayments from finance lease debtors		14	11	10	2	4
Repayment from financial assets at fair value through profit or loss		–	–	–	–	18
Acquisitions of other non-current assets		(3)	(2)	–	–	–
Dividends received from associates		1,379	1,422	1,423	940	988
Interest received		149	142	207	105	128
Finance lease income received		5	4	3	2	–
Release of pledged bank deposit		23	–	–	–	–
Net cash (utilised in) from investing activities		(71)	2,307	1,661	636	(1,990)

CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Net cash before financing activities	1,331	3,950	2,968	1,338	(1,709)
FINANCING ACTIVITIES					
New bank and other loans	7,405	2,125	2,511	186	592
Repayments of bank and other loans	(3,915)	(4,311)	(1,888)	–	(434)
Redemption of debentures	(6)	–	–	–	–
Finance costs paid	(215)	(179)	(182)	(90)	(119)
Dividends paid	(1,432)	(1,533)	(1,623)	(1,127)	(1,285)
Net cash from (utilised in) financing activities	1,837	(3,898)	(1,182)	(1,031)	(1,246)
Net increase (decrease) in cash and cash equivalents	3,168	52	1,786	307	(2,955)
Cash and cash equivalents at 1st January	4,023	7,191	7,243	7,243	9,029
Cash and cash equivalents at 31st December/30th June	7,191	7,243	9,029	7,550	6,074
Representing:					
Bank balances and deposits at 31st December/30th June	7,191	7,243	9,029	7,550	6,074

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange").

The Group's principal activities are the development, investment and operation of infrastructure business in Hong Kong, Mainland China, Australia and the United Kingdom.

Particulars of the principal subsidiaries, associates and jointly controlled entities as at 30th June, 2005 are set out in Section B below.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the principal accounting policies adopted are set out below.

Application of Hong Kong Financial Reporting Standards

In the six months ended 30th June, 2005, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs also has resulted in a change in the presentation of the consolidated financial impact and income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively in the preparation of the Financial Information throughout the Relevant Periods except for HKAS 39. The effects of the adoption of HKAS 39 disclosed in "Summary of the Effects of the Adoption of HKAS 39" below.

Basis of Consolidation

The Financial Information includes the financial information of the Company and its subsidiaries made up to 31st December, 2002, 31st December, 2003 and 31st December, 2004 and 30th June, 2005 together with the Group's interests in associates and jointly controlled entities on the basis set out below.

Results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the Relevant Periods are accounted for from the effective dates of acquisitions or up to the effective dates of disposals.

Goodwill

Goodwill represents the excess of costs of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the subsidiaries, associates and jointly controlled entities acquired.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

From 1st January, 2004 onwards, goodwill is recognised as an asset at cost less any identified impairment loss. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves continues to be held in reserves and will be transferred to the retained earnings of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2004 onwards and goodwill will be tested for impairment at least annually in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2004 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged for the year ended 31st December, 2004. No comparative figures have been restated.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities. Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Associates

An associate is a company, other than a subsidiary or a jointly controlled entity, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in the Group's financial information using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

Joint Ventures

A joint venture is a contractual arrangement whereby the venturers undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Jointly controlled entities are joint ventures which involve the establishment of a separate entity. The results and assets and liabilities of jointly controlled entities are incorporated in the Group's financial information using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The major categories of financial instruments are stated below.

From 1st January, 2005 onwards, the Group has applied Hong Kong Accounting Standard ("HKAS") 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application whereas HKAS 39, generally does not permit restatement of comparative information on a retrospective basis. HKAS 39 requires financial assets to be classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Accounting policies in respect of interests in infrastructure project investments, investments in securities and derivative financial instruments have been changed with the application of HKAS 39. The principal effects resulting from the application of HKAS 39 on different categories of assets are summarised in the respective paragraphs below.

Infrastructure project investments

Interests in infrastructure project investments represent investments where the Group's return is predetermined as a fixed percentage of investment costs in accordance with the provisions of the relevant agreements.

Prior to 1st January, 2005, the Group's interests in the infrastructure project investments are recorded at cost less amortisation over relevant contract period on a straight-line basis from commencement of operation of the project or from commencement of the Group's entitlement to income. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments. Income from these interests is recognised when the Group's right to receive payment is established.

From 1st January, 2005 onwards, the Group's interests in the infrastructure project investments and related infrastructure project receivables are classified as "loans and receivables" and are subsequently measured at amortised cost using the effective interest rate method. An adjustment of HK$559 million has been made to adjust the carrying amounts of the infrastructure projects on 1st January, 2005 and a corresponding decrease to the Group's retained earnings. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The Group's interests in the infrastructure project investments which are expected to be realised within 12 months after the balance sheet date are classified as current assets.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Investments in securities

Prior to 1st January, 2005, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. The Group has classified or designated "trading securities" as "financial assets at fair value through profit or loss" and "non-trading securities" as "financial assets at fair value through profit or loss" or "available-for-sale financial assets". "Stapled securities" and "Equity investments" have been re-designated as "Financial assets at fair value through profit or loss" and "Available-for-sale financial assets" respectively. For "non-trading securities" that are classified or designated as "Financial assets at fair value through profit or loss", the cumulative unrealised gains or losses previously reported in equity at 1st January, 2005 continues to be held in equity. On subsequent disposal of the investment, the unrealised gain or loss remaining in equity will be transferred to the profit or loss.

From 1st January, 2005 onwards, investments in securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Trade receivables

Trade receivables are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade payables

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. To minimise the cash flow and interest rate risk arises from bank loans, the Group enters into interest rate swap contract to convert a proportion of its floating rate debt to fixed rates. The Group designates these as cash flow hedges of interest rate risk.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Prior to 1st January, 2005, the Group did not recognise any derivatives on the balance sheet. Any gain or loss of derivative financial instruments relating to interest rate and currency swaps were, except for net interest settlement arising on the derivatives, recognised in the income statement on an accrual basis. Commencing from 1st January, 2005, derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

The Group has applied the relevant transitional provisions in HKAS 39. For hedges that meet the requirements of hedge accounting set out in HKAS 39, the Group has, from 1st January, 2005 onwards, applied hedge accounting in accordance with HKAS 39 to account for such hedges. For derivatives that do not qualify for hedging accounting on 1st January, 2005, the Group recognised the fair value of the derivative financial instruments on 1st January, 2005, amounting to HK$189 million, in the Group's retained earnings.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Derivative financial instruments and hedge accounting (Cont'd)

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. The Group's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of non-financial asset or a non-financial liability, then, at the time the non-financial asset or non-financial liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the non-financial asset or non-financial liability. For hedges that do not result in the recognition of a non-financial asset or a non-financial liability, amounts deferred in equity are recognised in profit or loss in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation of property, plant and equipment is calculated to write off their depreciable amount over their estimated useful lives using the straight-line method, at the following rates per annum:

Buildings	1¼% to 3⅓% or over the unexpired lease terms of the land, whichever is the higher
Mains, pipes, other plant and machinery	3⅓% to 33⅓%
Others	5% to 33⅓%

When an asset is disposed of or retired, any gain or loss, representing the difference between the carrying value and the sales proceeds, if any, is included in the income statement.

Investment property

The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Owner-Occupied Leasehold Interest in Land

Owner-occupied leasehold interest in land is classified as prepaid lease payments under operating leases, which is carried at cost and amortised over the lease term on a straight-line basis, unless the lease payments cannot be allocated reliably between the land and buildings elements which are included in property, plant and equipment and measured using the cost model, in which case, the entire lease is generally treated as a finance lease.

Inventories

Inventories are stated at the lower of cost, computed on a weighted-average or a first-in first-out basis as appropriate, and net realisable value. Cost includes cost of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

Contract Work

When the outcome of a contract can be estimated reliably, revenue and costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date, that is the proportion that contract costs incurred for work performed to date bears to the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable.

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

Revenue Recognition

Sales of goods

Revenue from sales of goods is recognised at the time when the goods are delivered or title to the goods passes to the customers. Revenue is arrived at after deduction of any sales returns and discounts and does not include sales taxes.

Contract revenue

Income from long-term contracts is recognised according to the stage of completion.

Income from infrastructure projects

Prior to 1st January, 2005, income from infrastructure projects is recognised when the Group's right to receive payment is established. Income from Infrastructure project investments is calculated in accordance with the terms and conditions of the relevant contracts.

From 1st January, 2005 onwards, income from infrastructure projects is accrued on a time basis, by reference to the carrying amount and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount at initial recognition.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Revenue Recognition (Cont'd)

Income from investments in securities

Dividend income from investments in securities is recognised when the Group's right to receive payment is established.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign Currencies

The individual financial information of each group entity is presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial information, the results and financial position of each entity are expressed in Hong Kong Dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial information.

In preparing the financial information of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong Dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Deferred Taxation

Deferred taxation is provided using balance sheet liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding period. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable under operating leases are recorded in the income statement on a straight-line basis over the respective lease terms.

Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases.

The amounts due from the lessees under finance lease contracts are recorded as finance lease debtors. The finance lease debtors comprise the gross investment in leases less unearned finance lease income allocated to future accounting periods. The unearned finance lease income is allocated to future accounting periods so as to reflect constant periodic rates of return on the Group's net investments outstanding in respect of the leases.

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition. The corresponding liabilities to the lessor are shown within bank and other loans in the balance sheet as obligations under finance leases. Finance costs are charged to the income statement over the terms of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Employee Retirement Benefits

The Group operates defined contribution and defined benefit retirement plans for its employees.

The costs of defined contribution plans are charged to the income statement as and when the contributions fall due.

The cost of providing retirement benefits under the Group's defined benefit retirement plans is determined using the Projected Unit Credit Method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the employees participating in the plans. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. Any assets resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plans.

Borrowing Costs

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the financing of the Group's infrastructure projects up to the commencement of revenue contribution or upon commencement of operation of the projects, whichever is the earlier.

Summary of the Effects of the Adoption of HKAS 39

The cumulative effect of the application of HKAS 39 on certain consolidated balance sheet items as at 1st January, 2005 are summarised below:

HK$ million	**As at 31st December, 2004** (originally stated)	**Effect of HKAS 39**	**As at 1st January, 2005** (Restated)
Interests in associates	25,261	(545)	24,716
Interests in infrastructure project investments	1,855	(488)	1,367
Derivative financial instruments (assets)	–	723	723
Debtors and prepayments	878	(68)	810
Derivative financial instruments (liabilities)	–	(771)	(771)
Creditors and accruals	(839)	45	(794)
Total effects an assets and liabilities	27,155	(1,104)	26,051
Hedge reserve	–	(356)	(356)
Retained profits	16,428	(748)	15,680
Total effects on equity	16,428	(1,104)	15,324

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Summary of the Effects of the Adoption of HKAS 39 (Cont'd)

The effects of the changes in the accounting policies on the results for the six months ended 30th June, 2005 are as follows:

HK$ million	
Increase in share of results of associates	63
Increase in share of taxation attributable to associates	(19)
Gains from fair value changes of financial assets at fair value through profit or loss	16
Increase in effective interest income of interests in infrastructure project investments	41
Increase in deferred taxation	(10)
Increase in net profit for the period	91

Newly Issued Standards or Interpretations

The Group has not early applied the following new Standards or Interpretations ("Int") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial information of the Group.

HKAS 1 (Amendment)	"Capital Disclosures"
HKAS 19 (Amendment)	"Actuarial Gains and Losses, Group Plans and Disclosures"
HKAS 39 (Amendment)	"Cash Flow Hedge Accounting of Forecast Intragroup Transaction"
HKAS 39 (Amendment)	"The Fair Value Option"
HKAS 39 and HKFRS 4 (Amendment)	"Financial Guarantee Contracts"
HKFRS 6	"Exploration for and Evaluation of Mineral Resources"
HKFRS 7	"Financial Instruments: Disclosures"
HKFRS – Int 4	"Determining whether an Arrangement Contains a Lease"
HKFRS – Int 5	"Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
HK (IFRIC) – Int 6	"Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipments

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of interests in infrastructure project investments

Determining whether interests in infrastructure project investments is impaired requires an estimation of the recoverable amount of infrastructure project investments which requires the Group to estimate the future cash flows expected to arise from the infrastructure project investments and a suitable discount rate in order to calculate present value. The carrying amount of interests in infrastructure project investments as at 31st December, 2004 is HK$4,801 million, after an impairment loss of HK$559 million is recognised for the year ended 31st December, 2004.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include interest in infrastructure project investments, equity and debt investments, debtors and creditors. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have dividend income and borrowings determined in foreign currency, which expose the Group to foreign currency risk. The management considers that the foreign currency risk is offsetted by foreign currency income generated from foreign operations.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (see Note 26 for details of these borrowings). In relation to these fixed-rate borrowings, the Group aims at keeping borrowings at variable rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see Note 21 for details).

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team monitoring the procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

5. GROUP TURNOVER

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Sales of infrastructure materials	1,595	1,401	1,243	547	497
Income from the supply of water	–	–	149	36	118
Return from infrastructure project investments	277	212	178	92	73
Interest from loans granted to associates	608	792	863	432	436
Dividend from investments in securities/financial assets at fair value through profit or loss	53	63	74	28	11
	2,533	2,468	2,507	1,135	1,135

6. OTHER OPERATING INCOME

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Other operating income includes:					
Interest income from banks	122	97	132	49	126
Interest income from investments in securities	18	78	42	41	–
Finance lease income	5	4	3	2	1
Gain on disposals of subsidiaries	51	–	22	22	–
Gain on disposal of interest in an associate	–	–	–	–	64
Gain on disposal of infrastructure project investments	–	11	–	–	14
Gain on disposals of listed securities	97	–	85	27	–
Unrealised holding gain on other securities	–	40	–	–	–
Change in fair values of investments at fair value through profit or loss	–	–	–	–	14
Charterhire service income	28	–	–	–	–

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

7. OPERATING COSTS

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Operating costs include:					
Staff costs including directors' emoluments	399	353	326	166	135
Depreciation of property, plant and equipment	182	170	160	81	66
Amortisation of other non-current assets	1	1	–	–	–
Amortisation of costs of infrastructure project investments	138	107	85	45	–
Raw materials and consumables used	459	386	505	218	218
Unrealised holding loss on unlisted equity securities	91	–	61	20	–
Impairment losses	53	30	250	–	–
Loss on disposal of a subsidiary	–	19	–	–	–
Details of impairment losses recognised in respect of:					
Certain property, plant and equipment for infrastructure related business, taking into consideration of current market conditions of the business					
Hong Kong	–	–	140	–	–
Mainland China	53	30	90	–	–
	53	30	230	–	–
Listed equity investment	–	–	20	–	–
	53	30	250	–	–

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

8. OPERATING PROFIT

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Operating profit is arrived at after charging (crediting):					
Contract revenue	(236)	(232)	(139)	(24)	(52)
Operating lease rental					
Land and buildings	51	37	16	10	6
Vessels	28	–	–	–	–
Directors' emoluments	29	32	28	6	6
Auditors' remuneration	3	2	3	1	1
Loss (gain) on disposal of property, plant and equipment	7	4	(3)	(4)	–
Loss on disposal of a subsidiary	–	19	–	–	–
Net exchange loss (gain)	88	(13)	1	26	(140)

9. FINANCE COSTS

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Interest and other finance costs on					
Bank borrowings wholly repayable within five years	556	558	566	303	299
Notes not wholly repayable within five years	68	72	78	37	38
	624	630	644	340	337

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

10. TAXATION

Hong Kong profits tax is provided at the rate of 16 per cent for the year ended 31st December, 2002 and 17.5 per cent for the years ended 31st December, 2003, 31st December, 2004 and the six months ended 30th June, 2004 and 30th June, 2005 on the estimated assessable profits less available tax losses for each of the year/period. Overseas tax is provided at the applicable tax rate on the estimated assessable profits for each of the year/period less available tax losses.

	Year ended 31st December,			Six months ended 30th June,	
HK$ million	**2002**	**2003**	**2004**	**2004**	**2005**
				(unaudited)	
Company and subsidiaries					
Current taxation					
– Hong Kong profits tax	12	9	5	–	–
– Overseas tax	–	–	6	3	6
Deferred taxation	4	(4)	(9)	(12)	30
	16	5	2	(9)	36
Share of taxation attributable to					
Associates	524	806	326	362	35
Jointly controlled entities	36	61	50	25	41
	560	867	376	387	76
	576	872	378	378	112

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

10. TAXATION (Cont'd)

The taxation charge for the years ended 31st December, 2002, 31st December, 2003, 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005 can be reconciled to the profit before taxation per consolidated income statement as follows:

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Company and subsidiaries					
Profit before taxation	3,770	4,133	3,898	1,761	1,976
Tax at the weighted average effective rates of 13.4%, 15.1%, 15.6%, 16.2% and 16.75%	505	624	608	285	331
Tax impact on:					
Income not subject to tax	(163)	(132)	(99)	(60)	(44)
Expenses not deductible for tax purpose	148	166	222	86	117
Tax losses and other temporary differences not recognised	50	22	24	7	28
Utilisation of previously unrecognised tax losses and other temporary differences	(3)	(8)	(12)	(1)	(2)
Recognition of previously unrecognised tax losses and other temporary differences	–	–	13	–	(250)
Undistributed profits of associates	27	32	112	28	–
Change in tax base of an associate's assets	–	–	(474)	–	(76)
Change in tax rate attributable to deferred tax liabilities brought forward from prior years	–	169	–	–	–
Others	12	(1)	(16)	33	8
Taxation charge	576	872	378	378	112

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Of the Group's profit attributable to shareholders of the Company, HK$1,678 million, HK$1,703 million, HK$1,890 million, loss of HK$47 million and loss of HK$52 million for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005, respectively have been dealt with in the Financial Information of the Company.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK$3,199 million, HK$3,271 million, HK$3,523 million, HK$1,385 million and HK$1,866 million on 2,254,209,945 shares in issue for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005, respectively.

13. DIVIDENDS

	Year ended 31st December,			Six months ended 30th June,	
HK$ million	**2002**	**2003**	**2004**	**2004** (unaudited)	**2005**
Interim dividend paid of HK$0.215, HK$0.215, HK$0.22, HK$0.22 and HK$0.24 per share	485	485	496	496	541
Proposed final dividend of HK$0.465, HK$0.5 and HK$0.57 per share	1,048	1,127	1,285	N/A	N/A
	1,533	1,612	1,781	496	541

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

14. PROPERTY, PLANT AND EQUIPMENT

HK$ million	Freehold land and buildings outside Hong Kong	Buildings in Hong Kong	Buildings outside Hong Kong	Mains, pipes, other plant and machinery	Furniture, fixtures and others	Total
GROUP						
COST						
At 1st January, 2002	–	405	360	2,044	264	3,073
Additions	–	–	–	107	4	111
Disposals	–	–	(2)	(74)	(8)	(84)
Transfers	–	1	1	(2)	–	–
At 31st December, 2002	–	406	359	2,075	260	3,100
Exchange translation differences	–	–	1	1	1	3
Additions	–	4	–	64	22	90
Disposals	–	(2)	(19)	(93)	(119)	(233)
At 31st December, 2003	–	408	341	2,047	164	2,960
Additions	–	2	1	71	3	77
Disposals	(7)	(9)	(1)	(166)	(45)	(228)
Relating to subsidiaries acquired	11	–	–	964	3	978
Relating to subsidiaries disposed of	–	–	–	(72)	(9)	(81)
Exchange translation differences	1	–	–	75	–	76
Transfers	–	4	1	(5)	–	–
At 31st December, 2004	5	405	342	2,914	116	3,782
Additions	–	–	1	42	1	44
Disposals	–	(2)	–	(45)	(47)	(94)
Exchange translation differences	–	–	–	(58)	–	(58)
Transfers	(2)	(1)	–	5	(4)	(2)
At 30th June, 2005	3	402	343	2,858	66	3,672

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

HK$ million	Freehold land and buildings outside Hong Kong	Buildings in Hong Kong	Buildings outside Hong Kong	Mains, pipes, other plant and machinery	Furniture, fixtures and others	Total
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1st January, 2002	–	190	34	950	178	1,352
Charge for the year	–	18	10	132	22	182
Impairment loss	–	–	27	26	–	53
Disposals	–	–	(2)	(64)	(8)	(74)
At 31st December, 2002	–	208	69	1,044	192	1,513
Charge for the year	–	20	9	124	17	170
Impairment loss	–	–	15	15	–	30
Disposals	–	(1)	(4)	(67)	(91)	(163)
At 31st December, 2003	–	227	89	1,116	118	1,550
Charge for the year	–	19	7	120	14	160
Impairment loss	–	–	30	190	10	230
Disposals	–	(5)	–	(150)	(41)	(196)
Relating to subsidiaries acquired	–	–	–	229	2	231
Relating to subsidiaries disposed of	–	–	–	(68)	(8)	(76)
Exchange translation differences	–	–	–	19	–	19
At 31st December, 2004	–	241	126	1,456	95	1,918
Charge for the period	–	8	4	50	4	66
Disposals	–	(1)	–	(41)	(44)	(86)
Exchange translation differences	–	–	–	(19)	–	(19)
Transfers	–	4	(2)	3	(5)	–
At 30th June, 2005	–	252	128	1,449	50	1,879
NET BOOK VALUES						
At 31st December, 2002	–	198	290	1,031	68	1,587
At 31st December, 2003	–	181	252	931	46	1,410
At 31st December, 2004	5	164	216	1,458	21	1,864
At 30th June, 2005	3	150	215	1,409	16	1,793

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

HK$ million	Furniture, fixtures and others
COMPANY	
COST	
At 1st January, 2002, 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005	14
ACCUMULATED DEPRECIATION	
At 1st January, 2002	8
Charge for the year	2
At 31st December, 2002	10
Charge for the year	2
At 31st December, 2003	12
Charge for the year	1
At 31st December, 2004	13
Charge for the period	1
At 30th June, 2005	14
NET BOOK VALUES	
At 31st December, 2002	4
At 31st December, 2003	2
At 31st December, 2004	1
At 30th June, 2005	–

The net book value of the Group's mains, pipes, other plant and machinery includes an amount of HK$64 million, nil, HK$220 million and HK$208 million respectively in respect of assets held under finance leases as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005.

15. LEASEHOLD LAND

HK$ million	
GROUP	
COST	
At 1st January, 2002, 31st December, 2002, 31st December, 2003, 31st December, 2004	503
Transfer to investment properties	(44)
At 30th June, 2005	459
ACCUMULATED AMORTISATION	
At 1st January, 2002	87
Charge for the year	11
At 31st December, 2002	98
Charge for the year	11
At 31st December, 2003	109
Charge for the year	11
At 31st December, 2004	120
Charge for the period	5
Transfer to investment properties	(7)
At 30th June, 2005	118
NET BOOK VALUES	
At 31st December, 2002	405
At 31st December, 2003	394
At 31st December, 2004	383
At 30th June, 2005	341

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

16. INTERESTS IN SUBSIDIARIES

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Unlisted shares, at cost	22,757	22,757	22,757	22,757
Amounts due by subsidiaries	5,664	5,816	5,963	–
	28,421	28,573	28,720	22,757

17. INTERESTS IN ASSOCIATES

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Investment costs	8,819	8,790	10,213	13,452
Amount due by unlisted associates	7,363	7,526	6,613	6,758
Share of undistributed post-acquisition results	5,830	7,018	8,435	8,298
	22,012	23,334	25,261	28,508
Market value of listed associate	24,473	25,469	29,451	29,451

Included in the amounts due by unlisted associates are subordinated loans totalling HK$4,597 million, HK$6,310 million, HK$6,589 million and HK$6,641 million as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005, respectively. The rights in respect of these loans are subordinated to the rights of any other lenders to the associates.

The Group's share of results and net assets in ETSA and CHEDHA are as follows:

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2005
ETSA				
(Loss) profit before taxation	(85)	(35)	14	67
Taxation	(6)	(21)	(37)	(40)
(Loss) profit after taxation	(91)	(56)	(23)	27

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Net assets	2,892	3,733	3,903	3,786

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

17. INTERESTS IN ASSOCIATES (Cont'd)

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2005
CHEDHA				
Profit before taxation	159	247	327	198
Taxation	(31)	(92)	(213)	164
Profit after taxation	128	155	114	362

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Net assets	4,743	4,280	4,933	5,309

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Investment costs	2,098	2,505	2,497	2,798
Shareholders' loans to jointly controlled entities	1,942	1,957	2,093	2,063
Share of undistributed post-acquisition results	498	374	211	205
	4,538	4,836	4,801	5,066

The Group's interests in a jointly controlled entity with carrying value of HK$1,982 million, HK$1,888 million, HK$1,896 million and HK$2,070 million as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 have been pledged as part of the security to secure certain bank borrowings granted to the jointly controlled entity.

19. INTERESTS IN INFRASTRUCTURE PROJECT INVESTMENTS

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Investments	3,026	2,550	2,550	933
Accumulated amortisation	(616)	(624)	(709)	–
Infrastructure project receivables	405	156	148	–
	2,815	2,082	1,989	933
Impairment loss	(350)	(134)	(134)	–
	2,465	1,948	1,855	933
Portion classified as:				
Current assets	–	–	–	171
Non-current assets	2,465	1,948	1,855	762
	2,465	1,948	1,855	933

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

20. INVESTMENTS IN SECURITIES

HK$ million	As at 31st December, 2002	2003	2004
Stapled securities, listed overseas, at fair value	573	771	885
Equity investments, listed overseas, at fair value	32	46	67
Debt investments, listed overseas, at fair value	19	1,055	–
	624	1,872	952
Unlisted equity securities, at fair value	179	219	236
	803	2,091	1,188

HK$ million	As at 30th June, 2005
Financial assets at fair value through profit or loss	1,124
Available-for-sale financial assets	53
	1,177

The stapled security comprises a subordinated loan note and a fully paid ordinary share. It is quoted at a single combined price and cannot be traded separately.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The transactions entered into as at 30th June, 2005 are as follows:

HK$ million	Assets	Liabilities
Forward foreign exchange contracts	390	(376)
Interest rate swaps	–	(8)
	390	(384)
Analysed as:		
Non-current	390	(384)
Current	–	–
	390	(384)

Currency derivatives

The Group utilises currency derivatives to hedge against certain bank borrowings in foreign currencies. The Group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures.

At 31st December, 2004 and 30th June, 2005, the total notional amount of outstanding forward foreign exchange contracts to which the Group is committed are as follows:

HK$ million	As at 31st December, 2004	As at 30th June, 2005
Forward foreign exchange contracts		
buy	1,127	376
sell	1,079	369

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

21. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Currency derivatives (Cont'd)

At 31st December, 2004 and 30th June, 2005, the fair value of the Group's currency derivatives is estimated to be a loss of approximately HK$38 million and a gain of approximately HK$21 million, respectively. These amounts are based on quoted market prices for equivalent instruments at 31st December, 2004 comprising to be accumulated gain of HK$723 million and accumulated loss of HK$770 million and for equivalent instruments at 30th June, 2005, comprising to be accumulated gain of HK$390 million and accumulated loss of HK$376 million, respectively.

Changes in the fair value of non-hedging currency derivatives amounting to a loss of HK$38 million and a gain of HK$21 million have been credited to income statement for the year ended 31st December, 2004 and the six months ended 30th June, 2005, respectively.

For the six months ended 30th June, 2005, the fair value of currency derivatives that are designated and effective as cash flow hedges amounting to HK$21 million has been deferred in equity.

Amounts of HK$45 million and HK$32 million have been transferred to the income statement in respect of contracts matured for the year ended 31st December, 2004 and the six months ended 30th June, 2005, respectively.

There is no currency derivatives transaction between the years ended 31st December, 2002 and 31st December, 2003.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of those borrowings from floating rates to fixed rates for the year ended 31st December, 2004 and the six months ended 30th June, 2005. Borrowings of HK$366 million and HK$364 million are floating interest payments at 5.28 per cent and 5.11 per cent as of 31st December, 2004 and 30th June, 2005, respectively. Interest rate swap contracts with nominal values of HK$366 million and HK$353 million with a maturity date on 31st December, 2010 have fixed interest payments at an average rate of 5.28 per cent and 5.26 per cent. The Group does not exposure to any interest rate risk for the years ended 31st December, 2002 and 31st December, 2003.

The fair value of swaps entered into at 30th June, 2005 is estimated at a liability of HK$7 million and have been credited to income statement for the six months ended 30th June, 2005.

All of these interest rate swaps are designated and effective as cash flow hedges with the fair value thereof have been deferred in equity. An amount of HK$0.1 million has been offset against hedged interest payments made during the six months ended 30th June, 2005.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

22. GOODWILL

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Goodwill recognised on acquisition of subsidiary	–	–	238	257
Exchange difference	–	–	19	(14)
	–	–	257	243

Goodwill was recognised on acquisition of 100 per cent interest in Cambridge Water PLC ("Cambridge Water") on 28th April, 2004, the water supplier operation in South Cambridgeshire of the United Kingdom. Detail of acquisition is set out in note 33.

The recoverable amount of the operation are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the operation. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

23. OTHER NON-CURRENT ASSETS

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Finance lease debtors	23	13	6	2
Employee retirement benefit assets *(note 29b)*	12	23	8	8
Others	8	–	–	–
	43	36	14	10

Details of the present value of finance lease debtors are shown below:

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Gross investment in leases receivable:				
Within one year	17	14	9	8
In the second to fifth year, inclusive	28	15	8	4
	45	29	17	12
Unearned finance lease income	(10)	(5)	(3)	(2)
Present value of finance lease debtors	35	24	14	10
Portion receivable:				
Within one year classified under current liabilities	12	11	8	7
In the second to fifth year, inclusive classified under non-current liabilities	23	13	6	3
	35	24	14	10

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

24. INVENTORIES

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Raw materials	41	31	38	28
Work-in-progress	7	3	3	8
Stores, spare parts and supplies	115	107	93	87
Finished goods	23	23	23	33
	186	164	157	156
Contract work-in-progress	2	–	6	–
	188	164	163	156
Inventories carried at net realisable value				
Raw materials	–	1	–	–
Stores, spare parts and supplies	53	65	66	–
Finished goods	2	–	–	–
	55	66	66	–
Contract work-in-progress				
Costs plus recognised profits less recognised losses	106	89	94	–
Progress billing	(104)	(89)	(88)	–
Amount due from customers for contract work	2	–	6	–

The cost of inventories charged to the Group's income statement were HK$1,117 million, HK$1,075 million, HK$1,082 million, HK$476 million and HK$521 million for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005, respectively.

25. DEBTORS AND PREPAYMENTS

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
GROUP				
Trade debtors and infrastructure project receivables	589	417	379	263
Prepayments, deposits and other receivables	153	253	499	681
	742	670	878	944

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
COMPANY				
Prepayments, deposits and other receivables	7	7	8	8

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

25. DEBTORS AND PREPAYMENTS (Cont'd)

The aging analysis of the Group's trade debtors and infrastructure project receivables is as follows:

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Current	367	218	228	74
One month	104	107	78	56
Two to three months	48	38	28	35
Over three months	208	204	187	238
Gross total	727	567	521	403
Allowance for doubtful debts	(138)	(150)	(142)	(140)
	589	417	379	263

Trade with customers for infrastructure materials is carried out largely on credit, except for new customers and customers with unsatisfactory payment records, where payment in advance is normally required. Trade with metered customers for water supply is carried out largely on credit and with unmetered customers largely by payment in advances. Invoices are normally payable within one month of issuance, except for certain well-established customers, where the terms are extended to two months, and certain customers with disputed items, where the terms are negotiated individually. Each customer has a maximum credit limit, which was granted and approved by senior management in accordance with the laid-down credit review policy and procedures.

The directors consider that the carrying amount of debtors and prepayments approximates their fair value.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

26. BANK AND OTHER LOANS

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Unsecured bank loans repayable:				
Within one year	2,250	1,258	357	2,942
In the second year	2,409	514	2,414	–
In the third to fifth year, inclusive	5,988	8,396	7,972	8,007
After five years	–	–	366	363
	10,647	10,168	11,109	11,312
Secured bank loans repayable:				
Within one year	19	–	–	–
In the third to fifth year, inclusive	5	–	–	–
	24	–	–	–
Obligations under finance lease repayable:				
Within one year	–	–	14	13
In the second year, inclusive	–	–	13	12
In the third to fifth year, inclusive	–	–	21	9
After five years	–	–	7	8
	–	–	55	42
Other loan repayable				
After five years	–	–	3	3
Unsecured notes, 3.5%, repayable				
After five years	1,974	2,169	2,244	2,139
	12,645	12,337	13,411	13,496
Portion classified as:				
Current liabilities	2,269	1,258	371	2,955
Non-current liabilities	10,376	11,079	13,040	10,541
	12,645	12,337	13,411	13,496

The carrying amounts of the Group's borrowings are denominated in the following currencies:

As at 30th June, 2005

HK$ million	HK$	RMB	AU$	GBP	JPY	Total
Bank loan	3,800	508	6,641	366	2,139	13,454
Finance lease	–	–	–	42	–	42
	3,800	508	6,641	408	2,139	13,496

As at 31st December, 2004

HK$ million	HK$	RMB	AU$	GBP	JPY	Total
Bank loan	3,800	357	6,586	369	2,244	13,356
Finance lease	–	–	–	55	–	55
	3,800	357	6,586	424	2,244	13,411

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

26. BANK AND OTHER LOANS (Cont'd)

As at 31st December, 2003

HK$ million	HK$	RMB	AU$	JPY	Total
Bank loan	3,800	59	6,309	2,169	12,337

As at 31st December, 2002

HK$ million	HK$	RMB	AU$	CAD	JPY	Total
Bank loan	3,800	90	6,775	6	1,974	12,645

The average interest rates paid were as follows:

	Year ended 31st December,			Six months ended 30th June, 2005
	2002	2003	2004	
Bank loans	5.05%	5.02%	4.58%	4.71%

Bank loans of HK$2,071 million, HK$2,169 million, HK$2,247 million and HK$2,142 million as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to interest rate risk.

Fair value for bank and other loans is calculated based on discounted expected future principal and interest cash flows.

Interest rates on the bank and other loans are either fixed or floating and determined with reference to Hong Kong Interbank Offered Rate, Australian Bank Bill Swap Reference Rate, RMB Short Term Working Capital Loan Basis Rates published by The People's Bank of China, or London Interbank Offered Rate.

Details of the present value of the minimum lease payments as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 are shown below:

	As at 31st December,			As at 30th June,
HK$ million	2002	2003	2004	2005
Minimum lease payments:				
Within one year	–	–	16	16
In the second year	–	–	15	14
In the third to fifth year, inclusive	–	–	23	11
After five years	–	–	8	9
	–	–	62	50
Less: future finance charges	–	–	(7)	(8)
Present value of lease payments	–	–	55	42

The average lease term is 3.75 years. Interest rates are floating with reference to London Interbank Offered Rates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

27. CREDITORS AND ACCRUALS

	As at 31st December,			As at 30th June,
HK$ million	**2002**	**2003**	**2004**	**2005**
GROUP				
Trade creditors	90	117	160	130
Amount due to an unlisted associate	131	133	135	137
Other payables and accruals	350	392	544	579
	571	642	839	846
COMPANY				
Amount due to an unlisted associate	131	133	135	137
Other payables and accruals	21	26	94	4
	152	159	229	141

The aging analysis of the Group's trade creditors is as follows:

	As at 31st December,			As at 30th June,
HK$ million	**2002**	**2003**	**2004**	**2005**
Current	30	36	66	59
One month	20	25	17	21
Two to three months	9	13	19	6
Over three months	31	43	58	44
	90	117	160	130

The directors consider that the carrying amount of trade payables approximates their fair value.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

28. DEFERRED TAX LIABILITIES

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the years ended 31st December, 2002, 31st December, 2003, 31st December, 2004 and the period ended 30th June, 2005:

HK$ million	Accelerated tax depreciation	Tax losses	Revaluation of investments in securities	Others	Total
At 1st January, 2002	119	(61)	28	–	86
Charge against profit for the year	–	4	–	–	4
Charge against investment revaluation reserve	–	–	18	–	18
Exchange translation differences	–	–	3	–	3
At 31st December, 2002	119	(57)	49	–	111
(Credit to) charge against profit for the year	(11)	7	–	–	(4)
Charge against investment revaluation reserve	–	–	23	–	23
Change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries in prior years	6	–	–	–	6
Exchange translation differences	–	–	15	–	15
At 31st December, 2003	114	(50)	87	–	151
Credit to profit for the year	(3)	(6)	–	–	(9)
Charge against investment revaluation reserve	–	–	39	–	39
Relating to subsidiaries acquired and disposed of	152	–	–	(3)	149
Exchange translation differences	11	–	3	–	14
At 31st December, 2004	274	(56)	129	(3)	344
Charge against profit for the period	19	–	11	–	30
Exchange translation differences	(9)	–	1	–	(8)
At 30th June, 2005	284	(56)	141	(3)	366

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

28. DEFERRED TAX LIABILITIES (Cont'd)

For the purpose of balance sheet presentation, all deferred tax assets have been offset against deferred tax liabilities.

Apart from the unused tax losses of which the deferred tax assets have been recognised as presented above, the Group has unused tax losses and other unused tax credits totalling HK$450 million, HK$397 million, HK$490 million and HK$614 million as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005, respectively. No deferred tax asset has been recognised in respect of these tax losses and tax credits due to the unpredictability of future profit streams to utilise the available tax losses and tax credits. An analysis of the expiry dates of the tax losses and tax credits is as follows:

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Within one year	25	14	45	43
In the second year	20	45	41	41
In the third to fifth year, inclusive	146	117	88	88
After five years	15	–	–	22
No expiry date	244	221	316	420
	450	397	490	614

29. RETIREMENT PLANS

(a) Defined Contribution Retirement Plans

The Group provides defined contribution retirement plans for its eligible employees except for two defined benefit plans for the employees of certain subsidiaries as detailed in (b) and (c) below.

Contributions to the defined contribution plans are made by either the employer only at 10 per cent of the employees' monthly basic salaries or by both the employer and the employees each at 10 or 15 per cent of the employees' monthly basis salaries. The Company and its Hong Kong subsidiaries also participate in master trust Mandatory Provident Fund ("MPF") schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5 per cent of the employees' monthly relevant income each capped at HK$20,000.

As the Group's retirement plans in Hong Kong, including the defined benefit plan mentioned in (b) below, are all MPF-exempted recognised occupational retirement schemes ("ORSO schemes"), except for certain subsidiaries of which the new Hong Kong employees have to join the MPF schemes, the Group offers an option to its new Hong Kong employees to elect between the ORSO schemes and the MPF schemes.

The Group's costs in respect of defined contribution plans for the years ended 31st December, 2002, 31st December, 2003, 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005 amounted to HK$12 million, HK$12 million, HK$9 million, HK$5 million and HK$5 million respectively. Forfeited contributions and earnings for each of the years ended 31st December, 2002, 31st December, 2003, 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005 under the defined contribution plans amounting to HK$4 million, HK$1 million, HK$1 million, HK$1 million and HK$1 million, respectively, were used to reduce the existing level of contributions. The forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years as at 31st December, 2002, 31st December, 2003, 31st December, 2004, 30th June, 2004 and 30th June, 2005 are HK$1 million, HK$1 million, nil, nil and HK$1 million respectively.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

29. RETIREMENT PLANS (Cont'd)

(b) Defined Benefit Retirement Plan operating in Hong Kong

Certain subsidiaries of the Group operate a defined benefit retirement plan in Hong Kong for their eligible employees. Contributions to the defined benefit plan are made by the employees at either 5 or 7 per cent of the employees' salaries and contributions made by the employer are based on the recommendations of an independent actuary according to a periodic actuarial valuation of the plan.

Actuarial valuation of the defined benefit plan according to Statement of Standard Accounting Practice 34 "Employee Benefits" was carried out at 1st January, 2003, 1st January, 2004 and 31st December, 2004, respectively, by Mr. Joseph K.L. Yip of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations, the related current service cost and past service cost, if any, were measured using the Projected Unit Credit Method. The principal actuarial assumptions used are as follows:

	As at 31st December,		
	2002	**2003**	**2004**
Discount rate	5.5% per annum	3.75% per annum	3.25% per annum
Expected return on plan assets	7% per annum	7% per annum	7% per annum
Expected rate of salary increase	Nil to 5% for the next five years and 5% per annum thereafter	3% per annum for the next two years and 5% per annum thereafter	3% per annum for the next year and 5% per annum thereafter

No actuarial valuation was made for the six months ended 30th June, 2004 and 30th June, 2005 as the Company's policy is to carry out the valuation annually.

The following amounts in respect of the defined benefit plan have been charged/(credited) to the consolidated income statement under operating costs:

	Year ended 31st December,			Six months ended 30th June,	
HK$ million	**2002**	**2003**	**2004**	**2004** (unaudited)	**2005**
Current service costs	6	7	5	17	2
Interest cost	9	8	4	–	–
Expected return on plan assets	(9)	(9)	(7)	–	–
Net actuarial loss recognised	–	1	2	–	–
Amortisation of transitional liability	3	2	2	1	–
Loss on curtailment and settlement	–	–	15	–	–
Net amount charged to consolidated income statement	9	9	21	18	2

During the year ended 31st December, 2004, more than 40 per cent of the participating employees left the plan due to reorganisation. According to SSAP 34, this triggered a curtailment and settlement event which resulted in a charge of HK$15 million as included above.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

29. RETIREMENT PLANS (Cont'd)

(b) Defined Benefit Retirement Plan operating in Hong Kong (Cont'd)

The actual return on plan assets for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 are loss of HK$3 million, gain of HK$12 million, and gain of HK$9 million, respectively.

The amount included in the consolidated balance sheets as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 arising from the Group's obligations in respect of its defined benefit plan in Hong Kong is as follows:

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Present value of defined benefit obligations	157	172	62	64
Unrecognised actuarial losses	(23)	(37)	(8)	(10)
Fair value of plan assets	(136)	(150)	(60)	(60)
Unrecognised transitional liability	(10)	(8)	(2)	(2)
Employee retirement benefit assets included in the consolidated balance sheets *(note 23)*	(12)	(23)	(8)	(8)

Movements in the Group's assets in respect of the defined benefit plan recognised in the consolidated balance sheets are as follows:

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
At 1st January	–	(12)	(23)	(8)
Employer's contributions	(21)	(20)	(6)	(2)
Amount charged to consolidated income statement	9	9	21	2
At 31st December/30th June	(12)	(23)	(8)	(8)

Since 1st January, 2002, the Group has adopted SSAP 34 "Employee Benefit". As at that date, the Group determined the transitional liability for its defined benefit plan to be HK$13 million. This amount is being recognised on a straight-line basis over a period of five years from 1st January, 2002. Charges of HK$3 million, HK$2 million and HK$2 million were recognised for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004, respectively. An additional charge of HK$4 million was recognised and included in the above loss on curtailment and settlement cost for the year ended 31st December, 2004. As at 31st December, 2002, 31st December, 2003 and 31st December, 2004, transitional liabilities of HK$10 million, HK$8 million and HK$2 million respectively remained unrecognised. Since no actuarial valuation was made by the Company as at 30th June, 2005, no transitional liability was provided.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

29. RETIREMENT PLANS (Cont'd)

(c) Defined Benefit Retirement Plan operating in the United Kingdom

Cambridge Water PLC, a wholly-owned subsidiary acquired by the Group on 28th April, 2004, operates a defined benefit retirement plan in the United Kingdom. The retirement plan is covered under the Water Companies Pension Scheme of which the Company is a member. Contributions to the defined benefit plan are made by the employees at 6 per cent of the employees' salaries and contributions made by the employers are based on the recommendations of an independent actuary according to a periodic actuarial valuation of the plan.

Actuarial valuation of the defined benefit plan was updated to 31st December, 2004, by Mr. Stephen J Davies FIA of Lane Clark & Peacock LLP, who is a Fellow of the Institute of Actuaries. The present value of the defined benefit obligations, the related current service cost and past service cost, if any, were measured using the Projected Unit Credit Method. The principal actuarial assumptions used are as follows:

Discount rate at 31st December	5.3% per annum
Expected return on plan assets	6.3% per annum
Expected rate of pension increase	2.9% per annum
Expected rate of salary increase	4.9% per annum

The following amounts in respect of the defined benefit plan have been charged (credited) to the consolidated income statement for the year ended 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005 under operating costs:

HK$ million	Year ended 31st December, 2004	Six months ended 30th June, 2004 (unaudited)	Six months ended 30th June, 2005
Current service cost	7	1	3
Interest cost	19	–	–
Expected return on plan assets	(21)	–	–
Net actuarial loss not recognised	(2)	–	–
Net amount charged to consolidated income statement	3	1	3

The actual return on plan assets for the period from 28th April, 2004 to 31st December, 2004 is a gain of HK$24 million.

The amount included in the consolidated balance sheet as at 31st December, 2004 and 30th June, 2005 arising from the Group's obligations in respect of its defined benefit plan in the United Kingdom is as follows:

HK$ million	As at 31st December, 2004	As at 30th June, 2005
Present value of defined benefit obligations	388	370
Unrecognised actuarial losses	(10)	(12)
Fair value of plan assets	(363)	(343)
Employee retirement benefit liabilities classified as other non-current liabilities included in the consolidated balance sheet	15	15

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

29. RETIREMENT PLANS (Cont'd)

(c) Defined Benefit Retirement Plan operating in the United Kingdom (Cont'd)

Movements in the Group's liabilities in respect of the defined benefit plan recognised in the consolidated balance sheet as at 31st December, 2004 and 30th June, 2005 are as follows:

HK$ million	As at 31st December, 2004	As at 30th June, 2005
At acquisition date	14	15
Exchange translation differences	1	–
Employers' contributions	(3)	(3)
Amount charged to consolidated income statement	3	3
	15	15

The above actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK$363 million as at 31st December, 2004 represents 93 per cent of the present value of the obligations as at the day. The Group's future annual contribution is designed to fund the shortfall over a period of time and the employer funding rates have been increased since 1st April, 2004. The funding rates are subject to annual review.

30. SHARE CAPITAL

HK$ million	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Authorised				
4,000,000,000 shares of HK$1 each	4,000	4,000	4,000	4,000
Issued and paid				
2,254,209,945 shares of HK$1 each	2,254	2,254	2,254	2,254

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

31. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographic regions as the secondary reporting format.

By business segment

	Investment in HK Electric*				Infrastructure investment				Infrastructure related business				Unallocated items				Consolidated			
	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,
HK$ million	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Assets																				
Segment assets	–	–	–	–	3,287	2,845	4,339	3,495	3,892	3,775	3,296	3,207	–	–	–	–	7,179	6,620	7,635	6,702
Interests in associates and jointly controlled entities	14,142	15,097	16,037	15,917	12,271	12,956	13,759	17,412	137	117	266	245	–	–	–	–	26,550	28,170	30,062	33,574
Unallocated corporate assets	–	–	–	–	–	–	–	–	–	–	–	–	6,245	7,336	7,996	5,398	6,245	7,336	7,996	5,398
Total assets	14,142	15,097	16,037	15,917	15,558	15,801	18,098	20,907	4,029	3,892	3,562	3,452	6,245	7,336	7,996	5,398	39,974	42,126	45,693	45,674
Liabilities																				
Segment liabilities	–	–	–	–	11	15	513	522	372	285	265	197	–	–	–	–	383	300	778	719
Taxation, deferred taxation and unallocated corporate liabilities	–	–	–	–	47	86	304	194	81	82	57	144	12,915	12,771	13,574	14,164	13,043	12,939	13,935	14,502
Total liabilities	–	–	–	–	58	101	817	716	453	367	322	341	12,915	12,771	13,574	14,164	13,426	13,239	14,713	15,221

* During the Relevant Periods, the Group has a 38.87 per cent equity interest in Hongkong Electric Holdings Limited ("HK Electric"), which is listed on Hong Kong Stock Exchange.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

31. SEGMENT INFORMATION (Cont'd)

By business segment (Cont'd)

HK$ million	Investment in HK Electric* Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover					
Group turnover	–	–	–	–	–
Share of turnover of jointly controlled entities	–	–	–	–	–
	–	–	–	–	–
Segment revenue					
Group turnover	–	–	–	–	–
Others	–	–	–	–	–
	–	–	–	–	–
Segment result	–	–	–	–	–
Net gain (loss) on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	–	–	–
Change in fair values of investment in securities	–	–	–	–	–
Interest and finance lease income	–	–	–	–	–
Corporate overheads and others	–	–	–	–	–
Operating profit (loss)	–	–	–	–	–
Finance costs	–	–	–	–	–
Share of results of associates and jointly controlled entities	2,987	2,927	2,815	1,079	1,127
Profit (loss) before taxation	2,987	2,927	2,815	1,079	1,127
Taxation	(467)	(668)	(419)	(246)	(160)
Profit (loss) for the year/period	2,520	2,259	2,396	833	967
Attributable to:					
Shareholders of the Company	2,520	2,259	2,396	833	967
Minority shareholders	–	–	–	–	–
	2,520	2,259	2,396	833	967
Capital expenditure	–	–	–	–	–
Depreciation and amortisation	–	–	–	–	–

HK$ million	Infrastructure investment Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover					
Group turnover	938	1,067	1,264	588	638
Share of turnover of jointly controlled entities	1,723	1,841	1,953	943	916
	2,661	2,908	3,217	1,531	1,554
Segment revenue					
Group turnover	938	1,067	1,264	588	638
Others	15	20	25	13	17
	953	1,087	1,289	601	655
Segment result	762	935	1,052	509	551
Net gain (loss) on disposals of infrastructure project investment, subsidiaries and listed securities	51	11	–	–	78
Change in fair values of investment in securities	–	–	–	–	34
Interest and finance lease income	–	–	1	–	1
Corporate overheads and others	–	–	–	–	–
Operating profit (loss)	813	946	1,053	509	664
Finance costs	–	–	(6)	–	(12)
Share of results of associates and jointly controlled entities	547	840	974	522	557
Profit (loss) before taxation	1,360	1,786	2,021	1,031	1,209
Taxation	(94)	(201)	29	(144)	52
Profit (loss) for the year/period	1,266	1,585	2,050	887	1,261
Attributable to:					
Shareholders of the Company	1,266	1,585	2,050	887	1,261
Minority shareholders	–	–	–	–	–
	1,266	1,585	2,050	887	1,261
Capital expenditure	–	–	41	6	33
Depreciation and amortisation	138	107	101	52	10

HK$ million	Infrastructure related business Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover					
Group turnover	1,595	1,401	1,243	547	497
Share of turnover of jointly controlled entities	–	–	–	74	183
	1,595	1,401	1,243	621	680
Segment revenue					
Group turnover	1,595	1,401	1,243	547	497
Others	70	81	52	12	13
	1,665	1,482	1,295	559	510
Segment result	47	(49)	(400)	(73)	(76)
Net gain (loss) on disposals of infrastructure project investment, subsidiaries and listed securities	–	(19)	22	22	–
Change in fair values of investment in securities	–	–	–	–	–
Interest and finance lease income	88	81	77	37	44
Corporate overheads and others	–	–	–	–	–
Operating profit (loss)	135	13	(301)	(14)	(32)
Finance costs	–	–	–	–	–
Share of results of associates and jointly controlled entities	–	(6)	2	2	12
Profit (loss) before taxation	135	7	(299)	(12)	(20)
Taxation	(15)	2	17	12	(4)
Profit (loss) for the year/period	120	9	(282)	–	(24)
Attributable to:					
Shareholders of the Company	125	19	(279)	2	(22)
Minority shareholders	(5)	(10)	(3)	(2)	(2)
	120	9	(282)	–	(24)
Capital expenditure	111	90	36	19	11
Depreciation and amortisation	192	180	154	78	60

HK$ million	Unallocated items Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover					
Group turnover	–	–	–	–	–
Share of turnover of jointly controlled entities	–	–	–	–	–
	–	–	–	–	–
Segment revenue					
Group turnover	–	–	–	–	–
Others	–	–	–	–	–
	–	–	–	–	–
Segment result	–	–	–	–	–
Net gain (loss) on disposals of infrastructure project investment, subsidiaries and listed securities	97	–	85	27	–
Change in fair values of investment in securities	–	–	–	–	(20)
Interest and finance lease income	57	98	99	55	82
Corporate overheads and others	(242)	(55)	(185)	(79)	(77)
Operating profit (loss)	(88)	43	(1)	3	(15)
Finance costs	(624)	(630)	(638)	(340)	(325)
Share of results of associates and jointly controlled entities	–	–	–	–	–
Profit (loss) before taxation	(712)	(587)	(639)	(337)	(340)
Taxation	–	(5)	(5)	–	–
Profit (loss) for the year/period	(712)	(592)	(644)	(337)	(340)
Attributable to:					
Shareholders of the Company	(712)	(592)	(644)	(337)	(340)
Minority shareholders	–	–	–	–	–
	(712)	(592)	(644)	(337)	(340)
Capital expenditure	–	–	–	–	–
Depreciation and amortisation	2	2	1	1	1

HK$ million	Consolidated Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover					
Group turnover	2,533	2,468	2,507	1,135	1,135
Share of turnover of jointly controlled entities	1,723	1,841	1,953	1,017	1,099
	4,256	4,309	4,460	2,152	2,234
Segment revenue					
Group turnover	2,533	2,468	2,507	1,135	1,135
Others	85	101	77	25	30
	2,618	2,569	2,584	1,160	1,165
Segment result	809	886	652	436	475
Net gain (loss) on disposals of infrastructure project investment, subsidiaries and listed securities	148	(8)	107	49	78
Change in fair values of investment in securities	–	–	–	–	14
Interest and finance lease income	145	179	177	92	127
Corporate overheads and others	(242)	(55)	(185)	(79)	(77)
Operating profit (loss)	860	1,002	751	498	617
Finance costs	(624)	(630)	(644)	(340)	(337)
Share of results of associates and jointly controlled entities	3,534	3,761	3,791	1,603	1,696
Profit (loss) before taxation	3,770	4,133	3,898	1,761	1,976
Taxation	(576)	(872)	(378)	(378)	(112)
Profit (loss) for the year/period	3,194	3,261	3,520	1,383	1,864
Attributable to:					
Shareholders of the Company	3,199	3,271	3,523	1,385	1,866
Minority shareholders	(5)	(10)	(3)	(2)	(2)
	3,194	3,261	3,520	1,383	1,864
Capital expenditure	111	90	77	25	44
Depreciation and amortisation	332	289	256	131	71

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

31. SEGMENT INFORMATION (Cont'd)

By geographic region

HK$ million	Hong Kong					Mainland China				
	Year ended 31st December,			Six months ended 30th June,		Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004 (unaudited)	2005	2002	2003	2004	2004 (unaudited)	2005
Turnover										
Group turnover	1,194	1,012	890	414	371	600	564	531	225	199
Share of turnover of jointly controlled entities	–	–	–	59	173	1,723	1,841	1,953	958	926
	1,194	1,012	890	473	544	2,323	2,405	2,484	1,183	1,125
Segment revenue										
Group turnover	1,194	1,012	890	414	371	600	564	531	225	199
Others	31	60	51	10	3	16	41	17	12	16
	1,225	1,072	941	424	374	616	605	548	237	215
Segment result	146	64	(191)	(45)	(57)	20	49	(77)	15	36
Net gain (loss) on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	22	22	–	51	11	–	–	14
Change in fair values of investment in securities	–	–	–	–	–	–	–	–	–	–
Interest and finance lease income	87	81	77	37	44	1	–	–	–	–
Corporate overheads and others	–	–	–	–	–	–	–	–	–	–
Operating profit (loss)	233	145	(92)	14	(13)	72	60	(77)	15	50
Finance costs	–	–	–	–	–	–	–	–	–	–
Share of results of associates and jointly controlled entities	3,008	2,947	2,825	1,084	1,151	453	610	630	323	296
Profit (loss) before taxation	3,241	3,092	2,733	1,098	1,138	525	670	553	338	346
Taxation	(484)	(670)	(403)	(234)	(165)	(36)	(61)	(50)	(25)	(38)
Profit (loss) for the year/period	2,757	2,422	2,330	864	973	489	609	503	313	308
Attributable to:										
Shareholders of the company	2,757	2,422	2,330	864	973	488	610	506	315	310
Minority shareholders	–	–	–	–	–	1	(1)	(3)	(2)	(2)
	2,757	2,422	2,330	864	973	489	609	503	313	308
Other information										
Capital expenditure	91	44	15	12	8	14	46	21	7	3

HK$ million	Australia					UK and Others				
	Year ended 31st December,			Six months ended 30th June,		Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004 (unaudited)	2005	2002	2003	2004	2004 (unaudited)	2005
Turnover										
Group turnover	661	855	937	460	447	78	37	149	36	118
Share of turnover of jointly controlled entities	–	–	–	–	–	–	–	–	–	–
	661	855	937	460	447	78	37	149	36	118
Segment revenue										
Group turnover	661	855	937	460	447	78	37	149	36	118
Others	–	–	–	–	–	38	–	9	3	11
	661	855	937	460	447	116	37	158	39	129
Segment result	661	855	937	460	447	(18)	(82)	(17)	6	49
Net gain (loss) on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	–	–	–	–	(19)	–	–	64
Change in fair values of investment in securities	–	–	–	–	34	–	–	–	–	–
Interest and finance lease income	–	–	–	–	–	–	–	1	–	1
Corporate overheads and others	–	–	–	–	–	–	–	–	–	–
Operating profit (loss)	661	855	937	460	481	(18)	(101)	(16)	6	114
Finance costs	–	–	–	–	–	–	–	(6)	–	(12)
Share of results of associates and jointly controlled entities	73	210	335	191	260	–	(6)	1	5	(11)
Profit (loss) before taxation	734	1,065	1,272	651	741	(18)	(107)	(21)	11	91
Taxation	(56)	(136)	93	(116)	115	–	–	(13)	(3)	(24)
Profit (loss) for the year/period	678	929	1,365	535	856	(18)	(107)	(34)	8	67
Attributable to:										
Shareholders of the company	678	929	1,365	535	856	(12)	(98)	(34)	8	67
Minority shareholders	–	–	–	–	–	(6)	(9)	–	–	–
	678	929	1,365	535	856	(18)	(107)	(34)	8	67
Other information										
Capital expenditure	–	–	–	–	–	6	–	41	6	33

HK$ million	Unallocated items					Consolidated				
	Year ended 31st December,			Six months ended 30th June,		Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004 (unaudited)	2005	2002	2003	2004	2004 (unaudited)	2005
Turnover										
Group turnover	–	–	–	–	–	2,533	2,468	2,507	1,135	1,135
Share of turnover of jointly controlled entities	–	–	–	–	–	1,723	1,841	1,953	1,017	1,099
	–	–	–	–	–	4,256	4,309	4,460	2,152	2,234
Segment revenue										
Group turnover	–	–	–	–	–	2,533	2,468	2,507	1,135	1,135
Others	–	–	–	–	–	85	101	77	25	30
	–	–	–	–	–	2,618	2,569	2,584	1,160	1,165
Segment result	–	–	–	–	–	809	886	652	436	475
Net gain (loss) on disposals of infrastructure project investment, subsidiaries and listed securities	97	–	85	27	–	148	(8)	107	49	78
Change in fair values of investment in securities	–	–	–	–	(20)	–	–	–	–	14
Interest and finance lease income	57	98	99	55	82	145	179	177	92	127
Corporate overheads and others	(242)	(55)	(185)	(79)	(77)	(242)	(55)	(185)	(79)	(77)
Operating profit (loss)	(88)	43	(1)	3	(15)	860	1,002	751	498	617
Finance costs	(624)	(630)	(638)	(340)	(325)	(624)	(630)	(644)	(340)	(337)
Share of results of associates and jointly controlled entities	–	–	–	–	–	3,534	3,761	3,791	1,603	1,696
Profit (loss) before taxation	(712)	(587)	(639)	(337)	(340)	3,770	4,133	3,898	1,761	1,976
Taxation	–	(5)	(5)	–	–	(576)	(872)	(378)	(378)	(112)
Profit (loss) for the year/period	(712)	(592)	(644)	(337)	(340)	3,194	3,261	3,520	1,383	1,864
Attributable to:										
Shareholders of the company	(712)	(592)	(644)	(337)	(340)	3,199	3,271	3,523	1,385	1,866
Minority shareholders	–	–	–	–	–	(5)	(10)	(3)	(2)	(2)
	(712)	(592)	(644)	(337)	(340)	3,194	3,261	3,520	1,383	1,864
Other information										
Capital expenditure	–	–	–	–	–	111	90	77	25	44

HK$ million	Hong Kong				Mainland China				Australia			
	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Assets												
Segment assets	2,731	2,743	2,328	1,885	3,788	3,054	3,218	2,346	573	771	885	909
Interests in associates and jointly controlled entities	14,260	15,242	16,330	16,196	4,538	4,821	4,650	4,932	7,625	8,014	8,978	9,238
Unallocated corporate assets	–	–	–	–	–	–	–	–	–	–	–	–
Total assets	16,991	17,985	18,658	18,081	8,326	7,875	7,868	7,278	8,198	8,785	9,863	10,147

HK$ million	UK and Others				Unallocated items				Consolidated			
	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Assets												
Segment assets	87	52	1,204	1,562	–	–	–	–	7,179	6,620	7,635	6,702
Interests in associates and jointly controlled entities	127	93	104	3,208	–	–	–	–	26,550	28,170	30,062	33,574
Unallocated corporate assets	–	–	–	–	6,245	7,336	7,996	5,398	6,245	7,336	7,996	5,398
Total assets	214	145	1,308	4,770	6,245	7,336	7,996	5,398	39,974	42,126	45,693	45,674

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

32. RESERVES

HK$ million	Share premium	Contributed surplus	Retained profits	Proposed dividends	Total
COMPANY					
At 1st January, 2002	3,836	20,810	1,873	947	27,466
Final dividend for the year 2001 paid	–	–	–	(947)	(947)
Profit for the year	–	–	1,678	–	1,678
Proposed interim dividend	–	–	(485)	485	–
Interim dividend paid	–	–	–	(485)	(485)
Proposed final dividend	–	–	(1,048)	1,048	–
At 31st December, 2002	3,836	20,810	2,018	1,048	27,712
Final dividend for the year 2002 paid	–	–	–	(1,048)	(1,048)
Profit for the year	–	–	1,703	–	1,703
Proposed interim dividend	–	–	(485)	485	–
Interim dividend paid	–	–	–	(485)	(485)
Proposed final dividend	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	20,810	2,109	1,127	27,882
Final dividend for the year 2003 paid	–	–	–	(1,127)	(1,127)
Profit for the year	–	–	1,890	–	1,890
Proposed interim dividend	–	–	(496)	496	–
Interim dividend paid	–	–	–	(496)	(496)
Proposed final dividend	–	–	(1,285)	1,285	–
At 31st December, 2004	3,836	20,810	2,218	1,285	28,149
Final dividend for the year 2004 paid	–	–	–	(1,285)	(1,285)
Profit for the period	–	–	(52)	–	(52)
Interim dividend paid	–	–	–	–	–
Proposed final dividend	–	–	–	–	–
At 30th June, 2005	3,836	20,810	2,166	–	26,812

Contributed surplus of the Company arose when the Company issued shares in exchange of shares of subsidiaries and associates being acquired pursuant to the IPO Reorganisation in July 1996 and the Cheung Kong Group Restructuring in March 1997, and represents the difference between the value of net assets of the companies acquired and the nominal value of the Company's shares issued. Under the Company Act of 1981 of Bermuda (as amended), the contributed surplus is available for distribution to the shareholders.

Cheung Kong Group Restructuring is the reorganisation involving Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited ("Hutchison Whampoa"), the Company and HK Electric pursuant to which the transactions relating to the Company were completed on 10th March, 1997 which resulted in the Company becoming an 84.6 per cent subsidiary of Hutchison Whampoa and acquiring a 35.01 per cent interest in HK Electric.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

33. ACQUISITIONS OF SUBSIDIARIES

Net assets of subsidiaries acquired during the year ended 31st December, 2004 are as follows:

HK$ million	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
Property, plant and equipment	612	135	747
Inventories	2	–	2
Debtors and prepayments	108	–	108
Bank balances and deposits	19	–	19
Creditors and accruals	(129)	–	(129)
Taxation	(5)	–	(5)
Bank and other loans	(92)	–	(92)
Deferred taxation	(110)	(40)	(150)
Other non-current liabilities	(14)	–	(14)
	391	95	486
Goodwill			238
Total consideration			724
Satisfied by:			
Cash			724

Analysis of the net cash flow arising on the acquisitions:

HK$ million	
Cash consideration	(716)
Other transaction costs paid	(8)
Bank balances and deposits acquired	19
Net cash outflow arising from the acquisitions	(705)

The goodwill arising on acquisition is attributable to the anticipated profitability of the water supply operation.

The subsidiaries acquired during the year ended 31st December, 2004 contributed HK$149 million to the Group's turnover and HK$25 million to the Group's profit from operation after the acquisition.

If the acquisition had been completed on 1st January, 2004, unaudited group turnover for the year would have been HK$216 million, and unaudited net profit for the year would have been HK$35 million. The above information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had acquisition been completed on 1st January, 2004, nor is it intended to be a projection of future results.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

34. DISPOSALS OF SUBSIDIARIES

Net assets of the subsidiaries disposed of during the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 are as follows:

HK$ million	Year ended 31st December, 2002	2003	2004
Property, plant and equipment	–	–	5
Interests in a jointly controlled entity	3	–	–
Interests in infrastructure project investments	1,162	–	–
Inventories	–	–	6
Debtors and prepayments	–	1	18
Bank balances and deposits	–	11	30
Creditors and accruals	–	(12)	(22)
Deferred taxation	–	–	(1)
	1,165	–	36
Attributable goodwill	–	19	–
Allowance for interest in a jointly controlled entity	–	–	22
Gain (loss) on disposals of subsidiaries	51	(19)	22
Total consideration	1,216	–	80
Satisfied by:			
Cash	1,216	–	80

Analysis of the net cash flow arising on the disposals:

HK$ million	Year ended 31st December, 2002	2003	2004
Cash consideration	1,216	–	80
Deposits received in prior years	(413)	–	–
Bank balances and deposits disposed of	–	(11)	(30)
Net cash inflow (outflow) arising from the disposals	803	(11)	50

35. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

The following table shows the remuneration of the Company's directors:

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004	2005
Salaries, benefits in kind and fees	15	16	12	6	6
Contributions to retirement plans	1	1	1	–	–
Bonuses	13	15	15	–	–
	29	32	28	6	6

The directors' remuneration for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005 includes directors' fees of HK$600,000, HK$700,000, HK$1,040,000, nil and nil of which HK$100,000, HK$200,000, HK$340,000, nil and nil have been paid to independent non-executive directors of the Company.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

35. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Cont'd)

(a) Directors' remuneration (Cont'd)

The table below shows the number of directors whose remuneration was within the following bands:

Remuneration band	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004	2005
Nil – HK$1,000,000	7	7	10	12	14
HK$2,000,001 – HK$2,500,000	–	–	–	1	1
HK$3,000,001 – HK$3,500,000	1	–	–	1	1
HK$4,000,001 – HK$4,500,000	–	1	–	–	–
HK$4,500,001 – HK$5,000,000	–	–	1	–	–
HK$5,500,001 – HK$6,000,000	1	1	–	–	–
HK$6,000,001 – HK$6,500,000	1	–	1	–	–
HK$6,500,001 – HK$7,000,000	1	1	1	–	–
HK$7,000,001 – HK$7,500,000	1	1	–	–	–
HK$7,500,001 – HK$8,500,000	–	1	–	–	–
HK$8,500,001 – HK$9,000,000	–	–	1	–	–

For the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and for the six months ended 30th June, 2004 and 30th June, 2005, certain directors of the Company received directors' fees totalling HK$400,000, HK$400,000, HK$540,000, HK$200,000 and HK$270,000 from HK Electric, which were then paid back to the Company.

(b) Senior executives' remuneration

Of the five individuals with the highest emoluments in the Group for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004, four are directors whose emoluments are disclosed above and for the six months ended 30th June, 2004 and 30th June, 2005, two are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the remaining individuals are as follows:

HK$ million	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004	2005
Salaries and benefits in kind	2	2	2	3	3
Contributions to retirement plan	1	1	1	1	1
Bonuses	1	2	2	–	–
Total	4	5	5	4	4

The remaining individuals with the highest emoluments are within the following bands:

Remuneration band	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004	2005
HK$1,000,001 – HK$1,500,000	–	–	–	2	2
HK$1,500,001 – HK$2,000,000	–	–	–	1	1
HK$4,000,001 – HK$4,500,000	1	–	–	–	–
HK$4,500,001 – HK$5,000,000	–	1	1	–	–

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

36. COMMITMENTS

(a) The Group's capital commitments outstanding not provided for in the financial information are as follows:

	Contracted but not provided for				Authorised but not contracted for			
	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,
HK$ million	2002	2003	2004	2005	2002	2003	2004	2005
Investments in associates and jointly controlled entities	976	1,711	6,299	3,198	–	–	–	–
Plant and machinery	13	9	10	4	146	84	71	71
Others	–	–	–	–	–	12	19	–
Total	989	1,720	6,309	3,202	146	96	90	71

(b) The Group and the Company had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	GROUP				COMPANY			
	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,
HK$ million	2002	2003	2004	2005	2002	2003	2004	2005
Within one year	41	21	4	2	6	4	2	–
In the second to fifth year, inclusive	78	20	5	4	9	2	–	–
After five years	22	13	7	7	–	–	–	–
Total	141	54	16	13	15	6	2	–

37. CONTINGENT LIABILITIES

	GROUP				COMPANY			
	As at 31st December,			As at 30th June,	As at 31st December,			As at 30th June,
HK$ million	2002	2003	2004	2005	2002	2003	2004	2005
Guarantees in respect of bank and other loans drawn by subsidiaries	–	–	–	–	12,549	12,337	12,987	13,088
Guarantee in respect of bank loans drawn by an associate	335	1,204	1,257	1,267	335	1,204	1,257	1,267
Guarantee in respect of bank loans drawn by a jointly controlled entity	696	696	685	685	696	696	685	685
Guarantee in respect of standby letter of credit	–	–	3	–	–	–	3	–
Performance bonds	25	36	–	–	–	–	–	–
Total	1,056	1,936	1,945	1,952	13,580	14,237	14,932	15,040

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

38. MATERIAL RELATED PARTY TRANSACTIONS

The Group advanced nil, HK$15 million and HK$179 million respectively, during the years ended 31st December, 2002, 31st December, 2003, 31st December, 2004 and HK$148 million during the six months ended 30th June, 2005 to a jointly controlled entity, and received repayment of nil, nil and HK$15 million respectively, from a jointly controlled entity during the years ended 31st December, 2002, 31st December, 2003, 31st December, 2004 and HK$31 million during the six months ended 30th June, 2005. The total outstanding loan balances as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 amounted to HK$1,942 million, HK$1,957 million, HK$2,093 million and HK$2,189 million respectively, of which HK$905 million, HK$905 million, HK$1,050 million and HK$905 million respectively, bears interest with reference to Hong Kong dollar prime rate, and HK$1,037 million, HK$1,052 million, HK$1,043 million and HK$1,284 million respectively, are interest-free. The loans have no fixed terms of repayment.

The Group advanced HK$2,309 million, HK$352 million and HK$42 million respectively to its unlisted associates during the years ended 31st December, 2002, 31st December, 2003, 31st December, 2004 and HK$877 million during the six months ended 30th June, 2005. In the years ended 31st December, 2002, 31st December, 2003 and 30th June, 2005, the Group received repayments totalling HK$48 million, HK$2,108 million and HK$629 million from unlisted associates respectively. The total outstanding loan balances as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 amounted to HK$7,363 million, HK$7,526 million, HK$7,894 million and HK$7,698 million, respectively, of which HK$7,002 million, HK$7,061 million, HK$7,370 million and HK$7,462 million respectively, bears interest with reference to Australian Bank Bill Swap Reference Rate or fixed rate, and HK$361 million, HK$465 million, HK$524 million and HK$95 million respectively, are interest-free. As stated in note 5, interest from loans granted to associates amounted to HK$608 million, HK$792 million and HK$863 million during the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and HK$432 million and HK$436 million during the six months ended 30th June, 2004 and 30th June, 2005. Except for a loan of HK$94 million as at 31st December, 2004 which is repayable within seventeen years, the loans have no fixed terms of repayment.

During the year ended 31st December, 2004, the Group disposed of certain wholly-owned subsidiaries with a net book value of HK$33 million to a jointly controlled entity at a consideration of HK$77 million, and recognised a gain of HK$22 million. The Group also disposed of certain property, plant and equipment with a net book value of HK$12 million to this jointly controlled entity at a consideration of HK$30 million, and recognised a gain of HK$9 million.

Moreover, the Group's sales and purchases of infrastructure materials to/from the same jointly controlled entity for the year ended 31st December, 2004 amounted to HK$136 million and HK$202 million, respectively.

B. PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Subsidiaries

Name	Issued share capital Number	Par value per share	Proportion of nominal value of issued capital held by the Group (per cent)	Principal activities
Incorporated and operating in Hong Kong				
Anderson Asia (Holdings) Limited	2 ordinary	HK$0.5	100	Investment holding
	65,780,000 non-voting deferred	HK$0.5	–	
Anderson Asphalt Limited	36,000 ordinary	HK$100	100	Production and laying of asphalt and investment holding
Cheung Kong Infrastructure Finance Company Limited	2 ordinary	HK$1	100	Financing
China Cement Company (International) Limited	1,000,000 ordinary	HK$1	70	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK$2	100	Manufacturing, sale and distribution of cement and property investment
Green Island Cement (Holdings) Limited	101,549,457 ordinary	HK$2	100	Investment holding
Ready Mixed Concrete (H.K.) Limited	50,000,000 ordinary	HK$1	100	Production and sale of concrete and investment holding
Incorporated in British Virgin Islands and operating in Hong Kong				
Cheung Kong Infrastructure Finance (BVI) Limited	1 ordinary	US$1	100	Financing
Daredon Assets Limited	1 ordinary	US$1	100	Treasury
Green Island International (BVI) Limited	1 ordinary	US$1	100	Investment holding

B. PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

Subsidiaries (Cont'd)

Name	Issued share capital Number	Issued share capital Par value per share	Proportion of nominal value of issued capital held by the Group (per cent)	Principal activities
Incorporated in Hong Kong and operating in Mainland China				
Cheung Kong China Infrastructure Limited	2 ordinary	HK$1	100	Investment holding and investment in infrastructure projects in Mainland China
Incorporated and operating in Australia				
Cheung Kong Infrastructure Finance (Australia) Pty Ltd	1 ordinary	A$1	100	Financing
CKI Transmission Finance (Australia) Pty Ltd	12 ordinary	A$1	100	Financing
CKI Distribution Finance (Australia) Pty Ltd	100 ordinary	A$1	100	Financing
Incorporated and operating in the United Kingdom				
Cambridge Water PLC	14,621,152 ordinary	£0.05	100	Water supply

B. PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

Associates

Name	Issued share capital Number	Par value per share	Approximate share of equity shares held by the Group (per cent)	Principal activities
Incorporated and operating in Hong Kong				
Hongkong Electric Holdings Limited *(note 1)*	2,134,261,654 ordinary	HK$1	39	Electricity generation and distribution
Eastern Harbour Crossing Company Limited	35,000,000 ordinary	HK$10	50	Exercise of a franchise to operate the rail section of a tunnel
Incorporated and operating in Australia				
ETSA Utilities Partnership *(note 2)*	N/A	N/A	50	Electricity distribution
CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited *(note 3)*	200 ordinary	A$1	50	Investment holding
CKI/HEI Electricity Distribution Pty Limited *(note 4)*	200 ordinary	A$1	50	Electricity distribution
CKI/HEI Electricity Distribution Two Pty Limited *(note 5)*	200 ordinary	A$1	50	Electricity distribution
CrossCity Motorway Holdings Pty Limited *(note 6)*	3,340,009 ordinary	A$0.01	50	Construction and operation of Cross City Tunnel
CrossCity Motorway Holdings Trust *(note 6)*	N/A	N/A	50	Construction and operation of Cross City Tunnel
Lane Cove Tunnel Holding Company Pty Limited *(note 7)*	42,827,999 ordinary	A$1	40	Construction and operation of Lane Cove Tunnel
Lane Cove Tunnel Holding Trust *(note 7)*	N/A	N/A	40	Construction and operation of Lane Cove Tunnel

B. PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

Associates (Cont'd)

Name	Issued share capital Number	Par value per share	Approximate share of equity shares held by the Group (per cent)	Principal activities
Incorporated in British Virgin Islands				
CKI/HEI Electricity Assignment Limited	2 ordinary	US$1	50	Investment holding
Incorporated and operating in the United Kingdom				
Northern Gas Networks Holdings Limited	555,007,969 and 1 Special Share	£1	40	Gas Supply

Notes:

1. The associate is listed on Hong Kong Stock Exchange.

2. ETSA Utilities Partnership, unincorporated body, is formed by the following companies:

   CKI Utilities Development Limited
   CKI Utilities Holdings Limited
   CKI/HEI Utilities Distribution Limited
   HEI Utilities Development Limited
   HEI Utilities Holdings Limited

   CKI Utilities Development Limited is a subsidiary of the Group and the other four companies are associates of the Group.

   The partnership operates and manages the electricity distribution business in the State of South Australia of Australia.

3. CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited owns 100 per cent interests in CKI/HEI Electricity Distribution Pty Limited and CKI/HEI Electricity Distribution Two Pty Limited.

4. CKI/HEI Electricity Distribution Pty Limited owns 100 per cent interests in the following companies ("the Powercor Group"):

   Powercor Proprietary Limited
   Powercor Australia Limited Liability Company
   Powercor Australia Holdings Pty Limited
   Powercor Australia Limited

   The Powercor Group operates and manages an electricity distribution business in the State of Victoria of Australia.

5. CKI/HEI Electricity Distribution Two Pty Limited owns 100 per cent interests in CitiPower I Pty Ltd, which is one of the five electricity distributors in the State of Victoria of Australia.

B. PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

Associates (Cont'd)

6. CrossCity Motorway Holdings Pty Limited or CrossCity Motorway Holdings Trust own 100 per cent interests in the following companies ("the Cross City Tunnel Group"):

   CrossCity Motorway Pty Limited
   CrossCity Motorway Property Trust
   CrossCity Motorway Finance Pty Limited

   The Cross City Tunnel Group is engaged to construct and operate the Cross City Tunnel in Sydney of Australia.

7. Lane Cove Tunnel Holding Company Pty Limited or Lane Cove Tunnel Holding Trust own 100 per cent interests in the following companies ("the Lane Cove Tunnel Group"):

   Lane Cove Tunnel Company Pty Limited
   Lane Cove Tunnel Trust
   Lane Cove Tunnel Finance Company Pty Limited

   The Lane Cove Tunnel Group is engaged to construct and operate the Lane Cove Tunnel in Sydney of Australia.

Jointly Controlled Entities

Name	Percentage of interest held by the Group	Profit sharing percentage	Principal activities
Incorporated and operating in Mainland China			
Guangdong Shantou Bay Bridge Co. Ltd.	30	30	Operation of Shantou Bay Bridge
Guangdong Zhuhai Power Station Co., Ltd.	45	45	Operation of Zhuhai Power Station
Guangdong Shenzhen-Shantou Highway (East) Co., Ltd.	33.5	33.5	Operation of Shenzhen-Shantou Highway (Eastern Section)
Guangzhou E-S-W Ring Road Co., Ltd.	44.5	45*	Operation of Guangzhou East South West Ring Road

B. PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

Jointly Controlled Entities (Cont'd)

Name	Percentage of interest held by the Group	Profit sharing percentage	Principal activities
Incorporated and operating in Hong Kong			
Alliance Construction Materials Limited	50	50	Quarry operation and production and sale of concrete and aggregates

*	Years from 2012 to 2021, inclusive	: 37.5 per cent
	Thereafter	: 32.5 per cent

C. DISTRIBUTABLE RESERVES

Total distributable reserves of the Company amounted to HK$23,876 million, HK$24,046 million, HK$24,313 million and HK$22,976 million as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 respectively.

D. ULTIMATE HOLDING COMPANY

The directors of the Company consider that the Company's ultimate holding company is Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability and its shares of which are listed on Hong Kong Stock Exchange.

E. SUBSEQUENT EVENT

Subsequent to 30th June, 2005, the Company entered into conditional sale and purchase agreements in respect of the following:

a. disposal of 49% equity interests in each of ETSA Utilities and CHEDHA to Spark Infrastructure Fund (the "Fund"), a stapled group to be listed on the Australian Stock Exchange Limited; and

b. acquisition of approximately 22.07% equity interests in ETSA and CHEDHA from an associate, Hongkong Electric Holdings Limited.

However, the Disposals and Acquisitions are conditional upon successful listing of the Fund. The financial impacts on the Group after the Disposals but before the Acquisitions and after the Disposals and the Acquisitions are disclosed in Appendix III and IV, respectively.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(B) MANAGEMENT DISCUSSION AND ANALYSIS

The year ended 31st December, 2002

Results

The Group reported a profit attributable to Shareholders of HK$3,199 million with earnings per share of HK$1.42.

Business review

Investment in HEH

The Company maintained its stake in HEH at 38.87% in 2002. The Company's investment in HEH accounted for HK$2,520 million of the Company's profit attributable to Shareholders in 2002 representing an increase of 7.2% over the previous year. The growth in share of profit of HEH was attributable to stable income from HEH's domestic business as well as significant returns from HEH's overseas investments in Australia.

Infrastructure investments

The Company's infrastructure investments accounted for HK$1,266 million of the Company's profit attributable to Shareholders in 2002 representing an increase of 4.0% compared with the previous year. This overall increase reflected the acquisition of the CitiPower electricity distributor serving customers in Melbourne, Australia; satisfactory performance of the Company's other energy related investments in Australia and China; and overall good performance from the Company's transport related investments in Hong Kong and Mainland China. In December 2002 a consortium in which the Company has a 50% stake was awarded the Cross City Tunnel project in Sydney, Australia.

Infrastructure materials and infrastructure related businesses

The Company's infrastructure materials and infrastructure related businesses accounted for HK$125 million of the Company's profit attributable to Shareholders in 2002 representing a decrease of 53% compared with the previous year. This decrease reflected decreases in both domestic consumption of, and prices for, cement, concrete and aggregates as a result of the deflationary environment and declining property market.

Financial position

As at 31st December, 2002, the Group had current assets and current liabilities of HK$8,121 million and HK$2,939 million respectively.

As at 31st December, 2002, the Group has total borrowings of HK$12,645 million.

As at 31st December, 2002, the Group maintained a gearing ratio at 21% which was based on its net debt of HK$5,454 million and equity attributable to shareholders of the Company of HK$26,329 million.

As at 31st December, 2002, the Group maintained bank balances and deposits totalling HK$7,191 million.

As at 31st December, 2002, the Group was subject to contingent liabilities of HK$1,056 million.

The year ended 31st December, 2003

Results

The Group reported a profit attributable to Shareholders of HK$3,271 million with earnings per share of HK$1.45.

Business review

Investment in HEH

The Company maintained its stake in HEH at 38.87% in 2003. The Company's investment in HEH accounted for HK$2,259 million of the Company's profit attributable to Shareholders in 2003 representing a decrease of 10.4% over the previous year. This drop in share of profit of HEH was attributable to a change in the accounting rules relating to deferred tax, an increase in the corporate tax rate, as well as a soft domestic economy caused by Severe Acute Respiratory Syndrome. HEH's Australian operations continued to register strong financial growth in 2003.

Infrastructure investments

The Company's infrastructure investments accounted for HK$1,585 million of the Company's profit attributable to Shareholders in 2003 representing an increase of 25.2% compared with the previous year. This overall increase reflected strong performance in the Company's Australian energy investments which was attributable to organic growth, a first full-year contribution from CitiPower, and the strength of the Australian dollar. Energy investments in China also performed strongly due to sound performance of Zhuhai Power Plant and the smooth operation of the other three power plants during the year. As a result of growing economy and soaring GDP of China, the Group's transportation investments in Mainland China also continued to report organic growth in 2003. In Australia, the construction of the Cross City Tunnel made steady progress.

Infrastructure materials and infrastructure related businesses

The Company's infrastructure materials and infrastructure related businesses accounted for HK$19 million of the Company's profit attributable to Shareholders in 2003 representing a decrease of 85% compared with the previous year. This decrease reflected competitive prices and downward volume trends in the market for infrastructure materials, leading to a significant drop in contribution from this sector.

Financial position

As at 31st December, 2003, the Group had current assets and current liabilities of HK$8,077 million and HK$2,009 million respectively.

As at 31st December, 2003, the Group had total borrowings of HK$12,337 million including a Hong Kong dollar syndicated loan of HK$3,800 million, foreign currency borrowings of HK$8,478 million and RMB bank loans of HK$59 million. Of the total borrowings 10% were repayable in 2004, 72% repayable in 2005 to 2008 and 18% repayable beyond 2008.

As at 31st December, 2003, the Group maintained a gearing ratio at 18% which was based on its net debt of HK$5,094 million and equity attributable to shareholders of the Company of HK$28,678 million.

As at 31st December, 2003, the Group maintained bank balances and deposits totalling HK$7,243 million.

To minimise currency risk exposure in respect of its investments in other countries, the Group has a policy of hedging those investments with the appropriate level of borrowings denominated in the local currencies of those countries. As at 31st December, 2003, the Group has swapped the floating interest rates of its borrowings totalling HK$6,062 million into fixed interest rates. The Group will consider entering into further interest and currency swap transactions to hedge against its interest rate and currency risk exposures, as appropriate.

As at 31st December, 2003, the Group's interests in an affiliated company with carrying value of HK$1,888 million were pledged as part of the security to secure bank borrowings totalling HK$4,268 million granted to the affiliated company.

As at 31st December, 2003, the Group was subject to contingent liabilities of HK$1,936 million.

The year ended 31st December, 2004

Results

The Group reported a profit attributable to Shareholders of HK$3,523 million with earnings per share of HK$1.56.

Business review

Investment in HEH

The Company maintained its stake in HEH at 38.87% in 2004. The Company's investment in HEH accounted for HK$2,396 million of the Company's profit attributable to Shareholders in 2004 representing an increase of 6.1% over the previous year mainly due to increase in contribution from overseas investments.

Infrastructure investments

The Company's infrastructure investments accounted for HK$2,050 million of the Company's profit attributable to Shareholders in 2004 representing an increase of 29.3% compared with the previous year. This overall increase reflected strong performance in the Company's Australian energy investments which was attributable to organic growth, one-off deferred tax adjustment, and the strength of the Australian dollar. Energy investments in China also performed strongly due to sound performance of Zhuhai Power Plant and the smooth operation of the other three power plants during the year. As a result of growing economy and soaring GDP of China, the Group's transportation investments in Mainland China also continued to report organic growth in 2004.

During the year, the Company has acquired a 49% stake in AquaTower, a water plant in Victoria, Australia and a 100% stake in Cambridge Water in the United Kingdom.

Infrastructure materials and infrastructure related businesses

The Company's material business continued to face depressed market conditions as the cement consumption dropped to the lowest level in the last two decades. The merger of the concrete and quarry operation with Hong Kong arm of Hanson PLC in 2004 was a successful effort to consolidate operations and cut costs. A sizeable impairment of HK$250 million was taken against certain assets.

Financial position

As at 31st December, 2004, the Group has current assets and current liabilities of HK$10,070 million and HK$1,314 million respectively.

As at 31st December, 2004, the Group had total borrowings of HK$13,411 million including a Hong Kong dollar syndicated loan of HK$3,800 million, foreign currency borrowings of HK$9,254 million and RMB bank loans of HK$357 million. Of the total borrowings 3% were repayable in 2005, 78% repayable in 2006 to 2009 and 19% repayable beyond 2009.

As at 31st December, 2004, the Group maintained a gearing ratio at 14% which was based on its net debt of HK$4,382 million and equity attributable to shareholders of the Company of HK$30,774 million.

As at 31st December, 2004, the Group maintained bank balances and deposits totalling HK$9,029 million.

To minimise currency risk exposure in respect of its investments in other countries, the Group has a policy of hedging those investments with the appropriate level of borrowings denominated in the local currencies of those countries. The Group will consider entering into further interest and currency swap transactions to hedge against its interest rate and currency risk exposures, as appropriate.

As at 31st December, 2004, the Group's interests in an affiliated company with carrying value of HK$1,896 million were pledged as part of the security to secure bank borrowings totalling HK$3,759 million granted to the affiliated company.

As at 31st December, 2004 the Group was subject to contingent liabilities of HK$1,945 million.

The six months ended 30th June, 2005

Results

In August 2005, the Group reported in its interim report for 2005 an unaudited profit attributable to shareholders of HK$1,528 million for the six months ended 30th June, 2005. Relating to the Disposals, a subsequent audit exercise covering such financial period was conducted. As a result of additional information available and after discussion with the auditors of an Australian associate, adjustments were made in respect of the Australian associate's deferred tax assets and liabilities, with a tax credit impact totalling HK$338 million on the Group. The adjustments were due to the recognition of deferred tax assets relating to tax losses now assessed to be more probable than not of recovery and the reduction of deferred tax liabilities due to finalisation of the tax cost base of certain assets. Accordingly, the profit attributable to shareholders has been adjusted to HK$1,866 million for the six months ended 30th June, 2005 with earnings per share of HK$0.83 as disclosed in page 23 of this circular.

Business review

Investment in HEH

The Company maintained its stake in HEH at 38.87% for the six months ended 30th June 2005. The Company's investment in HEH accounted for HK$967 million of the Company's profit attributable to Shareholders for the six months ended 30th June 2005 representing an increase of 16.1% over the previous interim period mainly due to increase in contribution from overseas investments.

Infrastructure investments

The Company's infrastructure investments accounted for HK$1,261 million of the Company's profit attributable to Shareholders for the six months ended 30th June, 2005 representing an increase of 42.2% compared with the previous interim period. This overall increase due to the growth in the Company's Australian portfolio and an increase in total contribution from the British investments which included full six-month contribution from Cambridge Water and the results from Northern Gas Network in the United Kingdom during the first six months in 2005.

Infrastructure materials and infrastructure related businesses

The Company's material business continued to face depressed market conditions as the cement consumption dropped to the lowest level in the last two decades. The merger of the concrete and quarry operation with Hong Kong arm of Hanson PLC in 2004 was a successful effort to consolidate operations and cut costs.

Financial position

As at 30th June, 2005, the Group has current assets and current liabilities of HK$7,345 million and HK$3,915 million, respectively. As at 30th June, 2005, the Group had total borrowings of HK$13,496 million including a Hong Kong dollar syndicated loan of HK$3,800 million, foreign currency borrowings of HK$9,188 million and RMB bank loans of HK$508 million. Of the total borrowings 0.1% were repayable within one year, 81.3% repayable in the second to fifth year, inclusive, and 18.6% repayable after 5 years.

As at 30th June, 2005, the Group maintained a gearing ratio at 24% which was based on its net debt of HK$7,422 million and equity attributable to shareholders of the Company of HK$30,249 million.

As at 30th June, 2005, the Group maintained bank balances and deposits totalling HK$6,074 million.

To minimise currency risk exposure in respect of its investments in other countries, the Group has a policy of hedging those investments with the appropriate level of borrowings denominated in the local currencies of those countries. The Group will consider entering into further interest and currency swap transactions to hedge against its interest rate and currency risk exposures, as appropriate.

As at 30th June, 2005, the Group's interests in an affiliated company with carrying value of HK$2,070 million were pledged as part of the security to secure bank borrowings totalling HK$3,504 million granted to the affiliated company.

As at 30th June, 2005 the Group was subject to contingent liabilities of HK$1,952 million.

Employees

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,227 employees as at 30th June, 2005. Employees' cost (excluding directors' emoluments) amounted to approximately HK$129 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

(C) INDEBTEDNESS

As at the close of business on 15th October, 2005, for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of approximately HK$13,568 million which was comprised of unsecured bank loans and other borrowings of approximately HK$13,290 million, debentures of approximately HK$3 million, loans from minority shareholders of approximately HK$239 million and finance lease obligations of approximately HK$36 million.

As at the close of business on 15th October, 2005, the Enlarged Group had contingent liabilities of approximately HK$1,897 million. The contingent liabilities comprised approximately HK$1,230 million of guarantees in respect of bank loans drawn by an associate and approximately HK$667 million in respect of bank loans drawn by a jointly controlled entity.

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not, at the close of business on 15th October, 2005 have any mortgages, charges, debentures, bank overdrafts or loan capital, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, finance lease commitment, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or guarantees or other contingent liabilities.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 15th October, 2005, the Enlarged Group did not have any outstanding loan capital, bank overdrafts, loan or other similar indebtedness, or hire purchase or finance lease commitments, liabilities under acceptances or acceptance credits, guarantees or other material contingent liabilities.

(D) WORKING CAPITAL

The Directors are of the opinion that after taking into account the Group's internal resources and available borrowing facilities, the Enlarged Group has sufficient working capital for its present requirements following the completion of the Disposals and the Acquisitions.

Deloitte.
德勤

德勤‧關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

25th November, 2005

The Directors
Cheung Kong Infrastructure Holdings Limited

Dear Sirs,

We set out below our report on the financial information set out in sections A to E (the "Financial Information") regarding CKI Utilities Development Limited ("CKUD") for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and the six months ended 30th June, 2005 (the "Relevant Periods") for inclusion in the circular dated 25th November, 2005 (the "Circular") issued by Cheung Kong Infrastructure Holdings Limited (the "Company") in connection with the proposed very substantial disposals of 49% equity interests in South Australian Utilities Partnership (trading as "ETSA Utilities") and CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited ("CHEDHA") (the "Disposals") followed by the proposed major acquisitions of approximately 22.07% equity interests in ETSA Utilities and CHEDHA (the "Acquisitions").

CKUD was incorporated as a private limited liability company in Malaysia on 13th December, 1999. Pursuant to Section 133 of the Offshore Companies Act, 1990 of Malaysia, CKUD transferred its domicile to the Commonwealth of The Bahamas on 23rd September, 2003. The principal activity of CKUD is investment in 25.5% interest in ETSA Utilities, which operates and manages electricity distribution business in the State of South Australia in Australia.

Deloitte Touche Tohmatsu, Malaysia acted as the auditors of CKUD for each of the three years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004.

The financial statements or management accounts of CKUD for the Relevant Periods (the "Underlying Financial Statements") were prepared in accordance with the applicable approved accounting standards of the Malaysian Accounting Standards Board. The financial statements for each of the three years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 were audited by Deloitte Touche Tohmatsu, Malaysia.

No audited financial statements have been prepared for CKUD for the six months ended 30th June, 2005. For the purpose of this report, we have, however, carried out independent audit procedures in accordance with Hong Kong Standards on Auditing ("SAS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") in respect of the management accounts of CKUD for the period.

We have examined the Underlying Financial Statements. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information, which is expressed in Australian Dollars, has been prepared based on the Underlying Financial Statements and adjusted by the Company to comply with applicable Hong Kong Financial Reporting Standards for the Relevant Periods and as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The preparation of the financial statements or management accounts of CKUD is the responsibility of the directors of CKUD who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of CKUD as at 31st December, 2002, 31st December, 2003 and 31st December, 2004 and 30th June, 2005 and of the results and cash flows of CKUD for each of the periods then ended.

For the purpose of this report, the information set out in sections A to E for the six months ended 30th June, 2004 ("2004 Interim Financial Information"), which has been prepared by the directors of the Company based on the unaudited financial statements of CKUD prepared by the directors of CKUD on the same basis as referred to in the above paragraph after making such adjustments as we consider appropriate, and is prepared under accounting principles generally accepted in Hong Kong. We have reviewed the 2004 Interim Financial Information in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial report" issued by the HKICPA. Our review consisted principally of making enquiries of the management and applying analytical procedures to 2004 Interim Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on this financial information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to this financial information.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

A$'000	Notes	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover		–	–	–	–	–
Other operating income		1	4	1	1	–
Operating costs		(11)	–	–	(2)	–
(Loss) profit from operation		(10)	4	1	(1)	–
Share of (loss) profit of associates		(10,958)	(5,605)	(2,094)	(5,314)	2,306
(Loss) profit before taxation	*4*	(10,968)	(5,601)	(2,093)	(5,315)	2,306
Taxation	*5*	(10)	10	–	–	–
(Loss) profit for the year/period		(10,978)	(5,591)	(2,093)	(5,315)	2,306

BALANCE SHEETS

A$'000	Notes	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Non-current assets					
Interests in associates	*6*	(16,733)	(22,337)	(24,431)	(41,447)
Current assets					
Bank balances and deposits		8	6	6	7
Current liabilities					
Loan from related company	*7*	–	19	18	19
Loan from shareholder	*7*	25	–	–	–
Tax liabilities		9	–	–	–
		34	19	18	19
Net current liabilities		(26)	(13)	(12)	(12)
Net liabilities		(16,759)	(22,350)	(24,443)	(41,459)
Representing:					
Share capital	*8*	280	280	280	280
Reserves		(17,039)	(22,630)	(24,723)	(41,739)
Total equity		(16,759)	(22,350)	(24,443)	(41,459)

STATEMENTS OF CHANGES IN EQUITY

A$'000	Share capital	Accumulated losses	Hedge reserve	Total
At 1st January, 2002	280	(6,061)	–	(5,781)
Loss for the year	–	(10,978)	–	(10,978)
At 31st December, 2002	280	(17,039)	–	(16,759)
Loss for the year	–	(5,591)	–	(5,591)
At 31st December, 2003	280	(22,630)	–	(22,350)
Loss for the year	–	(2,093)	–	(2,093)
At 31st December, 2004	280	(24,723)	–	(24,443)
Opening adjustment share of associates' reserve arising from adoption of HKAS 39 *(Note)*	–	(9,760)	(9,094)	(18,854)
At 1st January, 2005	280	(34,483)	(9,094)	(43,297)
Profit for the period	–	2,306	–	2,306
Share of associates' loss on cash flow hedged	–	–	(468)	(468)
At 30th June, 2005	280	(32,177)	(9,562)	(41,459)
For the six months ended 30th June, 2004:				
At 1st January, 2004	280	(22,630)	–	(22,350)
Loss for the period	–	(5,315)	–	(5,315)
At 30th June, 2004	280	(27,945)	–	(27,665)

Note: Hedge reserve represents CKUD's share of the associates' reserve on the transitional adoption of Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and measurement".

CASH FLOW STATEMENTS

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
OPERATING ACTIVITIES					
(Loss) profit before taxation	(10,968)	(5,601)	(2,093)	(5,315)	2,306
Share of loss (profit) of associates	10,958	5,605	2,094	5,314	(2,306)
Cash (utilised in) from operations	(10)	4	1	(1)	–
Income taxes paid	(10)	–	–	–	–
NET CASH (UTILISED IN) FROM OPERATING ACTIVITIES	(20)	4	1	(1)	–
FINANCING ACTIVITIES					
(Repayment to) loan from related company	–	(6)	(1)	2	1
Loan from shareholder	25	–	–	–	–
NET CASH FROM (UTILISED IN) FINANCING ACTIVITIES	25	(6)	(1)	2	1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5	(2)	–	1	1
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	3	8	6	6	6
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER/30TH JUNE	8	6	6	7	7
Representing:					
Bank balances and deposits at 31st December/30th June	8	6	6	7	7

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis because the Company agreed to provide adequate funds to enable CKUD to meet in full its financial obligations as they fall due for the foreseeable future.

The Financial Information has been prepared on the historical cost convention except for certain financial instruments which are measured at fair value and in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The significant accounting policies are set out in note 2.

In the current period, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005 have been adopted for the preparation of the financial information. The new HKFRSs have been applied in the preparation of the Financial Information throughout the Relevant Periods. The adoption of the new HKFRSs does not have any material impact on the Financial Information of CKUD.

2. SIGNIFICANT ACCOUNTING POLICIES

Associates

An associate is an entity, other than a subsidiary or a jointly controlled entity, over which CKUD is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in CKUD's financial information using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in CKUD's share of the net assets of the associate less any identified impairment loss in value of the investments. After the interest in associates is reduced to zero, additional losses are provided for and a liability is recognised to the extent that CKUD has incurred legal or constructive obligations or made payments on behalf of that associates.

Revenue Recognition

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounted the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign Currencies

The Financial Information of CKUD is presented in Australian Dollars, which is the currency of the primary economic environment in which CKUD operates (its functional currency) and the presentation currency for the financial information.

In preparing the financial information of the individual entities, transactions in currencies other than CKUD functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currencies (Cont'd)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Financial Instruments

Financial assets and financial liabilities are recognised on CKUD's balance sheet when CKUD becomes a party to the contractual provisions of the instrument.

From 1st January, 2005 onwards, Hong Kong Accounting Standard ("HKAS") 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" have been applied. HKAS 32 requires retrospective application whereas HKAS 39, generally does not permit restatement of comparative information on a retrospective basis. The relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and liabilities that are within the scope of HKAS 39 has been applied. The principal effects resulting from the application of HKAS 39 on financial instruments is immaterial and accordingly, no adjustment has been made. The major categories of financial instruments are stated below.

Loan from related company/shareholder

Loan from related company/shareholder are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Deferred Taxation

Deferred taxation is provided using the balance sheet liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding period. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in associates, except where the CKUD is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Deferred Taxation (Cont'd)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment

At each of the balance sheet date, CKUD reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, CKUD estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Newly Issued Standards or Interpretations

The following new Standards or Interpretations that have been issued but are not yet effective have not been early applied in preparing the Financial Information. The directors of CKUD anticipate that the application of these Standards or Interpretations will have no material impact on the financial information of CKUD.

HKAS 1 (Amendment)	"Capital Disclosures"
HKAS 19 (Amendment)	"Actuarial Gains and Losses, Group Plans and Disclosures"
HKAS 39 (Amendment)	"Cash Flow Hedge Accounting of Forecast Intragroup Transaction"
HKAS 39 (Amendment)	"The Fair Value Option"
HKAS 39 and HKFRS 4 (Amendment)	"Financial Guarantee Contracts"
HKFRS 6	"Exploration for and Evaluation of Mineral Resources"
HKFRS 7	"Financial Instruments: Disclosures"
HKFRS-Int 4	"Determining whether an Arrangement Contains a Lease"
HKFRS-Int 5	"Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
HK(IFRIC)-Int 6	"Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

3. SEGMENT INFORMATION

CKUD operates predominately in Australia, and its sole principal activity is investment holding. Accordingly, no segment information by business and geographical segment is presented.

4. (LOSS) PROFIT BEFORE TAXATION

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
(Loss) profit before taxation is arrived at after charging (crediting):					
Directors' emoluments	–	–	–	–	–
Auditors' remuneration	–	–	–	–	–
Exchange (gain) loss, net	(1)	(4)	–	1	–
Share of tax expenses of the associates	610	1,878	3,291	185	3,376

Operating expenses of CKUD, including auditors' remuneration, are borne by related companies.

CKUD had no employees during the Relevant Periods.

5. TAXATION

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Current taxation:					
Malaysian Tax under LOBATA:					
Overprovision in prior years	–	(10)	–	–	–
Provision for the year/period	10	–	–	–	–
	10	(10)	–	–	–

Under Section 7(1) of the Labuan Offshore Business Activity Tax Act 1990 of Malaysia ("LOBATA"), an offshore company carrying on an offshore business activity which is an offshore trading activity may elect to be charged to tax of RM20,000. Although CKUD was not involved in any trading activity, CKUD made a provision for the election to be charged to tax of RM20,000 (A$9,383) in the year 2002.

Overprovision in the year 2003 mainly arose from the decision of CKUD not to elect to be charged to tax of RM20,000 (A$9,383).

CKUD is subject to Malaysian income tax on its interest income from bank balances which is derived from Malaysia. No provision for taxation was made in the financial statements since 2003 as the tax charges are immaterial and are borne by related companies.

No deferred taxation has been recognised for the Relevant Periods as the amount involved is insignificant.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

5. TAXATION (Cont'd)

The taxation for the Relevant Periods can be reconciled to the (loss) profit before taxation per income statements as follows:

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
(Loss) profit before taxation	(10,968)	(5,601)	(2,093)	(5,315)	2,306
Tax at Malaysian income tax rate of 28%	(3,071)	(1,568)	(586)	(1,488)	646
Tax impact on:					
Effect of share of results after tax of associates	3,069	1,569	586	1,488	(646)
Income which is subject to tax but borne by related company	–	(1)	–	–	–
Expenses not deductible for tax purpose	3	–	–	–	–
Overprovision for offshore trading activities	–	(10)	–	–	–
LOBATA provision	9	–	–	–	–
Taxation	10	(10)	–	–	–

6. INTERESTS IN ASSOCIATES

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Cost of investment	255	255	255	255
Share of post-acquisition losses	(16,988)	(22,592)	(24,686)	(41,702)
	(16,733)	(22,337)	(24,431)	(41,447)

Details of CKUD's associates, which are incorporated and operating in Australia, are as follows:

Name of company	Proportion of ownership interest held directly	indirectly	Principal activity
ETSA Utilities	25.5%	–	Electricity distribution
Utilities Management Pty Ltd.	–	25.5%	Human resources services
ETSA Utilities Finance Pty Ltd.	–	25.5%	Financial services
ETSA FRC Pty Ltd.	–	25.5%	Billing services
ETSA Ancillary Pte Ltd.	–	25.5%	Ancillary services

An extract of the financial information of ETSA Utilities, a principal associate of CKUD for the Relevant Periods, is shown in section B.

7. LOAN FROM RELATED COMPANY/SHAREHOLDER

The loan due to a related company which was the former shareholder of CKUD is unsecured, interest-free and repayable on demand. The former shareholder became the fellow subsidiary of CKUD in August 2003.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

8. SHARE CAPITAL

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Authorised:				
50,000,000 (2002: 400,000; 2003 and 2004: 50,000,000) shares of A$1 each	400	50,000	50,000	50,000
Issued and fully paid:				
280,010 ordinary shares of A$1 each	280	280	280	280

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets of CKUD comprise of bank balances and deposits.

Bank balances and deposits comprise short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. No material financial risk is noted as the amount involved is insignificant.

The directors of CKUD consider that the carrying amount of payables approximates their fair value.

10. PLEDGE OF ASSETS

As at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005:

(a) CKUD has charged, to the extent of A$1,000,000,000, all its present and future interests in any new asset, geographical extension, new asset land, geographical extension land and any other assets owned or enjoyed by the chargee in connection with the electricity distribution business whether comprising:

(i) assets of ETSA Utilities;

(ii) assets of CKUD; or

(iii) CKUD's interest as partner in ETSA Utilities

as defined in the sale/lease agreement made under the Electricity Corporations (Restructuring and Disposals) Act 1999 on 12th December, 1999 pursuant to which CKUD has purchased assets of ETSA Utilities Pty Ltd..

The said charge is created in favour of Distribution Lessor Corporation, a subsidiary of the Treasurer of the State of South Australia, from which ETSA Utilities has leased the distribution network and associated land.

(b) CKUD has jointly and severally, as a partner in ETSA Utilities, created fixed and floating charges, to the extent of A$5,000,000,000 on all the present and future rights, property and undertaking of CKUD of whatever kind and wherever situated including, without limitation, capital, in favour of ETSA Utilities Finance Pty Ltd. for the borrowings granted to ETSA Utilities.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

11. CONTINGENT LIABILITIES

As at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005, CKUD had outstanding contingent liabilities as follows:

(a) CKUD has jointly and severally, as a partner in ETSA Utilities, pursuant to two programmes for the issuance of medium term notes established by the issuer, ETSA Utilities Finance Pty. Ltd.

(i) given a guarantee and indemnity in respect of the payment of all sums payable from time to time by ETSA Utilities Finance Pty. Ltd to the noteholders and Ambac Assurance Corporation (as financial guarantor), in relation to the A$350,000,000 and A$750,000,000 floating rate notes.

(ii) given a guarantee and indemnity in respect of the payment of all sums payable from time to time by ETSA Utilities Finance Pty. Ltd to the noteholders, in relation to the A$275,000,000 fixed rate notes, A$225,000,000 floating rate notes, A$200,000,000 floating rate notes, HK$1,000,000,000 fixed rate notes and US$25,000,000 floating rate notes.

(b) CKUD has jointly and severally, as a partner in ETSA Utilities, given a guarantee and indemnity in respect of the payment of all amounts which at any time for any reason or circumstances are payable, are owing but not currently payable, are contingently owing or remain unpaid by ETSA Utilities Finance Pty. Ltd to certain licensed banks in connection with the respective International Swaps and Derivatives Association (ISDA) Master Agreement entered into between ETSA Utilities Finance Pty. Ltd and the said banks.

12. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in notes 7, 10 and 11, no other material related party transactions had entered into during the Relevant Periods.

B. FINANCIAL INFORMATION OF A PRINCIPAL ASSOCIATE

The following is a summary of the consolidated income statements and consolidated balance sheets of ETSA Utilities, a principal associate of CKUD for the Relevant Periods.

The consolidated income statements and consolidated balance sheet of ETSA Utilities, which are expressed in Australian Dollars, have been prepared based on the audited financial statements of ETSA Utilities for the Relevant Periods which were prepared in accordance with the Accounting Standards and Urgent Issues Groups Consensus Views in Australia, and other requirements of the Australian law and adjusted by the Company to comply with applicable Hong Kong Financial Reporting Standards for the Relevant Periods.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31st December,			Six months ended 30th June,	
A$'000	**2002**	**2003**	**2004**	**2004**	**2005**
				(unaudited)	
Turnover	547,594	589,825	587,896	293,063	292,509
Cost of sales	(127,370)	(141,924)	(142,707)	(71,524)	(70,202)
Gross profit	420,224	447,901	445,189	221,539	222,307
Other operating income	108,437	114,966	147,894	63,909	89,332
Operating costs	(250,343)	(257,015)	(266,777)	(147,203)	(122,264)
Operating profit	278,318	305,852	326,306	138,245	189,375
Finance costs	(318,899)	(320,469)	(321,614)	(158,358)	(167,093)
(Loss) profit before taxation	(40,581)	(14,617)	4,692	(20,113)	22,282
Taxation	(2,393)	(7,363)	(12,904)	(727)	(13,241)
(Loss) profit for the year/period	(42,974)	(21,980)	(8,212)	(20,840)	9,041

CONSOLIDATED BALANCE SHEETS

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Non-current assets				
Property, plant and equipment	2,366,434	2,396,015	2,474,528	2,491,307
Intangible assets	688,460	992,155	987,091	984,559
Deferred tax assets	240,385	237,871	242,744	310,606
Other non-current assets	318,696	439,198	434,095	412,298
	3,613,975	4,065,239	4,138,458	4,198,770
Current assets				
Inventories	7,224	6,768	7,134	7,905
Trade and other receivable and prepayments	134,771	130,715	117,968	130,156
Bank balances and deposits	44,003	105,989	632,153	608,817
	185,998	243,472	757,255	746,878
Current liabilities				
Bank and other loans	6,688	82,151	649,562	638,892
Trade payables and accruals	140,198	150,291	195,263	186,832
Derivative financial instruments	–	–	–	179,558
Provisions	42,300	44,392	31,027	25,049
	189,186	276,834	875,852	1,030,331
Net current liabilities	(3,188)	(33,362)	(118,597)	(283,453)
Total assets less current liabilities	3,610,787	4,031,877	4,019,861	3,915,317
Non-current liabilities				
Bank and other loans	2,075,698	2,009,150	1,965,076	1,961,665
Subordinate loans from related companies	1,270,000	1,270,000	1,270,000	1,270,000
Trade payables and accruals	64,630	129,453	145,529	64,527
Provisions	113,842	101,148	107,559	105,527
Deferred tax liabilities	152,239	609,729	627,512	676,142
	3,676,409	4,119,480	4,115,676	4,077,861
Net liabilities	(65,622)	(87,603)	(95,815)	(162,544)
Representing:				
Contributed equity	1,000	1,000	1,000	1,000
Accumulated losses	(66,622)	(88,603)	(96,815)	(126,048)
Hedge reserve	–	–	–	(37,496)
Total equity	(65,622)	(87,603)	(95,815)	(162,544)

C. SUBSEQUENT EVENT

No material post balance sheet event is noted subsequent to 30th June, 2005.

D. ULTIMATE HOLDING COMPANY

The directors of CKUD consider that as at 30th June, 2005, the ultimate holding company of CKUD was Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liabilities and its shares are listed on the Hong Kong Stock Exchange.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by CKUD in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS FOR CKUD

The year ended 31st December, 2002

Results

CKUD reported a loss of A$10,978,000.

Business review

CKUD maintained its stake in ETSA Utilities at 25.5% in 2002. CKUD's investment in ETSA Utilities accounted for A$10,958,000 of CKUD's loss in 2002 representing 62% increase in loss over the previous year, which was mainly due to a change in Australian taxation laws in 2002. Approximately 15% of interest expense incurred by ETSA Utilities became non-deductible and tax charge increased accordingly.

Financial position

As at 31st December, 2002, CKUD had current assets and current liabilities of A$8,000 and A$34,000 respectively.

As at 31st December, 2002, CKUD did not maintain any outstanding borrowings.

As at 31st December, 2002, CKUD maintained bank balances totaling A$8,000.

The year ended 31st December, 2003

Results

CKUD reported a loss of A$5,591,000.

Business review

CKUD maintained its stake in ETSA Utilities at 25.5% in 2003. CKUD's investment in ETSA Utilities accounted for A$5,605,000 of CKUD's loss in 2003 representing 49% decrease in loss over the previous year, which was mainly attributable to additional distribution revenue provided by the Regulator to fund capital costs incurred in implementing IT systems to enable full retail contestability.

Financial position

As at 31st December, 2003, CKUD had current assets and current liabilities of A$6,000 and A$19,000 respectively.

As at 31st December, 2003, CKUD did not maintain any outstanding borrowings.

As at 31st December, 2003, CKUD maintained bank balances totaling A$6,000.

The year ended 31st December, 2004

Results

CKUD reported a loss of A$2,093,000.

Business review

CKUD maintained its stake in ETSA Utilities at 25.5% in 2004. CKUD's investment in ETSA Utilities accounted for A$2,094,000 of CKUD's loss in 2004 representing 63% decrease in loss over the previous year, which was mainly attributable to customer contributions received by ETSA Utilities for demand driven capital works and profits from non-distribution construction and maintenance works undertaken for third parties.

Financial position

As at 31st December, 2004, CKUD had current assets and current liabilities of A$6,000 and A$18,000 respectively.

As at 31st December, 2004, CKUD did not maintain any outstanding borrowings.

As at 31st December, 2004, CKUD maintained bank balances totaling A$6,000.

The six months ended 30th June, 2005

Results

CKUD reported a profit of A$2,306,000.

Business review

CKUD maintained its stake in ETSA Utilities at 25.5% for the six months ended 30th June, 2005. CKUD's investment in ETSA Utilities accounted for A$2,306,000 of CKUD's profit for the period representing an increment of A$7,620,000 over the loss of A$5,314,000 for the previous interim period, which was mainly attributable to a reduction in operating expenses, primarily for one-off savings in meter reading and IT service delivery contracts, and lower depreciation costs due to an increase in the asset lives of network distribution and sub-transmission lines of approximately 15 years.

Financial position

As at 30th June, 2005, CKUD had current assets and current liabilities of A$7,000 and A$19,000, respectively.

As at 30th June, 2005, CKUD did not maintain any outstanding borrowings.

As at 30th June, 2005, CKUD maintained bank balances totaling A$7,000.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

25th November, 2005

The Directors
Cheung Kong Infrastructure Holdings Limited

Dear Sirs,

We set out below our report on the financial information set out in sections A to E (the "Financial Information") regarding HEI Utilities Development Limited ("HEIU") for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and the six months ended 30th June, 2005 (the "Relevant Periods") for inclusion in the circular dated 25th November, 2005 (the "Circular") issued by Cheung Kong Infrastructure Holdings Limited (the "Company") in connection with the proposed very substantial disposals of 49% equity interests in South Australian Utilities Partnership (trading as "ETSA Utilities") and CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited ("CHEDHA") (the "Disposals") followed by the proposed major acquisitions of approximately 22.07% equity interests in ETSA Utilities and CHEDHA (the "Acquisitions").

HEIU was incorporated as a private limited liability company in Malaysia on 13th December, 1999. Pursuant to Section 133 of the Offshore Companies Act, 1990 of Malaysia, HEIU transferred its domicile to the Commonwealth of The Bahamas on 23rd September, 2003. The principal activity of HEIU is investment in 25.5% interest in ETSA Utilities, which operates and manages electricity distribution business in the State of South Australia in Australia.

Deloitte Touche Tohmatsu, Malaysia acted as the auditors of HEIU for each of the three years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004.

The financial statements or management accounts of HEIU for the Relevant Periods (the "Underlying Financial Statements") were prepared in accordance with the applicable approved accounting standards of the Malaysian Accounting Standards Board. The financial statements for each of the three years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 were audited by Deloitte Touche Tohmatsu, Malaysia.

No audited financial statements have been prepared for HEIU for the six months ended 30th June, 2005. For the purpose of this report, we have, however, carried out independent audit procedures in accordance with Hong Kong Standards on Auditing ("SAS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") in respect of the management accounts of HEIU for the period.

We have examined the Underlying Financial Statements. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information, which is expressed in Australian Dollars, has been prepared based on the Underlying Financial Statements and adjusted by the Company to comply with applicable Hong Kong Financial Reporting Standards for the Relevant Periods and as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The preparation of the financial statements or management accounts of HEIU is the responsibility of the directors of HEIU who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of HEIU as at 31st December, 2002, 31st December, 2003 and 31st December, 2004 and 30th June, 2005 and of the results and cash flows of HEIU for each of the periods then ended.

For the purpose of this report, the information set out in sections A to E for the six months ended 30th June, 2004 ("2004 Interim Financial Information"), which has been prepared by the directors of the Company based on the unaudited financial statements of HEIU prepared by the directors of HEIU on the same basis as referred to in the above paragraph after making such adjustments as we consider appropriate, and is prepared under accounting principles generally accepted in Hong Kong. We have reviewed the 2004 Interim Financial Information in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of the management and applying analytical procedures to 2004 Interim Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on this financial information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to this financial information.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

A$'000	Notes	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover		–	–	–	–	–
Other operating income		1	4	1	–	–
Operating costs		(11)	–	–	(1)	–
(Loss) profit from operations		(10)	4	1	(1)	–
Share of (loss) profit of associates		(10,958)	(5,604)	(2,094)	(5,314)	2,306
(Loss) profit before taxation	*4*	(10,968)	(5,600)	(2,093)	(5,315)	2,306
Taxation	*5*	(9)	9	–	–	–
(Loss) profit for the year/period		(10,977)	(5,591)	(2,093)	(5,315)	2,306

BALANCE SHEETS

A$'000	Notes	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Non-current assets					
Interests in associates	*6*	(16,733)	(22,337)	(24,431)	(41,447)
Current assets					
Bank balances and deposits		8	6	6	7
Current liabilities					
Loan from related company	*7*	–	19	18	19
Loan from shareholder	*7*	25	–	–	–
Tax liabilities		9	–	–	–
		34	19	18	19
Net current liabilities		(26)	(13)	(12)	(12)
Net liabilities		(16,759)	(22,350)	(24,443)	(41,459)
Representing:					
Share capital	*8*	280	280	280	280
Reserves		(17,039)	(22,630)	(24,723)	(41,739)
Total equity		(16,759)	(22,350)	(24,443)	(41,459)

STATEMENTS OF CHANGES IN EQUITY

A$'000	Share capital	Accumulated losses	Hedge reserve	Total
At 1st January, 2002	280	(6,062)	–	(5,782)
Loss for the year	–	(10,977)	–	(10,977)
At 31st December, 2002	280	(17,039)	–	(16,759)
Loss for the year	–	(5,591)	–	(5,591)
At 31st December, 2003	280	(22,630)	–	(22,350)
Loss for the year	–	(2,093)	–	(2,093)
At 31st December, 2004	280	(24,723)	–	(24,443)
Opening adjustment				
Share of associates' reserve arising from adoption of HKAS 39 *(Note)*	–	(9,760)	(9,094)	(18,854)
At 1st January, 2005	280	(34,483)	(9,094)	(43,297)
Profit for the period	–	2,306	–	2,306
Share of associates' loss on cash flow hedge	–	–	(468)	(468)
At 30th June, 2005	280	(32,177)	(9,562)	(41,459)
For the six months ended 30th June, 2004:				
At 1st January, 2004	280	(22,630)	–	(22,350)
Loss for the period	–	(5,315)	–	(5,315)
At 30th June, 2004	280	(27,945)	–	(27,665)

Note: Hedge reserve represents HEIU's share of the associates' reserve on the transitional adoption of Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement".

CASH FLOW STATEMENTS

				Six months ended 30th	
	Year ended 31st December,			**June,**	**June,**
A$'000	**2002**	**2003**	**2004**	**2004**	**2005**
				(unaudited)	
OPERATING ACTIVITIES					
(Loss) profit before taxation	(10,968)	(5,600)	(2,093)	(5,315)	2,306
Share of loss (profit) of associates	10,958	5,604	2,094	5,314	(2,306)
Cash (utilised in) from operations	(10)	4	1	(1)	–
Income taxes paid	(10)	–	–	–	–
NET CASH (UTILISED IN) FROM OPERATING ACTIVITIES	(20)	4	1	(1)	–
FINANCING ACTIVITIES					
(Repayment to) loan from related company	–	(6)	(1)	2	1
Loan from shareholder	24	–	–	–	–
NET CASH FROM (UTILISED IN) FINANCING ACTIVITIES	24	(6)	(1)	2	1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4	(2)	–	1	1
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	4	8	6	6	6
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER/30TH JUNE	8	6	6	7	7
Representing:					
Bank balances and deposits at 31st December/30th June	8	6	6	7	7

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis because Hongkong Electric Holdings Limited, the ultimate shareholder agreed to provide adequate funds to enable HEIU to meet in full its financial obligations as they fall due for the foreseeable future.

The Financial Information has been prepared on the historical cost convention except for certain financial instruments which are measured at fair value and in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The significant accounting policies are set out in note 2.

In the current period, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005 have been adopted for the preparation of the financial information. The new HKFRSs have been applied in the preparation of the financial information throughout the relevant period. The adoption of the new HKFRSs does not have any material impact on the financial information of HEIU.

2. SIGNIFICANT ACCOUNTING POLICIES

Associates

An associate is an entity, other than a subsidiary or a jointly controlled entity, over which HEIU is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in HEIU's financial information using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in HEIU's share of the net assets of the associate less any identified impairment loss in value of the investments. After the interest in associates is reduced to zero, additional losses are provided for and a liability is recognised to the extent that HEIU has incurred legal or constructive obligations or made payments on behalf of that associates.

Revenue Recognition

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounted the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign Currencies

The Financial Information of HEIU is presented in Australian Dollars, which is the currency of the primary economic environment in which HEIU operates (its functional currency) and the presentation currency for the financial information.

In preparing the financial information of the individual entities, transactions in currencies other than HEIU's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currencies (Cont'd)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Financial Instruments

Financial assets and financial liabilities are recognised on HEIU's balance sheet when HEIU becomes a party to the contractual provisions of the instrument.

From 1st January, 2005 onwards, Hong Kong Accounting Standard ("HKAS") 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" have been applied. HKAS 32 requires retrospective application whereas HKAS 39, generally does not permit restatement of comparative information on a retrospective basis. The relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and liabilities that are within the scope of HKAS 39 has been applied. The principal effects resulting from the application of HKAS 39 on financial instruments is immaterial and accordingly, no adjustment has been made. The major categories of financial instruments are stated below.

Loan from related company/shareholder

Loan from related company/shareholder are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Deferred Taxation

Deferred taxation is provided using the balance sheet liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding period. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates, except where the HEIU is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Deferred Taxation (Cont'd)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment

At each of the balance sheet date, HEIU reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, HEIU estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Newly Issued Standards or Interpretations

The following new Standards or Interpretations that have been issued but are not yet effective have not been early applied in preparing the Financial Information. The directors of HEIU anticipate that the application of these Standards or Interpretations will have no material impact on the financial information of HEIU.

HKAS 1 (Amendment)	"Capital Disclosures"
HKAS 19 (Amendment)	"Actuarial Gains and Losses, Group Plans and Disclosures"
HKAS 39 (Amendment)	"Cash Flow Hedge Accounting of Forecast Intragroup Transaction"
HKAS 39 (Amendment)	"The Fair Value Option"
HKAS 39 and HKFRS 4 (Amendment)	"Financial Guarantee Contracts"
HKFRS 6	"Exploration for and Evaluation of Mineral Resources"
HKFRS 7	"Financial Instruments: Disclosures"
HKFRS-Int 4	"Determining whether an Arrangement Contains a Lease"
HKFRS-Int 5	"Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
HK(IFRIC)-Int 6	"Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

3. SEGMENT INFORMATION

HEIU operates predominately in Australia, and its sole principal activity is investment holding. Accordingly, no segment information by business and geographical segment is presented.

4. (LOSS) PROFIT BEFORE TAXATION

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
(Loss) profit before taxation is arrived at after charging (crediting):					
Directors' emoluments	–	–	–	–	–
Auditors' remuneration	–	–	–	–	–
Exchange (gain) loss, net	–	(4)	–	1	–
Share of tax expenses of the associates	610	1,878	3,291	185	3,376

Operating expenses of HEIU, including auditors' remuneration, are borne by related companies.

HEIU had no employees during the Relevant Periods.

5. TAXATION

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Current taxation:					
Malaysian Tax under LOBATA:					
Overprovision in prior years	–	(9)	–	–	–
Provision for the year/period	9	–	–	–	–
	9	(9)	–	–	–

Under Section 7(1) of the Labuan Offshore Business Activity Tax Act 1990 of Malaysia ("LOBATA"), an offshore company carrying on an offshore business activity which is an offshore trading activity may elect to be charged to tax of RM20,000. Although HEIU was not involved in any trading activity, HEIU made a provision for the election to be charged to tax of RM20,000 (A$9,383) in the year 2002.

Overprovision in the year 2003 mainly arose from the decision of HEIU not to elect to be charged to tax of RM20,000 (A$9,383).

HEIU is subject to Malaysian income tax on its interest income from bank balances which is derived from Malaysia. No provision for taxation was made in the financial statements since 2003 as the tax charges are immaterial and are borne by related companies.

No deferred taxation has been recognised for the Relevant Periods as the amount involved is insignificant.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

5. TAXATION (Cont'd)

The taxation for the Relevant Periods can be reconciled to the (loss) profit before taxation per income statements as follows:

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
(Loss) profit before taxation	(10,968)	(5,600)	(2,093)	(5,315)	2,306
Tax at Malaysian income tax rate of 28%	(3,071)	(1,568)	(586)	(1,488)	646
Tax impact on:					
Effect of share of results after tax of associates	3,068	1,570	586	1,488	(646)
Income which is subject to tax but borne by related company	–	(2)	–	–	–
Expenses not deductible for tax purpose	3	–	–	–	–
Overprovision for offshore trading activities	–	(9)	–	–	–
LOBATA provision	9	–	–	–	–
Taxation	9	(9)	–	–	–

6. INTERESTS IN ASSOCIATES

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Cost of investment	255	255	255	255
Share of post-acquisition losses	(16,988)	(22,592)	(24,686)	(41,702)
	(16,733)	(22,337)	(24,431)	(41,447)

Details of HEIU's associates, which are incorporated and operating in Australia, are as follows:

Name of company	Proportion of ownership interest held directly	indirectly	Principal activity
ETSA Utilities	25.5%	–	Electricity distribution
Utilities Management Pty Ltd.	–	25.5%	Human resources services
ETSA Utilities Finance Pty Ltd.	–	25.5%	Financial services
ETSA FRC Pty Ltd.	–	25.5%	Billing services
ETSA Ancillary Pte Ltd.	–	25.5%	Ancillary services

An extract of the financial information of ETSA Utilities, a principal associate of HEIU for the Relevant Periods, is shown in section B.

7. LOAN FROM RELATED COMPANY/SHAREHOLDER

The loan due to a related company which was the former shareholder of HEIU is unsecured, interest-free and repayable on demand. The former shareholder became the fellow subsidiary of HEIU in August 2003.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

8. SHARE CAPITAL

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Authorised:				
50,000,000 (2002: 400,000; 2003 and 2004: 50,000,000) shares of A$1 each	400	50,000	50,000	50,000
Issued and fully paid:				
280,010 ordinary shares of A$1 each	280	280	280	280

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets of HEIU comprise of bank balances and deposits.

Bank balances and deposits comprise short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. No material financial risk is noted as the amount involved is insignificant.

The directors of HEIU consider that the carrying amount of payables approximates their fair value.

10. PLEDGE OF ASSETS

As at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005:

(a) HEIU has charged, to the extent of A$1,000,000,000, all its present and future interests in any new asset, geographical extension, new asset land, geographical extension land and any other assets owned or enjoyed by the chargee in connection with the electricity distribution business whether comprising:

(i) assets of ETSA Utilities;

(ii) assets of HEIU; or

(iii) HEIU's interest as partner in ETSA Utilities

as defined in the sale/lease agreement made under the Electricity Corporations (Restructuring and Disposals) Act 1999 on 12th December, 1999 pursuant to which HEIU has purchased assets of ETSA Utilities Pty Ltd..

The said charge is created in favour of Distribution Lessor Corporation, a subsidiary of the Treasurer of the State of South Australia, from which ETSA Utilities has leased the distribution network and associated land.

(b) HEIU has jointly and severally, as a partner in ETSA Utilities, created fixed and floating charges, to the extent of A$5,000,000,000 on all the present and future rights, property and undertaking of HEIU of whatever kind and wherever situated including, without limitation, capital, in favour of ETSA Utilities Finance Pty Ltd. for the borrowings granted to ETSA Utilities.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

11. CONTINGENT LIABILITIES

As at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005, HEIU had outstanding contingent liabilities as follows:

(a) HEIU has jointly and severally, as a partner in ETSA Utilities, pursuant to two programmes for the issuance of medium term notes established by the issuer, ETSA Utilities Finance Pty Ltd.

(i) given a guarantee and indemnity in respect of the payment of all sums payable from time to time by ETSA Utilities Finance Pty Ltd. to the noteholders and Ambac Assurance Corporation (as financial guarantor), in relation to the A$350,000,000 and A$750,000,000 floating rate notes.

(ii) given a guarantee and indemnity in respect of the payment of all sums payable from time to time by ETSA Utilities Finance Pty Ltd. to the noteholders, in relation to the A$275,000,000 fixed rate notes, A$225,000,000 floating rate notes, A$200,000,000 floating rate notes, HK$1,000,000,000 fixed rate notes and US$25,000,000 floating rate notes.

(b) HEIU has jointly and severally, as a partner in ETSA Utilities, given a guarantee and indemnity in respect of the payment of all amounts which at any time for any reason or circumstances are payable, are owing but not currently payable, are contingently owing or remain unpaid by ETSA Utilities Finance Pty Ltd. to certain licensed banks in connection with the respective International Swaps and Derivatives Association (ISDA) Master Agreement entered into between ETSA Utilities Finance Pty Ltd. and the said banks.

12. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in notes 7, 10 and 11, no other material related party transactions had entered into during the Relevant Periods.

B. FINANCIAL INFORMATION OF A PRINCIPAL ASSOCIATE

The following is a summary of the consolidated income statements and consolidated balance sheets of ETSA Utilities, a principal associate of HEIU for the Relevant Periods.

The consolidated income statements and consolidated balance sheet of ETSA Utilities, which are expressed in Australian Dollars, have been prepared based on the audited financial statements of ETSA Utilities for the Relevant Periods which were prepared in accordance with the Accounting Standards and Urgent Issues Groups Consensus Views in Australia, and other requirements of the Australian law and adjusted by the Company to comply with applicable Hong Kong Financial Reporting Standards for the Relevant Periods.

CONSOLIDATED INCOME STATEMENTS

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover	547,594	589,825	587,896	293,063	292,509
Cost of sales	(127,370)	(141,924)	(142,707)	(71,524)	(70,202)
Gross profit	420,224	447,901	445,189	221,539	222,307
Other operating income	108,437	114,966	147,894	63,909	89,332
Operating costs	(250,343)	(257,015)	(266,777)	(147,203)	(122,264)
Operating profit	278,318	305,852	326,306	138,245	189,375
Finance costs	(318,899)	(320,469)	(321,614)	(158,358)	(167,093)
(Loss) profit before taxation	(40,581)	(14,617)	4,692	(20,113)	22,282
Taxation	(2,393)	(7,363)	(12,904)	(727)	(13,241)
(Loss) profit for the year/period	(42,974)	(21,980)	(8,212)	(20,840)	9,041

CONSOLIDATED BALANCE SHEETS

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Non-current assets				
Property, plant and equipment	2,366,434	2,396,015	2,474,528	2,491,307
Intangible assets	688,460	992,155	987,091	984,559
Deferred tax assets	240,385	237,871	242,744	310,606
Other non-current assets	318,696	439,198	434,095	412,298
	3,613,975	4,065,239	4,138,458	4,198,770
Current assets				
Inventories	7,224	6,768	7,134	7,905
Trade and other receivable and prepayments	134,771	130,715	117,968	130,156
Bank balances and deposits	44,003	105,989	632,153	608,817
	185,998	243,472	757,255	746,878
Current liabilities				
Bank and other loans	6,688	82,151	649,562	638,892
Trade payables and accruals	140,198	150,291	195,263	186,832
Derivative financial instruments	–	–	–	179,558
Provisions	42,300	44,392	31,027	25,049
	189,186	276,834	875,852	1,030,331
Net current liabilities	(3,188)	(33,362)	(118,597)	(283,453)
Total assets less current liabilities	3,610,787	4,031,877	4,019,861	3,915,317
Non-current liabilities				
Bank and other loans	2,075,698	2,009,150	1,965,076	1,961,665
Subordinate loans from related Companies	1,270,000	1,270,000	1,270,000	1,270,000
Trade payables and accruals	64,630	129,453	145,529	64,527
Provisions	113,842	101,148	107,559	105,527
Deferred tax liabilities	152,239	609,729	627,512	676,142
	3,676,409	4,119,480	4,115,676	4,077,861
Net liabilities	(65,622)	(87,603)	(95,815)	(162,544)
Representing:				
Contributed equity	1,000	1,000	1,000	1,000
Accumulated losses	(66,622)	(88,603)	(96,815)	(126,048)
Hedge reserve	–	–	–	(37,496)
Total equity	(65,622)	(87,603)	(95,815)	(162,544)

C. SUBSEQUENT EVENT

No material post balance sheet event is noted subsequent to 30th June, 2005.

D. ULTIMATE HOLDING COMPANY

The directors of HEIU consider that as at 30th June, 2005, the ultimate holding company of HEIU was Hongkong Electric Holdings Limited, a company incorporated in Hong Kong with limited liabilities and its shares are listed on the Hong Kong Stock Exchange.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by HEIU in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS FOR HEIU

The year ended 31st December, 2002

Results

HEIU reported a loss of A$10,977,000.

Business review

HEIU maintained its stake in ETSA Utilities at 25.5% in 2002. HEIU's investment in ETSA Utilities accounted for A$10,958,000 of HEIU's loss in 2002 representing 62% increase in loss over the previous year, which was mainly due to a change in Australian taxation laws in 2002. Approximately 15% of interest expense incurred by ETSA Utilities became non-deductible and tax charge increased accordingly.

Financial position

As at 31st December, 2002, HEIU had current assets and current liabilities of A$8,000 and A$34,000 respectively.

As at 31st December, 2002, HEIU did not maintain any outstanding borrowings.

As at 31st December, 2002, HEIU maintained bank balances totaling A$8,000.

The year ended 31st December, 2003

Results

HEIU reported a loss of A$5,591,000.

Business review

HEIU maintained its stake in ETSA Utilities at 25.5% in 2003. HEIU's investment in ETSA Utilities accounted for A$5,604,000 of HEIU's loss in 2003 representing 49% decrease in loss over the previous year, which was mainly attributable to additional distribution revenue provided by the Regulator to fund capital costs incurred in implementing IT systems to enable full retail contestability.

Financial position

As at 31st December, 2003, HEIU had current assets and current liabilities of A$6,000 and A$19,000 respectively.

As at 31st December, 2003, HEIU did not maintain any outstanding borrowings.

As at 31st December, 2003, HEIU maintained bank balances totaling A$6,000.

The year ended 31st December, 2004

Results

HEIU reported a loss of A$2,093,000.

Business review

HEIU maintained its stake in ETSA Utilities at 25.5% in 2004. HEIU's investment in ETSA Utilities accounted for A$2,094,000 of HEIU's loss in 2004 representing 63% decrease in loss over the previous year, which was mainly attributable to customer contributions received by ETSA Utilities for demand driven capital works and profits from non-distribution construction and maintenance works undertaken for third parties.

Financial position

As at 31st December, 2004, HEIU had current assets and current liabilities of A$6,000 and A$18,000 respectively.

As at 31st December, 2004, HEIU did not maintain any outstanding borrowings.

As at 31st December, 2004, HEIU maintained bank balances totaling A$6,000.

The six months ended 30th June, 2005

Results

HEIU reported a profit of A$2,306,000.

Business review

HEIU maintained its stake in ETSA Utilities at 25.5% for the six months ended 30th June, 2005. HEIU's investment in ETSA Utilities accounted for A$2,306,000 of HEIU's profit for the period representing an increment of A$7,620,000 over the loss of A$5,314,000 for the previous interim period, which was mainly attributable to a reduction in operating expenses, primarily for one-off savings in meter reading and IT service delivery contracts, and lower depreciation costs due to an increase in the asset lives of network distribution and sub-transmission lines of approximately 15 years.

Financial position

As at 30th June, 2005, HEIU had current assets and current liabilities of A$7,000 and A$19,000, respectively.

As at 30th June, 2005, HEIU did not maintain any outstanding borrowings.

As at 30th June, 2005, HEIU maintained bank balances totaling A$7,000.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

25th November, 2005

The Directors
Cheung Kong Infrastructure Holdings Limited

Dear Sirs,

We set out below our report on the financial information set out in sections A to C (the "Financial Information") regarding CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited ("CHEDHA") and its subsidiaries (hereinafter collectively referred to as "CHEDHA Group") for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and the six months ended 30th June, 2005 (the "Relevant Periods") for inclusion in the circular dated 25th November, 2005 (the "Circular") issued by Cheung Kong Infrastructure Holdings Limited (the "Company") in connection with the proposed very substantial disposals of 49% equity interests in CHEDHA and South Australia Utilities Partnership (trading as "ETSA Utilities") (the "Disposals") followed by the proposed major acquisitions of approximately 22.07% equity interests in CHEDHA and ETSA Utilities (the "Acquisitions").

CHEDHA was incorporated in Australia under The Corporations Act of Australia as private limited liability company. It is not a subsidiary of any company. CHEDHA Holdings Pty Ltd., a private limited liability company incorporated in Australia under The Corporations Act of Australia on 1st November, 2005, has entered into a conditional agreement to acquire 100% interest in CHEDHA. CHEDHA Holdings Pty Ltd. has not carried on any business except for entering into the agreement mentioned above.

Deloitte Touche Tohmatsu, Australia acted as the auditors of CHEDHA Group for the Relevant Periods.

The financial statements of CHEDHA Group for the Relevant Periods (the "Underlying Financial Statements"), which were prepared in accordance with the Accounting Standards and Urgent Issues Groups Consensus Views in Australia, and other requirements of the Australian law, were audited by Deloitte Touche Tohmatsu, Australia. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS").

We have examined the Underlying Financial Statements. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information, which is expressed in Australian Dollars, has been prepared based on the Underlying Financial Statements and on the basis set out in note 1 in section A below and adjusted by the Company to comply with applicable Hong Kong Financial Reporting Standards for the Relevant Periods and such other adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The Financial Information is the responsibility of the directors of CHEDHA who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of CHEDHA Group as at 31st December, 2002, 31st December, 2003 and 31st December, 2004 and 30th June, 2005 and of the profit and cash flows of CHEDHA Group for each of the periods then ended.

For the purpose of this report, the information set out in sections A to C for the six months ended 30th June, 2004 ("2004 Interim Financial Information"), which has been prepared by the directors of the Company based on the unaudited financial statements of CHEDHA Group prepared by the directors of CHEDHA on the same basis as referred to in the above paragraph after making such adjustments as we consider appropriate. We have reviewed the 2004 Interim Financial Information in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. The review consisted principally of making enquiries of the management and applying analytical procedures to this financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 2004 Interim Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to this financial information.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

A$'000	Notes	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Turnover	*6*	470,497	651,977	700,182	338,358	385,190
Cost of sales		(64,890)	(80,259)	(91,957)	(40,773)	(81,968)
Gross profit		405,607	571,718	608,225	297,585	303,222
Other operating income	*7*	162,546	162,346	157,245	87,093	75,605
Raw materials and consumables used		(4,912)	(19,058)	(17,943)	(6,277)	(7,215)
Staff costs		(43,404)	(130,602)	(140,493)	(64,536)	(69,361)
Depreciation and amortisation expenses		(112,455)	(151,747)	(147,331)	(71,787)	(74,656)
Other operating costs		(97,572)	(28,128)	(42,414)	(13,608)	(6,994)
Profit from operation	*8*	309,810	404,529	417,289	228,470	220,601
Finance costs	*9*	(233,727)	(314,439)	(309,860)	(153,489)	(154,563)
Profit before taxation		76,083	90,090	107,429	74,981	66,038
Taxation (charge) credit	*10*	(14,528)	(36,030)	71,310	(28,949)	54,916
Profit for the year/ period		61,555	54,060	178,739	46,032	120,954

CONSOLIDATED BALANCE SHEETS

A$'000	Notes	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Non-current assets					
Property, plant and equipment	*11*	3,326,552	3,430,550	3,530,332	3,591,731
Intangible assets	*12*	907,967	889,917	885,989	883,188
Other non-current assets	*13*	43,996	44,747	38,999	23,907
Deferred tax assets	*14*	97,443	126,107	133,255	208,201
		4,375,958	4,491,321	4,588,575	4,707,027
Current assets					
Inventories	*15*	15,696	16,166	16,265	18,244
Trade and other receivables and prepayments	*16*	171,215	129,340	141,005	131,258
Bank balances and deposits		103,218	66,979	11,578	30,860
		290,129	212,485	168,848	180,362
Current liabilities					
Bank and other loans	*17*	825,000	–	14,500	27,135
Trade and other payables and accruals	*18*	129,995	124,138	150,564	149,310
Derivative financial instruments	*19*	–	–	–	98,568
Provisions	*20*	56,646	29,670	22,217	27,286
Deferred revenue		228	630	1,596	2,034
Taxation		26,121	–	5,316	–
		1,037,990	154,438	194,193	304,333
Net current (liabilities) assets		(747,861)	58,047	(25,345)	(123,971)
Total assets less current liabilities		3,628,097	4,549,368	4,563,230	4,583,056
Non-current liabilities					
Bank and other loans	*17*	2,841,777	3,615,019	3,516,371	3,412,479
Deferred tax liabilities	*14*	456,206	536,252	466,775	487,595
Provisions	*20*	36,498	48,728	49,158	43,123
Other non-current liabilities		9,915	11,608	14,426	12,968
		3,344,396	4,211,607	4,046,730	3,956,165
Net assets		283,701	337,761	516,500	626,891
Representing:					
Share capital	*21*	1	1	1	1
Retained profits		283,700	337,760	516,499	629,064
Hedge reserve		–	–	–	(2,174)
Shareholders' equity		283,701	337,761	516,500	626,891

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

A$'000	Share capital	Retained profits	Hedge reserve	Total
GROUP				
At 1st January, 2002	1	222,145	–	222,146
Profit for the year	–	61,555	–	61,555
At 31st December, 2002	1	283,700	–	283,701
Profit for the year	–	54,060	–	54,060
At 31st December, 2003	1	337,760	–	337,761
Profit for the year	–	178,739	–	178,739
At 31st December, 2004	1	516,499	–	516,500
Opening adjustments arising from adoption of HKAS 39	–	(8,389)	(8,671)	(17,060)
At 1st January, 2005	1	508,110	(8,671)	499,440
Gain on cash flow hedge	–	–	9,281	9,281
Deferred tax charged on gain on cash flow hedge	–	–	(2,784)	(2,784)
Net gains not recognised in consolidated income statements	–	–	6,497	6,497
Profit for the period	–	120,954	–	120,954
Total recognised income for the period	–	120,954	6,497	127,451
At 30th June, 2005	1	629,064	(2,174)	626,891
For the six months ended 30th June, 2004:				
At 1st January, 2004	1	337,760	–	337,761
Profit for the period	–	46,032	–	46,032
At 30th June, 2004	1	383,792	–	383,793

CONSOLIDATED CASH FLOW STATEMENTS

A$'000	Year ended 31st December, 2002	2003	2004	Period ended 30th June, 2004 (unaudited)	2005
OPERATING ACTIVITIES					
Profit before taxation	76,083	90,090	107,429	74,981	66,038
Depreciation and amortisation expenses	112,455	151,747	147,331	71,787	74,656
Interest income	(1,887)	(2,354)	(2,271)	(1,173)	(328)
Finance costs	233,727	314,439	309,860	153,489	154,563
Loss (gain) on disposals of property, plant and equipment	587	505	(1,499)	309	145
Gain on disposal of intangible assets	–	(731)	–	–	–
Increase (decrease) in provisions	34,685	(14,746)	(7,023)	(3,401)	(966)
Operating cash flows before changes in working capital	455,650	538,950	553,827	295,992	294,108
Increase in inventories	(2,619)	(470)	(99)	(540)	(1,979)
(Increase) decrease in trade and other receivables and prepayments	(54,282)	41,875	(11,665)	689	5,545
(Increase) decrease in other non-current assets	(28,437)	(757)	5,742	(6,158)	114
Increase (decrease) in trade and other payables and accruals	53,147	(5,857)	26,426	(2,027)	(1,254)
Increase in derivative financial instruments	–	–	–	–	(3,955)
Increase in deferred revenue	147	402	966	5,123	438
Increase (decrease) in other non-current liabilities	5,014	1,693	2,818	5,473	(1,458)
Cash generated from operations	428,620	575,836	578,015	298,552	291,559
Income taxes refunded (paid)	14,232	(10,769)	1	(722)	2
NET CASH FROM OPERATING ACTIVITIES	442,852	565,067	578,016	297,830	291,561

CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

A$'000	Year ended 31st December, 2002	2003	2004	Period ended 30th June, 2004 (unaudited)	2005
INVESTING ACTIVITIES					
Interest received	1,887	2,354	2,271	1,173	328
Purchases of property, plant and equipment	(1,423,320)	(251,247)	(249,818)	(99,829)	(134,285)
Purchases of intangible assets	(279,029)	(2,691)	(191)	(119)	(13)
Disposals of property, plant and equipment	3,187	1,632	8,323	811	899
Receipt from finance lease debtors	6	6	6	–	2,097
Disposals of intangible assets	–	14,837	–	24	–
NET CASH UTILISED IN INVESTING ACTIVITIES	(1,697,269)	(235,109)	(239,409)	(97,940)	(130,974)
NET CASH BEFORE FINANCING ACTIVITIES	(1,254,417)	329,958	338,607	199,890	160,587
FINANCING ACTIVITIES					
Interest paid	(233,727)	(314,439)	(309,860)	(153,489)	(154,563)
New bank and other loans	1,592,373	773,242	14,500	–	13,258
Repayments of bank and other loans	–	(825,000)	(98,648)	(39,586)	–
NET CASH FROM (UTILISED IN) FINANCING ACTIVITIES	1,358,646	(366,197)	(394,008)	(193,075)	(141,305)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	104,229	(36,239)	(55,401)	6,815	19,282
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	(1,011)	103,218	66,979	66,979	11,578
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER/ 30TH JUNE	103,218	66,979	11,578	73,794	30,860
Representing: Bank balances and deposits at 31st December/ 30th June	103,218	66,979	11,578	73,794	30,860

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis because the Company and Hongkong Electric Holdings Limited, the shareholders of CHEDHA agreed to provide adequate funds to ensure CHEDHA to meet in full its financial obligations as they fall due for the foreseeable future.

The Financial Information has been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value and amortised cost, as appropriate.

2. PRINCIPAL ACCOUNTING POLICIES

Application of Hong Kong Financial Reporting Standards

In the six months ended 30th June, 2005, a number of new Hong Kong Financial Reporting Standards ("HKFRS"s), Hong Kong Accounting Standards ("HKAS"s) and Interpretations (hereinafter collectively referred to as "new HKFRS"s) issued by the Hong Kong Institute of Certified Public Accountants are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs also has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The financial impact and changes in presentation have been applied retrospectively in the preparation of the Financial Information throughout the Relevant Periods, except for HKAS 39. The effects of the adoption of HKAS 39 disclosed in "Summary of the Effects of Adoption of HKAS 39" below.

Basis of Consolidation

The Financial Information includes the financial information of CHEDHA and its subsidiaries made up to 31st December, 2002, 31st December, 2003 and 31st December, 2004 and 30th June, 2005.

Results of subsidiaries acquired during the Relevant Periods are accounted for from the effective date of acquisition.

Subsidiaries

A subsidiary is a company that is controlled by CHEDHA, where CHEDHA has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities. Investments in subsidiaries are included in the balance sheet of CHEDHA at cost less any identified impairment loss.

Financial Instruments

Financial assets and financial liabilities are recognised on CHEDHA Group's balance sheet when CHEDHA Group becomes a party to the contractual provisions of the instrument. The major categories of financial instruments are stated below:

From 1st January, 2005 onwards, CHEDHA Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application whereas HKAS 39, generally does not permit restatement of comparative information on a retrospective basis. The application of HKAS 32 has no material effect on the presentation of financial instruments in the financial statements of CHEDHA Group. CHEDHA Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. The effect of the prior years' impact on the net assets as at 1st January, 2005 is a net increase in equity of A$17,060,000 as disclosed in note 2 of Financial Information. The principal effects resulting from the application of HKAS 39 on different categories of assets are summarised in the respective paragraphs below.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Trade receivables

Trade receivables are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with CHEDHA Group's accounting policy for borrowing costs.

Trade payables

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments

CHEDHA Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

CHEDHA Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. To minimise the cash flow and interest rate risk arises from bank loans, CHEDHA Group enters into interest rate swap contract to convert a proportion of its floating rate debt to fixed rates. CHEDHA Group designates these as cash flow hedges of interest rate risk.

The use of financial derivatives is governed by CHEDHA Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with CHEDHA Group's risk management strategy. CHEDHA Group does not use derivative financial instruments for speculative purposes.

Prior to 1st January, 2005, the gain or loss on forward foreign exchange contracts, which represented the difference between the spot rate at the balance sheet dates and the spot rate at the date of inception of the contract or at intervening balance sheet dates, should be taken to the income statement. For interest rate swap contracts, the gain or loss was recognised in income statement upon settlement of the interest rate swap contract.

Commencing from 1st January, 2005, derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Derivative financial instruments (Cont'd)

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. CHEDHA Group's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then, at the time the non-financial asset or non-financial liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the non-financial asset or non-financial liability. For hedges that do not result in the recognition of a non-financial asset or a non-financial liability, amounts deferred in equity are recognised in profit or loss in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Property, Plant and Equipment

Property, plant and equipment, except freehold land which is stated at cost less any impairment losses, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation of property, plant and equipment, except freehold land, is calculated to write off their depreciable amount over their estimated useful lives using the straight-line method, at the following rates per annum:

Buildings	2.5%
Distribution system network	2% to $2\frac{6}{7}$%
Plant, tool and office equipment	$6\frac{2}{3}$% to 20%

When an asset is disposed of or retired, any gain or loss, representing the difference between the carrying value and the sales proceeds, if any, is included in the income statement.

Intangible Assets

Distribution Licence

Distribution licence ("Licence") is initially measured at cost. The Licence is considered to have an infinite life because there is no foreseeable limit to the period over which the Licence is expected to generate net cash inflows for the Group and as such, there is no requirement for it to be amortised. Impairment is reviewed at least annually and whenever there is an indication that the Licence may be impaired.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Intangible Assets (Cont'd)

Intellectual property

Intellectual property is amortised on a straight-line basis over a period of 20 years, during which the benefits are expected to arise. Impairment is reviewed whenever there is an indication that the asset may be impaired.

Impairment (other than intangible with indefinite useful life)

At each of the balance sheet date, CHEDHA Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, CHEDHA Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost, computed on a weighted-average or a first-in first-out basis as appropriate, and net realisable value. Cost includes cost of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

Revenue Recognition

Network revenue is recognised at the point of consumption. Network revenue comprises accounts rendered and a net accrual for unbilled and unread revenue.

Foreign Currencies

The individual financial information of each group entity is presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial information, the results and financial position of each entity are expressed in Australian Dollars, which is the functional currency of CHEDHA, and the presentation currency for the consolidated financial information.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Foreign Currencies (Cont'd)

In preparing the financial information of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Deferred Taxation

Deferred taxation is provided using balance sheet liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding period. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where CHEDHA Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Provisions

Provisions are recognised when CHEDHA Group has a present obligation as a result of a past event, and it is probable that CHEDHA Group will be required to settle that obligation. Provisions are measured at the directors' best estimation of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Operating Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable under operating leases are recorded in the income statement on a straight-line basis over the respective lease terms.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases.

The amounts due from the lessees under finance lease contracts are recorded as finance lease debtors. The finance lease debtors comprise the gross investment in leases less unearned finance lease income allocated to future accounting periods. The unearned finance lease income is allocated to future accounting periods so as to reflect constant periodic rates of return on CHEDHA Group's net investments outstanding in respect of the leases.

Employee Retirement Benefits

The CHEDHA Group operates defined contribution and defined benefit retirement plans for its employees.

The costs of defined contribution plans are charged to the income statement as and when the contributions fall due.

The cost of providing retirement benefits under the CHEDHA Group's defined benefit retirement plans is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the CHEDHA Group's pension oblignations and the fair value of plan assets are amortised over the expected average remaining working lives of the employees participating in the plans. Past service cost is recognised immediately to the extent that the benefits are already vested. Any assets resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plans.

Borrowing Costs

Borrowing costs are expensed in the income statement in the year/period in which they are incurred.

Summary of the Effects of Adoption of HKAS 39

The cumulative effect of the application of HKAS 39 on certain balance sheet items as at 1st January, 2005 in respect of changes in fair value of derivative financial instrument of A$111,804,000 and other financial assets and liabilities of A$87,432,000 and deferred tax liabilities of A$854,000 and deferred tax assets of A$6,458,000 are summarised below:

A$'000	**As at 31st December, 2004** (originally stated)	**Effect of HKAS 39**	**As at 1st January, 2005** (restated)
Other non-current assets	38,999	(12,881)	26,118
Deferred tax assets	133,255	6,458	139,713
Trade and other receivables and prepayments	141,005	(4,202)	136,803
Bank and other loans – non-current liabilities	(3,516,371)	104,515	(3,411,856)
Derivative financial instruments	–	(111,804)	(111,804)
Deferred tax liabilities	(466,775)	854	(465,921)
Total effects on assets and liabilities	(3,669,887)	(17,060)	(3,686,947)
Hedge reserve	–	(8,671)	(8,671)
Retained profits	516,499	(8,389)	508,110
Total effects on equity	516,499	(17,060)	499,439

The effects of the application of HKAS 39 on the results for the six months ended 30th June, 2005 is an increase of A$4,714,000 due to gains from fair value changes of financial assets at fair value.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Newly Issued Standards or Interpretations

The CHEDHA Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The directors of CHEDHA anticipate that the application of these Standards or Interpretations will have no material impact on the financial information of CHEDHA Group.

HKAS 1 (Amendment)	"Capital Disclosures"
HKAS 19 (Amendment)	"Actuarial Gains and Losses, Group Plans and Disclosures"
HKAS 39 (Amendment)	"Cash Flow Hedge Accounting of Forecast Intragroup Transaction"
HKAS 39 (Amendment)	"The Fair Value Option"
HKAS 39 and HKFRS 4 (Amendment)	"Financial Guarantee Contracts"
HKFRS 6	"Exploration for and Evaluation of Mineral Resources"
HKFRS 7	"Financial Instruments: Disclosures"
HKFRS-Int 4	"Determining whether an Arrangement Contains a Lease"
HKFRS-Int 5	"Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
HK(IFRIC)-Int 6	"Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the intangible assets. The value in use calculation requires CHEDHA Group to estimate the future cash flows excepted to arise from intangible assets and a suitable discount rate in order to calculate present value. The carrying amount of intangible assets as at 30th June, 2005 is A$883,188,000, and the management is of the opinion that the carrying amount of the asset will be recovered in full.

Assessment on useful life on distribution licence

The Licence granted to CHEDHA group is vested in perpetuity and provide to CHEDHA Group an exclusive right to distribute electricity within defined service territories in the state of Victoria. The management expected that there is no presently available technology which is likely to replace the method of distribution of electricity. Therefore the Licence is considered to have infinite life and no amortisation is made annually. Impairment is reviewed at least annually whenever there is an indication that the Licence may be impaired.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank and other loans and trade debtors and trade creditors. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Currency risk

Several subsidiaries of CHEDHA have borrowings determined in foreign currencies, which expose CHEDHA Group to foreign currency risk. The management considers that the foreign currency risk is effectively offsetted by foreign currency income generated from its foreign operations.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to variable-rate bank borrowings (see Note 17 for details of these borrowings). In relation to these variable-rate borrowings, CHEDHA Group aims at keeping borrowings at fixed rates. In order to achieve this result, CHEDHA Group entered into interest rate swaps to hedge against its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see Note 19 for details).

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of CHEDHA Group has delegated a team monitoring the procedures to ensure that follow-up action is taken to recover overdue debts. In addition, CHEDHA Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of CHEDHA consider that CHEDHA Group's credit risk is significantly reduced.

CHEDHA Group's credit risk is primarily attributable to its trade and other receivables, accrued revenue and finance lease receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

CHEDHA Group have no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

5. SEGMENT INFORMATION

CHEDHA Group operates predominately in Australia, and the sole principal activity of CHEDHA Group is distribution of electricity. Accordingly, no segment information by business and geographical segment is presented.

6. TURNOVER

Turnover represents revenue from distribution of electricity.

7. OTHER OPERATING INCOME

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Other operating income includes:					
Customer contribution for capital works	13,484	48,053	48,567	21,460	24,246
Meter data/public lighting	8,191	26,474	26,374	13,243	13,189
Service level agreement revenue	11,319	20,203	11,154	5,588	5,585

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

8. PROFIT FROM OPERATION

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Profit from operation is arrived at after charging (crediting):					
Depreciation of property, plant and equipment	108,495	145,112	143,212	69,074	71,842
Amortisation of intangible assets	3,960	6,635	4,119	2,713	2,814
Operating lease rental expenses	1,937	5,571	5,047	2,444	2,723
Directors' emoluments	–	–	–	–	–
Auditors' remuneration	3,388	1,408	1,511	532	533
Staff costs					
Salaries, allowances and other benefits	41,238	127,753	137,426	64,004	67,828
Contributions made to defined benefit superannuation plan	2,166	2,849	3,067	532	1,533
	43,404	130,602	140,493	64,536	69,361
Fair value gain on interest rate swap	–	–	–	–	4,714
Interest income	1,887	2,354	2,271	1,173	328
Property rentals income	1,156	1,359	1,450	597	635
Loss (gain) on disposals of property, plant and equipment	587	505	(1,499)	309	145
Gain on disposal of intangible assets	–	(731)	–	–	–

9. FINANCE COSTS

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Interest and other finance costs on					
Bank borrowings	102,484	154,419	159,229	78,140	79,619
Subordinated debts from related companies	130,193	158,197	148,626	74,358	73,947
Finance charge on finance leases	1,050	1,823	2,005	991	997
	233,727	314,439	309,860	153,489	154,563

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

10. TAXATION CHARGE (CREDIT)

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Current taxation	(940)	(15,352)	5,315	–	(5,318)
Deferred taxation	15,468	51,382	(76,625)	28,949	(49,598)
	14,528	36,030	(71,310)	28,949	(54,916)

Australia income tax is provided at the rate of 30 per cent for the Relevant Periods on the estimated assessable profits less available tax losses for each of the year/period. The taxation charge for the Relevant Periods can be reconciled to the profit before taxation per consolidated income statements as follows:

A$'000	Year ended 31st December, 2002	2003	2004	Six months ended 30th June, 2004 (unaudited)	2005
Profit before taxation	76,083	90,090	107,429	74,981	66,038
Tax at Australia income tax rate of 30%	22,825	27,027	32,230	22,494	19,812
Tax effect of non-taxable income	(2,340)	–	–	–	–
Tax effect of non-deductible expenses	3,784	9,003	11,503	6,455	6,337
Impact of tax consolidation on deferred tax balances	–	–	(115,043)	–	(18,347)
Tax effect of tax losses not recognised	(9,741)	–	–	–	(62,718)
Taxation charge (credit)	14,528	36,030	(71,310)	28,949	(54,916)

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

11. PROPERTY, PLANT AND EQUIPMENT

A$'000	Freehold land outside Hong Kong	Buildings outside Hong Kong	Distribution system network	Plant, tools and office equipment	Total
COST					
At 1st January, 2002	17,084	59,097	2,249,021	160,456	2,485,658
Additions	78,820	24,349	1,281,567	38,584	1,423,320
Disposals	–	(1,371)	(49,174)	(17,556)	(68,101)
At 31st December, 2002	95,904	82,075	3,481,414	181,484	3,840,877
Additions	272	2,623	224,787	23,565	251,247
Disposals	(21)	(55)	(270)	(6,236)	(6,582)
At 31st December, 2003	96,155	84,643	3,705,931	198,813	4,085,542
Additions	–	1,334	225,503	22,981	249,818
Disposals	(117)	–	–	(27,710)	(27,827)
At 31st December, 2004	96,038	85,977	3,931,434	194,084	4,307,533
Additions	59	3,170	110,199	20,857	134,285
Disposals	(20)	–	–	(3,394)	(3,414)
At 30th June, 2005	96,077	89,147	4,041,633	211,547	4,438,404
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1st January, 2002	–	11,232	412,966	45,959	470,157
Charge for the year	–	2,223	83,589	22,683	108,495
Eliminated on disposals	–	(1,371)	(48,689)	(14,267)	(64,327)
At 31st December, 2002	–	12,084	447,866	54,375	514,325
Charge for the year	–	2,709	106,945	35,458	145,112
Eliminated on disposals	–	(7)	(227)	(4,211)	(4,445)
At 31st December, 2003	–	14,786	554,584	85,622	654,992
Charge for the year	–	3,407	119,883	19,922	143,212
Eliminated on disposals	–	–	–	(21,003)	(21,003)
At 31st December, 2004	–	18,193	674,467	84,541	777,201
Charge for the period	–	1,512	58,484	11,846	71,842
Eliminated on disposals	–	–	–	(2,370)	(2,370)
At 30th June, 2005	–	19,705	732,951	94,017	846,673
NET BOOK VALUES					
At 31st December, 2002	95,904	69,991	3,033,548	127,109	3,326,552
At 31st December, 2003	96,155	69,857	3,151,347	113,191	3,430,550
At 31st December, 2004	96,038	67,784	3,256,967	109,543	3,530,332
At 30th June, 2005	96,077	69,442	3,308,682	117,530	3,591,731

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

12. INTANGIBLE ASSETS

A$'000	Licences	Intellectual property	Total
COST			
At 1st January, 2002	596,381	49,533	645,914
Additions	190,847	88,182	279,029
At 31st December, 2002	787,228	137,715	924,943
Additions	–	2,691	2,691
Disposals	(14,106)	–	(14,106)
At 31st December, 2003	773,122	140,406	913,528
Additions	–	191	191
At 31st December, 2004	773,122	140,597	913,719
Additions	–	13	13
At 30th June, 2005	773,122	140,610	913,732
ACCUMULATED AMORTISATION			
At 1st January, 2002	–	13,016	13,016
Charge for the year	–	3,960	3,960
At 31st December, 2002	–	16,976	16,976
Charge for the year	–	6,635	6,635
At 31st December, 2003	–	23,611	23,611
Charge for the year	–	4,119	4,119
At 31st December, 2004	–	27,730	27,730
Charge for the period	–	2,814	2,814
At 30th June, 2005	–	30,544	30,544
NET BOOK VALUES			
At 31st December, 2002	787,228	120,739	907,967
At 31st December, 2003	773,122	116,795	889,917
At 31st December, 2004	773,122	112,867	885,989
At 30th June, 2005	773,122	110,066	883,188

13. OTHER NON-CURRENT ASSETS

	As at 31st December,			As at 30th June,
A$'000	2002	2003	2004	2005
Finance lease debtors	25,052	25,046	25,040	22,943
Deferred expenses	12,544	9,239	7,145	964
Others	6,400	10,462	6,814	–
	43,996	44,747	38,999	23,907

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

13. OTHER NON-CURRENT ASSETS (Cont'd)

Details of the present value of finance lease debtors are shown below:

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Minimum lease payments in leases receivable:				
Within one year	2,100	2,100	2,100	2,100
In the second to fifth year	8,400	8,400	8,400	8,400
Over five years	33,400	31,300	29,200	26,056
	43,900	41,800	39,700	36,556
Future finance charge	(18,842)	(16,748)	(14,654)	(13,607)
Present value of finance lease debtors	25,058	25,052	25,046	22,949
Portion receivable:				
Within one year classified under current assets	6	6	6	6
In the second to fifth year, inclusive classified under non-current assets	25,052	25,046	25,040	22,943
	25,058	25,052	25,046	22,949

The directors consider that the carrying amount of other non-current assets approximates their fair value.

14. DEFERRED TAX (ASSETS) LIABILITIES

The following are the major deferred tax assets and liabilities recognised by CHEDHA Group and movements thereon during the year ended 31st December, 2002, 31st December, 2003, 31st December, 2004 and the period ended 30th June, 2005:

A$'000	Accelerated tax depreciation	Intangible assets	Tax losses	Provisions	Others	Total
At 1st January, 2002	200,272	200,870	(40,756)	(17,091)	–	343,295
Charge against (credit to) profit for the year	54,264	(409)	(27,535)	(10,852)	–	15,468
At 31st December, 2002	254,536	200,461	(68,291)	(27,943)	–	358,763
Charge against (credit to) profit for the year	76,460	4,171	(34,497)	4,624	624	51,382
At 31st December, 2003	330,996	204,632	(102,788)	(23,319)	624	410,145
Charge against (credit to) profit for the year	72,985	(143,427)	(8,446)	2,507	(244)	(76,625)
At 31st December, 2004	403,981	61,205	(111,234)	(20,812)	380	333,520
Opening adjustments arising from adoption of HKAS39	–	–	(6,458)	–	(854)	(7,312)
At 1st January, 2005	403,981	61,205	(117,692)	(20,812)	(474)	326,208
Charge against (credit to) profit for the period	37,054	(18,903)	(70,387)	690	1,948	(49,598)
Charge to equity for the period	–	–	–	–	2,784	2,784
At 30th June, 2005	441,035	42,302	(188,079)	(20,122)	4,258	279,394

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

14. DEFERRED TAX (ASSETS) LIABILITIES (Cont'd)

Analysed for reporting as:

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Deferred tax assets	(97,443)	(126,107)	(133,255)	(208,201)
Deferred tax liabilities	456,206	536,252	466,775	487,595
	358,763	410,145	333,520	279,394

Apart from the unused tax losses of which the deferred tax assets have been recognised as presented above, CHEDHA Group has unused tax losses totaling A$62,718,000, A$62,718,000, A$62,718,000 and nil as at 31st December 2002, 31st December 2003, 31st December 2004 and 30th June 2005 respectively. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams to utilize the available tax losses. Tax losses may be carried forward without expiry.

15. INVENTORIES

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Construction, general purpose and maintenance stocks, at cost	15,696	16,166	16,265	18,244

The cost of inventories charged to CHEDHA Group's income statement were A$17,011,000, A$17,058,000, A$17,043,000 and, A$7,215,000 respectively for each of the period.

16. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Trade receivables	27,802	7,873	2,655	2,295
Prepayments and deposits	3,920	5,255	5,567	4,067
Accrued revenue	84,367	97,116	98,747	109,139
Other receivables	55,126	19,096	34,036	15,757
	171,215	129,340	141,005	131,258

The directors consider that the carrying amounts of trade and other receivables and prepayments approximates their fair value.

The aging analysis of CHEDHA Group's trade receivables is as follows:

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Current	3,730	1,165	–	–
One month	3,782	1,763	2,132	2,034
Two to three months	12,868	2,935	918	875
Over three months	13,263	8,063	4,723	4,504
Gross total	33,643	13,926	7,773	7,413
Allowance for doubtful debts	(5,841)	(6,053)	(5,118)	(5,118)
	27,802	7,873	2,655	2,295

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

17. BANK AND OTHER LOANS

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Unsecured bank loans repayable:				
Within one year	–	–	14,500	27,135
In the third to fifth year, inclusive	–	631,034	631,191	540,929
After five years	630,762	–	–	–
	630,762	631,034	645,691	568,064
Other loans repayable				
Within one year	825,000	–	–	–
In the third to fifth year, inclusive	1,029,130	2,437,100	2,710,180	2,699,026
After five years	1,181,885	546,885	175,000	172,524
	3,036,015	2,983,985	2,885,180	2,871,550
	3,666,777	3,615,019	3,530,871	3,439,614
Portion classified as:				
Current liabilities	825,000	–	14,500	27,135
Non-current liabilities	2,841,777	3,615,019	3,516,371	3,412,479
	3,666,777	3,615,019	3,530,871	3,439,614

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

17. BANK AND OTHER LOANS (Cont'd)

The carrying amounts of CHEDHA Group's borrowings are denominated in the following currencies.

A$'000	A$	US$	Total
As at 30th June, 2005			
Bank loans	27,135	540,929	568,064
Other loans	2,871,550	–	2,871,550
	2,898,685	540,929	3,439,614
As at 31st December, 2004			
Bank loans	14,500	631,191	645,691
Other loans	2,885,180	–	2,885,180
	2,899,680	631,191	3,530,871
As at 31st December, 2003			
Bank loans	–	631,034	631,034
Other loans	2,983,985	–	2,983,985
	2,983,985	631,034	3,615,019
As at 31st December, 2002			
Bank loans	–	630,762	630,762
Other loans	3,036,015	–	3,036,015
	3,036,015	630,762	3,666,777

The average interest rates paid were as follows:

	Year ended 31st December,			Six months ended 30th June,
	2002	2003	2004	2005
Bank loans	9.09%	6.08%	6.16%	6.33%
Other loans	5.62%	10.52%	10.02%	10.65%

Other loans include loans due to group companies of the beneficial shareholders of CHEDHA of A$2,006,885,000, A$1,311,885,000, A$1,311,885,000, A$1,310,989,000. These loans which are unsecured and subordinated to the lenders of CHEDHA Group, bear interest at a fixed rate or rates with reference to Australian Bank Bill Swap Reference Rate.

The loans of A$1,381,885,000, A$1,302,919,000, A$1,433,076,000 and A$979,365,000 for each of the balance sheet date are arranged at fixed interest rates and expose CHEDHA Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing CHEDHA Group to cash flow interest rate risk. Other borrowings arranged at floating rates were hedged by interest rate swap contracts as disclosed in note 19.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

18. TRADE AND OTHER PAYABLES AND ACCRUALS

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Trade payables	25,424	14,528	78,717	73,284
Interest payables	43,109	39,184	40,768	40,464
Trust funds and deposits	16,050	27,603	26,892	29,541
Other payables and accruals	45,412	42,823	4,187	6,021
	129,995	124,138	150,564	149,310

The ageing analysis of CHEDHA Group's trade payables is as follows:

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Current	23,109	13,551	76,779	53,962
One month	2,246	977	1,372	15,478
Two to three months	69	–	377	3,629
Over three months	–	–	189	215
	25,424	14,528	78,717	73,284

19. DERIVATIVE FINANCIAL INSTRUMENTS

The liabilities of the derivative financial instruments of CHEDHA Group as at 30th June, 2005 are as follows:

A$'000	Liabilities
Forward foreign exchange contracts	(88,571)
Interest rate swaps	(9,997)
	(98,568)

Similar information for the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 have not been disclosed due to impracticability to collect information which had not been available for the previous years.

Currency derivatives

CHEDHA Group utilises currency derivatives to hedge significant future transactions and cash flows. CHEDHA Group is party to a variety of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the CHEDHA Group's principal markets.

At 30th June, 2005, the fair value of CHEDHA Group's currency derivatives is estimated to be approximately A$13,000 (31.12.2002: A$149,000; 31.12.2003: A$17,000; 31.12.2004: A$22,000). These amounts are based on quoted market prices for equivalent instruments at the balance sheet date, comprising nil (31.12.2002: A$95,000; 31.12.2003: nil; 31.12.2004: A$22,000) gains and nil (31.12.2002: nil; 31.12.2003: A$10,000; 31.12.2004: nil) losses. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to A$9,281,000 has been deferred in equity.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

19. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Interest rate swaps

CHEDHA Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. Contracts with nominal values of A$2,855,000,000 (31.12.2002: A$2,855,000,000; 31.12.2003: A$2,855,000,000; 31.12.2004: A$2,855,000,000) have fixed interest payments at an average rate of 6.26 per cent (31.12.2002: 6.21 per cent; 31.12.2003: 6.39 per cent; 31.12.2004: 6.36 per cent) for periods up until year 2010 and have floating interest receipts at Australian Bank Bill Swap Reference Rate.

The fair value of swaps entered into at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 30th June, 2005 is estimated at a loss of A$69,088,000, a loss of A$24,035,000, a loss of A$34,478,000 and a loss of A$9,997,000, respectively. These amounts are based on quoted market prices for equivalent instruments at the balance sheet date. All of these interest rate swaps are designated and effective as cash flow hedges and the fair value thereof has been deferred in equity.

20. PROVISIONS

A$'000	Safety compliance and accident compensation	Long service leave	Others	Total
At 1st January, 2002	24,048	16,067	16,855	56,970
Addition	16,108	2,235	40,144	58,487
Utilisation	(1,379)	(971)	(19,963)	(22,313)
At 31st December, 2002	38,777	17,331	37,036	93,144
Addition	2,801	16,246	5,914	24,961
Utilisation	(12,562)	(9,534)	(17,611)	(39,707)
At 31st December, 2003	29,016	24,043	25,339	78,398
Addition	1,220	6,581	857	8,658
Utilisation	(3,490)	(1,280)	(10,911)	(15,681)
At 31st December, 2004	26,746	29,344	15,285	71,375
Addition	1,607	1,875	349	3,831
Utilisation	(2,109)	(794)	(1,894)	(4,797)
At 30th June, 2005	26,244	30,425	13,740	70,409

	As at 31st December,			As at 30th June,
A$'000	2002	2003	2004	2005
Analysed for reporting purpose as:				
Current liabilities	56,646	29,670	22,217	27,286
Non-current liabilities	36,498	48,728	49,158	43,123
	93,144	78,398	71,375	70,409

Provision for safety compliance and accident compensation is required to comply with Office of the chief Electrical Inspector ("OCEI") Electrical Regulations in Australia.

Provision is made for benefits accruing to employees in respect of annual leave and long service leave.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

20. PROVISIONS (Cont'd)

Employee benefits which are expected to be settled within twelve months are measured at their nominal values using the current pay rates expected to apply at the time of settlement. Employee benefits which are not expected to be settled within twelve months are measured at the present value of estimated future cash outflows to be made in respect of the services provided by employees up to the reporting dates.

21. SHARE CAPITAL

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
400 fully paid ordinary shares	1	1	1	1

Changes to the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1st July, 1998. Therefore, CHEDHA does not have a limited amount of authorised capital and issued shares do not have a par value. Fully paid ordinary shares carry no special voting rights and carry the right to dividends.

22. COMMITMENTS

(a) CHEDHA's capital commitments outstanding not provided for in the Financial Information are as follows:

	Contracted but not provided for			
A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Plant, tools and office equipment	4,577	6,111	14,562	18,071

(b) CHEDHA had outstanding commitments under non-cancellable operating leases in respect of plant, tools and office equipment, which fall due as follows:

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Within one year	5,887	5,781	4,684	4,146
In the second to fifth year,inclusive	12,164	17,679	19,218	19,145
After five years	10,760	47,286	43,028	40,312
Total	28,811	70,746	66,930	63,603

Leases are negotiated for term ranging from one to ninety-nine years and rental are fixed over the term of the lease, or reviewed to market or Consumer Price Index in accordance with the terms and conditions of each specific lease.

NOTES TO THE FINANCIAL INFORMATION (Cont'd)

23. CONTINGENT LIABILITIES

A$'000	As at 31st December, 2002	2003	2004	As at 30th June, 2005
Counter indemnities given to banks in respect of guarantees issued by the banks to CHEDHA Group's customers	–	–	525	365

24. MATERIAL RELATED PARTIES TRANSACTIONS

Transactions between CHEDHA Group and the Company and Hongkong Electric Holdings Limited ("HK Electric"), each holding 50% indirect interest in CHEDHA, and their associates and jointly controlled entitles are considered to be related party transactions pursuant to the Hong Kong Accounting Standard 24 "Related Party Disclosures".

During the Relevant Periods, CHEDHA Group entered into the following transactions with the group companies of the Company and HK Electric:

(a) CHEDHA Group obtained a subordinated loan from related companies. The amounts due to them as at each of the reporting dates are disclosed in note 17.

Interest, arrangement fee and agency fee charged on the loans by the related companies during the Relevant Periods totalling to A$72,104,000, A$158,197,000, A$148,626,000 and A$73,946,000 respectively.

(b) Service income for IT and other services provided by CHEDHA Group to other related companies during the Relevant Periods amounted to nil, A$7,204,000, A$32,158,000 and A$7,700,000 respectively.

B. SUBSEQUENT EVENT

No material post balance sheet event is noted subsequent to 30th June, 2005.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by CHEDHA and its subsidiaries in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS FOR CHEDHA GROUP

The year ended 31st December, 2002

Results

CHEDHA Group reported a profit of A$61,555,000.

Business review

CHEDHA Group acquired CitiPower, another electricity distributor in Victoria of Australia, in August 2002.

In August 2002, CHEDHA Group disposed of CitiPower's retail business. In addition, a capital gain of A$20,753,000 was recorded in 2002 in respect of the adjustments for disposal of Powercor's retail business in the previous year.

Financial position

As at 31st December, 2002, CHEDHA Group had current assets and current liabilities of A$209,129,000 and A$1,037,990,000 respectively.

Excluding subordinated shareholders' loans of A$2,006,885,000, CHEDHA Group had total external borrowings of A$1,659,892,000 as at 31st December, 2002.

As at 31st December, 2002, CHEDHA Group maintained bank balances totaling A$103,218,000.

As at 31st December, 2002, CHEDHA Group maintained a gearing ratio at 68%, based on the net borrowing of A$1,556,674,000 and shareholders' equity plus subordinated shareholders' loans totaling A$2,290,586,000.

The year ended 31st December, 2003

Results

CHEDHA Group reported a profit of A$54,060,000.

Business review

CHEDHA Group's profit for 2003 dropped by 12% mainly due to the 2002 capital gain of A$20,753,000 as mentioned above.

Financial position

As at 31st December, 2003, CHEDHA Group had current assets and current liabilities of A$212,485,000 and A$154,438,000 respectively.

Excluding subordinated shareholders' loans of A$1,311,885,000, CHEDHA Group had total external borrowings of A$2,303,134,000 as at 31st December, 2003.

As at 31st December, 2003, CHEDHA Group maintained bank balances totaling A$66,979,000.

As at 31st December, 2003, CHEDHA Group maintained a gearing ratio at 136%, based on the net borrowing of A$2,236,155,000 and shareholders' equity plus subordinated shareholders' loans totaling A$1,649,646,000.

The year ended 31st December, 2004

Results

CHEDHA Group reported a profit of A$178,739,000.

Business review

CHEDHA Group's profit for 2004 increased by 231% mainly due to the A$115,000,000 tax credit when CHEDHA Group revised the tax cost base of its assets and substantially reduced the related deferred tax liability, and increases in network revenues net of costs of supply.

Financial position

As at 31st December, 2004, CHEDHA Group had current assets and current liabilities of A$168,848,000 and A$194,193,000 respectively.

Excluding subordinated shareholders' loans of A$1,311,885,000, CHEDHA Group had total external borrowings of A$2,218,986,000 as at 31st December, 2004.

As at 31st December, 2004, CHEDHA Group maintained bank balances totaling A$11,578,000.

As at 31st December, 2004, CHEDHA Group maintained a gearing ratio at 121%, based on the net borrowing of A$2,207,408,000 and shareholders' equity plus subordinated shareholders' loans totaling A$1,828,385,000.

The six months ended 30th June, 2005

Results

CHEDHA Group reported a profit of A$120,954,000.

Business review

CHEDHA Group's profit for the six months ended 30th June, 2005 increased by 163% compared to the six months ended 30th June, 2004 mainly due to a tax credit totalling A$81,065,000 from the recognition of deferred tax assets covering tax losses not previously brought to account and the reduction of deferred tax liabilities arising from an increase in the tax cost base of certain assets.

Financial position

As at 30th June, 2005, CHEDHA Group had current assets and current liabilities of A$180,362,000 and A$304,333,000 respectively.

Excluding subordinated shareholders' loans of A$1,310,989,000, CHEDHA Group had total external borrowings of A$2,128,625,000 as at 30th June, 2005.

As at 30th June, 2005, CHEDHA Group maintained bank balances totaling A$30,860,000.

As at 30th June, 2005, CHEDHA Group maintained a gearing ratio at 108%, based on the net borrowing of A$2,097,765,000 and shareholders' equity plus subordinated shareholders' loans totaling A$1,937,880,000.

Employees

CHEDHA, including its subsidiaries but excluding affiliated companies, employs a total of 1,600 employees as at 30th June, 2005. Employee's cost (excluding directors' emoluments) amounted to approximately A$69,361,000.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP AFTER THE DISPOSALS BUT BEFORE THE ACQUISITIONS

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

25th November, 2005

The Board of Directors
Cheung Kong Infrastructure Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information"), comprising the unaudited pro forma income statement, the unaudited pro forma balance sheet and the unaudited pro forma cash flow statement, of Cheung Kong Infrastructure Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 161 to 166 of the circular of the Company dated 25th November, 2005 (the "Circular") in relation to the proposed very substantial disposals of 49% equity interests in CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited ("CHEDHA") and South Australian Utilities Partnership (trading as "ETSA Utilities") (the "Disposals") followed by the proposed major acquisitions of approximately 22.07% equity interests in CHEDHA and ETSA Utilities (the "Acquisitions"). The Unaudited Pro Forma Financial Information of the Group has been prepared, for illustrative purposes only, to provide information about how the Disposals might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information of the Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on this Unaudited Pro Forma Financial Information of the Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information of the Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the listing rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information of the Group with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Hong Kong Standards of Auditing, Hong Kong Standards of Review Engagement or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and accordingly we do not express any such assurance on the Unaudited Pro Forma Financial Information of the Group.

The Unaudited Pro Forma Financial Information of the Group has been prepared on the basis set out on page 160 of the Circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group as at 30th June, 2005 or at any future date or results and cash flows of the Group for the six months then ended or for any future period.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information of the Group has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following unaudited pro forma financial information of the Group has been prepared based on the audited financial information of the Group for the six months ended 30th June, 2005 extracted from the accountants' reports as set out in Appendix I to this Circular and the financial information of South Australian Utilities Partnership and CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited ("Disposed Companies") for the six months ended 30th June, 2005 extracted from the financial information of ETSA Utilities included in the Accountants' Report on the financial information of CKI Utilities Development Limited and HEI Utilities Development Limited and the Accountants' Report on the financial information of CHEDHA set out in Appendix II to this Circular (translated at the rate of A$1.00 : HK$6.01), and adjust for the transactions resulting from the Disposals but before the Acquisitions as described in the notes thereto.

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE GROUP AFTER COMPLETION OF DISPOSALS BUT BEFORE THE ACQUISITIONS

The following is a summary of the unaudited pro forma income statement of the Group, assuming that the Disposals but before the Acquisitions had taken place on 1st January, 2005 for the purpose of illustrating how the Disposals but before the Acquisitions might have affected the results of the Group.

The unaudited pro forma income statement is prepared to provide financial information on the Group after completion of the Disposals but before the Acquisitions. As it is prepared for illustrative purpose only, it may not purport to represent what the results of the Group for the period ended 30th June, 2005 or any future period shall be.

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE GROUP AFTER COMPLETION OF DISPOSALS BUT BEFORE THE ACQUISITIONS (Cont'd)

(a) Based on an offer price of A$2.00 per Fundco Shares:

HK$ million	**The Group**	**Pro forma adjustments**	*Notes*	**The Remaining Group**
Group turnover	1,135			1,135
Other operating income	389			389
Operating costs	(907)			(907)
Operating profit	617			617
Finance costs	(337)			(337)
Share of results of associates	1,384	(66)	*(1)*	1,124
		(194)	*(2)*	
Share of results of jointly controlled entities	312			312
Profit on disposals of associates	–	5,134	*(3)*	5,134
Profit before taxation	1,976	4,874		6,850
Taxation	(112)	39	*(1)*	(238)
		(165)	*(2)*	
Profit for the period	1,864	4,748		6,612
Minority interests	2			2
Profit attributable to shareholders of the Company	1,866	4,748		6,614

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE GROUP AFTER COMPLETION OF DISPOSALS BUT BEFORE THE ACQUISITIONS (Cont'd)

(b) Based on an offer price of A$1.80 per Fundco Shares:

HK$ million	**The Group**	**Pro forma adjustments**	*Notes*	**The Remaining Group**
Group turnover	1,135			1,135
Other operating income	389			389
Operating costs	(907)			(907)
Operating profit	617			617
Finance costs	(337)			(337)
Share of results of associates	1,384	(66)	*(1)*	1,124
		(194)	*(2)*	
Share of results of jointly controlled entities	312			312
Profit on disposals of associates	–	3,978	*(3)*	3,978
Profit before taxation	1,976	3,718		5,694
Taxation	(112)	39	*(1)*	(238)
		(165)	*(2)*	
Profit for the period	1,864	3,592		5,456
Minority interests	2			2
Profit attributable to shareholders of the Company	1,866	3,592		5,458

Notes:

(1) Adjustment to reverse 49% share of results for the six months ended 30th June, 2005 of ETSA Utilities.

(2) Adjustment to reverse 49% share of results for the six months ended 30th June, 2005 of CHEDHA.

(3) Adjustment to reflect profit on disposals of 49% interests in ETSA Utilities and CHEDHA at the offer price of A$2.00 or A$1.80 of the Fundco Shares.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE GROUP AFTER COMPLETION OF DISPOSALS BUT BEFORE THE ACQUISITIONS

The following is a summary of the unaudited pro forma balance sheet of the Group, assuming that the Disposals but before the Acquisitions had been completed as at 30th June, 2005 for the purpose of illustrating how the Disposals but before the Acquisitions might have affected the financial position of the Group.

The unaudited pro forma balance sheet is prepared to provide financial information on the Group after the completion of the Disposals but before the Acquisitions. As it is prepared for illustrative purpose only, it may not purport to represent what the financial position of the Group shall be on the actual completion of the Disposals but before the Acquisitions.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE GROUP AFTER COMPLETION OF DISPOSALS BUT BEFORE THE ACQUISITIONS (Cont'd)

(a) Based on an offer price of A$2.00 per Fundco Shares:

HK$ million	The Group	Pro forma adjustments	*Notes*	The Remaining Group
Non-current assets				
Property, plant and equipment	1,793			1,793
Investment properties	39			39
Leasehold land	341			341
Interests in associates	28,508	(8,912)	*(4)*	19,414
		(182)	*(7)*	
Interests in jointly controlled entities	5,066			5,066
Interests in infrastructure project investments	762			762
Investments in securities	1,177	1,146	*(5)*	2,505
		182	*(7)*	
Derivative financial instruments	390			390
Goodwill	243			243
Other non-current assets	10			10
	38,329	(7,766)		30,563
Current assets				
Inventories	156			156
Interests in infrastructure project investments	171			171
Debtors and prepayments	944			944
Bank balances and deposits	6,074	13,219	*(4)*	11,941
		(1,146)	*(5)*	
		(6,206)	*(6)*	
	7,345	5,867		13,212
Current liabilities				
Bank and other loans	2,955			2,955
Creditors and accruals	846			846
Taxation	114			114
	3,915			3,915
Net current assets	3,430	5,867		9,297
Total assets less current liabilities	41,759	(1,899)		39,860
Non-current liabilities				
Bank and other loans	10,541	(6,206)	*(6)*	4,335
Derivative financial instruments	384			384
Deferred tax liabilities	366			366
Other non-current liabilities	15			15
	11,306	(6,206)		5,100
Net assets	30,453	4,307		34,760
Representing:				
Share capital	2,254			2,254
Reserves	27,995	4,307	*(4)*	32,302
Equity attributable to shareholders of the Company	30,249			34,556
Minority interests	204			204
Total equity	30,453	4,307		34,760

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE GROUP AFTER COMPLETION OF DISPOSALS BUT BEFORE THE ACQUISITIONS (Cont'd)

(b) Based on an offer price of A$1.80 per Fundco Shares:

HK$ million	The Group	Pro forma adjustments	*Notes*	The Remaining Group
Non-current assets				
Property, plant and equipment	1,793			1,793
Investment properties	39			39
Leasehold land	341			341
Interests in associates	28,508	(8,912)	*(4)*	19,414
		(182)	*(7)*	
Interests in jointly controlled entities	5,066			5,066
Interests in infrastructure project investments	762			762
Investments in securities	1,177	1,031	*(5)*	2,390
		182	*(7)*	
Derivative financial instruments	390			390
Goodwill	243			243
Other non-current assets	10			10
	38,329	(7,881)		30,448
Current assets				
Inventories	156			156
Interests in infrastructure project investments	171			171
Debtors and prepayments	944			944
Bank balances and deposits	6,074	12,063	*(4)*	10,900
		(1,031)	*(5)*	
		(6,206)	*(6)*	
	7,345	4,826		12,171
Current liabilities				
Bank and other loans	2,955			2,955
Creditors and accruals	846			846
Taxation	114			114
	3,915			3,915
Net current assets	3,430	4,826		8,256
Total assets less current liabilities	41,759	(3,055)		38,704
Non-current liabilities				
Bank and other loans	10,541	(6,206)	*(6)*	4,335
Derivative financial instruments	384			384
Deferred tax liabilities	366			366
Other non-current liabilities	15			15
	11,306	(6,206)		5,100
Net assets	30,453	3,151		33,604
Representing:				
Share capital	2,254			2,254
Reserves	27,995	3,151	*(4)*	31,146
Equity attributable to shareholders of the Company	30,249	3,151		33,400
Minority interests	204			204
Total equity	30,453	3,151		33,604

Notes:

(4) Adjustment to reflect the disposals of 49% interests in ETSA Utilities and CHEDHA at the offer price of A$2.00 or A$1.80 of the Fundco Shares and to reflect profit on disposals.

(5) Adjustment to reflect the purchase of 9.9% interest in Fundco.

(6) Adjustment to reflect repayment of part of the bank loan out of the proceed from disposals of ETSA Utilities and CHEDHA.

(7) Reclassification of remaining 1% interest in associate to available for sale investment.

3. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE GROUP AFTER COMPLETION OF THE DISPOSALS BUT BEFORE THE ACQUISITIONS

The following is a summary of the unaudited pro forma cash flow statement of the Group, assuming that the Disposals but before the Acquisitions had taken place on 1st January, 2005 for the purpose of illustrating how the transaction might have affected the cash flows of the Group.

The unaudited pro forma cash flow statement is prepared to provide financial information on the Group after the completion of the Disposals but before the Acquisitions. As it is prepared for illustrative purpose only, it may not purport to represent what the cash flows of the Group for the six months ended 30th June, 2005 or any future period shall be.

(a) Based on an offer price of A$2.00 per Fundco Shares:

HK$ million	**The Group**	**Pro forma Adjustments**	*Notes*	**The Remaining Group**
Cash generated from operations	276			276
Income taxes refunded	5			5
Net cash from operating activities	281			281
Investing activities				
Disposals of interests in associates		13,219	*(8)*	13,219
Purchase of securities		(1,146)	*(9)*	(1,146)
Other investing activities	(1,990)			(1,990)
Net cash (utilised in) from investing activities	(1,990)	12,073		10,083
Net cash before financing activities	(1,709)	12,073		10,364
Financing activities				
Repayments of bank and other loans		(6,206)	*(10)*	(6,206)
Other financing activities	(1,246)			(1,246)
Net cash utilised in financing activities	(1,246)	(6,206)		(7,452)
Net (decrease) increase in cash and cash equivalents	(2,955)	13,219	*(8)*	2,912
		(1,146)	*(9)*	
		(6,206)	*(10)*	
Cash and cash equivalents at 1st January, 2005	9,029			9,029
Cash and cash equivalents at 30th June, 2005	6,074	5,867		11,941
Representing:				
Bank balances and deposits at 30th June, 2005	6,074	5,867		11,941

3. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE GROUP AFTER COMPLETION OF THE DISPOSALS BUT BEFORE THE ACQUISITIONS (Cont'd)

(b) Based on an offer price of A$1.80 per Fundco Shares:

HK$ million	**The Group**	**Pro forma Adjustments**	*Notes*	**The Remaining Group**
Cash generated from operations	276			276
Income taxes refunded	5			5
Net cash from operating activities	281			281
Investing activities				
Disposals of interests in associates		12,063	*(8)*	12,063
Purchase of securities		(1,031)	*(9)*	(1,031)
Other investing activities	(1,990)			(1,990)
Net cash (utilised in) from investing activities	(1,990)	11,032		9,042
Net cash before financing activities	(1,709)	11,032		9,323
Financing activities				
Repayments of bank and other loans		(6,206)	*(10)*	(6,206)
Other financing activities	(1,246)			(1,246)
Net cash utilised in financing activities	(1,246)	(6,206)		(7,452)
Net (decrease) increase in cash and cash equivalents	(2,955)	12,063	*(8)*	1,871
		(1,031)	*(9)*	
		(6,206)	*(10)*	
Cash and cash equivalents at 1st January, 2005	9,029			9,029
Cash and cash equivalents at 30th June, 2005	6,074	4,826		10,900
Representing:				
Bank balances and deposits at 30th June, 2005	6,074	4,826		10,900

Notes:

(8) Adjustment to reflect the net cash arising from the disposals 49% interests in ETSA Utilities and CHEDHA at the offer price of A$2.00 or A$1.80 of the Fundco Shares net of IPO and transaction costs.

(9) Adjustment to reflect the purchase of 9.9% interest in Fundco.

(10) Adjustment to reflect repayment of part of the bank loan out of the proceed from disposals of ETSA Utilities and CHEDHA.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

25th November, 2005

The Board of Directors
Cheung Kong Infrastructure Holdings Limited

Dear Sirs,

We report on the unaudited pro forma assets and liabilities of Cheung Kong Infrastructure Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 170 to 171 of the circular of the Company dated 25th November, 2005 (the "Circular") in relation to the proposed very substantial disposals of 49% equity interests in CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited ("CHEDHA") and South Australian Utilities Partnership (trading as "ETSA Utilities") followed by the proposed major acquisitions of approximately 22.07% equity interests in CHEDHA and ETSA Utilities (the "Acquisitions"). The unaudited pro forma assets and liabilities of the Group has been prepared, for illustrative purposes only, to provide information about how the Acquisitions might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma assets and liabilities of the Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on this unaudited pro forma assets and liabilities of the Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma assets and liabilities of the Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the listing rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma assets and liabilities of the Group with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Hong Kong Standards of Auditing, Hong Kong Standards of Review Engagement or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and accordingly we do not express any such assurance on the unaudited pro forma assets and liabilities of the Group.

The unaudited pro forma assets and liabilities of the Group has been prepared on the basis set out on page 169 of the Circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group as at 30th June, 2005 or at any future date.

OPINION

In our opinion:

(a) the unaudited pro forma assets and liabilities of the Group has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial assets and liabilities of the Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA ASSETS AND LIABIITIES OF THE GROUP AFTER COMPLETION OF THE DISPOSALS AND THE ACQUISITIONS

The following is a summary of the unaudited pro forma assets and liabilities of the Enlarged Group, assuming that the Acquisitions had been completed as at 30th June, 2005 for the purpose of illustrating how the Acquisitions might have affected the financial position of the Group.

The following unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared based on the unaudited pro forma balance sheet of the Remaining Group as at 30th June, 2005 as set out in Appendix III to this Circular and the Statement of assets and liabilities of South Australian Utilities Partnership and CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited ("Acquired Companies") as at 30th June, 2005 extracted from the financial information of ETSA Utilities included in the Accountants' Report on the financial information of CKI Utilities Development Limited and HEI Utilities Development Limited and the Accountants' Report on the financial information of CHEDHA set out in Appendix II to this Circular (translated at the rate of A$1.00 : HK$6.01) and adjust for the transactions resulting from the Acquisitions for illustrative purposes to demonstrate how the Acquisitions might have affected the financial position of the Group as if the Acquisitions had taken place on 30th June, 2005.

The unaudited pro forma statement of assets and liability is prepared to provide financial information on the Group after completion of the Acquisitions. As it is prepared for illustrative purpose only, it may not purport to represent what the financial position of the Group shall be on the actual completion of the Acquisitions.

UNAUDITED PRO FORMA ASSETS AND LIABIITIES OF THE GROUP AFTER COMPLETION OF THE DISPOSALS AND THE ACQUISITIONS (Cont'd)

(a) Based on an offer price of A$2.00 per Fundco Shares:

HK$ million	The Remaining Group (in Appendix III)	Pro forma adjustments	*Notes*	The Enlarged Group
Non-current assets				
Property, plant and equipment	1,793			1,793
Investment properties	39			39
Leasehold land	341			341
Interests in associates	19,414	5,953	*(1)*	26,360
		182	*(2)*	
		811	*(3)*	
Interests in jointly controlled entities	5,066			5,066
Interests in infrastructure project investments	762			762
Investments in securities	2,505	(182)	*(2)*	2,323
Derivative financial instruments	390			390
Goodwill	243			243
Other non-current assets	10			10
	30,563	6,764		37,327
Current assets				
Inventories	156			156
Interests in infrastructure project investments	171			171
Debtors and prepayments	944			944
Bank balances and deposits	11,941	(5,953)	*(1)*	5,988
	13,212	(5,953)		7,259
Current liabilities				
Bank and other loans	2,955			2,955
Creditors and accruals	846			846
Taxation	114			114
	3,915			3,915
Net current assets	9,297	(5,953)		3,344
Total assets less current liabilities	39,860	811		40,671
Non-current liabilities				
Bank and other loans	4,335			4,335
Derivative financial instruments	384			384
Deferred tax liabilities	366			366
Other non-current liabilities	15			15
	5,100			5,100
Net assets	34,760	811		35,571

UNAUDITED PRO FORMA ASSETS AND LIABIITIES OF THE GROUP AFTER COMPLETION OF THE DISPOSALS AND THE ACQUISITIONS (Cont'd)

(b) Based on an offer price of A$1.80 per Fundco Shares:

HK$ million	**The Remaining Group (in Appendix III)**	**Pro forma adjustments**	*Notes*	**The Enlarged Group**
Non-current assets				
Property, plant and equipment	1,793			1,793
Investment properties	39			39
Leasehold land	341			341
Interests in associates	19,414	5,434	*(1)*	25,638
		182	*(2)*	
		608	*(3)*	
Interests in jointly controlled entities	5,066			5,066
Interests in infrastructure project investments	762			762
Investments in securities	2,390	(182)	*(2)*	2,208
Derivative financial instruments	390			390
Goodwill	243			243
Other non-current assets	10			10
	30,448	6,042		36,490
Current assets				
Inventories	156			156
Interests in infrastructure project investments	171			171
Debtors and prepayments	944			944
Bank balances and deposits	10,900	(5,434)	*(1)*	5,466
	12,171	(5,434)		6,737
Current liabilities				
Bank and other loans	2,955			2,955
Creditors and accruals	846			846
Taxation	114			114
	3,915			3,915
Net current assets	8,256	(5,434)		2,822
Total assets less current liabilities	38,704	608		39,312
Non-current liabilities				
Bank and other loans	4,335			4,335
Derivative financial instruments	384			384
Deferred tax liabilities	366			366
Other non-current liabilities	15			15
	5,100			5,100
Net assets	33,604	608		34,212

Notes:

(1) Adjustment to reflect the acquisition of approximately 22.07% interest in Newco No.1 at the offer price of A$2.00 or A$1.80 of the Fundco Shares.

(2) Reclassification of 1% interest in Newco from available for sale investment to interest in associates.

(3) Adjustment to reflect the Group's attributable share of profit taken by HK Electric on disposal of approximately 22.07% interest in HEI Sub1 to the Group.

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(1) Long Positions in Shares

			Number of Ordinary Shares					
Name of Company	Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	1,912,109,945 *(Note 1)*	1,912,109,945	84.82%
	Kam Hing Lam	Beneficial owner	100,000	–	–	–	100,000	0.004%
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation & beneficiary of trusts	–	–	1,086,770 *(Note 3)*	2,141,698,773 *(Note 2)*	2,142,785,543	50.26%
	Kam Hing Lam	Beneficial owner	60,000	–	–	–	60,000	0.001%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	4,310,875 *(Note 5)*	–	4,310,875	0.10%
	Chow Woo Mo Fong, Susan	Beneficial owner	150,000	–	–	–	150,000	0.003%
	Frank John Sixt	Beneficial owner	50,000	–	–	–	50,000	0.001%
	Lee Pui Ling, Angelina	Beneficial owner	38,500	–	–	–	38,500	0.0009%
	George Colin Magnus	Beneficial owner, interest of child or spouse & founder & beneficiary of a discretionary trust	40,000	9,900	–	950,100 *(Note 6)*	1,000,000	0.02%

Name of Company	Name of Director	Capacity	Number of Ordinary Shares: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Interest of child or spouse & beneficiary of trusts	–	151,000	–	829,599,612 *(Note 4)*	829,750,612	38.88%
	Lee Pui Ling, Angelina	Beneficial owner	8,800	–	–	–	8,800	0.0004%
Hutchison Harbour Ring Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	5,000,000 *(Note 5)*	–	5,000,000	0.07%
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	Beneficial owner & interest of controlled corporation	4,100,000	–	1,000,000 *(Note 5)*	–	5,100,000	0.75%
	Frank John Sixt	Beneficial owner	1,000,000	–	–	–	1,000,000	0.15%
Hutchison Telecommunications International Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation & beneficiary of trusts	–	–	2,519,250 *(Note 3)*	3,336,874,768 *(Note 7)*	3,339,394,018	70.26%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	1,202,380 *(Note 5)*	–	1,202,380	0.03%
	Chow Woo Mo Fong, Susan	Beneficial owner	250,000	–	–	–	250,000	0.005%
	George Colin Magnus	Beneficial owner & interest of child or spouse	13,201	132	–	–	13,333	0.0003%

(2) Long Positions in Underlying Shares

Name of Company	Name of Director	Capacity	Number of Underlying Shares: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	31,644,803 *(Note 8)*	31,644,803
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	18,613,202 *(Note 9)*	18,613,202
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	20,990,201 *(Note 10)*	20,990,201
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	Beneficial owner & interest of controlled corporation	134,000	–	1,340,001 *(Note 5)*	–	1,474,001 *(Note 11)*
Hutchison Telecommunications International Limited	Frank John Sixt	Beneficial owner	255,000 *(Note 12)*	–	–	–	255,000
Partner Communications Company Ltd.	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	225,000 *(Note 13)*	–	225,000
	George Colin Magnus	Beneficial owner	25,000 *(Note 14)*	–	–	–	25,000

(3) Short Positions in Underlying Shares

Name of Company	Name of Director	Capacity	Number of Underlying Shares: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	31,644,801 *(Note 8(b))*	31,644,801
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	18,613,202 *(Note 9)*	18,613,202
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	20,990,201 *(Note 10)*	20,990,201

(4) Long Positions in Debentures

Name of Company	Name of Director	Capacity	Amount of Debentures: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Whampoa International (01/11) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$12,000,000 7% Notes due 2011 *(Note 3)*	–	US$12,000,000 7% Notes due 2011
Hutchison Whampoa International (03/13) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$21,000,000 6.5% Notes due 2013 *(Note 3)*	–	US$21,000,000 6.5% Notes due 2013
Hutchison Whampoa International (03/33) Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US$6,500,000 6.25% Notes due 2014 *(Note 5)*	–	US$6,500,000 6.25% Notes due 2014
Hutchison Whampoa Finance (05) Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	Euro12,600,000 4.125% Notes due 2015 *(Note 5)*	–	Euro12,600,000 4.125% Notes due 2015

Notes:

1. The 1,912,109,945 shares in the Company comprise 1,906,681,945 shares held by a subsidiary of HWL and 5,428,000 shares held by Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1").

   The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in UT1 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. TUT1 as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT1 related companies") hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of HWL.

   The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a director of CKH, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies, the shares of HWL held by the subsidiaries of CKH and the shares of the Company held by each of the subsidiary of HWL and TUT1 as trustee of UT1 under the SFO as a director of the Company. Although Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco and is a discretionary beneficiary of each of DT1 and DT2, he is not a director of CKH and has no duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies under the SFO.

2. The 2,141,698,773 shares in HWL comprise:

   (a) 2,130,202,773 shares held by certain subsidiaries of CKH. By virtue of the interests in shares of CKH in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH as described in Note 1 above and as a director of the Company, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL under the SFO; and

   (b) 11,496,000 shares held by Li Ka-Shing Castle Trustee Company Limited ("TUT3") as trustee of The Li Ka-Shing Castle Trust ("UT3"). The discretionary beneficiaries of each of the two discretionary trusts ("DT3" and "DT4") are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Each of the trustees of DT3 and DT4 holds units in UT3 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust.

   The entire issued share capital of TUT3 and the trustees of DT3 and DT4 are owned by Li Ka-Shing Castle Holdings Limited ("Castle Holdco"). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Castle Holdco. TUT3 is only interested in the shares of HWL by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of HWL independently without any reference to Castle Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Castle Holdco as aforesaid.

   By virtue of the above and as a discretionary beneficiary of each of DT3 and DT4 and as a director of HWL, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL held by TUT3 as trustee of UT3 under the SFO as a director of the Company. Although Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Castle Holdco and is a discretionary beneficiary of each of DT3 and DT4, he is not a director of the Company and has no duty of disclosure in relation to the shares of HWL held by TUT3 as trustee of UT3 under the SFO.

3. Such interests are held by certain companies of which Mr. Li Tzar Kuoi, Victor is interested in the entire issued share capital.

4. By virtue of being a director of the Company and his deemed interest in those shares of the Company as described in Note 1 above, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to those shares of HEH held through the Company under the SFO.

5. These interests are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.

6. Such interests are indirectly held by a trust of which Mr. George Colin Magnus is the settlor and a discretionary beneficiary.

7. Such shares of Hutchison Telecommunications International Limited ("HTIL") comprise:

   (a) 3,336,721,488 ordinary shares held by certain subsidiaries of CKH and HWL. By virtue of the interests in the shares of CKH and HWL in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH and HWL as described in Notes 1 and 2 above and as a director of the Company, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HTIL under the SFO; and

   (b) 153,280 ordinary shares held by TUT3 as trustee of UT3. By virtue of being a discretionary beneficiary of each of DT3 and DT4 for the purpose of SFO and his interest in TUT3 as trustee of UT3 as described in Note 2 above, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares under the SFO.

8. Such underlying shares of the Company are held by an indirect wholly-owned subsidiary of CKH comprising:

   (a) 2 underlying shares by virtue of the HK$300,000,000 capital guaranteed notes due 2009; and

   (b) 31,644,801 underlying shares by virtue of the HK Dollar equity-linked notes due 2007 issued under HK$10,000,000,000 retail note issuance programme.

   By virtue of the interests in the shares of CKH taken to have by Mr. Li Tzar Kuoi, Victor under the SFO as described in Note 1 above and as a director of the Company, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said interest and short position in the underlying shares of the Company under the SFO.

9. Such underlying shares of HWL are held by an indirect wholly-owned subsidiary of CKH comprising:

   (a) 10,463,201 underlying shares by virtue of the HK Dollar equity-linked notes due 2007 issued under HK$10,000,000,000 retail note issuance programme; and

   (b) 8,150,001 underlying shares by virtue of the HK Dollar equity-linked notes due 2008 issued under HK$10,000,000,000 retail note issuance programme.

   By virtue of the interests in the shares of CKH taken to have by Mr. Li Tzar Kuoi, Victor under the SFO as described in Note 1 above and as a director of the Company, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said interest and short position in the underlying shares of HWL under the SFO.

10. Such underlying shares of HEH are held by an indirect wholly-owned subsidiary of CKH by virtue of the HK Dollar equity-linked notes due 2007 issued under HK$10,000,000,000 retail note issuance programme.

    By virtue of the interests in the shares of CKH taken to have by Mr. Li Tzar Kuoi, Victor under the SFO as described in Note 1 above and as a director of the Company, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said interest and short position in the underlying shares of HEH under the SFO.

11. Such underlying shares in Hutchison Telecommunications (Australia) Limited are derived from the listed and physically settled 5.5% unsecured convertible notes due 2007 issued by Hutchison Telecommunications (Australia) Limited.

12. Such underlying shares are derived from the 17,000 American Depositary Shares (each representing 15 ordinary shares) in HTIL beneficially owned by Mr. Frank John Sixt.

13. Such underlying shares are derived from the 225,000 American Depositary Shares (each representing 1 ordinary share) in Partner Communications Company Ltd. ("Partner Communications") held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.

14. Such underlying shares are derived from the 25,000 American Depositary Shares (each representing 1 ordinary share) in Partner Communications beneficially owned by Mr. George Colin Magnus.

Mr. Li Tzar Kuoi, Victor, by virtue of being a director of the Company and his interests in the share capital of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1 above, is deemed to be interested in those securities of subsidiaries and associated companies of the Company held through the Company and in those securities of the subsidiaries of HWL held through HWL under the SFO.

Save as disclosed above, none of the directors or chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at the Latest Practicable Date, Shareholders (other than directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(1) Long Positions of Substantial Shareholders in the Shares and Underlying Shares of the Company

Name	Capacity	Number of Ordinary Shares	Number of Underlying Shares	Total	Approximate % of Shareholding
Hutchison Infrastructure Holdings Limited	Beneficial owner	1,906,681,945 *(Note i)*	–	1,906,681,945	84.58%
Hutchison International Limited	Interest of controlled corporation	1,906,681,945 *(Note ii)*	–	1,906,681,945	84.58%
Hutchison Whampoa Limited	Interest of controlled corporations	1,906,681,945 *(Note ii)*	–	1,906,681,945	84.58%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,906,681,945 *(Note iii)*	31,644,803 *(Note vi)*	1,938,326,748	85.98%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	1,912,109,945 *(Note iv)*	31,644,803 *(Note vi)*	1,943,754,748	86.22%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	1,912,109,945 *(Note v)*	31,644,803 *(Note vi)*	1,943,754,748	86.22%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	1,912,109,945 *(Note v)*	31,644,803 *(Note vi)*	1,943,754,748	86.22%
Li Ka-shing	Founder of discretionary trusts	1,912,109,945 *(Note v)*	31,644,803 *(Note vi)*	1,943,754,748	86.22%

(2) Short Positions of Substantial Shareholders in the Underlying Shares of the Company

Name	Capacity	Number of Underlying Shares
Cheung Kong (Holdings) Limited	Interest of controlled corporation	31,644,801 *(Note vi(b))*
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	31,644,801 *(Note vi(b))*
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	31,644,801 *(Note vi(b))*
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	31,644,801 *(Note vi(b))*
Li Ka-shing	Founder of discretionary trusts	31,644,801 *(Note vi(b))*

Notes:

i 1,906,681,945 shares of the Company are held by Hutchison Infrastructure Holdings Limited, a subsidiary of HWL. Its interests are duplicated in the interests of HWL in the Company described in Note ii below.

ii HWL is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note i above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited.

iii CKH is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note ii above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.

iv TUT1 as trustee of UT1 is deemed to be interested in those shares of the Company described in Note iii above as TUT1 as trustee of UT1 and TUT1 related companies hold more than one-third of the issued share capital of CKH and TUT1 as trustee of UT1 holds 5,428,000 shares of the Company.

v By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each DT1 and DT2 for the purpose of the SFO, TDT1 as trustee of DT1 and TDT2 as trustee of DT2 is deemed to be interested in the same block of shares TUT1 as trustee of UT1 is deemed to be interested in as referred to in Note iv above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of DT2. More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Unity Holdco. Mr. Li Ka-shing owns one-third of the issued share capital of Unity Holdco.

vi Such underlying shares of the Company are held by an indirect wholly-owned subsidiary of CKH comprising:

(a) 2 underlying shares by virtue of the HK$300,000,000 capital guaranteed notes due 2009; and

(b) 31,644,801 underlying shares by virtue of the HK Dollar equity-linked notes due 2007 issued under HK$10,000,000,000 retail note issuance programme.

By virtue of the SFO, each of Mr. Li Ka-shing, TDT1, TDT2 and TUT1 is deemed to be interested in the same block of interest and short position in the 31,644,803 underlying shares and 31,644,801 underlying shares of the Company respectively held by CKH as described in Note v above.

So far as is known to any director or chief executive of the Company, as at the Latest Practicable Date, the following shareholders were interested in 10% or more of the equity interests of the following subsidiaries of the Company:

Name of Subsidiary	Name of Shareholder	No. and Class of Shares held	% of Shareholding Directly	Indirectly
China Cement Company (International) Limited	Bell Investment Limited	300,000 ordinary	30%	–
Shenzhen Ready Mixed Concrete Co., Ltd. (深圳現成混凝土有限公司)	Shenzhen Construction Engineering Co. Ltd. (深圳市建築工程有限公司)	9,000,000 ordinary	45%	–
	Bell Investment Limited	N/A	–	16.5%
Guangdong GITIC Green Island Cement Co. Limited (廣信青洲水泥有限公司)	Bell Investment Limited	N/A	–	28.5%
Green Harbour Pacific Company Limited	China Harbour Engineering Company (Group) (中國港灣建設(集團)總公司)	20,000 ordinary	20%	–
	Wai Hing Quarries (China) Limited	20,000 ordinary	20%	–
Oceanblue Holdings Limited	Wai Kee (Zens) Holdings Limited	2 ordinary	40%	–
Hornby Pacific Limited (in solvent winding up)	Coulomb Technology Limited	50,000 ordinary	38%	–
SurfIT Systems Limited (in members' voluntary liquidation)	Coulomb Technology Limited	N/A	–	24.32%

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

4. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by the Group within the two years immediately preceding the date of this circular and are, or may be material:

(a) the option deed dated 31st August, 2004, in respect of the acquisition of the entire issued share capital of Blackwater F Limited (now known as Northern Gas Networks Limited), by Gas Network Limited (now known as Northern Gas Networks Holdings Limited) for a total cash consideration of £1,393,700,000 (approximately HK$19,511,800,000) less intra-group indebtedness of approximately £870,000,000 (approximately HK$12,180,000,000) as per the announcement of the Company dated 31st August, 2004;

(b) the agreement dated 10th September, 2004 in respect of the Company's disposal of the entire issued share capital of Alpha Central Profits Limited for an aggregate consideration of HK$1 as per the announcement of the Company dated 10th September, 2004; and

(c) the agreement dated 12th November, 2004 in respect of the disposal of 9.9% of the then entire issued share capital of Gas Network Limited (now known as Northern Gas Networks Holdings Limited) by Able Venture Profits Limited, an indirect wholly-owned subsidiary of the Company, for an aggregate consideration of £4,590,000 (approximately HK$64,260,000) as per the announcement of the Company dated 12th November, 2004.

5. MATERIAL LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND COMPETING BUSINESS

None of the Directors or their associates had any direct or indirect interest in any assets which have been, since 31st December, 2004 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors or their associates was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the date of this circular which was significant in relation to the business of the Group.

As at the Latest Practicable Date, the interests of Directors or their respective associates (as that term is defined in the Listing Rules) in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the "Competing Business") as required to be disclosed pursuant to the Listing Rules were as follows:

(a) Core business activities of the Group

(1) Development, investment and operation of energy infrastructure;

(2) Development, investment and operation of transportation infrastructure;

(3) Development, investment and operation of water infrastructure;

(4) Development, investment and operation and commercialisation of infrastructure related business;

(5) Investment holding and project management;

(6) Securities investment; and

(7) Information technology, e-commerce and new technology.

(b) Interests in Competing Business

Name of Director	Name of Company	Nature of Interest	Competing Business *(Note)*
Li Tzar Kuoi, Victor	Cheung Kong (Holdings) Limited	Managing Director and Deputy Chairman	(5), (6) & (7)
	Hutchison Whampoa Limited	Deputy Chairman	(5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	Chairman	(6) & (7)
Kam Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Executive Director	(5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	President and Chief Executive Officer	(6) & (7)
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Deputy Managing Director	(5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	Senior Vice President and Chief Investment Officer	(6) & (7)
	TOM Group Limited	Non-executive Director	(5), (6) & (7)
	CATIC International Holdings Limited	Non-executive Director	(5) & (6)
	Excel Technology International Holdings Limited	Non-executive Director	(5), (6) & (7)
	Shougang Concord International Enterprises Company Limited	Non-executive Director	(1), (5) & (6)
	Hanny Holdings Limited	Non-executive Director (retired on 1st September, 2005)	(5), (6) & (7)
Fok Kin Ning, Canning	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Group Managing Director	(5), (6) & (7)
	Hongkong Electric Holdings Limited	Chairman	(1), (5), (6) & (7)
	Hutchison Telecommunications International Limited	Chairman	(7)
	Hutchison Harbour Ring Limited	Chairman	(7)
	Hanny Holdings Limited	Non-executive Director (retired on 1st September, 2005)	(5), (6) & (7)
Chow Woo Mo Fong, Susan	Hutchison Whampoa Limited	Deputy Group Managing Director	(5), (6) & (7)
	Hongkong Electric Holdings Limited	Non-executive Director	(1), (5), (6) & (7)
	TOM Group Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Telecommunications International Limited	Non-executive Director	(7)
	Hutchison Harbour Ring Limited	Executive Director	(7)
Frank John Sixt	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Group Finance Director	(5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	TOM Group Limited	Chairman	(5), (6) & (7)
	Hutchison Telecommunications International Limited	Non-executive Director	(7)
Tso Kai Sum	Hongkong Electric Holdings Limited	Group Managing Director	(1), (5), (6) & (7)
George Colin Magnus	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Non-executive Director	(5), (6) & (7)
	Hongkong Electric Holdings Limited	Non-executive Director	(1), (5), (6) & (7)

Note: Such businesses may be made through subsidiaries, associated companies or by way of other forms of investments. The Note references in the table above refer to the seven core business activities referred to in part (a) above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

8. MATERIAL CHANGES IN THE FINANCIAL OR TRADING POSITION

As at the Latest Practicable Date, the Directors were not aware of any circumstance or events that may give rise to a material change in the financial or trading position or prospect of the Group since 31st December, 2004 (being the date to which the latest published audited accounts of the Company were made up).

9. EXPERT AND CONSENT

(a) The following is the qualification of the expert who has given an opinion or advice, which is contained or referred to in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

(b) Deloitte Touche Tohmatsu does not have any shareholding, directly or indirectly, in any member of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter or references to its name in the form and context in which they are included.

(d) Deloitte Touche Tohmatsu does not have any direct or indirect interest in any assets which have been, since 31st December, 2004 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

(a) The company secretary of the Company is Ms. Eirene Yeung. She holds a Master's degree in Business Administration and a Master's degree in Finance, and is a solicitor of the High Court of Hong Kong and of the Supreme Court of Judicature in England and Wales.

(b) The qualified accountant of the Company is Mr. Chan Loi Shun, Dominic. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

(c) The principal share registrars and transfer office of the Company is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

(d) The branch share registrars and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The registered office of the Company is at Clarendon House, Church Street, Hamilton, HM11, Bermuda.

(f) The principal place of business of the Company is at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

(g) All references to times in this circular refer to Hong Kong times.

(h) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

11. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

A resolution put to a vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by the Shareholder.

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Company's Bye-laws, at any general meeting on a show of hands every Shareholder present in person or by proxy or being a corporation, is present by a duly authorised representative, shall have one vote and on a poll every Shareholder present in person or by proxy or, in the case of Shareholder being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong up to and including 13th December, 2005.

(a) the memorandum of association and Bye-laws of the Company;

(b) the annual reports and accounts of the Company for each of the three years ended 31st December, 2002, 2003 and 2004;

(c) the accountants' report on ETSA and CHEDHA set out in Appendix II;

(d) the reports from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Remaining Group and the Enlarged Group dated 25th November, 2005 as set out in Appendices III and IV;

(e) statement of adjustment for CHEDHA prepared by Deloitte Touche Tohmatsu;

(f) a copy of each circular published by the Company pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since the date of the last audited accounts of the Company;

(g) the material contracts referred to in the section headed "Material Contracts" in this Appendix; and

(h) the written consent referred to under the section headed "Expert and Consent" in this Appendix.

CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

NOTICE IS HEREBY GIVEN that a Special General Meeting of the Company will be held at the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Tuesday, 13th December, 2005 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following Resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

(1) "**THAT** the Disposals (as defined in the circular of the Company dated 25th November, 2005 (the "**Circular**")) on the terms and subject to the conditions of the Implementation Deed (as defined in the Circular), a copy of which has been produced to this meeting marked "A" and signed by the Chairman of this meeting for the purpose of identification, be approved and that any two directors of the Company or any two persons as authorised by the board of directors of the Company from time to time be authorised to execute all such documents and if necessary apply the common seal of the Company thereto and to do all such acts, matters and things as they may in their discretion consider necessary or desirable on behalf of the Company for the purpose of implementing, and otherwise in connection with, the Disposals or the implementation, exercise or enforcement of any of the rights, and performance of any of the obligations, under the Implementation Deed including doing all such acts and executing all such documents as may be necessary in connection therewith and agreeing any modifications, amendments, waivers, variations or extensions of the Implementation Deed as they may deem fit."

(2) "**THAT**, subject to the approval by the HEH Independent Shareholders at the HEH EGM (as such terms are defined in the circular of the Company dated 25th November, 2005 (the "**Circular**")) of the Acquisition Agreement (as defined in the Circular), the Acquisitions (as defined in the Circular) on the terms and subject to the conditions of the Acquisition Agreement, a copy of which has been produced to this meeting marked "B" and signed by the Chairman of this meeting for the purpose of identification, be approved and that any two directors of the Company or any two persons as authorised by the board of directors of the Company from time to time be authorised to execute all such documents and if necessary apply the common seal of the Company thereto and to do all such acts, matters and things as they may in their discretion consider necessary or desirable on behalf of the Company for the purpose of implementing, and otherwise in connection with, the Acquisitions or the implementation, exercise or enforcement of any of the rights, and performance of any of the obligations, under the Acquisition Agreement including doing all such acts and executing all such

documents as may be necessary in connection therewith and agreeing any modifications, amendments, waivers, variations or extensions of the Acquisition Agreement as they may deem fit."

By Order of the Board
Eirene Yeung
Company Secretary

Hong Kong, 25th November, 2005

Notes:

1. At the Special General Meeting, the Chairman of the meeting will exercise his power under the Company's Bye-law 66 to put each of the above resolutions to the vote by way of a poll.

2. A form of proxy for use at the meeting is enclosed.

3. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company.

4. A member who is the holder of two or more shares may appoint more than one proxy to attend and vote in his stead.

5. To be valid, the proxy form, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the meeting (or any adjournment thereof) should they so wish. If a member who has lodged a form of proxy attends the meeting, his form of proxy will be deemed to have been revoked.

6. If there are joint registered holders of a share in the Company, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the joint holders so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

7. The register of members of the Company will be closed from Thursday, 8th December, 2005 to Tuesday, 13th December, 2005, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's Branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 7th December, 2005.

This circular (in both English and Chinese versions) ("Circular") has been posted on the Company's website at http://www.cki.com.hk.

Shareholders may at any time choose to change their choice of language of the Company's corporate communication to be despatched in the future ("Corporate Communication") by notice in writing to the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. Corporate Communication includes any document to be given or issued by or on behalf of the Company for Shareholders information or action, including but not limited to, annual reports, summary financial reports (where applicable), interim reports, summary interim reports (where applicable), notices of meetings, listing documents, circulars and proxy forms.

Shareholders who have chosen to receive Corporate Communication in either English or Chinese will receive both English and Chinese versions of this Circular since both languages are bound together into one booklet.