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 stockbroker or other registered dealer in securities, 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 the transferee or to the bank, stockbroker 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 ACQUISITION
AND
VERY SUBSTANTIAL DISPOSALS

A letter from the Board is set out on pages 6 to 27 of this circular.

A notice dated 26th November, 2004 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, 14th December, 2004 at 10:30 a.m. is set out on pages 155 to 157 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.

26th November, 2004

CONTENTS

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

"9.9% Buyers"	the buyers of the 9.9% Sale Shares, being Challenger Life (as to the portion of the 9.9% Sale Shares representing 5.8% of the issued share capital of Gas Network) and DeAM (as to the portion of the 9.9% Sale Shares representing 4.1% of the issued share capital of Gas Network), both of whom are independent third parties unconnected to the Company and are not connected persons of the Company
"9.9% Disposal"	the sale and purchase of the 9.9% Sale Shares on the terms of and subject to the conditions set out in the 9.9% Disposal Agreement
"9.9% Disposal Agreement"	the agreement dated 12th November, 2004 between the Company, Able Venture and the 9.9% Buyers relating to the sale and purchase of the 9.9% Sale Shares and the transaction documents to be entered into under such agreement
"9.9% Disposal Conditions"	the conditions to completion of the 9.9% Disposal Agreement
"9.9% Sale Shares"	99 ordinary shares of £1 each in the share capital of Gas Network, constituting 9.9% of the entire issued share capital of Gas Network as at the date of the 9.9% Disposal Agreement
"Able Venture"	Able Venture Profits Limited, a company incorporated in the British Virgin Islands with limited liability and which is an indirect wholly-owned subsidiary of the Company
"Alpha"	Alpha Central Profits Limited, a company incorporated in the British Virgin Islands with limited liability and which, until completion of the Alpha Disposal Agreement, is a wholly-owned subsidiary of the Company
"Alpha Disposal"	the sale and purchase of the Alpha Sale Share on the terms of and subject to the conditions set out in the Alpha Disposal Agreement
"Alpha Disposal Agreement"	the agreement dated 10th September, 2004 between HEH and the Company relating to the sale and purchase of the Alpha Sale Share and the transaction documents to be entered into under such agreement
"Alpha Disposal Announcement"	the announcement of the Company, HEH and Hutchison Whampoa Limited published on 13th September, 2004 relating to the Alpha Disposal

"Alpha Disposal Conditions"	the conditions to completion of the Alpha Disposal Agreement
"Alpha Sale Share"	one ordinary share of US$1 in the share capital of Alpha, being the entire issued share capital of Alpha as at the date of the Alpha Disposal Agreement
"Amended and Restated Gas Network Shareholders Agreement"	the amended and restated shareholders agreement to be entered into between the Company, Alpha, Able Venture, Goldia Resources, the Foundation, UUO, UUC, HEH, the 9.9% Buyers and Deutsche Asset Management (Australia) Limited (to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Deutsche Asset Management (Australia) Limited, and its ultimate beneficial owner, are: (i) third parties independent of the Company and connected persons of the Company; and (ii) not connected persons of the Company)
"Authority"	the Gas and Electricity Markets Authority for the United Kingdom
"Bank Letters"	letters entered into between Gas Network, among others, and the banks providing financing to Gas Network
"Bank Undertaking Letter"	a letter relating to the financing facilities for the business to be acquired by Blackwater pursuant to the Hive Down Agreement to be delivered by the 9.9% Buyers to the Company on completion of the 9.9% Disposal Agreement
"Blackwater"	Blackwater F Limited (registered in England with registered number 5167070)
"Blackwater Acquisition"	the acquisition of the Blackwater Shares on the terms of and subject to the conditions set out in the Blackwater Acquisition Agreement
"Blackwater Acquisition Agreement"	the agreement dated 31st August, 2004 between Gas Network, Transco and Blackwater relating to the sale and purchase of the Blackwater Shares and the transaction documents to be entered into under such agreement
"Blackwater Acquisition Announcement"	the announcement of the Company published on 1st September, 2004 relating to the Blackwater Acquisition Agreement
"Blackwater Acquisition Conditions"	the conditions to completion of the Blackwater Acquisition Agreement
"Blackwater Shares"	100 ordinary shares of £1 each in the share capital of Blackwater, being the entire issued share capital of Blackwater as at the date of the Blackwater Acquisition Agreement
"Board"	the board of Directors

"Challenger Life"	Challenger Life No.2 Limited, a company incorporated in Australia
"Circular Despatch Announcement"	the announcement of the Company, Hutchison Whampoa Limited and HEH dated 21st September, 2004 relating to the extension of the dates for, among other things, the despatch of this circular
"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)
"Company Shareholders"	shareholders of the Company
"connected person"	has the meaning ascribed to it in the Listing Rules
"Costs Undertaking Letter"	a letter of undertaking relating to costs incurred by Gas Network and its shareholders in relation to the bid for Blackwater from each of the 9.9% Buyers to the Company
"DeAM"	SAS Trustee Corporation, a client of Deutsche Asset Management (Australia) Limited
"Directors"	the directors of the Company
"Enlarged Group"	the Group and Blackwater
"the Foundation"	Li Ka Shing (Overseas) Foundation, a company limited by guarantee incorporated in the Cayman Islands for charitable purposes
"Gas Network"	Gas Network Limited (registered in England with registered number 5213525), currently a non wholly-owned subsidiary of the Company (the Company's stated intention is to reduce its shareholding in Gas Network to below 50% prior to completion of the Blackwater Acquisition and this will be achieved upon completion of the Alpha Disposal. Accordingly, for the purposes of preparing the pro forma financial information set out in Appendices III to VI (inclusive) Gas Network is treated as an associate of the Company)
"Gas Network Shareholders Agreement"	the shareholders' agreement dated 31st August, 2004 between the Company, Alpha, Able Venture, Goldia Resources, the Foundation, UUO and UUC relating to their interests in, and management of, Gas Network as shall be replaced and superseded by the Amended and Restated Gas Network Shareholders Agreement

"Goldia Resources"	Goldia Resources Limited, a company incorporated under the laws of the British Virgin Islands, a wholly-owned subsidiary of the Foundation
"Group"	the Company and its subsidiaries
"GS(M)R"	the Gas Safety (Management) Regulations 1996 of the United Kingdom
"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 EGM"	an extraordinary general meeting of HEH to be held to approve the Alpha Disposal and related transactions and the matters contemplated under the Alpha Disposal Agreement and the Gas Network Shareholders Agreement
"HEH Independent Board Committee"	an independent committee of the board of directors of HEH to be formed to advise the HEH Independent Shareholders in respect of the Alpha Disposal
"HEH Independent Shareholders"	HEH Shareholders other than the Company and its associates (as that term is defined in the Listing Rules)
"HEH Shareholders"	shareholders of HEH
"Hive Down Agreement"	the agreement dated 31st August, 2004 relating to the acquisition by Blackwater of the North of England Gas Distribution Network business of Transco
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"HSE"	the Health and Safety Executive of the United Kingdom
"Implementation Agreement"	the commitment offer letter between Gas Network and the banks providing financing to Gas Network
"Latest Practicable Date"	19th November, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"NGT"	National Grid Transco plc, whose shares are listed on the London Stock Exchange and the New York Stock Exchange
"Option Exercise Notice"	the call option exercise notice or put option exercise notice, as the case may be, to be given in accordance with the terms of the Blackwater Acquisition Agreement

"PRC"	The People's Republic of China
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held to approve, inter alia, the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal on the terms of and subject to the conditions set out in the Blackwater Acquisition Agreement, the Alpha Disposal Agreement and the 9.9% Disposal Agreement respectively notice of which is set out at the end of this circular
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Transco"	Transco plc (registered in England with registered number 2006000), a wholly-owned subsidiary of NGT
"Transco Undertaking Letter"	a letter of undertaking relating to the obligations and costs associated with termination of the Blackwater Acquisition Agreement from each of the 9.9% Buyers to the Company to be delivered on completion of the 9.9% Disposal Agreement
"United Utilities"	United Utilities plc, whose shares are listed on the London Stock Exchange
"UUC"	United Utilities Contract Solutions Limited, a company incorporated under the laws of England and Wales, a wholly-owned subsidiary of United Utilities
"UUO"	United Utilities Operations Limited, a company incorporated under the laws of England and Wales, a wholly-owned subsidiary of United Utilities
"Warranties"	the Warranties given by Able Venture to the 9.9% Buyers under the 9.9% Disposal Agreement relating to, inter alia, due incorporation of Gas Network, certain other matters in relation to Gas Network and the validity of the 9.9% Sale Shares
"£"	pounds sterling, the lawful currency of the United Kingdom
"A$"	Australian dollars, the lawful currency of Australia
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America

Note: The figures in £ are converted into HK$ at the rate of £1 = HK$14 throughout this circular for indication purposes only.

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*

George Colin MAGNUS *Deputy Chairman*
FOK Kin Ning, Canning *Deputy Chairman*
IP Tak Chuen, Edmond *Deputy Chairman*

KWAN Bing Sing, Eric *Deputy Managing Director*

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

Non-executive Directors
CHEONG Ying Chew, Henry*
LEE Pui Ling, Angelina
Barrie COOK
KWOK Eva Lee*
SNG Sow-Mei (PHOON Sui Moy, alias POON Sow Mei)*

* *Independent Non-executive Directors*

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

26th November, 2004

Dear Shareholder(s),

VERY SUBSTANTIAL ACQUISITION
AND
VERY SUBSTANTIAL DISPOSALS

INTRODUCTION

On 1st September, 2004, the Company announced that its non wholly-owned subsidiary, Gas Network, had entered into a conditional agreement with Transco and Blackwater, pursuant to which Gas Network has an option to require Transco to sell to it, and Transco has an option to require Gas Network to purchase from it, the Blackwater Shares. Further details of the

Blackwater Acquisition, including the conditions to which completion of the Blackwater Acquisition Agreement is subject, are set out in the section headed "Blackwater Acquisition Agreement" in Part A of this letter.

Blackwater is a newly formed wholly-owned subsidiary of Transco that will, at completion of the Hive Down Agreement, own the North of England Gas Distribution Network business in the United Kingdom presently carried on by Transco.

On 13th September, 2004, the Company further announced that it had entered into a conditional agreement with HEH, pursuant to which the Company agreed to procure the sale, and HEH agreed to purchase, or procure the purchase by its wholly-owned subsidiary, of the Alpha Sale Share. Alpha is a newly formed indirect wholly-owned subsidiary of the Company that owns 19.9% of the entire issued share capital of Gas Network. Further details of the Alpha Disposal including the conditions to which completion of the Alpha Disposal Agreement is subject are set out in the section headed "Alpha Disposal Agreement" in Part B of this letter.

On 15th November, 2004, the Company further announced that it and Able Venture, an indirect wholly-owned subsidiary of the Company, had entered into a conditional agreement with the 9.9% Buyers, pursuant to which Able Venture agreed to sell, and the 9.9% Buyers agreed to purchase between them, the 9.9% Sale Shares, constituting 9.9% of the issued share capital of Gas Network. Further details of the 9.9% Disposal including the conditions to which completion of the 9.9% Disposal Agreement is subject are set out in the section headed "9.9% Disposal Agreement" in Part C of this letter.

As stated in the Circular Despatch Announcement, under Rule 14.38 of the Listing Rules, a circular in relation to the Blackwater Acquisition was required to be sent to Company Shareholders within 21 days of the date of publication of the Blackwater Acquisition Announcement, being in this case on or before 22nd September, 2004; and a circular in relation to the Alpha Disposal was required to be sent to Company Shareholders within 21 days of the date of publication of the Alpha Disposal Announcement, being in this case on or before 4th October, 2004. Given the fact that the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal are closely linked and given the large amount of common information that would be included in their respective circulars, the Directors have decided to cover each of the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal in this circular. Accordingly, an application has been made by the Company to the Stock Exchange for, and the Company has been granted by the Stock Exchange, a waiver from strict compliance with Rule 14.38 of the Listing Rules by extending the despatch date of this circular, covering both the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal, to no later than 3rd December, 2004.

The purpose of this circular is to provide you with further information in relation to the proposed transactions outlined above and to seek your approval of the resolutions set out in the notice of the SGM at the end of this circular.

PART A

BLACKWATER ACQUISITION AGREEMENT

Date
31st August, 2004

Parties
Gas Network
Transco
Blackwater

Conditions precedent

Completion of the Backwater Acquisition Agreement is conditional upon:

(i) completion of the Hive Down Agreement in accordance with its terms;

(ii) HSE having confirmed in writing its acceptance of the amended safety cases of each of Transco and Blackwater in accordance with GS(M)R;

(iii) the Authority having given its consent to the sale of the Blackwater Shares to Gas Network under Blackwater's gas transporter licence;

(iv) the approval of the transaction contemplated by the Blackwater Acquisition Agreement by the Company Shareholders or, if permitted under the Listing Rules, obtaining a written consent or approval of the transaction contemplated by the Blackwater Acquisition Agreement by a Company Shareholder or group of Company Shareholders together holding over 50% of the issued shares of the Company; and

(v) notification, if any, of the Blackwater Acquisition to the European Commission under Council Regulation (EC) 139/2004 concerning control of concentrations between undertakings being dealt with by the European Commission in accordance with the Blackwater Acquisition Agreement.

None of the Blackwater Acquisition Conditions may be waived save with the express written agreement of both Transco and Gas Network. As at the Latest Practicable Date none of the Blackwater Acquisition Conditions had been satisfied.

Prior to completion of the Blackwater Acquisition Agreement, Transco may terminate the transaction if: (a) the Authority indicates that it will require Transco to place its retained gas distribution business into separate legal entities; or (b) the Authority decides that any income received by Transco in respect of services to be provided to Blackwater is not permissible revenue under the terms of Transco's gas transporter licence; or (c) there is a change in applicable pensions legislation in the United Kingdom which has the effect of requiring an employer to make a payment on ceasing to participate in an occupational pension scheme; or (d) there is a reasonable likelihood that Transco will be required to make any payment on the cessation of the participation of the employees of Blackwater in Transco's occupational pension scheme in respect of the period prior to the hive down of the North of England Gas Distribution Network business to Blackwater; or (e) Transco's occupational pension scheme is terminated between the date of the hive down of the North of England Gas Distribution Network business to Blackwater and the date of completion of the Blackwater Acquisition Agreement. If Transco exercises its right to terminate the transaction on the basis of (a), (b), (c), (d) or (e) above, it shall pay to Gas Network a fee of £13,980,000 (HK$195,720,000). This fee will also be payable by Transco to Gas Network if the Blackwater Acquisition Agreement is terminated as a result of Transco failing to use all reasonable endeavours to procure the satisfaction of the Blackwater Acquisition Conditions referred to in paragraphs (i), (ii) and (iii) above.

Gas Network will be obliged to pay to Transco a break fee of £13,980,000 (HK$195,720,000) if: (a) Gas Network fails to pay the consideration payable for the Blackwater Shares or procure the repayment by Blackwater of the outstanding intra-group indebtedness at completion of the Blackwater Acquisition Agreement; or (b) the Blackwater Acquisition Agreement is terminated as a result of Gas Network failing to use all reasonable endeavours to procure the satisfaction of the Blackwater Acquisition Conditions referred to in paragraphs (ii), (iii), (iv) and (v) above; or (c) the Blackwater Acquisition Condition referred to in paragraph (iii) above is not satisfied as a result of Gas Network being the proposed owner of the North of England Gas Distribution Network business or as a result of the proposed financing structure adopted by Gas Network; or (d) the Blackwater Acquisition Condition referred to in paragraph (iv) is not satisfied. If a break fee becomes payable by Gas Network as a result of the Blackwater Acquisition Condition set out in paragraph (iv) above not being satisfied, the Company agrees to pay the proportion of such fee which would otherwise be attributable to the Foundation and United Utilities.

In addition, if prior to completion of the Blackwater Acquisition Agreement, a fundamental adverse change under the terms of the Blackwater Acquisition Agreement occurs which Transco fails to remedy Gas Network shall be entitled to terminate the transaction. No break fee will be payable by Transco or Gas Network in such circumstances.

Completion

Subject to the fulfilment of the Blackwater Acquisition Conditions and to the termination rights referred to above, completion of the Blackwater Acquisition Agreement shall take place on the first day of the month following service of the first (in time) Option Exercise Notice to be served or at such other time as Transco and Gas Network shall agree.

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

CONSIDERATION

The consideration for the Blackwater Shares, which will be payable by Gas Network to Transco in cash on completion of the Blackwater Acquisition Agreement, is £1,393,700,000 (HK$19,511,800,000) less the aggregate amount of intra-group indebtedness which is expected to be approximately £870,000,000 (HK$12,180,000,000). The net consideration will therefore be approximately £524,000,000 (HK$7,336,000,000). At completion of the Blackwater Acquisition Agreement, Gas Network will procure that Blackwater repays to Transco intra-group indebtedness of an amount of approximately £870,000,000 (HK$12,180,000,000). Blackwater will fund this payment through an external bank facility. The facility is non-recourse to the Company and the other shareholders of Gas Network. The consideration for the Blackwater Shares will be payable in cash and both the cash consideration and the repayment of outstanding indebtedness to Transco will be subject to adjustment following the preparation of completion accounts. The adjustment is not subject to a cap. The consideration will be funded by shareholders equity of Gas Network in proportion to their respective shareholdings in Gas Network and by external bank borrowings.

The Company has undertaken to Transco that it will procure that Alpha and Able Venture will subscribe in cash at par for not less than: (a) if Gas Network is obliged to pay a break fee to Transco as a result of a failure by Gas Network to satisfy the Blackwater Acquisition Condition referred to in paragraph (iv) under the section headed "Conditions precedent" above, 13,980,000 shares of £1 each of Gas Network (equal to 100% of the entire issued share capital of Gas Network); or (b) in all other circumstances, 9,758,040 shares of £1 each of Gas Network (equal to 69.8% of the entire issued share capital of Gas Network) prior to completion of the Blackwater Acquisition Agreement or the date on which any break fee is payable by Gas Network to Transco (whichever is earlier). The reason for this is that if a break fee becomes payable by Gas Network as a result of the Blackwater Acquisition Condition set out in paragraph (iv) under the section headed "Conditions precedent" above not being satisfied, the Company agrees to pay the proportion of such fee which would otherwise be attributable to the Foundation and United Utilities.

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

GENERAL NATURE OF THE TRANSACTION

Summary

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

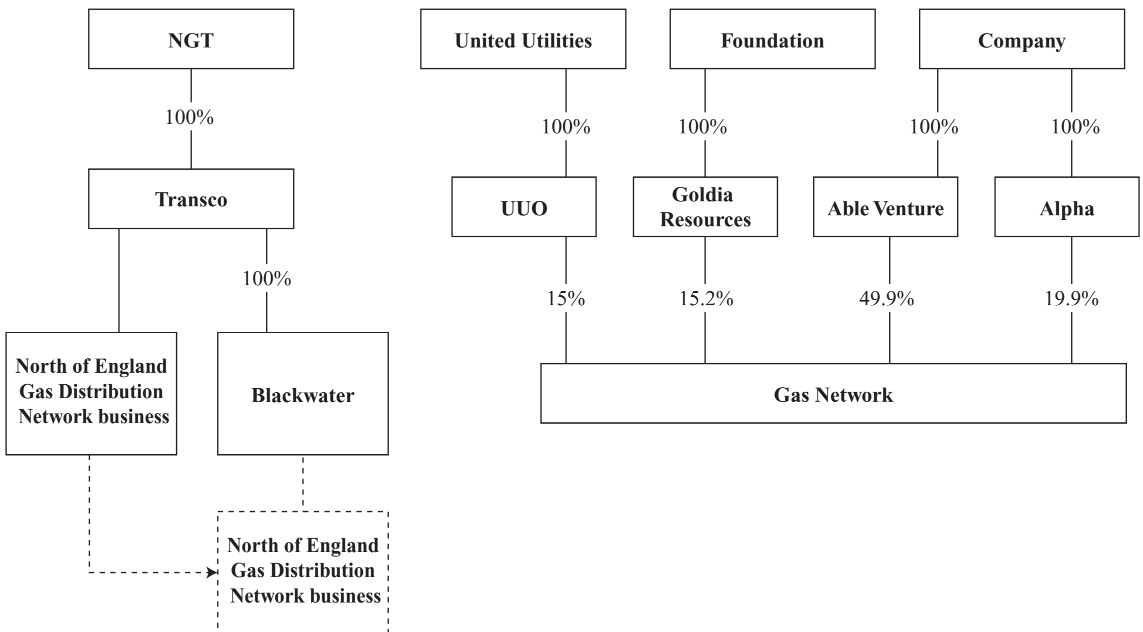
Gas Network is a consortium vehicle, the shareholders of which comprise wholly-owned subsidiaries of the Foundation and United Utilities, and Alpha and Able Venture. As a result of the aggregate shareholding interests of Alpha and Able Venture, Gas Network is a non wholly-owned subsidiary of the Company. Each of Alpha and Able Venture, and the wholly-owned subsidiaries of the Foundation and United Utilities (namely Goldia Resources and UUO respectively) have entered into the Gas Network Shareholders Agreement to govern their relationship as shareholders in Gas Network.

The terms of the Blackwater gas transporter licence have not yet been finalised. However, assuming that the terms of such licence are similar to those set out in the Transco gas transporter licence, such terms may indirectly restrict the persons to whom shares in Blackwater may be transferred. However, such restrictions will not affect the Blackwater Acquisition, the Alpha Disposal or the 9.9% Disposal.

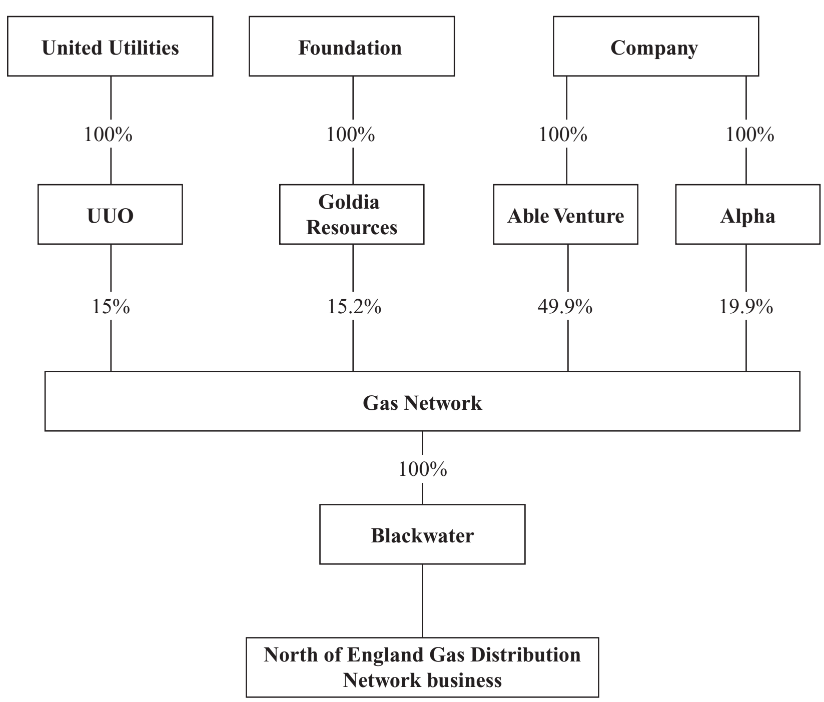
Structure

The following is the relevant shareholding structure of Blackwater before and after the Blackwater Acquisition (but taking no account of the Alpha Disposal or the 9.9% Disposal):

Before the Blackwater Acquisition



After the Blackwater Acquisition



Parts B and C of this letter set out the additional structural changes that would be brought about by the Alpha Disposal and the 9.9% Disposal respectively.

For the financial year ended 31st March, 2004, the operating profit, before taxation and interest (adjusted to accounting principles generally accepted in Hong Kong), of the North of England Gas Distribution Network business was £137,600,000 (HK$1,926,400,000). The corresponding figure for the year ended 31st March, 2003 was £104,800,000 (HK$1,467,200,000).

Following completion of the Blackwater Acquisition Agreement, but taking no account of the Alpha Disposal or the 9.9% Disposal, the Company will have a 69.8% shareholding in Gas Network. The Alpha Disposal and the 9.9% Disposal outlined in parts B and C respectively of this letter are not conditional upon one another but are each conditional upon Company Shareholder approval at the SGM. Accordingly, it is possible that either one or both of the Alpha Disposal and the 9.9% Disposal may not complete. Provided that the Alpha Disposal and the 9.9% Disposal are approved by Company Shareholders and complete, the Company's interest in Gas Network will be reduced to 40%. Furthermore, if the Alpha Disposal does complete, but the 9.9% Disposal does not complete for any reason the Company's interest in Gas Network will reduce to 49.9%. In either such case, the results and assets and liabilities of Blackwater will be incorporated in the Company's financial statements using the equity method of accounting. If both the Alpha Disposal and the 9.9% Disposal do not complete for any reason, the Company's interest in Gas Network will remain at 69.8%. Furthermore, if the 9.9% Disposal does complete, but the Alpha Disposal does not complete for any reason the Company's interest in Gas Network will reduce to 59.9%. Although the Company's interest in Gas Network would be over 50%, in either such a case, the results and assets and liabilities of Blackwater will be incorporated in the Company's financial statements using the equity method of accounting as it is currently (and was at the time the Blackwater Acquisition Agreement was entered into) the Company's intention, prior to completion of the Blackwater Acquisition Agreement, to on-sell part of its interest in Blackwater to less than 50%.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the time of formation of Gas Network: (i) the Foundation and United Utilities were not connected persons of the Company; (ii) the formation of Gas Network, with the Foundation and United Utilities as indirect shareholders, did not constitute a connected transaction (as defined under the Listing Rules) of the Company; and (iii) none of the connected persons of the Company had control over the Foundation nor had any beneficial interest in the Foundation.

INFORMATION ON BLACKWATER AND THE NORTH OF ENGLAND GAS DISTRIBUTION NETWORK

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

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

The regulatory asset value of the North of England Gas Distribution Network business as at 31st March, 2004 was £1,207,000,000 (HK$16,898,000,000).

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

FINANCIAL EFFECTS OF THE BLACKWATER ACQUISITION

Based on the unaudited pro forma financial information of the Enlarged Group for the year ended 31st December, 2003 which has been prepared to illustrate the effect of the Company's proposed acquisition of Blackwater, as shown in Appendix III, the Enlarged Group's unaudited profit attributable to shareholders for the year ended 31st December, 2003 amounted to approximately HK$3,860 million and the unaudited total assets and total liabilities as at that date amounted to approximately HK$42,473 million and HK$13,239 million respectively. The Blackwater Acquisition would result in an increase in the Group's profit before taxation and interest due to the proportionate share of the operating results of Blackwater.

The above pro forma financial information and that set out in Appendix III is for informational purposes only and should not be taken as an indication of the future financial performance of the Enlarged Group. Such information does not take account of the Alpha Disposal or the 9.9% Disposal.

TREND OF THE BUSINESS AND FINANCIAL AND TRADING PROSPECTS

As mentioned in the 2004 interim report, backed by strong financial capacity, the Group will continue to pursue aggressively opportunities to enrich the Group's infrastructure portfolio and develop new growth channels. Projects most attractive to the Group are long term assets with strong, steady cash flow generating capacity. The Group's active pursuit of acquisitions coupled with sustained organic growth will keep the Group on track to a bright future ahead.

REASONS FOR AND BENEFITS OF THE BLACKWATER ACQUISITION

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

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

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

VERY SUBSTANTIAL ACQUISITION

The Blackwater Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and is accordingly subject to the approval of the Company Shareholders. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, none of the Company Shareholders will be required to abstain from voting at the SGM.

RECOMMENDATION

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

PART B

ALPHA DISPOSAL AGREEMENT

Date

10th September, 2004

Parties

Company

HEH

Conditions precedent

Completion of the Alpha Disposal Agreement is conditional upon:

(i) the Company Shareholders approving at the SGM: (a) the transactions contemplated by the Blackwater Acquisition Agreement and the Gas Network Shareholders Agreement; and (b) the Alpha Disposal as contemplated by the Alpha Disposal Agreement; and

(ii) the HEH Independent Shareholders approving the Alpha Disposal and the related transactions and matters contemplated under the Alpha Disposal Agreement and the Gas Network Shareholders Agreement.

Neither of the Alpha Disposal Conditions may be waived by either party. As at the Latest Practicable Date neither of the Alpha Disposal Conditions had been satisfied.

Completion

Subject to satisfaction of the Alpha Disposal Conditions, completion of the Alpha Disposal Agreement shall take place on the date which is three business days following the date on which the Alpha Disposal Conditions are satisfied.

If: (i) at the SGM, the Company Shareholders fail to give the approvals contemplated in Alpha Disposal Condition (i) above; or (ii) at the HEH EGM, the HEH Independent Shareholders fail to give the approval contemplated in Alpha Disposal Condition (ii) above, then upon the first occurrence of either of (i) or (ii) the Alpha Disposal Agreement shall automatically terminate and the Alpha Disposal will not proceed.

If the Alpha Disposal Agreement has not already terminated as a result of (i) or (ii) above then it will automatically terminate if the Alpha Disposal Conditions have not been satisfied before 30th August, 2005.

CONSIDERATION

The consideration for the Alpha Sale Share, which will be payable in cash on completion of the Alpha Disposal Agreement, is HK$1. HEH will also assume certain obligations of the Company under the Gas Network Shareholders Agreement, in respect of Alpha. Prior to completion of the Blackwater Acquisition, Alpha will subscribe approximately £104,276,000 (HK$1,459,864,000) for new share capital in Gas Network, which will represent approximately 19.9% of the net consideration payable by Gas Network on completion of the Blackwater Acquisition. This will be met from HEH's internal cash resources and/or bank borrowing.

As explained in Part A of this letter, the consideration for the Blackwater Shares under the Blackwater Acquisition Agreement was arrived at following a competitive auction process conducted by NGT, of which Transco is a wholly-owned subsidiary, and after arm's length negotiations between the Company and NGT.

The consideration payable under the Alpha Disposal Agreement is a nominal amount of HK$1. In addition, Alpha is required to fund its pro rata share of the net consideration payable by Gas Network on completion of the Blackwater Acquisition. Therefore, no gain or loss will be realised by the Company from the Alpha Disposal and the consideration payable for the Alpha Sale Share is not greater or less than its net book value. In addition, there will be no sale proceeds to the Company other than the HK$1.

Under the Gas Network Shareholders Agreement, the Company has undertaken to procure compliance by Alpha with its obligation to subscribe for shares in Gas Network, as referred to above. This undertaking of the Company will be assumed by HEH on completion of the Alpha Disposal Agreement. In addition, termination of the Blackwater Acquisition Agreement will, in the circumstances referred to in Part A of this letter, give rise to a break fee of £13,980,000 (HK$195,720,000) becoming payable by Gas Network to Transco. Alpha has undertaken in the Gas Network Shareholders Agreement to subscribe 19.9% of this amount for shares in Gas Network in the event of such termination, for the purposes of enabling Gas Network to pay the break fee. The Company has undertaken in the Gas Network Shareholders Agreement to procure compliance by Alpha with this obligation. This undertaking of the Company will also be assumed by HEH on completion of the Alpha Disposal Agreement.

GENERAL NATURE OF THE TRANSACTION

Summary

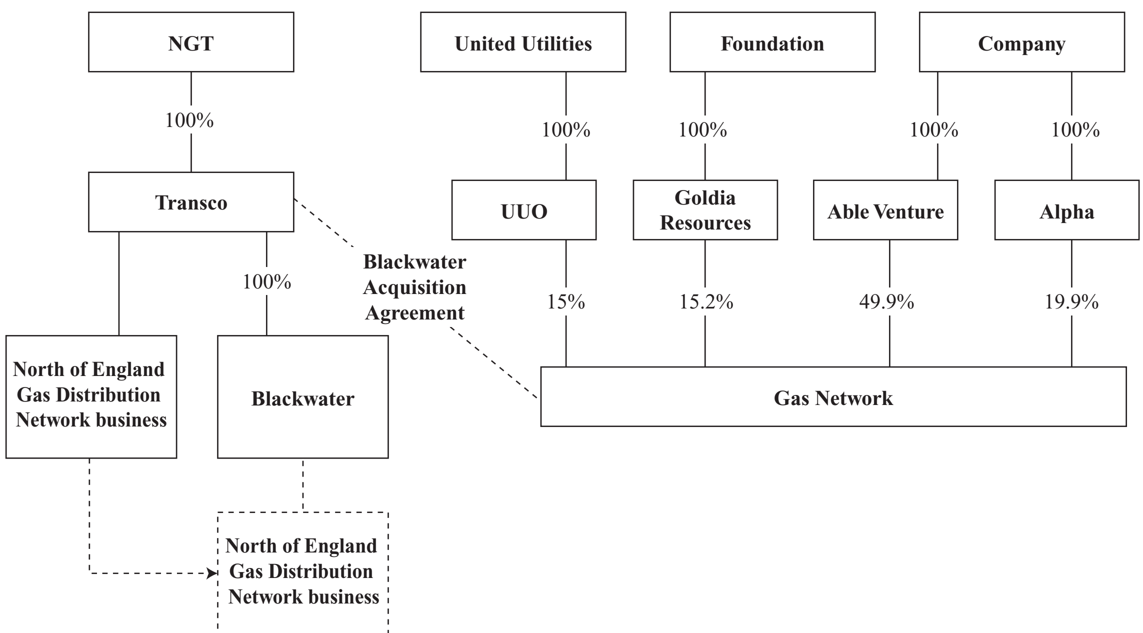
Reference is made to the statements contained in the section headed "General Nature of the Transaction" in Part A of this letter (page 11).

Completion of the sale and purchase of the Alpha Sale Share is expected to take place shortly after the conclusion of the SGM and the HEH EGM. As a result, HEH will own, indirectly through Alpha, 19.9% of the issued share capital of Gas Network and the Company's interest in Gas Network will decrease from 69.8% to 49.9% (taking no account of the 9.9% Disposal). Accordingly, both Alpha and Gas Network shall cease to be subsidiaries of the Company. After the 9.9% Disposal, the remaining shares in Gas Network will be retained.

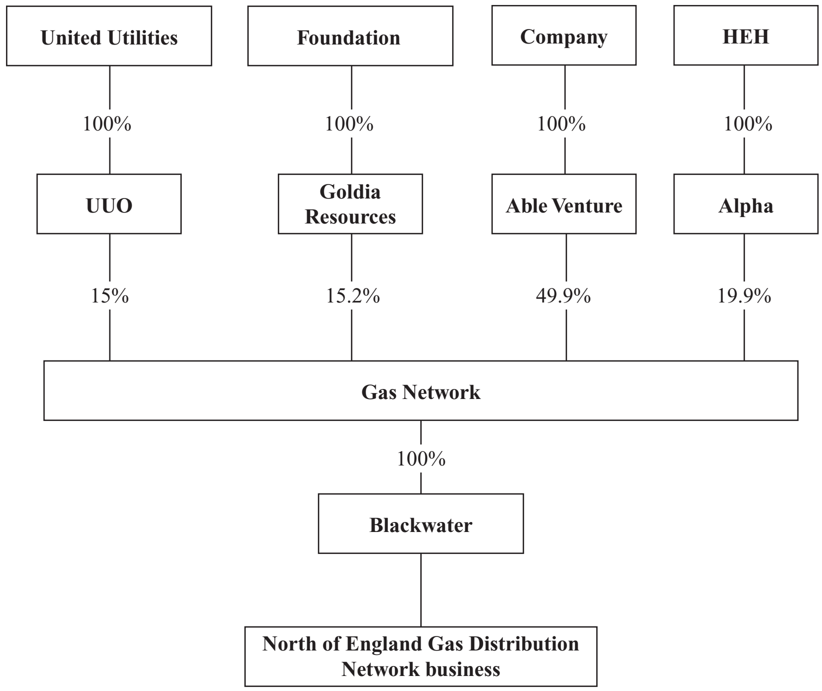
Structure

The following is the shareholding structure of Gas Network and Blackwater before completion of the Blackwater Acquisition and the Alpha Disposal and after completion of the Blackwater Acquisition and the Alpha Disposal (but taking no account of the 9.9% Disposal):

Before completion of the Blackwater Acquisition and the Alpha Disposal



After completion of the Blackwater Acquisition and the Alpha Disposal



Reference is made to the statements contained in the section headed "General Nature of the Transaction" contained in Part A of this letter (page 11).

INFORMATION ON ALPHA, BLACKWATER, THE NORTH OF ENGLAND GAS DISTRIBUTION NETWORK AND HEH

Following completion of the Alpha Disposal, HEH or its nominee will own the Alpha Sale Share. Alpha is a newly formed wholly-owned subsidiary of the Company that owns 19.9% of the issued share capital of Gas Network. Following completion of the Blackwater Acquisition, Blackwater will become a wholly-owned subsidiary of Gas Network.

Reference is made to the statements contained in the section headed "Information on Blackwater and the North of England Gas Distribution Network" contained in Part A of this letter (page 14).

The principal activity of the HEH group is the generation of electricity and its transmission and distribution to Hong Kong Island. HEH is also a joint partner in several power-related businesses in Australia with the Company.

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 notwithstanding that the Company holds approximately 39% of the issued share capital of HEH.

REASONS FOR AND BENEFITS OF THE ALPHA DISPOSAL

As disclosed in the Blackwater Acquisition Announcement, at the time of entering into the Blackwater Acquisition Agreement, the Company intended to on-sell part of its interest in Blackwater. The Company and HEH have worked together on a number of joint venture projects in the past and this previous experience of working together successfully made HEH the most suitable purchaser of the Alpha Sale Share. The Company will retain an indirect 49.9% shareholding interest in Blackwater following completion of the Alpha Disposal. The Company's indirect shareholding will be further reduced to 40% following completion of the 9.9% Disposal.

FINANCIAL EFFECTS OF THE ALPHA DISPOSAL

Based on the unaudited pro forma financial information of the Enlarged Group following the Alpha Disposal for the year ended 31st December, 2003 which has been prepared to illustrate the effect of the Company's proposed acquisition of Blackwater and the Alpha Disposal, as shown in Appendix IV, the Enlarged Group's unaudited profit attributable to shareholders for the year ended 31st December, 2003 amounted to approximately HK$3,860 million and the unaudited total assets and total liabilities as at that date amounted to approximately HK$42,473 million and HK$13,239 million respectively. The Blackwater Acquisition and the Alpha Disposal would result in an increase in the Group's profit before taxation and interest due to the proportionate share of the operating results of Blackwater.

The above pro forma financial information and that set out in Appendix IV is for informational purposes only and should not be taken as an indication of the future financial performance of the Enlarged Group. Such information does not take account of the 9.9% Disposal.

VERY SUBSTANTIAL DISPOSAL

The Alpha Disposal constitutes a very substantial disposal of the Company under the Listing Rules and is accordingly subject to the approval of the Company Shareholders. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the Company Shareholders will be required to abstain from voting at the SGM.

RECOMMENDATION

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

PART C

9.9% DISPOSAL AGREEMENT

Date
12th November, 2004

Parties
The Company
Able Venture
The 9.9% Buyers

Conditions precedent

Completion of the 9.9% Disposal Agreement is conditional upon the satisfaction or waiver by the 9.9% Buyers of the following:

(i) the Company Shareholders approving at the SGM the transactions contemplated by the Blackwater Acquisition Agreement;

(ii) the Company Shareholders approving the transactions contemplated by the 9.9% Disposal Agreement (if required);

(iii) no: (a) breach of certain specific Warranties; and (b) material breach (meaning a breach the effect of which would be to cause direct loss or damage to Gas Network of in excess of £50,000,000 (HK$700,000,000)) of the Warranties and/or certain undertakings contained in the 9.9% Disposal Agreement relating to the exercise by Able Venture of voting rights in Gas Network, having occurred and, where such breach is capable of remedy, having not been remedied within a period of 21 days from the date of notice to Able Venture; and

(iv) no material default by Gas Network or any of the shareholders of Gas Network subsisting under the terms of the Bank Letters and/or the Implementation Agreement at a time when the 9.9% Disposal Conditions set out in (i) and (ii) above have been satisfied and no event having occurred which would result in the lenders to Gas Network under such agreements being entitled to refuse to drawdown thereunder.

Completion

Subject to satisfaction of the 9.9% Disposal Conditions, completion of the 9.9% Disposal Agreement shall take place on a date which is no later than three business days following the date on which 9.9% Disposal Condition (i) above is satisfied.

If any of the 9.9% Disposal Conditions are not satisfied or waived or the 9.9% Disposal Conditions (i) and (ii) have not been satisfied or waived on or before 1st July, 2005 (or such later date as is agreed for satisfaction of the Blackwater Acquisition Conditions) then the 9.9% Disposal Agreement shall terminate and the 9.9% Disposal will not proceed.

Guarantees

The obligations of Able Venture under the 9.9% Disposal Agreement are guaranteed by the Company.

CONSIDERATION

The consideration for the 9.9% Sale Shares will be payable in two tranches, with the first tranche of £4,240,000 (HK$59,360,000) payable in cash on completion of the 9.9% Disposal Agreement and the second tranche of £350,000 (HK$4,900,000) payable in cash on completion of the Blackwater Acquisition Agreement. Such amounts will be paid by the 9.9% Buyers pro rata to their respective interests in Gas Network (being 5.8% and 4.1%). The 9.9% Buyers will also assume certain obligations of Able Venture pro rata to their respective interests in Gas Network under the Bank Undertaking Letter, the Costs Undertaking Letter and the Transco Undertaking Letter. Prior to completion of the Blackwater Acquisition, the shareholders of Gas Network will subscribe approximately £524,000,000 (HK$7,336,000,000) for new share capital in Gas Network, representing 100% of the net consideration payable by Gas Network on completion of the Blackwater Acquisition. Following completion of the 9.9% Disposal Agreement, the 9.9% Buyers will hold between them 9.9% of the share capital of Gas Network. The 9.9% Buyers will accordingly subscribe between them 9.9% of this amount, amounting to approximately £51,876,000 (HK$726,264,000) pro rata to their respective interests in Gas Network. This will reduce the percentage of the consideration to be subscribed by Able Venture to 40%, equal to approximately £209,600,000 (HK$2,934,400,000). It will also reduce the potential liability under the guarantee given by the Company in respect of Able Venture's subscription obligations under the Gas Network Shareholders Agreement.

The consideration payable under the 9.9% Disposal Agreement, totalling £4,590,000 (HK$64,260,000), was arrived at after arm's length negotiations between the Company and the 9.9% Buyers. In addition, the 9.9% Buyers will assume between them 9.9% of Able Venture's subscription obligation under the Gas Network Shareholders Agreement, as referred to above. Therefore, a gross gain of £4,589,901 (HK$64,258,614) will be realized by the Company from the 9.9% Disposal and the consideration payable for the 9.9% Sale Shares exceeds their net book value by £4,589,901 (HK$64,258,614). The costs associated with 9.9% Disposal amount to £350,000 (HK$4,900,000). Accordingly, a net gain of £4,239,901 (HK$59,358,614) will be realized by the Company from the 9.9% Disposal.

The Company intends to use the proceeds of the 9.9% Disposal as working capital.

If, following completion of the 9.9% Disposal Agreement, one of the following events occurs, the 9.9% Buyers will have a right to transfer the 9.9% Sale Shares back to Able Venture:

(i) the Blackwater Acquisition Agreement is terminated in accordance with its terms (including on the expiry of the long stop date for completion thereof being 29th August, 2005); or

(ii) an agreed form assets services agreement between Gas Network and a service provider has not been signed or initialed by Gas Network and UUO or any other wholly-owned subsidiary of UUC one month prior to the date of completion of the Blackwater Acquisition Agreement; or

(iii) at any time prior to one month prior to the date of completion of the Blackwater Acquisition Agreement the estimated transaction costs of Gas Network exceeds a certain level.

The amount of consideration payable to the 9.9% Buyers by Able Venture on such a transfer will depend on the circumstances. However, such consideration will not exceed the amount paid by the 9.9% Buyers to Able Venture on the completion of the 9.9% Disposal Agreement. In the case of (i) above, the 9.9% Buyers will remain liable for the payment of 9.9% of the break fee of £13,980,000 (HK$195,720,000) if it becomes payable in accordance with the terms of the Blackwater Acquisition Agreement. Subject to a liability cap, the 9.9% Buyers will remain liable for the payment of 9.9% of the transaction costs of Gas Network or its shareholders under the Costs Undertaking Letter up to the date on which the 9.9% Buyers serve upon Able Venture a notice to exercise their transfer back rights in cases (ii) and (iii) above.

On or before completion of the 9.9% Disposal, the Company will enter into the Amended and Restated Gas Network Shareholders Agreement with Alpha, Able Venture, Goldia Resources, HEH, the Foundation, UUO, UUC, the 9.9% Buyers and Deutsche Asset Management (Australia) Limited. The Amended and Restated Gas Network Shareholders Agreement will set out the terms on which Alpha, Able Venture, Goldia Resources, UUO, and the 9.9% Buyers will agree to subscribe for shares of Gas Network. It also sets out the manner in which parties to that agreement will agree to regulate the operation and management of Gas Network and its subsidiaries and the relationship between Alpha, Able Venture, Goldia

Resources, UUO and the 9.9% Buyers. In particular, the Amended and Restated Gas Network Shareholders Agreement contains provisions governing, amongst other things, the composition of the board of directors of Gas Network, the conduct of the board and meeting of shareholders of Gas Network and a general prohibition in respect of transfers of shares in Gas Network.

GENERAL NATURE OF THE TRANSACTION

Summary

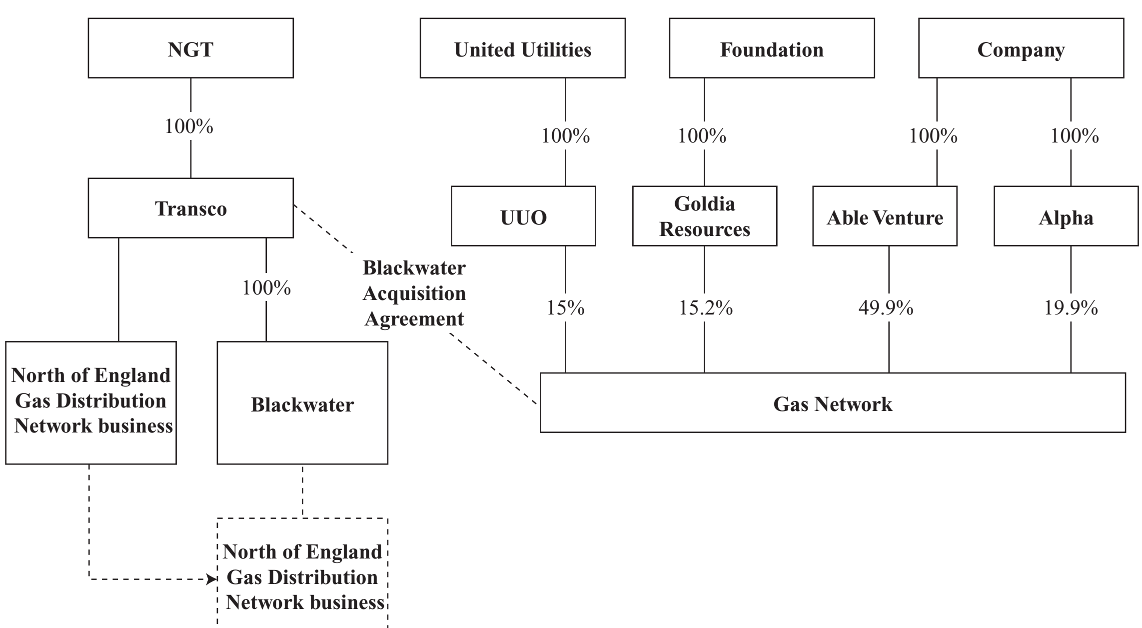
Reference is made to the statements contained in the section headed "General Nature of the Transaction" in Part A of this letter (page 11).

Completion of the sale and purchase of the 9.9% Sale Shares is expected to take place shortly after the conclusion of the SGM. As a result, the 9.9% Buyers will between them own 9.9% of the issued share capital of Gas Network and the Company's interest in Gas Network (assuming completion of the Alpha Disposal has occurred) will decrease from 49.9% to 40%. Accordingly, the 9.9% Disposal will not result in Gas Network changing its status as an associate of the Company.

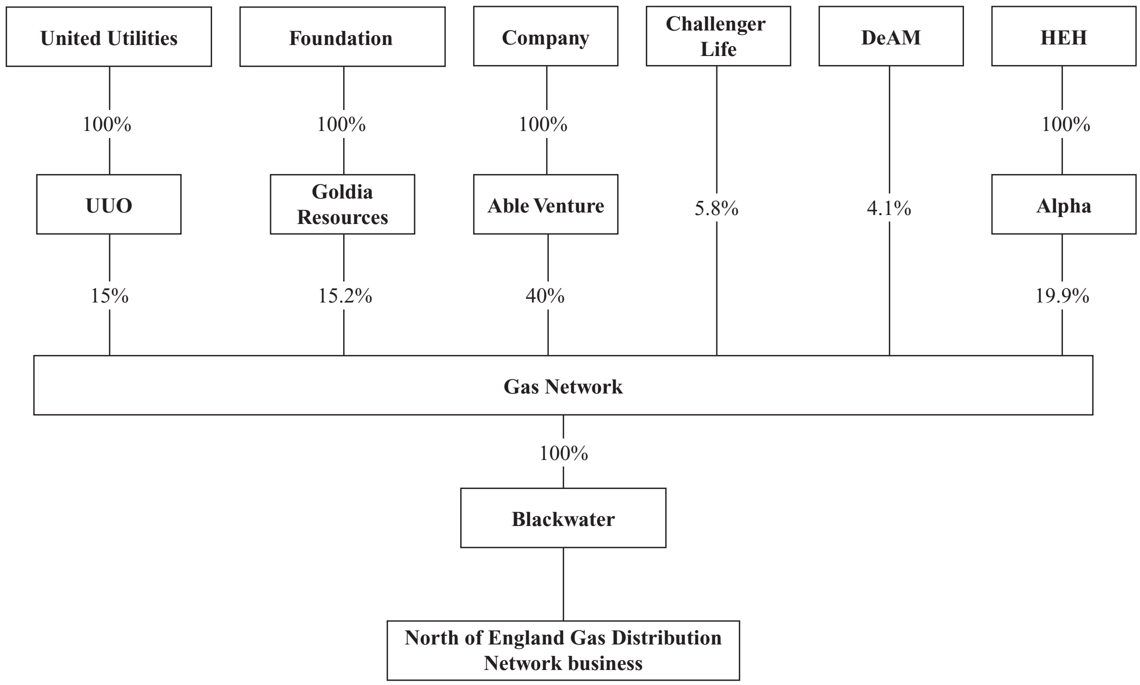
Structure

The following is the shareholding structure of Gas Network and Blackwater before completion of the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal and after completion of the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal:

Before completion of the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal



After completion of the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal



Reference is made to the statements contained in the section headed "General Nature of the Transaction" contained in Part A of this letter (page 11).

INFORMATION ON BLACKWATER, THE NORTH OF ENGLAND GAS DISTRIBUTION NETWORK AND THE 9.9% BUYERS

Following completion of the 9.9% Disposal Agreement, the 9.9% Buyers will together own the 9.9% Sale Shares, constituting 9.9% of the entire issued share capital of Gas Network. Following completion of the Blackwater Acquisition, Blackwater will become a wholly-owned subsidiary of Gas Network.

Reference is made to the statements contained in the section headed "Information on Blackwater and the North of England Gas Distribution Network" contained in Part A of this letter (page 14).

One of the 9.9% Buyers, Challenger Life, is part of the Challenger Financial Services Group, a financial services group based in Australia. Challenger Financial Services Group is comprised of three core businesses, Challenger Life, Challenger Wholesale Finance and Challenger Wealth Management. The Challenger group is listed on the Australian Stock Exchange and at 30th September, 2004 its assets under management and administration totalled A$26.72 billion. The principal activity of Challenger Life is investing in a wide range of investment products financed through a combination of debt, annuitant obligations and equity. The other 9.9% Buyer, DeAM, is the trustee of an overseas government pension fund. Such

9.9% Buyer's principal functions are to: administer the fund, invest and manage its funds, provide for the custody of the assets and securities of the fund and ensure fund benefits are properly paid.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries the 9.9% Buyers, and their respective ultimate beneficial owners, are: (i) third parties independent of the Company and connected persons of the Company; and (ii) not connected persons of the Company.

REASONS FOR AND BENEFITS OF THE 9.9% DISPOSAL

The Company regards the 9.9% Disposal as a good opportunity to expand the consortium and for the Company to align with quality strategic partners for this joint venture.

FINANCIAL EFFECTS OF THE 9.9% DISPOSAL

Based on the unaudited pro forma financial information of the Enlarged Group following the Alpha Disposal and the 9.9% Disposal for the year ended 31st December, 2003 which has been prepared to illustrate the effect of the Company's proposed acquisition of Blackwater, the Alpha Disposal and the 9.9% Disposal, as shown in Appendix VI, the Enlarged Group's unaudited profit attributable to shareholders for the year ended 31st December, 2003 amounted to approximately HK$3,817 million and the unaudited total assets and total liabilities as at that date amounted to approximately HK$42,532 million and HK$13,239 million respectively. The Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal would result in an increase in the Group's profit before taxation and interest due to the proportionate share of the operating results of Blackwater.

Based on the unaudited pro forma financial information of the Enlarged Group following the 9.9% Disposal (but taking no account of the Alpha Disposal) for the year ended 31st December, 2003 which has been prepared to illustrate the effect of the Company's proposed acquisition of Blackwater and the 9.9% Disposal, as shown in Appendix V, the Enlarged Group's unaudited profit attributable to shareholders for the year ended 31st December, 2003 amounted to approximately HK$3,817 million and the unaudited total assets and total liabilities as at that date amounted to approximately HK$42,532 million and HK$13,239 million respectively. The Blackwater Acquisition and the 9.9% Disposal would result in an increase in the Group's profit before taxation and interest due to the proportionate share of the operating results of Blackwater.

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

VERY SUBSTANTIAL DISPOSAL

As a result of the Stock Exchange's ruling that the 9.9% Disposal should be aggregated with the Alpha Disposal, the 9.9% Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is accordingly subject to the approval of the Company Shareholders. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the Company Shareholders will be required to abstain from voting at the SGM.

RECOMMENDATION

The Directors believe the terms of the 9.9% Disposal are fair and reasonable and in the interests of the Company Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolution numbered (iii) set out in the notice of SGM contained in this circular.

SPECIAL GENERAL MEETING

A notice convening the SGM at which ordinary resolutions will be proposed to Company Shareholders to consider and, if thought fit, to approve the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal and all matters relating thereto is set out on pages 155 to 157 of this circular.

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 the 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.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the Appendices to this circular.

Yours faithfully,
By Order of the Board
LI TZAR KUOI, VICTOR
Chairman

(A) SUMMARY OF CONSOLIDATED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2004 AND FOR THE THREE YEARS ENDED 31ST DECEMBER, 2003

(Expressed in HK$ million)

The following was extracted from the published consolidated results and of the assets and liabilities of the Group prepared for the six months ended 30th June, 2004 and for the three years ended 31st December, 2003.

	(Unaudited) Six months ended 30th June,	**(Audited) Year ended 31st December,**		
Results	**2004**	**2003**	**2002**	**2001**
Turnover				
Group turnover *(Note)*	1,135	1,613	1,872	2,316
Share of turnover of jointly controlled entities	943	1,841	1,723	1,522
	2,078	3,454	3,595	3,838
Group turnover	1,135	1,613	1,872	2,316
Other revenue	166	1,196	1,039	2,049
Operating costs	(806)	(1,807)	(2,051)	(3,846)
Operating profit	495	1,002	860	519
Finance costs	(340)	(630)	(624)	(551)
Share of results of associates	1,320	3,202	3,201	3,307
Share of results of jointly controlled entities	323	611	453	408
Profit before taxation	1,798	4,185	3,890	3,683
Taxation	(362)	(846)	(569)	(563)
Profit after taxation	1,436	3,339	3,321	3,120
Minority interests	2	10	5	32
Profit attributable to shareholders	1,438	3,349	3,326	3,152
Earnings per share *(HK$)*	0.64	1.49	1.48	1.40

Assets and Liabilities	(Unaudited) As at 30th June, 2004	(Audited) As at 31st December, 2003	2002	2001
Property, plant and equipment	2,352	1,804	1,992	2,137
Interests in associates	23,410	23,681	22,213	17,925
Interests in jointly controlled entities	4,618	4,836	4,538	4,606
Interests in infrastructure project investments	1,894	1,948	2,465	3,469
Investment in securities	1,743	2,091	803	759
Other non-current assets	387	36	43	43
Current assets	8,547	8,077	8,121	5,193
Total assets	42,951	42,473	40,175	34,132
Current liabilities	(2,791)	(2,009)	(2,939)	(4,726)
Non-current liabilities	(10,704)	(11,230)	(10,487)	(4,591)
Minority interests	(207)	(209)	(219)	(224)
Net assets	29,249	29,025	26,530	24,591

(Note) Commencing from 1st January, 2004, the Group has classified the interest from loans granted to associates and the distribution from securities as group turnover as it would reflect more fairly the Group's results from its principal activities. The group turnover amounts for the years ended 31st December, 2003, 2002 and 2001 are to be restated from HK$1,613 million, HK$1,872 million and HK$2,316 million to HK$2,468 million, HK$2,533 million and HK$2,900 million respectively.

(B) EXTRACTS FROM THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWO YEARS ENDED 31ST DECEMBER, 2003

The following was extracted from the Company's 2002 and 2003 annual reports. References to page numbers in the extract reproduced below are to pages contained in the Company's annual report for the year ended 31st December, 2003.

Report of the Auditors to the Shareholders of
Cheung Kong Infrastructure Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 42 to 83 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 9th March, 2004

CONSOLIDATED INCOME STATEMENT
for the year ended 31st December

HK$ million	*Notes*	**2003**	Restated **2002**
Turnover	*3*		
Group turnover		1,613	1,872
Share of turnover of jointly controlled entities		1,841	1,723
		3,454	3,595
Group turnover	*3*	1,613	1,872
Other revenue	*4*	1,196	1,039
Operating costs	*5*	(1,807)	(2,051)
Operating profit	*6*	1,002	860
Finance costs	*7*	(630)	(624)
Share of results of associates		3,202	3,201
Share of results of jointly controlled entities		611	453
Profit before taxation		4,185	3,890
Taxation	*8*	(846)	(569)
Profit after taxation		3,339	3,321
Minority interests		10	5
Profit attributable to shareholders	*9*	3,349	3,326
Earnings per share	*10*	HK$1.49	HK$1.48
Dividends	*11*		
Interim dividend paid		485	485
Proposed final dividend		1,127	1,048
		1,612	1,533

BALANCE SHEETS
as at 31st December

		Group		Company	
			Restated		
HK$ million	*Notes*	**2003**	**2002**	**2003**	**2002**
Property, plant and equipment	*12*	1,804	1,992	2	4
Interests in subsidiaries	*13*	–	–	28,573	28,421
Interests in associates	*14*	23,681	22,213	–	–
Interests in jointly controlled entities	*15*	4,836	4,538	–	–
Interests in infrastructure project investments	*16*	1,948	2,465	–	–
Investments in securities	*17*	2,091	803	–	–
Other non-current assets	*18*	36	43	–	–
Total non-current assets		34,396	32,054	28,575	28,425
Inventories	*19*	164	188	–	–
Retention receivables		21	20	–	–
Debtors and prepayments	*20*	649	722	7	7
Dividend receivable		–	–	1,709	1,682
Bank balances and deposits		7,243	7,191	4	4
Total current assets		8,077	8,121	1,720	1,693
Bank loans	*21*	1,258	2,269	–	–
Creditors and accruals	*22*	642	571	159	152
Taxation		109	99	–	–
Total current liabilities		2,009	2,939	159	152
Net current assets		6,068	5,182	1,561	1,541
Total assets less current liabilities		40,464	37,236	30,136	29,966
Bank and other loans	*21*	11,079	10,376	–	–
Deferred tax liabilities	*23*	151	111	–	–
Total non-current liabilities		11,230	10,487	–	–
Minority interests		209	219	–	–
Net assets		29,025	26,530	30,136	29,966
Representing:					
Share capital	*24*	2,254	2,254	2,254	2,254
Reserves	*25*	26,771	24,276	27,882	27,712
Capital and reserves		29,025	26,530	30,136	29,966

LI TZAR KUOI, VICTOR
Director

IP TAK CHUEN, EDMOND
Director

9th March, 2004

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31st December

HK$ million	2003	Restated 2002
Total equity at 1st January, as previously reported	28,853	26,787
Prior year adjustment (note 2 (m))	(2,323)	(2,196)
Total equity at 1st January, as restated	26,530	24,591
Surplus/(deficit) on revaluation of non-trading securities	44	(9)
Deferred tax charges on revaluation surplus of non-trading securities	(23)	(18)
Exchange translation differences	675	162
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years	(36)	–
Net gain not recognised in the consolidated income statement	660	135
Profit for the year	3,349	3,326
Goodwill charged to income statement on disposal of a subsidiary	19	–
Previously recognised revaluation surplus realised upon disposals of non-trading securities	–	(90)
Final dividend for the year 2002/2001 paid	(1,048)	(947)
Interim dividend for the year 2003/2002 paid	(485)	(485)
Total equity at 31st December	29,025	26,530

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31st December

HK$ million	*Notes*	**2003**	**2002**
OPERATING ACTIVITIES			
Cash generated from operations	*26(a)*	1,264	1,212
Income taxes refunded/(paid)		2	(14)
Net cash from operating activities		1,266	1,198
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(90)	(111)
Disposals of property, plant and equipment		66	3
Disposals of subsidiaries	*26(b)*	(11)	803
Advances to associates		(352)	(2,309)
Repayments from associates		2,108	48
Advances from an associate		–	15
Advance to a jointly controlled entity		(15)	–
Disposal of infrastructure project investment		61	–
Purchases of securities		(1,037)	(333)
Disposals of listed securities		–	246
Repayments from finance lease debtors		11	14
Acquisitions of other non-current assets		(2)	(3)
Dividends received from associates		1,422	1,379
Distributions received from listed stapled securities		63	53
Interest received		456	300
Finance lease income received		4	5
Release of pledged bank deposit		–	23
Net cash from investing activities		2,684	133
Net cash before financing activities		3,950	1,331
FINANCING ACTIVITIES			
New bank and other loans		2,125	7,405
Repayments of bank loans		(4,311)	(3,915)
Redemption of debentures		–	(6)
Finance costs paid		(179)	(215)
Dividends paid		(1,533)	(1,432)
Net cash (utilised in)/from financing activities		(3,898)	1,837
Net increase in cash and cash equivalents		52	3,168
Cash and cash equivalents at 1st January		7,191	4,023
Cash and cash equivalents at 31st December		7,243	7,191
Representing:			
Bank balances and deposits at 31st December		7,243	7,191

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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 Directors consider that the Company's ultimate holding company is Hutchison Whampoa Limited ("Hutchison Whampoa"), a company incorporated in Hong Kong with limited liability, the shares of which are listed on Hong Kong Stock Exchange.

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

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention as modified for the revaluation of investments in securities.

The financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The term of HKFRS is inclusive of Hong Kong Statements of Standard Accounting Practice ("SSAPs") and interpretations issued by the Hong Kong Society of Accountants. The principal accounting policies adopted are set out below:

a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December, together with the Group's interests in associates and jointly controlled entities on the basis set out in (d) and (e) below, respectively.

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

b) Goodwill

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

The Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill previously eliminated against reserves prior to 1st January, 2001. Accordingly, such goodwill continues to be held in reserves and will be charged to the income statement on disposal of the relevant subsidiary, associate or jointly controlled entity or at such time as further impairment losses are identified.

Goodwill arising on acquisition on or after 1st January, 2001 is capitalised and amortised using the straight-line method over its estimated useful life. On disposal of the relevant subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

The carrying amount of the goodwill, including that previously eliminated against reserves, is reduced to recognise any identified impairment loss in the value of individual acquisitions.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

c) 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.

d) Associates

An associate is a company, other than a subsidiary or 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 statements 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.

e) 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 statements 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.

f) Infrastructure Project Investments

Investments in infrastructure projects which do not fall into the definition of subsidiaries, associates and jointly controlled entities are classified as infrastructure project investments if the Group's return to be derived therefrom is predetermined in accordance with the provisions of the relevant agreements and the venturers' share of net assets are not in proportion to their capital contribution ratios but are as defined in the contracts and in respect of which the Group is not entitled to share the assets at the end of the investment period.

The Group's interests in the infrastructure project investments are recorded at cost less amortisation over the 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.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

g) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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.

Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which it is incurred.

In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

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:

Land	Over the unexpired lease terms of the land
Buildings	2% to $3^1/_3$% or over the unexpired lease terms of the land, whichever is the higher
Plant and machinery	$3^1/_3$% to $33^1/_3$%
Others	5% to $33^1/_3$%

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.

h) 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.

i) 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.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

j) Investments in Securities

Non-trading securities intended to be held long-term are stated at their fair values at the balance sheet date. The gains or losses arising from changes in the fair values of a security are dealt with as movements in investment revaluation reserve, until the security is disposed of, or is determined to be impaired, when the cumulative gain or loss is included in the income statement.

Other securities are stated at fair value in the balance sheet. Changes in fair value are dealt with in the income statement.

k) Revenue Recognition

(i) 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.

(ii) Contract revenue

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

(iii) Income from infrastructure projects and investments in securities

Income from infrastructure projects and investments in securities 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.

(iv) Interest income

Interest income is recognised on a time proportion basis by reference to the principal outstanding and the interest rate applicable.

l) Foreign Currencies

The income statements and cash flow statements of overseas subsidiaries, associates and jointly controlled entities are translated into Hong Kong dollars using average rates of exchange. Balance sheets are translated at closing rates.

Exchange differences arising on the translation at closing rates of the opening net assets and the profits for the year retained by overseas subsidiaries, associates and jointly controlled entities are taken to reserves.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the relevant transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

m) Deferred Taxation

In accordance with SSAP 12 (Revised) "Income Taxes" which became effective from 1st January, 2003, 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 negative 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 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.

In prior years, tax deferred or accelerated by the effects of timing differences was provided at the prevalent income tax rate, using income statement liability method, to the extent that it was probable that a liability or an asset would crystallise in the foreseeable future. The timing differences were calculated based on the differences between profits as computed for tax purposes and the profits as stated in the financial statements.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively by means of a prior year adjustment. Cumulative effects from this change in accounting policy on the Group's balances at 1st January, 2003 include an increase in deferred tax liabilities by HK$111 million (2002: HK$86 million), decreases in interests in associates, retained profits, contributed surplus, investment revaluation reserve and exchange translation reserve by HK$2,212 million, HK$713 million, HK$1,553 million, HK$46 million and HK$11 million (2002: HK$2,110 million, HK$614 million, HK$1,553 million, HK$28 million and HK$1 million) respectively. In addition, the effects of the change on the Group's results, contributed surplus, investment revaluation reserve, and exchange translation reserve for the current year are an increased charge to taxation of HK$237 million (2002: HK$99 million), a deferred tax charge of HK$36 million (2002: Nil), a deferred tax charge of HK$23 million (2002: HK$18 million), and an increased charge to exchange translation differences of HK$41 million (2002: HK$10 million). Certain comparative figures have been restated accordingly.

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

n) 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.

o) 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.

p) 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 plan is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10% 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 plan. 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.

q) 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.

3. TURNOVER

Group turnover represents net sales from infrastructure materials business, return on investments and interest income received and receivable from infrastructure project investments, net of withholding tax, where applicable.

In addition, the Group also accounts for its proportionate share of turnover of jointly controlled entities. Turnover of associates is not included.

NOTES TO THE FINANCIAL STATEMENTS

3. TURNOVER (cont'd)

By business segment
for the year ended 31st December

	2003			**2002**		
HK$ million	**Group turnover**	**Share of turnover of jointly controlled entities**	**Total**	**Group turnover**	**Share of turnover of jointly controlled entities**	**Total**
Infrastructure investments	212	1,841	2,053	277	1,723	2,000
Infrastructure related business	1,401	–	1,401	1,595	–	1,595
Total	1,613	1,841	3,454	1,872	1,723	3,595

By geographic region
for the year ended 31st December

	2003			**2002**		
HK$ million	**Group turnover**	**Share of turnover of jointly controlled entities**	**Total**	**Group turnover**	**Share of turnover of jointly controlled entities**	**Total**
Hong Kong	1,012	–	1,012	1,194	–	1,194
Mainland China	564	1,841	2,405	600	1,723	2,323
Others	37	–	37	78	–	78
Total	1,613	1,841	3,454	1,872	1,723	3,595

4. OTHER REVENUE

Other revenue includes the following:

HK$ million	**2003**	**2002**
Interest income	967	748
Finance lease income	4	5
Distributions from listed stapled securities	63	53
Gain on disposal of infrastructure project investment	11	–
Gain on disposals of subsidiaries	–	51
Unrealised holding gain on other securities	40	–
Gain on disposals of listed securities	–	97

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING COSTS

HK$ million	**2003**	**2002**
Changes in inventories of finished goods and work-in-progress	4	15
Raw materials and consumables used	386	459
Staff costs including directors' remuneration	353	399
Depreciation	181	193
Impairment loss recognised in respect of property, plant and equipment	30	53
Amortisation of other non-current assets	1	1
Amortisation of costs of investments in infrastructure projects	107	138
Unrealised holding loss on other securities	–	91
Other operating expenses	745	702
Total	1,807	2,051

6. OPERATING PROFIT

HK$ million	**2003**	**2002**
Operating profit is arrived at after crediting:		
Contract revenue	232	236
Net exchange gain	13	–
and charging:		
Operating lease rental		
Land and buildings	37	51
Vessels	–	28
Directors' remuneration *(note 28)*	32	29
Auditors' remuneration	2	3
Loss on disposals of property, plant and equipment	4	7
Loss on disposal of a subsidiary	19	–
Net exchange loss	–	88

7. FINANCE COSTS

HK$ million	**2003**	**2002**
Interest and other finance costs on		
Bank borrowings wholly repayable within five years	558	556
Notes not repayable within five years	72	68
Total	630	624

NOTES TO THE FINANCIAL STATEMENTS

8. TAXATION

Hong Kong Profits Tax is provided for at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the year.

HK$ million	2003	2002
Company and subsidiaries		
Current taxation – Hong Kong Profits Tax	9	12
Deferred taxation *(note 23)*	(4)	4
	5	16
Share of taxation attributable to		
Associates	780	517
Jointly controlled entities	61	36
	841	553
Total	846	569

The charge for the year can be reconciled to the profit per the income statement as follows:

HK$ million	2003	2002
Profit before taxation	4,185	3,890
Tax at the weighted average effective rate of 15.3% (2002: 13.9%)	642	540
Tax impact on:		
Income not subject to tax	(132)	(163)
Expenses not deductible for tax purpose	122	115
Tax losses and other temporary differences not recognised	22	50
Utilisation of previously unrecognised tax losses	(8)	(3)
Undistributed reserves of associates	32	27
Change in tax rate attributable to deferred tax liabilities brought forward from prior years	169	–
Others	(1)	3
Taxation charge	846	569

The weighted average effective tax rate changes to 15.3% in 2003 from 13.9% in 2002 mainly due to increase in Hong Kong Profits Tax Rate by 1.5% and change of profit mix from countries and regions of different tax jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND SEGMENT INFORMATION

Of the Group's profit attributable to shareholders for the year, HK$1,703 million (2002: HK$1,678 million) has been dealt with in the financial statements of the Company.

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
for the year ended 31st December

HK$ million	Investment in Hongkong Electric* 2003	Investment in Hongkong Electric* 2002	Infrastructure investments 2003	Infrastructure investments 2002	Infrastructure related business 2003	Infrastructure related business 2002	Unallocated items 2003	Unallocated items 2002	Consolidated 2003	Consolidated 2002
Segment revenue										
Group turnover	–	–	212	277	1,401	1,595	–	–	1,613	1,872
Others	–	–	20	15	81	70	–	–	101	85
	–	–	232	292	1,482	1,665	–	–	1,714	1,957
Segment result	–	–	80	101	(49)	47	–	–	31	148
Net gain/(loss) on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	11	51	(19)	–	–	97	(8)	148
Interest and finance lease income	–	–	792	608	81	88	98	57	971	753
Other revenue	–	–	63	53	–	–	–	–	63	53
Corporate overheads and others	–	–	–	–	–	–	(55)	(242)	(55)	(242)
Operating profit	–	–	946	813	13	135	43	(88)	1,002	860
Finance costs	–	–	–	–	–	–	(630)	(624)	(630)	(624)
Share of results of associates and jointly controlled entities	2,942	3,021	877	633	(6)	–	–	–	3,813	3,654
Taxation	(661)	(465)	(182)	(89)	2	(15)	(5)	–	(846)	(569)
Minority interests	–	–	–	–	10	5	–	–	10	5
Profit attributable to shareholders	2,281	2,556	1,641	1,357	19	125	(592)	(712)	3,349	3,326
Other information										
Capital expenditure	–	–	–	–	90	111	–	–	90	111
Depreciation and amortisation	–	–	107	138	180	192	2	2	289	332

NOTES TO THE FINANCIAL STATEMENTS

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND SEGMENT INFORMATION (cont'd)

By business segment (cont'd)
as at 31st December

	Investment in Hongkong Electric*		**Infrastructure investments**		**Infrastructure related business**		**Unallocated items**		**Consolidated**	
HK$ million	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Assets										
Segment assets	–	–	2,845	3,287	3,775	3,892	–	–	6,620	7,179
Interests in associates and jointly controlled entities	15,195	14,198	13,205	12,416	117	137	–	–	28,517	26,751
Unallocated corporate assets	–	–	–	–	–	–	7,336	6,245	7,336	6,245
Total assets	15,195	14,198	16,050	15,703	3,892	4,029	7,336	6,245	42,473	40,175
Liabilities										
Segment liabilities	–	–	15	11	285	372	–	–	300	383
Taxation, deferred taxation and unallocated corporate liabilities	–	–	86	47	82	81	12,771	12,915	12,939	13,043
Minority interests	–	–	–	–	209	219	–	–	209	219
Total liabilities	–	–	101	58	576	672	12,771	12,915	13,448	13,645

* During the year, the Group has a 38.87% equity interest in Hongkong Electric Holdings Limited ("Hongkong Electric"), which is listed on Hong Kong Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND SEGMENT INFORMATION (cont'd)

By geographic region
for the year ended 31st December

HK$ million	Hong Kong 2003	Hong Kong 2002	Mainland China 2003	Mainland China 2002	Australia 2003	Australia 2002	Others 2003	Others 2002	Unallocated items 2003	Unallocated items 2002	Consolidated 2003	Consolidated 2002
Segment revenue												
Group turnover	1,012	1,194	564	600	–	–	37	78	–	–	1,613	1,872
Others	60	31	41	16	–	–	–	38	–	–	101	85
	1,072	1,225	605	616	–	–	37	116	–	–	1,714	1,957
Segment result	64	146	49	20	–	–	(82)	(18)	–	–	31	148
Net gain/(loss) on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	11	51	–	–	(19)	–	–	97	(8)	148
Interest and finance lease income	81	87	–	1	792	608	–	–	98	57	971	753
Other revenue	–	–	–	–	63	53	–	–	–	–	63	53
Corporate overheads and others	–	–	–	–	–	–	–	–	(55)	(242)	(55)	(242)
Operating profit	145	233	60	72	855	661	(101)	(18)	43	(88)	1,002	860
Finance costs	–	–	–	–	–	–	–	–	(630)	(624)	(630)	(624)
Share of results of associates and jointly controlled entities	2,962	3,042	610	453	247	159	(6)	–	–	–	3,813	3,654
Taxation	(663)	(482)	(61)	(36)	(117)	(51)	–	–	(5)	–	(846)	(569)
Minority interests	–	–	1	(1)	–	–	9	6	–	–	10	5
Profit attributable to shareholders	2,444	2,793	610	488	985	769	(98)	(12)	(592)	(712)	3,349	3,326
Other information												
Capital expenditure	44	91	46	14	–	–	–	6	–	–	90	111

as at 31st December

HK$ million	Hong Kong 2003	Hong Kong 2002	Mainland China 2003	Mainland China 2002	Australia 2003	Australia 2002	Others 2003	Others 2002	Unallocated items 2003	Unallocated items 2002	Consolidated 2003	Consolidated 2002
Assets												
Segment assets	2,743	2,731	3,054	3,788	771	573	52	87	–	–	6,620	7,179
Interests in associates and jointly controlled entities	15,340	14,316	4,821	4,538	8,263	7,770	93	127	–	–	28,517	26,751
Unallocated corporate assets	–	–	–	–	–	–	–	–	7,336	6,245	7,336	6,245
Total assets	18,083	17,047	7,875	8,326	9,034	8,343	145	214	7,336	6,245	42,473	40,175

NOTES TO THE FINANCIAL STATEMENTS

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK$3,349 million (2002: HK$3,326 million) and on 2,254,209,945 shares (2002: 2,254,209,945 shares) in issue during the year.

Diluted earnings per share has not been shown as there was no dilutive effect on the earnings per share if the convertible debentures outstanding during the year ended 31st December, 2002 were fully converted into shares of a non-wholly owned subsidiary which issued the debentures.

11. DIVIDENDS

HK$ million	**2003**	**2002**
Interim dividend paid of HK$ 0.215 (2002: HK$0.215) per share	485	485
Proposed final dividend of HK$0.5 (2002: HK$0.465) per share	1,127	1,048
Total	1,612	1,533

12. PROPERTY, PLANT AND EQUIPMENT

HK$ million	**Medium term leasehold land and buildings in Hong Kong**	**Medium term leasehold land and buildings outside Hong Kong**	**Plant and machinery**	**Furniture, fixtures and others**	**Total**
Group					
Cost					
At 1st January, 2003	864	404	2,075	260	3,603
Exchange translation differences	–	1	1	1	3
Additions	4	–	64	22	90
Disposals	(2)	(19)	(93)	(119)	(233)
At 31st December, 2003	866	386	2,047	164	3,463
Accumulated depreciation and impairment					
At 1st January, 2003	299	76	1,044	192	1,611
Charge for the year	30	10	124	17	181
Impairment loss	–	15	15	–	30
Disposals	(1)	(4)	(67)	(91)	(163)
At 31st December, 2003	328	97	1,116	118	1,659
Net book value					
At 31st December, 2003	538	289	931	46	1,804
At 31st December, 2002	565	328	1,031	68	1,992

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

HK$ million	Medium term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings outside Hong Kong	Plant and machinery	Furniture, fixtures and others	Total
Company					
Cost					
At 1st January, and 31st December, 2003	–	–	–	14	14
Accumulated depreciation					
At 1st January, 2003	–	–	–	10	10
Charge for the year	–	–	–	2	2
At 31st December, 2003	–	–	–	12	12
Net book value					
At 31st December, 2003	–	–	–	2	2
At 31st December, 2002	–	–	–	4	4

13. INTERESTS IN SUBSIDIARIES

HK$ million	Company 2003	Company 2002
Unlisted shares, at cost	22,757	22,757
Amounts due by subsidiaries	5,816	5,664
At 31st December	28,573	28,421

Particulars of the principal subsidiaries are set out in Appendix 1 on pages 77 and 78.

14. INTERESTS IN ASSOCIATES

HK$ million	Group 2003	Group 2002
Share of net assets		
Listed associate	15,195	14,198
Unlisted associates	960	652
	16,155	14,850
Amounts due by unlisted associates	7,526	7,363
At 31st December	23,681	22,213
Market value of listed associate	25,469	24,473

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (cont'd)

Included in the amounts due by unlisted associates are subordinated loan of HK$6,310 million (2002: HK$4,597 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates.

Particulars of the principal associates are set out in Appendix 2 on pages 79 and 80.

An extract of the published financial statements of Hongkong Electric, a principal associate of the Group, for the year ended 31st December, 2003, is shown in Appendix 4 on pages 82 and 83.

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
HK$ million	**2003**	**2002**
Investment costs	2,505	2,098
Shareholders' loans to jointly controlled entities	1,957	1,942
Share of undistributed post-acquisition results	374	498
At 31st December	4,836	4,538

The Group's interests in a jointly controlled entity with carrying value of HK$1,888 million as at 31st December, 2003 (2002: HK$1,982 million) have been pledged as part of the security to secure certain bank borrowings granted to the jointly controlled entity.

Particulars of the principal jointly controlled entities are set out in Appendix 3 on page 81.

16. INTERESTS IN INFRASTRUCTURE PROJECT INVESTMENTS

	Group	
HK$ million	**2003**	**2002**
Investments	2,550	3,026
Accumulated amortisation	(624)	(616)
Infrastructure project receivables	156	405
	2,082	2,815
Provision	(134)	(350)
At 31st December	1,948	2,465

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN SECURITIES

HK$ million	Group 2003	2002
Non-trading securities		
Equity investments, listed overseas, at market value	46	32
Debt investments, listed overseas, at market value	1,055	19
Stapled securities, listed overseas, at market value	771	573
	1,872	624
Other securities		
Unlisted equity securities	219	179
Total	2,091	803

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.

18. OTHER NON-CURRENT ASSETS

HK$ million	Group 2003	2002
Finance lease debtors – non-current portion	13	23
Employee retirement benefit assets *(note 27)*	23	12
Others	–	8
At 31st December	36	43

Details of finance lease debtors are shown below:

HK$ million	Group 2003	2002
Gross investment in leases receivable:		
Within one year	14	17
In the second to fifth year, inclusive	15	28
	29	45
Unearned finance lease income	(5)	(10)
Present value of finance lease debtors	24	35
Portion receivable:		
Within one year – current portion	11	12
In the second to fifth year, inclusive – non-current portion	13	23
Total	24	35

NOTES TO THE FINANCIAL STATEMENTS

19. INVENTORIES

	Group	
HK$ million	**2003**	**2002**
Raw materials	31	41
Work-in-progress	3	7
Stores, spare parts and supplies	107	115
Finished goods	23	23
	164	186
Contract work-in-progress	–	2
Total	164	188
Portion carried at net realisable value		
Raw materials	1	–
Stores, spare parts and supplies	65	53
Finished goods	–	2
Total	66	55
Contract work-in-progress		
Costs plus recognised profits less recognised losses	89	106
Progress billing	(89)	(104)
Net amount	–	2

The cost of inventories charged to the Group's income statement during the year was HK$1,075 million (2002: HK$1,117 million).

NOTES TO THE FINANCIAL STATEMENTS

20. DEBTORS AND PREPAYMENTS

	Group		Company	
HK$ million	**2003**	**2002**	**2003**	**2002**
Trade debtors and infrastructure project receivables	417	589	–	–
Prepayments, deposits and other receivables	232	133	7	7
Total	649	722	7	7

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

HK$ million	**2003**	**2002**
Current	218	367
One month	107	104
Two to three months	38	48
Over three months	204	208
Gross total	567	727
Provision	(150)	(138)
Total after provision	417	589

Trade with customers is carried out largely on credit, except for new customers and customers with unsatisfactory payment records, where payment in advance is normally required. 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.

Infrastructure project receivables are mainly derived from return from infrastructure project investments, which is predetermined in accordance with provisions of the relevant agreements. The return is contractually payable annually or semi-annually to the Group within a specified period.

NOTES TO THE FINANCIAL STATEMENTS

21. BANK AND OTHER LOANS

HK$ million	Group 2003	Group 2002
Unsecured bank loans repayable:		
Within one year	1,258	2,250
In the second year	514	2,409
In the third to fifth year, inclusive	8,396	5,988
	10,168	10,647
Secured bank loans repayable:		
Within one year	–	19
In the third to fifth year, inclusive	–	5
	–	24
Unsecured notes, 3.5%, repayable after five years	2,169	1,974
Total	12,337	12,645
Portion classified as:		
Current liabilities	1,258	2,269
Non-current liabilities	11,079	10,376
Total	12,337	12,645

Interest rates on the loans are either fixed or floating and determined with reference to Hong Kong Interbank Offered Rate or Australian Bank Bill Swap Reference Rate:

HK$ million	Group 2003	Group 2002
Fixed rate loans and loans swapped to fixed rate	8,231	8,610
Floating rate loans	4,106	4,035
Total	12,337	12,645

NOTES TO THE FINANCIAL STATEMENTS

22. CREDITORS AND ACCRUALS

HK$ million	Group 2003	Group 2002	Company 2003	Company 2002
Trade creditors	117	90	–	–
Amount due to an unlisted associate	133	131	133	131
Other payables and accruals	392	350	26	21
Total	642	571	159	152

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

HK$ million	2003	2002
Current	36	30
One month	25	20
Two to three months	13	9
Over three months	43	31
Total	117	90

23. DEFERRED TAX LIABILITIES

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years:

HK$ million	Accelerated tax depreciation	Tax Losses	Revaluation of investments in securities	Total
At 1st January, 2002, as previously reported	–	–	–	–
Prior year adjustment *(note 2(m))*	119	(61)	28	86
At 1st January, 2002, as restated	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

NOTES TO THE FINANCIAL STATEMENTS

23. DEFERRED TAX LIABILITIES (cont'd)

For the purpose of balance sheet presentation, all deferred tax assets have been offset against deferred tax liabilities in accordance with the conditions set out in SSAP12 (Revised).

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$397 million (2002: HK$450 million) at the balance sheet date. 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	**2003**	**2002**
Within one year	14	25
In the second year	45	20
In the third to fifth year, inclusive	117	146
After five years	–	15
No expiry date	221	244
Total	397	450

24. SHARE CAPITAL

HK$ million	**2003**	**2002**
Authorised:		
4,000,000,000 shares of HK$1 each	4,000	4,000
Issued and fully paid:		
2,254,209,945 shares of HK$1 each	2,254	2,254

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES

Group

HK$ million	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Retained profits	Proposed dividends	Total
At 1st January, 2002, as previously reported	3,836	7,632	108	(22)	12,032	947	24,533
Prior year adjustment *(note 2 (m))*	–	(1,553)	(28)	(1)	(614)	–	(2,196)
At 1st January, 2002, as restated	3,836	6,079	80	(23)	11,418	947	22,337
Final dividend for the year 2001 paid	–	–	–	–	–	(947)	(947)
Deficit on revaluation of non-trading securities	–	–	(9)	–	–	–	(9)
Surplus realised on disposals of non-trading securities	–	–	(90)	–	–	–	(90)
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(18)	–	–	–	(18)
Exchange translation differences	–	–	–	162	–	–	162
Profit for the year	–	–	–	–	3,326	–	3,326
Proposed interim dividend	–	–	–	–	(485)	485	–
Interim dividend paid	–	–	–	–	–	(485)	(485)
Proposed final dividend	–	–	–	–	(1,048)	1,048	–
At 31st December, 2002	3,836	6,079	(37)	139	13,211	1,048	24,276
Final dividend for the year 2002 paid	–	–	–	–	–	(1,048)	(1,048)
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)
Goodwill charged to income statement on disposal of a subsidiary	–	19	–	–	–	–	19
Surplus on revaluation of non-trading securities	–	–	44	–	–	–	44
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(23)	–	–	–	(23)
Exchange translation differences	–	–	–	675	–	–	675
Profit for the year	–	–	–	–	3,349	–	3,349
Proposed interim dividend	–	–	–	–	(485)	485	–
Interim dividend paid	–	–	–	–	–	(485)	(485)
Proposed final dividend	–	–	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	6,062	(16)	814	14,948	1,127	26,771

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES (cont'd)

The retained profits of the Group include the Group's share of the undistributed retained profits of its associates and jointly controlled entities amounting to HK$6,957 million (2002: HK$6,037 million) and HK$374 million (2002: HK$498 million) respectively.

Company

HK$ million	Share premium	Contributed surplus	Retained profits	Proposed dividends	Total
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

Contributed surplus of the Company arose when the Company issued shares in exchange for shares of subsidiaries and associates being acquired pursuant to the IPO Reorganisation in July 1996 and the Cheung Kong Group Restructuring (see below) 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, the Company and Hongkong 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% subsidiary of Hutchison Whampoa and acquiring a 35.01% interest in Hongkong Electric.

Total distributable reserves of the Company amounted to HK$24,046 million as at 31st December, 2003 (2002: HK$23,876 million).

NOTES TO THE FINANCIAL STATEMENTS

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

HK$ million	2003	2002
Profit before taxation	4,185	3,890
Share of results of associates	(3,202)	(3,201)
Share of results of jointly controlled entities	(611)	(453)
Interest income	(967)	(748)
Finance lease income	(4)	(5)
Income from infrastructure project investments	(212)	(277)
Distributions from listed stapled securities	(63)	(53)
Finance costs	630	624
Depreciation	181	193
Impairment loss recognised in respect of property, plant and equipment	30	53
Loss on disposals of property, plant and equipment	4	7
Gain on disposal of infrastructure project investment	(11)	–
Loss/(gain) on disposals of subsidiaries	19	(51)
Provision against amounts due by unlisted associates	49	19
Provision against interests in jointly controlled entities	–	19
Amortisation of costs of investments in infrastructure projects	107	138
Gain on disposals of listed securities	–	(97)
Unrealised holding (gain)/loss on other securities	(40)	91
Pension costs of defined benefit retirement plan	9	9
Amortisation of other non-current assets	1	1
Loss on disposals of other non-current assets	9	–
Unrealised exchange loss on borrowings	195	161
Returns received from jointly controlled entities	744	562
Returns received from infrastructure project investments	262	396
Contributions to defined benefit retirement plan	(20)	(21)
Operating cash flows before changes in working capital	1,295	1,257
Decrease in inventories	24	18
Increase in retention receivables	(1)	(4)
(Increase)/decrease in debtors and prepayments	(60)	129
Increase/(decrease) in creditors and accruals	53	(179)
Exchange translation differences	(47)	(9)
Cash generated from operations	1,264	1,212

NOTES TO THE FINANCIAL STATEMENTS

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Disposals of subsidiaries

HK$ million	2003	2002
Net assets disposed of:		
Interests in a jointly controlled entity	–	3
Interests in infrastructure project investments	–	1,162
Debtors and prepayments	1	–
Bank balances and deposits	11	–
Creditors and accruals	(12)	–
	–	1,165
Attributable goodwill	19	–
(Loss)/gain on disposals of subsidiaries	(19)	51
Total consideration	–	1,216
Satisfied by:		
Cash	–	1,216

Analysis of the net cash flow arising on the disposals:

HK$ million	2003	2002
Cash consideration	–	1,216
Deposits received in prior years	–	(413)
Bank balances and deposits disposed of	(11)	–
Net cash (outflow)/inflow arising from the disposals	(11)	803

27. RETIREMENT PLANS

The Group provides defined contribution retirement plans for its eligible employees except for a defined benefit plan for the employees of certain subsidiaries.

Contributions to the defined contribution plans are made by either the employer only at 10% of the employees' monthly basic salaries or by both the employer and the employees each at 10 or 15% of the employees' monthly basic 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% of the employees' monthly relevant incomes each capped at HK$20,000. As the Group's retirement plans in Hong Kong, including the defined benefit plan mentioned above, 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.

Contributions to the defined benefit plan are made by the employees at either 5 or 7% 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.

NOTES TO THE FINANCIAL STATEMENTS

27. RETIREMENT PLANS (cont'd)

The Group's costs in respect of defined contribution plans for the year amounted to HK$12 million (2002: HK$12 million). Forfeited contributions and earnings for the year under the defined contribution plans amounting to HK$1 million (2002: HK$4 million) were used to reduce the existing level of contributions. At 31st December, 2003, forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years amounted to HK$1 million (2002: HK$1 million).

Actuarial valuations of the defined benefit plan according to SSAP 34 "Employee Benefits" were carried out at 1st January, 2004, 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:

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

Amounts charged/(credited) to the consolidated income statement in respect of the defined benefit plan are as follows:

HK$ million	**2003**	**2002**
Current service cost	7	6
Interest cost	8	9
Expected return on plan assets	(9)	(9)
Net actuarial loss recognised	1	–
Amortisation of transitional liability	2	3
Net amount charged to consolidated income statement	9	9

The amount has been charged as operating costs to the consolidated income statement for the current year.

The actual return on plan assets for the year ended 31st December, 2003 is a gain of HK$12 million (2002: loss of HK$3 million).

NOTES TO THE FINANCIAL STATEMENTS

27. RETIREMENT PLANS (cont'd)

The amount included in the consolidated balance sheet at 31st December, 2003 and 2002 arising from the Group's obligations in respect of its defined benefit plan is as follows:

HK$ million	2003	2002
Present value of defined benefit obligations	172	157
Unrecognised actuarial losses	(37)	(23)
Fair value of plan assets	(150)	(136)
Unrecognised transitional liability	(8)	(10)
Employee retirement benefit assets included in the consolidated balance sheet	(23)	(12)

Movements in the Group's net asset recognised in the consolidated balance sheet are as follows:

HK$ million	2003	2002
At 1st January	(12)	–
Employers' contributions	(20)	(21)
Amount charged to consolidated income statement	9	9
At 31st December	(23)	(12)

Since 1st January, 2002, the Group has adopted SSAP 34 "Employee Benefits". 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. A charge of HK$2 million (2002: HK$3 million) was recognised in the current year. As at 31st December, 2003, transitional liability of HK$8 million (2002: HK$10 million) remained unrecognised.

Another actuarial valuation was completed at 1st January, 2004 by Mr. Joseph K.L. Yip, the same actuary as mentioned above, to determine the funding rates to be adopted by the Group in accordance with requirements of Occupational Retirement Schemes Ordinance. The actuarial method adopted was Attained Age Funding Method. The major assumptions used were the long-term average annual rate of investment return on the plan assets at 7% per annum, and the average annual salary increases at 3% per annum for the next two years and 5% per annum thereafter. The actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK$150 million at 31st December, 2003 represents 98% of the present value of the obligations as at that 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 January, 1998. The funding rates are subject to annual review.

NOTES TO THE FINANCIAL STATEMENTS

28. REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES

(a) Directors' Remuneration

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

HK$ million	**2003**	**2002**
Salaries, benefits in kind and fees	16	15
Contributions to retirement plans	1	1
Bonuses	15	13
Total	32	29

The directors' remuneration for the year includes directors' fees of HK$700,000 (2002: HK$600,000) of which HK$200,000 (2002: HK$100,000) have been paid to independent non-executive directors of the Company.

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

Remuneration band	**2003**	**2002**
Nil – HK$1,000,000	7	7
HK$3,000,001 – HK$3,500,000	–	1
HK$4,000,001 – HK$4,500,000	1	–
HK$5,500,001 – HK$6,000,000	1	1
HK$6,000,001 – HK$6,500,000	–	1
HK$6,500,001 – HK$7,000,000	1	1
HK$7,000,001 – HK$7,500,000	1	1
HK$7,500,001 – HK$8,000,000	1	–

During the year, certain directors of the Company received directors' fees totalling HK$400,000 (2002: HK$400,000) from Hongkong Electric, which were then paid back to the Company.

Further details of remuneration to the Company's directors are set out in Report of the Directors.

NOTES TO THE FINANCIAL STATEMENTS

28. REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES (cont'd)

(b) Senior Executives' Remuneration

Of the five individuals with the highest emoluments in the Group, four (2002: four) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the remaining one (2002: one) individual is as follows:

HK$ million	2003	2002
Salaries and benefits in kind	2	2
Contributions to retirement plan	1	1
Bonuses	2	1
Total	5	4

The remaining one (2002: one) individual with the highest emoluments is within the following band:

Remuneration band	2003	2002
HK$4,000,001 – HK$4,500,000	–	1
HK$4,500,001 – HK$5,000,000	1	–

29. COMMITMENTS

(a) The Group's capital commitments outstanding at 31st December, and not provided for in the financial statements are as follows:

	Contracted but not provided for		Authorised but not contracted for	
HK$ million	2003	2002	2003	2002
Investments	1,711	976	–	–
Plant and machinery	9	13	84	146
Others	–	–	12	–
Total	1,720	989	96	146

(b) At 31st December, 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	
HK$ million	2003	2002	2003	2002
Within one year	21	41	4	6
In the second to fifth year, inclusive	20	78	2	9
After five years	13	22	–	–
Total	54	141	6	15

NOTES TO THE FINANCIAL STATEMENTS

30. CONTINGENT LIABILITIES

HK$ million	Group 2003	Group 2002	Company 2003	Company 2002
Guarantees in respect of bank and other loans drawn by subsidiaries	–	–	12,337	12,549
Guarantee in respect of bank loans drawn by an associate	1,204	335	1,204	335
Guarantee in respect of bank loans drawn by a jointly controlled entity	696	696	696	696
Performance bonds	36	25	–	–
Total	1,936	1,056	14,237	13,580

31. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group advanced HK$15 million (2002: Nil) to a jointly controlled entity. The total outstanding loan balances as at 31st December, 2003 amounted to HK$1,957 million (2002: HK$1,942 million), of which HK$905 million (2002: HK$905 million) bears interest with reference to Hong Kong dollar prime rate, and HK$1,052 million (2002: HK$1,037 million) are interest-free. Except for a loan of HK$4 million which is repayable within one year, the loans have no fixed terms of repayment.

The Group advanced HK$352 million (2002: HK$2,309 million) to its unlisted associates, and received repayments totalling HK$2,108 million (2002: HK$48 million) during the year. The total outstanding loan balances as at 31st December, 2003 amounted to HK$7,526 million (2002: HK$7,363 million), of which HK$7,061 million (2002: HK$7,002 million) bears interest with reference to Australian Bank Bill Swap Reference Rate or fixed rate, and HK$465 million (2002: HK$361 million) are interest-free. Interest income contributed from the associates during the year amounted to HK$792 million (2002: HK$608 million). Except for a loan of HK$94 million which is repayable within eighteen years, the loans have no fixed terms of repayment.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 9th March, 2004.

PRINCIPAL SUBSIDIARIES

APPENDIX 1

The table below shows the subsidiaries as at 31st December, 2003 which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of all the subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Share capital issued Number	Par value per share	Proportion of nominal value of issued capital held by the Group (%)	Principal activities
Incorporated and operating in Hong Kong				
Anderson Asia (Holdings) Limited	2 ordinary 65,780,000 non-voting deferred	HK$0.5 HK$0.5	100 –	Investment holding
Anderson Asia Concrete Limited	800,000 ordinary	HK$1	100	Investment holding
Anderson Asphalt Limited	36,000 ordinary	HK$100	100	Production and laying of asphalt and investment holding
Asia Stone Company, Limited	33,000,000 ordinary	HK$1	100	Quarry operation and manufacture of aggregates
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

APPENDIX 1 (cont'd)

Name	Share capital issued Number	Par value per share	Proportion of nominal value of issued capital held by the Group (%)	Principal activities
Incorporated and operating in Hong Kong (cont'd)				
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
Green Island International (BVI) Limited	1 ordinary	US$1	100	Investment holding
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

Note: The shares of all the above subsidiaries are indirectly held by the Company.

PRINCIPAL ASSOCIATES

APPENDIX 2

The table below shows the associates as at 31st December, 2003 which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of all the associates would, in the opinion of the Directors, result in particulars of excessive length.

Name	Share capital issued Number	Par value per share	Approximate share of equity shares held by the Group (%)	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	Investing 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)*	3,339,969 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
Incorporated in British Virgin Islands				
CKI/HEI Electricity Assignment Limited	2 ordinary	US$1	50	Investment holding

APPENDIX 2 (cont'd)

Notes:

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

2. ETSA Utilities Partnership, an 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% 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% 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% interests in CitiPower I Pty Ltd, which is one of five electricity distributors in the State of Victoria of Australia.

6. CrossCity Motorway Holdings Limited or CrossCity Motorway Holdings Trust own 100% 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.

PRINCIPAL JOINTLY CONTROLLED ENTITIES

APPENDIX 3

The table below shows the jointly controlled entities as at 31st December, 2003 which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of all the jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length.

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

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

EXTRACTS OF FINANCIAL STATEMENTS OF HONGKONG ELECTRIC

APPENDIX 4

The following is a summary of the audited consolidated profit and loss account and consolidated balance sheet of Hongkong Electric, a principal associate of the Company, for the year ended 31st December, 2003, as extracted from the 2003 published financial statements of Hongkong Electric.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31st December

HK$ million	**2003**	**2002** Restated
Turnover	11,250	11,605
Direct costs	(3,915)	(3,728)
	7,335	7,877
Other revenue and net income	1,283	878
Other operating costs	(578)	(513)
Finance costs	(646)	(565)
Operating profit	7,394	7,677
Share of results of associates	241	163
Profit before taxation	7,635	7,840
Income tax:		
Current	(1,092)	(971)
Deferred	(619)	(233)
Profit after taxation	5,924	6,636
Scheme of Control transfers From/(To):		
Development Fund	139	(1)
Rate Reduction Reserve	(6)	(11)
Profit attributable to shareholders	6,057	6,624
Dividends		
Interim dividend paid	1,238	1,238
Proposed final dividend	2,412	2,412
	3,650	3,650
Earnings per share	HK$2.84	HK$3.10
Dividends per share	HK$1.71	HK$1.71

APPENDIX 4 (cont'd)

CONSOLIDATED BALANCE SHEET
as at 31st December

HK$ million	**2003**	**2002** Restated
Fixed assets		
Property, plant and equipment	42,024	42,049
Assets under construction	3,000	3,153
Interest in associates	8,425	7,910
Other investments	7	405
Employee retirement benefit assets	236	228
Current assets	3,020	2,823
Current liabilities	(3,865)	(5,049)
Non-current liabilities	(17,531)	(18,890)
Rate Reduction Reserve	(5)	(10)
Development Fund	–	(139)
Net assets	35,311	32,480
Share capital	2,134	2,134
Reserves	33,177	30,346
Capital and reserves	35,311	32,480

SCHEDULE OF MAJOR PROPERTIES

APPENDIX 5

Location	Lot Number	Group's Interest (%)	Approximate floor/site area attributable to the Group (sq. m.)	Existing Usage	Lease Term
14–18 Tsing Tim Street, Tsing Yi	TYTL 98	100	3,355	I	Medium
TMTL 201 Tap Shek Kok	TMTL 201	100	152,855	I	Medium
Certain units of Harbour Centre Tower 2, 8 Hok Cheung Street, Hunghom	KML113	100	5,712	C	Medium

I : Industrial C : Commercial

(C) EXTRACTS FROM THE UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

The following was extracted from the Company's 2004 interim report. References to page numbers in the extract reproduced below are to pages contained in the Company's interim report for the six months ended 30th June, 2004.

CONSOLIDATED INCOME STATEMENT
for the six months ended 30th June

		Unaudited	
HK$ million	*Notes*	**2004**	**2003**
Turnover			
Group turnover		1,135	1,175
Share of turnover of jointly controlled entities		943	869
	2	2,078	2,044
Group turnover	*2*	1,135	1,175
Other revenue	*3*	166	158
Operating costs	*4*	(806)	(763)
Operating profit	*5*	495	570
Finance costs		(340)	(314)
Share of results of associates		1,320	1,355
Share of results of jointly controlled entities		323	243
Profit before taxation		1,798	1,854
Taxation	*6*	(362)	(456)
Profit after taxation		1,436	1,398
Minority interests		2	5
Profit attributable to shareholders	*5*	1,438	1,403
Proposed interim dividend		496	485
Earnings per share	*7*	HK$0.64	HK$0.62
Proposed interim dividend per share		HK$0.22	HK$0.215

CONSOLIDATED BALANCE SHEET

HK$ million	Notes	Unaudited 30/6/2004	Audited 31/12/2003
Property, plant and equipment		2,352	1,804
Interests in associates		23,410	23,681
Interests in jointly controlled entities		4,618	4,836
Interests in infrastructure project investments		1,894	1,948
Investments in securities		1,743	2,091
Other non-current assets		387	36
Total non-current assets		34,404	34,396
Inventories		148	164
Retention receivables		14	21
Debtors and prepayments	8	835	649
Bank balances and deposits		7,550	7,243
Total current assets		8,547	8,077
Bank and other loans		1,928	1,258
Creditors and accruals	9	755	642
Taxation		108	109
Total current liabilities		2,791	2,009
Net current assets		5,756	6,068
Total assets less current liabilities		40,160	40,464
Bank and other loans		10,410	11,079
Deferred tax liabilities		257	151
Other non-current liabilities		37	–
Total non-current liabilities		10,704	11,230
Minority interests		207	209
Net assets		29,249	29,025
Representing:			
Share capital	10	2,254	2,254
Reserves	11	26,995	26,771
Capital and reserves		29,249	29,025

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30th June

HK$ million	Notes	Unaudited 2004	2003
Total equity at 1st January		29,025	26,530
Surplus on revaluation of non-trading securities		82	89
Deferred tax charge on revaluation surplus of non-trading securities		(18)	(28)
Exchange translation differences		(151)	412
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years		–	(36)
Net (loss)/gain not recognised in the consolidated income statement		(87)	437
Net profit for the period		1,438	1,403
Final dividend for the year 2003/2002 paid		(1,127)	(1,048)
Total equity at 30th June		29,249	27,322

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30th June

	Unaudited	
HK$ million	**2004**	**2003**
Net cash from operating activities	702	1,052
Net cash from investing activities	636	1,647
Net cash utilised in financing activities	(1,031)	(3,257)
Net increase/(decrease) in cash and cash equivalents	307	(558)
Cash and cash equivalents at 1st January	7,243	7,191
Cash and cash equivalents at 30th June		
Bank balances and deposits	7,550	6,633

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31st December, 2003.

2. TURNOVER

Group turnover represents net sales of infrastructure materials and supply of water, return and interest from infrastructure project investments, interest from loans granted to associates, and distribution from securities classified as infrastructure investments, net of withholding tax, where applicable.

In addition, the Group also accounts for its proportionate share of turnover of jointly controlled entities. Turnover of associates is not included.

The turnover for the current period is analysed as follows:

	Six months ended 30th June,	
HK$ million	**2004**	**2003**
Sales of infrastructure materials	547	625
Sales of supply of water	36	–
Return from infrastructure project investments	92	145
Interest from loans granted to associates	432	381
Distribution from securities	28	24
Group turnover	1,135	1,175
Share of turnover of jointly controlled entities	943	869
Turnover	2,078	2,044

Commencing from 1st January, 2004, the Group has classified the interest from loans granted to associates and the distribution from securities as group turnover as it would reflect more fairly the Group's results from its principal activities. These items were previously classified as other revenue. Accordingly, certain comparative figures have been reclassified to conform to the current period's presentation.

3. OTHER REVENUE

Other revenue includes the following:

HK$ million	Six months ended 30th June, 2004	2003
Interest income	90	88
Finance lease income	2	2
Gain on disposals of subsidiaries	22	–
Gain on disposal of listed securities	27	–
Gain on disposal of infrastructure project investment	–	11

4. OPERATING COSTS

Operating costs include the following:

HK$ million	Six months ended 30th June, 2004	2003
Depreciation	86	87
Amortisation of costs of investments in infrastructure projects	45	66
Cost of inventories sold	476	482

5. **SEGMENT INFORMATION**

By business segment
for the six months ended 30th June

HK$ million	Investment in Hongkong Electric* 2004	Investment in Hongkong Electric* 2003	Infrastructure investments 2004	Infrastructure investments 2003	Infrastructure related business 2004	Infrastructure related business 2003	Unallocated items 2004	Unallocated items 2003	Consolidated 2004	Consolidated 2003
Turnover										
Group turnover	–	–	588	550	547	625	–	–	1,135	1,175
Share of turnover of jointly controlled entities	–	–	943	869	–	–	–	–	943	869
	–	–	1,531	1,419	547	625	–	–	2,078	2,044
Segment revenue										
Group turnover	–	–	588	550	547	625	–	–	1,135	1,175
Others	–	–	13	8	12	49	–	–	25	57
	–	–	601	558	559	674	–	–	1,160	1,232
Segment result	–	–	509	477	(76)	4	–	–	433	481
Gain on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	–	11	22	–	27	–	49	11
Interest and finance lease income	–	–	–	–	37	42	55	48	92	90
Corporate overheads and others	–	–	–	–	–	–	(79)	(12)	(79)	(12)
Operating profit	–	–	509	488	(17)	46	3	36	495	570
Finance costs	–	–	–	–	–	–	(340)	(314)	(340)	(314)
Share of results of associates and jointly controlled entities	1,090	1,223	548	375	5	–	–	–	1,643	1,598
Taxation	(242)	(377)	(132)	(78)	12	(1)	–	–	(362)	(456)
Minority interests	–	–	–	–	2	5	–	–	2	5
Profit attributable to shareholders	848	846	925	785	2	50	(337)	(278)	1,438	1,403

* During the period, the Group has a 38.87% equity interest in Hongkong Electric Holdings Limited, which is listed on The Stock Exchange of Hong Kong Limited.

5. SEGMENT INFORMATION (cont'd)

By geographic region
for the six months ended 30th June

HK$ million	Hong Kong 2004	Hong Kong 2003	Mainland China 2004	Mainland China 2003	Australia 2004	Australia 2003	Others 2004	Others 2003	Unallocated items 2004	Unallocated items 2003	Consolidated 2004	Consolidated 2003
Turnover												
Group turnover	414	481	225	270	460	405	36	19	–	–	1,135	1,175
Share of turnover of jointly controlled entities	–	–	943	869	–	–	–	–	–	–	943	869
	414	481	1,168	1,139	460	405	36	19	–	–	2,078	2,044
Segment revenue												
Group turnover	414	481	225	270	460	405	36	19	–	–	1,135	1,175
Others	10	28	12	29	–	–	3	–	–	–	25	57
	424	509	237	299	460	405	39	19	–	–	1,160	1,232
Segment result	(48)	27	15	69	460	405	6	(20)	–	–	433	481
Gain on disposals of infrastructure project investment, subsidiaries and listed securities	22	–	–	11	–	–	–	–	27	–	49	11
Interest and finance lease income	37	42	–	–	–	–	–	–	55	48	92	90
Corporate overheads and others	–	–	–	–	–	–	–	–	(79)	(12)	(79)	(12)
Operating profit	11	69	15	80	460	405	6	(20)	3	36	495	570
Finance costs	–	–	–	–	–	–	–	–	(340)	(314)	(340)	(314)
Share of results of associates and jointly controlled entities	1,098	1,232	323	243	217	123	5	–	–	–	1,643	1,598
Taxation	(230)	(381)	(25)	(20)	(104)	(55)	(3)	–	–	–	(362)	(456)
Minority interests	–	–	2	2	–	–	–	3	–	–	2	5
Profit attributable to shareholders	879	920	315	305	573	473	8	(17)	(337)	(278)	1,438	1,403

6. TAXATION

Hong Kong Profits Tax is provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Deferred taxation is provided on temporary differences under the liability method using tax rates applicable to the Group's operations in different countries.

HK$ million	Six months ended 30th June, 2004	2003
Company and subsidiaries		
Current taxation – Hong Kong Profits Tax	3	5
Deferred taxation	(12)	(2)
	(9)	3
Share of taxation attributable to		
Associates	346	433
Jointly controlled entities	25	20
	371	453
Total	362	456

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK$1,438 million (2003: HK$1,403 million) and on 2,254,209,945 shares (2003: 2,254,209,945 shares) in issue during the interim period.

8. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors and infrastructure project receivables of HK$361 million (HK$417 million as at 31st December, 2003) and their ageing analysis is as follows:

HK$ million	As at 30th June, 2004	As at 31st December, 2003
Current	231	218
One month	55	107
Two to three months	33	38
Over three months	186	204
Gross total	505	567
Provision	(144)	(150)
Total after provision	361	417

Trade with customers is carried out largely on credit, except for new customers and customers with unsatisfactory payment records, where payment in advance is normally required. 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.

Infrastructure project receivables are mainly derived from return from infrastructure project investments, which is predetermined in accordance with provisions of the relevant agreements. The return is contractually payable annually or semi-annually to the Group within a specified period.

9. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors of HK$126 million (HK$117 million as at 31st December, 2003) and their ageing analysis is as follows:

HK$ million	**As at 30th June, 2004**	**As at 31st December, 2003**
Current	33	36
One month	26	25
Two to three months	11	13
Over three months	56	43
Total	126	117

10. SHARE CAPITAL

There were no movements in the share capital of the Company in the six months ended 30th June, 2004 and 2003 respectively.

11. RESERVES

HK$ million	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Retained profits	Proposed dividends	Total
At 1st January, 2004	3,836	6,062	(16)	814	14,948	1,127	26,771
Final dividend for the year 2003 paid	–	–	–	–	–	(1,127)	(1,127)
Surplus on revaluation of non-trading securities	–	–	82	–	–	–	82
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(18)	–	–	–	(18)
Exchange translation differences	–	–	–	(151)	–	–	(151)
Profit for the period	–	–	–	–	1,438	–	1,438
Proposed interim dividend	–	–	–	–	(496)	496	–
At 30th June, 2004	3,836	6,062	48	663	15,890	496	26,995
At 1st January, 2003	3,836	6,079	(37)	139	13,211	1,048	24,276
Final dividend for the year 2002 paid	–	–	–	–	–	(1,048)	(1,048)
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)
Surplus on revaluation of non-trading securities	–	–	89	–	–	–	89
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(28)	–	–	–	(28)
Exchange translation differences	–	–	–	412	–	–	412
Profit for the period	–	–	–	–	1,403	–	1,403
Proposed interim dividend	–	–	–	–	(485)	485	–
At 30th June, 2003	3,836	6,043	24	551	14,129	485	25,068

12. CAPITAL COMMITMENTS

The Group's capital commitments outstanding at 30th June, 2004 and not provided for in the financial statements are as follows:

HK$ million	Contracted but not provided for		Authorised but not contracted for	
	As at 30th June, 2004	**As at 31st December, 2003**	**As at 30th June, 2004**	**As at 31st December, 2003**
Investments	2,959	1,711	–	–
Plant and machinery	5	9	40	84
Others	–	–	–	12
Total	2,964	1,720	40	96

13. CONTINGENT LIABILITIES

HK$ million	**As at 30th June, 2004**	**As at 31st December, 2003**
Guarantee in respect of bank loans drawn by an associate	1,149	1,204
Guarantee in respect of a bank loan drawn by a jointly controlled entity	696	696
Performance bonds	36	36
Total	1,881	1,936

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

(D) MANAGEMENT DISCUSSION AND ANALYSIS

The year ended 31st December, 2001

Results

The Group reported a profit attributable to shareholders of HK$3,152 million with earnings per share of HK$1.40.

Business review

Investment in HEH

The Company's investment in HEH accounted for HK$2,370 million of the Company's profit attributable to shareholders in 2001 representing an increase of 18.7% over the previous year. HEH reported a net profit of HK$6,156 million in 2001, an 18.7% increase from 2000. The substantial increment in net profit of HEH was a result of both organic growth of HEH's core business in Hong Kong as well as the exceptional performance of HEH's overseas investments.

Infrastructure investments

The Company's infrastructure investments comprise energy and transportation investments in Australia and China. The Company's infrastructure investments accounted for HK$1,268 million of the Company's profit attributable to shareholders in 2001 representing a decrease of 16.7% compared with the previous year. This overall decrease comprised satisfactory growth in the Company's Australian infrastructure investments (attributable to the better than forecast operational performance of the Australian businesses in 2001, as well as the disposal of the unregulated retail portion of Powercor) but which was off-set by a decline in profit contributions from the Company's infrastructure investments in China resulting from a divestment of assets during the year.

Infrastructure materials and infrastructure related businesses

Infrastructure materials and infrastructure related businesses encompass both the Group's established operations in infrastructure materials and new ventures in environmental and electronic infrastructure. The Company's infrastructure materials and infrastructure related businesses accounted for HK$265 million of the Company's profit attributable to shareholders in 2001 representing a decrease of 33.9% compared with the previous year. This decrease reflected a decline in the consumption of infrastructure materials during 2001 as a result of the shrinking construction market accompanied by lower prices due to intense competition and strong deflationary pressure.

Financial position

As at 31st December, 2001, the Group had current assets and current liabilities of HK$5,193 million and HK$4,726 million respectively.

As at 31st December, 2001, the Group had total borrowings of HK$8,435 million.

As at 31st December, 2001, the Group maintained a gearing ratio at 18% which was based on its net debt of HK$4,389 million and equity of HK$24,591 million.

As at 31st December, 2001, the Group maintained bank balances and cash totalling HK$4,046 million.

The year ended 31st December, 2002

Results

The Group reported a profit attributable to shareholders of HK$3,326 million with earnings per share of HK$1.48.

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$2,556 million of the Company's profit attributable to shareholders in 2002 representing an increase of 7.8% over the previous year. HEH reported a net profit of HK$6,624 million in 2002, a 7.6% increase from 2001. The growth in net 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$1,357 million of the Company's profit attributable to shareholders in 2002 representing an increase of 7.1% 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 Australian and Chinese energy related investments; 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 had 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 of HK$26,530 million.

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

The year ended 31st December, 2003

Results

The Group reported a profit attributable to shareholders of HK$3,349 million with earnings per share of HK$1.49.

As outlined in Appendix III, assuming that the Blackwater Acquisition had taken place on 1st January, 2003, the unaudited profit attributable to the shareholders of the Enlarged Group for the year ended 31st December, 2003 was HK$3,860 million.

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$2,281 million of the Company's profit attributable to shareholders in 2003 representing a decrease of 11% over the previous year. HEH reported a net profit of HK$6,057 million in 2003, an 8.6% drop from 2002. This drop in net 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$1,641 million of the Company's profit attributable to shareholders in 2003 representing an increase of 21% 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 of HK$29,025 million.

As at 31st December, 2003, the Group maintained bank balances and cash 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.

Employees

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,678 employees. Employees' costs (excluding directors' emoluments) amounted to HK$321 million in 2003. 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.

(E) INDEBTEDNESS

As at the close of business on 31st October, 2004, for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of approximately HK$13,016 million which was comprised of unsecured bank loans and other borrowings of approximately HK$12,687 million, debentures of approximately HK$39 million, loans from minority shareholders of approximately HK$239 million and finance lease obligations of approximately HK$51 million.

As at the close of business on 31st October, 2004, the Enlarged Group had contingent liabilities of approximately HK$1,948 million. The contingent liabilities comprised approximately HK$1,223 million of guarantees in respect of bank loans drawn by an associate and approximately HK$689 million in respect of bank loans drawn by a jointly controlled entity, and performance bonds of approximately HK$36 million.

Save as disclosed above or as otherwise mentioned herein and apart from intra-group liabilities, the Enlarged Group did not, at the close of business on 31st October, 2004 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.

(F) 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 Blackwater Acquisition.

26th November, 2004

The Directors
Cheung Kong Infrastructure Holdings Limited
12th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information set out in sections A to D (the "Financial Information") below regarding Blackwater F Limited ("Blackwater") for each of the three years ended 31st March, 2002, 2003 and 2004 and the three months ended 30th June, 2004 (the "Relevant Periods") for inclusion in the circular dated 26th November, 2004 (the "Circular") issued by Cheung Kong Infrastructure Holdings Limited (the "Company") in connection with the acquisition of 69.8% interest and the disposal of 19.9% and 9.9% interest in Blackwater (the "Acquisition").

Blackwater was incorporated in the United Kingdom (the "UK") with limited liability under the Companies Act 1985 of the United Kingdom on 30th June, 2004. Blackwater had not carried on any business since the date of its incorporation until 30th August, 2004 when it conditionally agreed to acquire the North of England gas distribution network business (the "Gas Distribution Business") from Transco Plc. ("Transco").

No statutory audited financial statements have been prepared for Blackwater since its incorporation as Blackwater has not carried on any business, except for the proposed acquisition of the Gas Distribution Business. For the purpose of this report, PricewaterhouseCoopers LLP have, however, carried out independent audit procedures with reference to International Standard of Auditing on the financial statements of the Gas Distribution Business, the only underlying financials of Blackwater, prepared by the management of Transco on the basis set out in note 1 in section A below for the Relevant Periods (the "Blackwater Financial Statements").

We have examined the audited Blackwater 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.

The Financial Information, which is expressed in Pounds Sterling, has been prepared based on the Blackwater Financial Statements, after making such adjustments as we consider appropriate.

The directors of the Company are responsible for the Financial Information. It is our responsibilities to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1, the Financial Information gives, for the purpose of the report, a true and fair view of the state of affairs of Blackwater as at 31st March, 2002, 2003 and 2004 and 30th June, 2004 and of its results and cashflows for each of the Relevant Periods then ended.

A. FINANCIAL INFORMATION

INCOME STATEMENTS

		Year ended 31st March,			Three months ended 30th June,	
		2002	**2003**	**2004**	**2003**	**2004**
	Notes	*£'M*	*£'M*	*£'M*	*£'M*	*£'M*
					(unaudited)	
Turnover	*4*	239.2	248.4	265.4	52.3	53.0
Staff costs	*5*	(30.3)	(36.1)	(28.9)	(7.4)	(7.3)
Depreciation		(15.6)	(18.2)	(18.6)	(4.6)	(4.5)
Restructuring costs		(1.3)	(8.4)	(5.9)	(1.5)	–
Other operating expenses		(82.5)	(80.9)	(74.4)	(19.4)	(19.7)
Profit from operations	*6*	109.5	104.8	137.6	19.4	21.5
Finance costs	*7*	(30.7)	(30.1)	(27.9)	(6.6)	(6.7)
Profit before taxation		78.8	74.7	109.7	12.8	14.8
Taxation	*8*	(23.5)	(22.6)	(32.7)	(4.0)	(4.5)
Profit for the year/period		55.3	52.1	77.0	8.8	10.3

BALANCE SHEETS

		As at 31st March,			As at 30th June,	
		2002	2003	2004	2003	2004
	Notes	*£'M*	*£'M*	*£'M*	*£'M*	*£'M*
					(unaudited)	
Non-current assets						
Property, plant and equipment	*9*	526.3	607.4	675.4	623.9	690.5
Current assets						
Inventories	*10*	1.2	1.1	1.1	1.4	1.1
Trade debtors, other debtors and prepayments	*11*	18.4	20.5	18.7	13.4	11.2
Amounts due from related companies		0.9	0.6	0.7	0.6	0.6
		20.5	22.2	20.5	15.4	12.9
Current liabilities						
Trade creditors, other creditors and accruals	*12*	26.5	46.4	49.0	41.8	43.3
Amounts due to related companies		2.1	3.8	10.3	4.2	8.2
Deferred income		16.5	17.2	16.4	5.7	5.6
Obligations under finance leases	*13*	1.9	2.6	2.2	2.6	2.2
Taxation payable		13.6	13.7	20.6	6.5	9.8
		60.6	83.7	98.5	60.8	69.1
Net current liabilities		40.1	61.5	78.0	45.4	56.2
Total assets less current liabilities		486.2	545.9	597.4	578.5	634.3
Non-current liabilities						
Borrowings	*14*	441.1	442.4	405.6	462.1	457.8
Obligations under finance leases	*13*	5.4	4.5	2.5	4.5	2.5
Provisions	*15*	15.1	17.7	12.6	16.9	12.6
Deferred tax liabilities	*16*	65.1	87.7	107.7	91.7	112.2
Deferred income		87.5	91.4	95.8	92.3	96.2
		614.2	643.7	624.2	667.5	681.3
NET LIABILITIES		(128.0)	(97.8)	(26.8)	(89.0)	(47.0)
Representing:						
Share capital	*17*	–	–	–	–	*0.1*
Invested capital	*18*	(128.0)	(97.8)	(26.8)	(89.0)	(47.1)
SHAREHOLDERS' DEFICIT		(128.0)	(97.8)	(26.8)	(89.0)	(47.0)

STATEMENTS OF CHANGES IN EQUITY

	Year ended 31st March,			Three months ended 30th June,	
	2002	**2003**	**2004**	**2003**	**2004**
	£'M	*£'M*	*£'M*	*£'M*	*£'M*
				(unaudited)	
As at 1st April	(160.2)	(128.0)	(97.8)	(97.8)	(26.8)
Issuance of share capital	–	–	–	–	0.1
Profit for the year/period	55.3	52.1	77.0	8.8	10.3
Repayment of invested capital	(23.1)	(21.9)	(6.0)	–	(30.6)
As at 31st March/30th June	(128.0)	(97.8)	(26.8)	(89.0)	(47.0)

CASH FLOW STATEMENTS

	Year ended 31st March,			Three months ended 30th June,	
	2002	**2003**	**2004**	**2003**	**2004**
	£'M	*£'M*	*£'M*	*£'M*	*£'M*
				(unaudited)	
Operating activities					
Profit from operations	109.5	104.8	137.6	19.4	21.5
Adjustments for:					
Restructuring and environmental cost	(1.1)	1.7	(6.0)	(1.0)	(0.1)
Depreciation of property, plant and equipment	15.6	18.2	18.6	4.6	4.5
Operating cash flows before movements in working capital	124.0	124.7	150.2	23.0	25.9
(Increase)/decrease in inventories	0.1	0.1	–	(0.3)	–
(Increase)/decrease in trade debtors, other debtors and prepayments, and amounts due from related companies	2.6	(2.0)	(2.8)	4.5	7.4
Increase/(decrease) in trade creditors, other creditors and accruals, and amounts due to related companies	(7.1)	22.6	14.3	(18.5)	(20.6)
Cash generated from operations	119.6	145.4	161.7	8.7	12.7
Corporate tax paid	(2.2)	–	(6.4)	–	(3.2)
Net cash from operating activities	117.4	145.4	155.3	8.7	9.5
Investing activities					
Proceeds on disposal of property, plant and equipment	2.6	0.5	0.2	–	–
Purchase of property, plant and equipment	(89.4)	(93.5)	(87.3)	(21.2)	(21.0)
Net cash used in investing activities	(86.8)	(93.0)	(87.1)	(21.2)	(21.0)
Financing activities					
Proceeds from issuance of share capital	–	–	–	–	0.1
Repayment of invested capital	(23.1)	(21.9)	(6.0)	–	(30.6)
Funds from/(repayment) of borrowings	21.7	1.3	(36.8)	19.7	52.2
Interest paid, net	(27.0)	(29.6)	(22.8)	(7.2)	(10.2)
Capital element of finance lease rentals	(2.2)	(2.2)	(2.6)	–	–
Net cash (used in)/from financing activities	(30.6)	(52.4)	(68.2)	12.5	11.5
Increase/(decrease) in cash and cash equivalents	–	–	–	–	–
Cash and cash equivalents at beginning of the year/period	–	–	–	–	–
Cash and cash equivalents at end of the year/period	–	–	–	–	–

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with the basis of preparation set out below and the accounting policies, which are in accordance with the Hong Kong Financial Reporting Standards, set out in note 2.

The preparation of the Financial Information, which is in conformity with generally accepted accounting principles in Hong Kong, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Information and the reported amounts of revenues and expenses during the Relevant Periods. Actual results could differ from these estimates. The Financial Information has been prepared on a going concern basis on the assumption that the shareholders will provide adequate fund to enable the Gas Distribution Business to meet in full its financial obligations as they fall due for the foreseeable future.

(a) General basis of preparation

The Gas Distribution Business is not a legal entity, but is one of eight regional distribution networks managed as fully integrated businesses within the UK gas distribution business segment of Transco, the existing owner of the Gas Distribution Business. Transco reports its results under three business segments which include the Gas Distribution Business.

The Gas Distribution Business, along with the other seven distribution networks of Transco, was established as a separately managed business unit with effect from 1st April, 2002. Transco has 13 local distribution zones ("LDZs"), which are discrete pipe networks delineated by metered offtakes from Transco's National Transmission System (NTS).

The Gas Distribution Business does not have its own separate accounting records but its directly managed income, costs, assets and liabilities are accounted for as a separate profit center within Transco's financial records. The Financial Information combines those income, costs, assets and liabilities directly managed by the Gas Distribution Business together with an allocation of other income, costs, assets and liabilities of Transco, which are attributable to the activities of the Gas Distribution Business. Amounts which are directly managed mainly comprise the direct costs of operating, maintaining and extending the pipe network of the Gas Distribution Business, together with the associated property, plant and equipment and certain working capital balances. They also include the income and costs from the undertaking of meter work for metering businesses of National Grid Transco Plc, its ultimate holding company, which is reported within "other income". Amounts which have been allocated to the Gas Distribution Business comprise income from the provision of gas transportation services, shared service costs, pass through costs, interest costs, taxation, significant components of working capital, net borrowings, and provisions associated with restructuring and environmental obligations.

As the Gas Distribution Business constitutes only part of Transco and is not required to be reported on as a distinct business under any regulation or legislation that governs Transco, no audited financial statements for Gas Distribution Network have previously been prepared on a standalone basis. The Financial Information for the Gas Distribution Business has been extracted from the financial statements of Transco and is presented in the Financial Information as if the Gas Distribution Business had been operated on a standalone basis throughout the Relevant Periods and Blackwater had been in existence on 1st April, 2001 and had carried on the Gas Distribution Business throughout the Relevant Periods.

As a result of the above, the Financial Information prepared in the above basis may not be representative of future results, assets or liabilities of the Gas Distribution Business. Certain operating costs, future interest and tax charges, assets or liabilities may be significantly different from those presented if the Gas Distribution Business is being run as a standalone business.

The unaudited results and cashflows for the three months ended 30th June, 2003 and the financial position as at 30th June, 2003 are presented for comparative purpose.

(b) Specific bases of preparation

Below are the specific bases used in arriving at the Financial Information:

UK Gas Distribution invoices its customers, the gas shippers, on a national basis, with the invoices showing only total transportation charges. Formula income, within turnover, has been attributed to the Gas Distribution Business through interrogation of an underlying database that contains information on income type, load band, the location to where gas has been transported and tariffs. During the year ended 31st March, 2002, distribution tariffs were temporarily reduced to rebate to shippers an over-recovery of income compared to the regulatory maximum allowed revenues for transmission services supplied through the NTS. Formula income for the year ended 31st March, 2002 has been stated on the basis that this reduction in income is not attributable to the Gas Distribution Business.

During the year ended 31st March, 2002, certain tariffs were reduced to rebate gas shippers for an over-recovery of income compared to the regulatory maximum allowed revenues in respect of sales of NTS entry capacity. Revenue for the year ended 31 March, 2002 is stated on the basis that the Gas Distribution Business's share of this reduction of £32 million is attributable to other distribution network business rather than to the Gas Distribution Business.

The costs of shared services and pass-through costs have been allocated to the Gas Distribution Business using an activity based costing system, which was created by Transco for regulatory purposes and developed further to allocate costs between the Gas Distribution Business, UK gas transmission business and other activities business segments and, in turn, between the eight distribution networks.

During the periods covered by the Financial Information, Transco undertook a major restructuring of its UK gas distribution activities. The costs of this restructuring have been allocated to the Gas Distribution Business to the extent that they relate to the direct activities of the Gas Distribution Business.

During the year ended 31st March, 2004 and the three months ended 30th June, 2004, Lattice Group Plc ("Lattice") has made supplementary charges to Transco in relation to the funding of the deficit in the Lattice Group Pension Scheme (the "Lattice Scheme"). None of these charges have been allocated to the Gas Distribution Business, as they do not form part of the pension charge but mainly relate to obligations in respect of pensioners and deferred pensioners, rather than to current contributing employees who are associated with the Gas Distribution Business.

At 1st April, 2002 the long-term iron mains replacement programme was agreed with the Health and Safety Executive, which commenced around about that time, Transco changed the way it allocated operating costs between replacement expenditure and other operating expenditure. In the interests of comparability, operating costs for the year ended 31st March, 2002 have been restated using the new basis.

Property, plant and equipment and depreciation include assets within the Gas Distribution Business's physical boundary and which are managed by the Gas Distribution Business and an allocation of assets used and managed by Transco's nationally organised support service functions. Transco's asset register does not separately identify all of the distribution network's motor vehicles and office equipment from those of the other businesses of Transco and these assets have been determined by apportionment using relevant ratios.

Certain finance lease obligations and related interest charges in respect of these property, plant and equipment held under finance leases have been apportioned to the Gas Distribution Business relative to the carrying value of these assets.

Centrally managed elements of working capital have been apportioned to the Gas Distribution Business to the extent that they relate to the distribution network's directly attributable income and costs. The net liability in respect of VAT has been allocated to the Gas Distribution Business on the basis of relative turnover. Working capital balances attributable to the activities of Transco's nationally organised support service functions have not been allocated to the Gas Distribution Business.

None of the long-term debtor balance owed to Transco by its immediate holding company, Transco Holdings plc, has been allocated to the Gas Distribution Business, as this debtor balance does not relate to the Gas Distribution Business.

Borrowings are managed at the Transco corporate level and is not specifically attributable to the Gas Distribution Business or Transco's other distribution networks business, apart from certain finance lease obligations. Transco's net debt at 31st March, 2004 (other than directly attributable finance lease obligations) has been allocated to the Gas Distribution Business in the same proportion as the estimated Regulatory Asset Value of the distribution networks to that of Transco as a whole. The allocation of net debt at other period ends has been determined from this allocation of net debt at 31st March, 2004 by rolling backwards or forwards as appropriate by the net cash flows of the distribution networks in the intervening periods. These allocations of net debt have been categorised within this Financial Information as long-term borrowings. Transco's net interest payments in respect of its net debt, together with related accruals and prepayments, have been allocated consistently with the allocation of net debt.

A proportion of the environmental provision of Transco has been allocated to the distribution networks based on an assessment of the proportion of that provision attributable to the properties of the distribution networks.

Corporate taxes have been determined based on the income and expenditures of the Gas Distribution Business as reported in the Financial Information and the amount of the capital allowances pool attributable to the Gas Distribution Business.

Operating lease commitments in respect of land and buildings are based on properties occupied by the Gas Distribution Business as at 30th June, 2004. Commitments have been apportioned on the basis of relative occupancy where the properties concerned are jointly occupied with other businesses or activities of National Grid Transco Plc.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are as follows:

(a) Property, plant and equipment

Property, plant and equipment include assets which are legally protected statutory or contracted rights of use, are included in the balance sheet at cost less accumulated depreciation. Property, plant and equipment represents the assets within the Gas Distribution Business's physical boundary which are managed by Blackwater. Costs include payroll costs incurred which are directly attributable to the construction of the assets.

Expenditure incurred after the assets have been put into operation resulted in an increase in the future economic benefits expected to be obtained from the use of the asset or resulted in enhancement in the performance of mains and services assets are treated as additions to property, plant and equipment.

Expenditure principally undertaken to repair and maintain the safety of the network is charged to the income statement in the period in which it is incurred.

No depreciation is provided on freehold land and construction-in-progress. Other property, plant and equipment are depreciated on a straight-line basis at rates estimated to write off their book values over their estimated useful lives as shown below:

Properties on freehold land	up to 50 years
Mains and services	55 to 65 years
Gas storage	40 years
Plant and machinery	30 years
Motor vehicles and office equipment	3 to 10 years

Contributions received towards that cost of property, plant and equipment are included as deferred income and credited on a straight-line basis to the income statement over the life of the assets.

(b) Inventories

Inventories are stated at cost less provision for deterioration and obsolescence.

(c) Revenue recognition

Revenue derived from transportation of natural gas is recognised based on units of gas consumed by customers during the year at tariff rates. Revenue includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end, and is stated net of value added tax. Where revenues received or receivable exceed the maximum amount permitted by regulatory agreement, an adjustment will be made to future prices to reflect this over-recovery.

(d) Leases

Assets held under finance leases are capitalised at historical cost and depreciated accordingly. The corresponding liability to the lessor, net of finance charges in respect of future periods, is included in the balance sheet as a finance lease obligation. Finance costs, are charged to the income statement over the period of the relevant lease so as to maintain a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Rentals under operating leases are charged to the income statement as incurred.

(e) Employee retirement benefits

The substantial majority of employees worked on the Gas Distribution Business are members of the Lattice Scheme. The Lattice Scheme provides final salary defined benefits for employees who joined Lattice up to 31st March, 2002. A defined contribution section was added to the Lattice Scheme from 1st April, 2002 for employees joining Lattice from that date. The pension costs recognised in the income statement are an allocation of the pension costs recognised by Transco in its income statement. The charge from Lattice comprises the regular pension cost of Transco's employees and variations from the regular pension cost in respect of the effect of any surplus or deficit attributable to Transco. The interest element of any surplus or deficit attributable to Transco allocated to the Gas Distribution Business is included in the income statement as financing charge.

The cost of providing retirement benefits under the defined benefit retirement plan is determined using the projected unit method.

(f) Environmental costs

Environmental costs, based on discounted future estimated expenditures expected to be incurred, are provided for in full. The unwinding of the discount is included in income statements as financing charge.

(g) Deferred taxation

Deferred taxation is provided on all temporary differences arising between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit of the corresponding period. 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. No provision is made where it is more likely than not that any taxable gain will be rolled over into replacement assets.

3. SEGMENT INFORMATION

All the operations of the Gas Distribution Business are located and carried out in UK, and the sole principal activity of the business is the distribution of natural gas. Accordingly, no segment information by business and geographical segment is presented.

4. TURNOVER

Turnover represents the net amounts attributed to the Gas Distribution Business received and receivable from the transportation of natural gas (formula income) and from the provision of related services net of value added tax.

5. STAFF COSTS

	Year ended 31st March,			Three months ended 30th June,	
	2002	2003	2004	2003	2004
	£'M	*£'M*	*£'M*	*£'M*	*£'M*
				(unaudited)	
Staff costs	30.6	36.5	29.2	7.4	7.4
Less: staff costs included in capital expenditure	(0.3)	(0.4)	(0.3)	–	(0.1)
	30.3	36.1	28.9	7.4	7.3

Staff costs comprise the payroll costs of direct employees of the Gas Distribution Business and do not include the payroll costs in respect of shared services allocated to the distribution networks.

In addition to the staff costs above, there were severance costs included in restructuring costs: year ended 31 March, 2004: £5.9 million; year ended 31 March, 2003: £8.4 million; year ended 31 March 2002: £1.3 million; three months ended 30 June, 2004: £nil; and three months ended 30 June, 2003: £1.5 million.

6. PROFIT FROM OPERATIONS

	Year ended 31st March,			Three months ended 30th June,	
	2002	2003	2004	2003	2004
	£'M	*£'M*	*£'M*	*£'M*	*£'M*
				(unaudited)	
Profit from operations has been arrived at after charging/(crediting):					
Depreciation of property, plant and equipment					
– owned assets	14.6	15.8	16.5	4.1	3.9
– assets under finance leases	3.0	2.8	2.2	0.5	0.6
Research and development cost	0.7	0.5	0.2	0.1	–
Operating lease charges in respect of renting of					
– plant and machinery	0.9	0.9	1.1	0.3	0.3
– other	0.6	0.6	0.5	0.1	0.1
Profit on disposal of property, plant and equipment	(2.0)	(0.4)	(0.1)	–	–
Environmental provision *(note 15)*	–	–	(1.9)	–	–

Auditors' remuneration has not been disclosed as the Gas Distribution Business is not a corporate entity and as such, has not been subject to separate statutory audit.

7. FINANCE COSTS

	Year ended 31st March,			Three months ended 30th June,	
	2002	2003	2004	2003	2004
	£'M	*£'M*	*£'M*	*£'M*	*£'M*
				(unaudited)	
Interests on:					
Allocated borrowings	28.0	27.8	23.3	6.2	5.9
Other	1.7	1.4	3.7	0.2	0.7
	29.7	29.2	27.0	6.4	6.6
Unwinding of discount on provisions	1.0	0.9	0.9	0.2	0.1
	30.7	30.1	27.9	6.6	6.7

8. TAXATION

	Year ended 31st March,			Three months ended 30th June,	
	2002	2003	2004	2003	2004
	£'M	*£'M*	*£'M*	*£'M*	*£'M*
				(unaudited)	
UK Current corporation tax	–	–	12.7	–	–
Deferred tax	23.5	22.6	20.0	4.0	4.5
	23.5	22.6	32.7	4.0	4.5

As the Gas Distribution Business is not a separate taxable entity, taxation attributable to it has been estimated as set out in basis of preparation in note 1.

Corporate taxes have been determined based on the income and expenditures of the Gas Distribution Business as reported in the Financial Information and the amount of the capital allowances attributable to the Gas Distribution Business.

A reconciliation of the UK corporation tax rate to the effective tax rate for each of the three years ended 31st March, 2002, 31st March, 2003, 31st March, 2004 and the three months ended 30th June, 2003 and 30th June, 2004 is as follows:

	% of profit before taxation				
	Year ended 31st March,			Three months ended 30th June,	
	2002	2003	2004	2003	2004
				(unaudited)	
UK corporation tax rate	30.0	30.0	30.0	30.0	30.0
Effect on tax charge of:					
Origination and reversal of temporary differences	(29.8)	(30.3)	(18.2)	(31.3)	(30.4)
Others	(0.2)	0.3	(0.2)	1.3	0.4
Current tax charge	–	–	11.6	–	–
Deferred taxation	29.8	30.3	18.2	31.3	30.4
Effective tax rate	29.8	30.3	29.8	31.3	30.4

Due to seasonality, the effective tax rates for the three months ended 30th June 2004 and the three months 30th ended June 2003, are not reflective of the full year position.

9. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings in UK £'M	Mains and services £'M	Gas storage £'M	Plant and machinery £'M	Motor vehicles and office equipment £'M	Total £'M
COST						
As at 1st April, 2001	5.4	496.3	5.9	82.4	33.3	623.3
Additions	–	80.8	0.1	3.2	8.1	92.2
Disposals	–	–	–	–	(4.5)	(4.5)
As at 31st March, 2002	5.4	577.1	6.0	85.6	36.9	711.0
Additions	–	92.2	0.3	3.6	3.7	99.8
Disposals	–	–	–	–	(8.4)	(8.4)
As at 31st March, 2003	5.4	669.3	6.3	89.2	32.2	802.4
Additions	–	81.5	0.1	3.4	1.8	86.8
Disposals	–	–	–	(0.4)	(2.0)	(2.4)
As at 31st March, 2004	5.4	750.8	6.4	92.2	32.0	886.8
Additions	–	19.3	–	0.3	–	19.6
As at 30th June, 2004	5.4	770.1	6.4	92.5	32.0	906.4
DEPRECIATION						
As at 1st April, 2001	(1.6)	(100.3)	(4.8)	(43.2)	(21.1)	(171.0)
Charge for the year	(0.3)	(11.7)	(0.1)	(0.8)	(4.7)	(17.6)
Disposals	–	–	–	–	3.9	3.9
As at 31st March, 2002	(1.9)	(112.0)	(4.9)	(44.0)	(21.9)	(184.7)
Charge for the year	(0.3)	(12.3)	(0.1)	(1.7)	(4.2)	(18.6)
Disposals	–	–	–	–	8.3	8.3
As at 31st March, 2003	(2.2)	(124.3)	(5.0)	(45.7)	(17.8)	(195.0)
Charge for the year	(0.3)	(12.1)	(0.1)	(2.1)	(4.1)	(18.7)
Disposals	–	–	–	0.3	2.0	2.3
As at 31st March, 2004	(2.5)	(136.4)	(5.1)	(47.5)	(19.9)	(211.4)
Charge for the period	(0.1)	(3.0)	–	(0.4)	(1.0)	(4.5)
As at 30th June, 2004	(2.6)	(139.4)	(5.1)	(47.9)	(20.9)	(215.9)
NET BOOK VALUE						
As at 30th June, 2004	2.8	630.7	1.3	44.6	11.1	690.5
As at 31st March, 2004	2.9	614.4	1.3	44.7	12.1	675.4
As at 31st March, 2003	3.2	545.0	1.3	43.5	14.4	607.4
As at 31st March, 2002	3.5	465.1	1.1	41.6	15.0	526.3

The carrying value of assets subject to finance leases included in property, plant and equipment are as follows:

	As at 31st March,			As at 30th June,	
	2002	2003	2004	2003	2004
	£'M	£'M	£'M	£'M	£'M
				(unaudited)	
Cost	17.3	13.2	13.2	13.2	13.2
Accumulated depreciation	(8.4)	(5.1)	(7.1)	(5.6)	(7.7)
Net book value	8.9	8.1	6.1	7.6	5.5

10. INVENTORIES

Inventories comprise raw materials.

11. TRADE DEBTORS, OTHER DEBTORS AND PREPAYMENTS

	As at 31st March,			As at 30th June,	
	2002	2003	2004	2003	2004
	£'M	£'M	£'M	£'M	£'M
				(unaudited)	
Trade debtors	1.7	1.3	2.2	0.8	0.8
Other debtors and prepayments	16.7	19.2	16.5	12.6	10.4
	18.4	20.5	18.7	13.4	11.2

There is a policy of allowing the trade customers an average credit period of one month.

12. TRADE CREDITORS, OTHER CREDITORS AND ACCRUALS

	As at 31st March,			As at 30th June,	
	2002	2003	2004	2003	2004
	£'M	£'M	£'M	£'M	£'M
				(unaudited)	
Trade creditors	13.1	26.7	28.2	24.9	26.2
Other creditors and accrued charges	13.4	19.7	20.8	16.9	17.1
	26.5	46.4	49.0	41.8	43.3

13. OBLIGATIONS UNDER FINANCE LEASES

	As at 31st March,			As at 30th June,	
	2002	**2003**	**2004**	**2003**	**2004**
	£'M	*£'M*	*£'M*	*£'M* (unaudited)	*£'M*
Amounts payable under finance leases					
Within one year	1.9	2.6	2.2	2.6	2.2
In the second to fifth year inclusive	5.2	4.5	2.5	4.5	2.5
After five years	0.2	–	–	–	–
	7.3	7.1	4.7	7.1	4.7
Less: Amount due for settlement with 12 months (shown under current liabilities)	(1.9)	(2.6)	(2.2)	(2.6)	(2.2)
Amount due for settlement after 12 months	5.4	4.5	2.5	4.5	2.5

The Gas Distribution Business's directly attributable financial liabilities comprise fixed rate sterling borrowings under finance leases. Average interest rates for the year ended 31st March, 2002, 2003, 2004 and three months ended 30th June 2004 are 6.8%, 5.4%, 6.4% and 8.4%.

14. BORROWINGS

	As at 31st March,			As at 30th June,	
	2002	**2003**	**2004**	**2003**	**2004**
	£'M	*£'M*	*£'M*	*£'M* (unaudited)	*£'M*
Allocated borrowings	441.1	442.4	405.6	462.1	457.8
The maturity profile of the above borrowings is as follows:					
Amounts due within one year shown under current liabilities	–	–	–	–	–
Amounts due more than one year	441.1	442.4	405.6	462.1	457.8
	441.1	442.4	405.6	462.1	457.8

15. PROVISIONS

	Environmental	Restructuring	Total
	£'M	*£'M*	*£'M*
At 1st April, 2001	15.2	–	15.2
Utilised	(1.1)	–	(1.1)
Unwinding of discount	1.0	–	1.0
At 31st March, 2002	15.1	–	15.1
Charged to income statement	–	8.4	8.4
Utilised	(1.5)	(5.2)	(6.7)
Unwinding of discount	0.9	–	0.9
At 31st March, 2003	14.5	3.2	17.7
Charged/(released) to income statement	(1.9)	5.9	4.0
Utilised	(0.9)	(9.1)	(10.0)
Unwinding of discount	0.9	–	0.9
At 31st March, 2004	12.6	–	12.6
Utilised	(0.1)	–	(0.1)
Unwinding of discount	0.1	–	0.1
At 30th June, 2004	12.6	–	12.6
At 30th June, 2003	14.5	2.4	16.9

The environmental provision represents the net present value of the estimated statutory decontamination costs, discounted at a nominal rate of 5.25%, of old gas manufacturing sites expected to be incurred over the period from 2005 to 2057. During the year ended 31st March, 2004, a re-evaluation of the provision, based on a survey of all contaminated old gas manufacturing sites, was made and the excess provision of £1.9 million was reversed and reflected in the income statement for that year.

There are a number of uncertainties that affect the calculation of the provision for gas site decontamination, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. Transco has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially affect the calculation of the provision and hence the income statement.

The undiscounted amount of the provision at 30th June, 2004 relating to gas site decontamination was £18.8 million, being the undiscounted best estimate of the liability having regard to the uncertainties referred to above (excluding the impact of changes in discount rate).

The restructuring provision relates to business reorganisation costs. A major restructuring was undertaken by Transco and these costs represents costs allocated directly related to the Gas Distribution Business. These costs primarily relate to redundancy costs which are charged to the income statement in the period in which Transco becomes irrevocably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees. Redundancy costs are classified as part of other operating charges as these costs do not relate to services provided by the employees for the year/period.

16. DEFERRED TAX LIABILITIES

	As at 31st March,			As at 30th June,	
	2002	2003	2004	2003	2004
	£'M	£'M	£'M	£'M (unaudited)	£'M
At 1st April	41.6	65.1	87.7	87.7	107.7
Charged to income statement	23.5	22.6	20.0	4.0	4.5
At 31st March/30th June	65.1	87.7	107.7	91.7	112.2

Deferred tax liabilities was provided on the following temporary differences:

	Year ended 31st March,			Three months ended 30th June,	
	2002	2003	2004	2003	2004
	£'M	£'M	£'M	£'M (unaudited)	£'M
Accelerated tax depreciation	66.8	90.4	110.2	95.0	115.4
Others	(1.7)	(2.7)	(2.5)	(3.3)	(3.2)
	65.1	87.7	107.7	91.7	112.2

17. SHARE CAPITAL

Blackwater was incorporated on 30th June, 2004 and at the date of incorporation, 100 shares of £1 each were issued as initial share capital.

18. INVESTED CAPITAL

As the Gas Distribution Business is not a separate legal entity, it does not have its own separate capital and reserves. Prior to incorporation of Blackwater, Transco's net funds invested in the Gas Distribution Business is represented by invested capital. The movements of this account are set out in the statement of changes in equity.

19. COMMITMENTS

	As at 31st March,			As at 30th June,
	2002	2003	2004	2004
	£'M	£'M	£'M	£'M
Capital expenditure authorised and contracted for	6.7	–	0.6	0.1

At the balance sheet dates, the Gas Distribution Business had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31st March,			As at 30th June,
	2002	**2003**	**2004**	**2004**
	£'M	*£'M*	*£'M*	*£'M*
Land and buildings				
Within one year	–	–	0.1	0.1
In the second to fifth year inclusive	0.2	0.2	0.1	0.1
Over five years	0.2	0.2	0.2	0.2
	0.4	0.4	0.4	0.4
Other				
Within one year	0.1	0.1	0.1	0.1
In the second to fifth year inclusive	0.5	0.5	0.6	0.6
Over five years	–	–	–	–
	0.6	0.6	0.7	0.7

20. RETIREMENT BENEFIT SCHEMES

The Scheme is funded with assets held in a separate trustee administered fund. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer's contributions which, together with the specified contributions payable by the employees and proceeds from the Scheme's assets, are expected to be sufficient to fund the benefits payable under the Scheme.

The latest full actuarial valuation of the Scheme was carried out by Watson Wyatt LLP on 31st March, 2003. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.5% and that future real increases in pensionable earnings would be 1.5%. Investments held in respect of pensions before they become payable would have an average 4.9% real annual rate of return, and investments held in respect of pensions after they become payable would have an average 2.6% real annual rate of return and that pensions would increase at a real annual rate of 0.05%. The aggregate market value of the Scheme's assets was £10,141 million and the value of the assets represented approximately 92% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31st March, 2003 on an ongoing basis and allowing for projected increases in pensionable earnings and pensions.

21. RELATED PARTY TRANSACTIONS

Details of transactions between the Gas Distribution Business and other undertakings in the National Grid Transco group are set out below.

Related party	Description of the transaction	Year ended 31st March, 2002 £'M	Year ended 31st March, 2003 £'M	Year ended 31st March, 2004 £'M	Three months ended 30th June, 2004 £'M
Transco Metering Services Limited	Supply of meter work services income	11.1	6.8	8.1	2.3
Fulcrum Connections Limited	Primarily supply of capital works in respect of gas connections costs	(13.2)	(19.2)	(15.7)	(4.7)
SecondSite Limited	Property rental costs	(0.4)	(0.4)	(0.3)	(0.1)
	Environmental costs	(1.1)	(1.5)	(0.9)	(0.1)

Details have not been provided of other related party transactions between Transco and other undertakings in the National Grid Transco group where the costs have been allocated to the Gas Distribution Business, as these are not considered to be related party transactions of the Gas Distribution Business.

Amounts owed by and to other National Grid Transco group undertakings, and attributed to the Gas Distribution Business are shown on the balance sheet.

B. ULTIMATE HOLDING COMPANY

As at 30th June, 2004, the directors consider that Blackwater's ultimate holding company is National Grid Transco Plc, incorporated in England and Wales and its ordinary shares are listed on the London Stock Exchange and American Depositary Receipts listed on the New York Stock Exchange.

C. SUBSEQUENT EVENTS

There were no significant events which had taken place subsequent to 30th June, 2004.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Blackwater have been made up subsequent to 30th June, 2004.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26th November, 2004

The Directors
Cheung Kong Infrastructure Holdings Limited
12th Floor, Cheung Kong Center,
2 Queen's Road Central,
Hong Kong

Dear Sirs,

We report on the pro forma financial information (the " Acquisition Pro Forma Financial Information") of Cheung Kong Infrastructure Holdings Limited (the "Company") set out in Appendix III of the circular of the Company dated 26th November, 2004 (the "Circular") in connection with the very substantial acquisition of 69.8% interest in Blackwater F Limited ("Blackwater") by the Company. The Acquisition Pro Forma Financial Information is prepared by the Directors of the Company, for illustrative purposes only, to demonstrate how the effect of the proposed acquisition described in the section headed "Letter from the Board" of the Circular might have affected the financial information presented of the Company and its subsidiaries (hereinafter collectively referred to as the "Group").

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Acquisition Pro Forma Financial Information 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 the Listing Rules, on the Acquisition Pro Forma Financial Information 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 Acquisition Pro Forma Financial Information 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 Acquisition Pro Forma Financial Information with the Directors of the Company.

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

The Acquisition Pro Forma Financial Information has been prepared on the basis set out in the first paragraph of this letter for illustrative purpose only, and, because of its nature, it may give an indicative financial position of the Group as at 31st December, 2003 or at any future date or results and cash flows of the Group for the year then ended or for any future period.

Opinion

In our opinion:

a. the Acquisition Pro Forma Financial Information 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 Acquisition 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 Enlarged Group is prepared based on the audited financial statements of the Group for the year ended 31st December, 2003 extracted from the annual report of the Company for the year ended 31st December, 2003 and the financial information of Blackwater for the year ended 31st March, 2004 extracted from the Accountants' Report set out in Appendix II of the Circular and adjusted for the transaction resulting from the Blackwater Acquisition.

As it is currently (and was at the time the Blackwater Acquisition agreement was entered into) the Company's intention, prior to completion, to on-sell part of its interest in Blackwater to less than 50%, 49.9% is classified as an associate and accounted for using equity method for accounting whereas the remaining 19.9% is classified as investment in securities under current assets and is stated at the Company's cost of investment in the preparation of the pro forma financial information set out in section 1 to 3 below.

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma income statement of the Enlarged Group, assuming that the Blackwater Acquisition had taken place on 1st January, 2003 for the purpose of illustrating how the Blackwater Acquisition might have affected the results of the Group.

The unaudited pro forma income statement is prepared to provide financial information on the Enlarged Group as a result of completion of the Blackwater Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the results of the Enlarged Group for the year ended 31st December, 2003 or any future period shall be.

HK$ million	The Group	Adjustments	The Enlarged Group
Turnover			
Group turnover	1,613		1,613
Share of turnover of jointly controlled entities	1,841		1,841
	3,454		3,454
Group turnover	1,613		1,613
Other revenue	1,196		1,196
Operating costs	(1,807)		(1,807)
Operating profit	1,002		1,002
Finance costs	(630)		(630)
Share of results of associates	3,202	766(1)	3,968
Share of results of jointly controlled entities	611		611
Amortisation of goodwill	–	(27)(3)	(27)
Profit before taxation	4,185	739	4,924
Taxation	(846)	(228)(2)	(1,074)
Profit after taxation	3,339	511	3,850
Minority interests	10		10
Profit attributable to shareholders	3,349	511	3,860

Notes:

(1) Adjustment to reflect the 49.9% share of result of Blackwater for the year.

(2) Adjustment to reflect the 49.9% share of tax of Blackwater for the year.

(3) Adjustment to reflect the amortisation of goodwill.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma balance sheet of the Enlarged Group, assuming that the Blackwater Acquisition had been completed as at 31st December, 2003 for the purpose of illustrating how the Blackwater Acquisition might have affected the financial position of the Group.

The unaudited pro forma balance sheet is prepared to provide financial information on the Enlarged Group as a result of completion of the Blackwater Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the balance sheet of the Enlarged Group shall be on the actual completion of the Blackwater Acquisition.

HK$ million	The Group	Adjustments	The Enlarged Group
Property, plant and equipment	1,804		1,804
Interests in associates	23,681	3,675[1]	27,356
Interests in jointly controlled entities	4,836		4,836
Interests in infrastructure project investments	1,948		1,948
Investments in securities	2,091		2,091
Other non-current assets	36		36
Total non-current assets	34,396	3,675	38,071
Investments in securities	–	1,466[1]	1,466
Inventories	164		164
Retention receivables	21		21
Debtors and prepayments	649		649
Bank balances and deposits	7,243	(5,141)[1]	2,102
Total current assets	8,077	(3,675)	4,402
Bank loans	1,258		1,258
Creditors and accruals	642		642
Taxation	109		109
Total current liabilities	2,009		2,009
Net current assets	6,068		2,393
Total assets less current liabilities	40,464		40,464
Bank and other loans	11,079		11,079
Deferred tax liabilities	151		151
Total non-current liabilities	11,230		11,230
Minority interests	209		209
Net assets	29,025		29,025
Representing:			
Share capital	2,254		2,254
Reserves	26,771		26,771
Capital and reserves	29,025		29,025

Note: (1) Adjustment to reflect the acquisition of 69.8% interest in Blackwater.

3. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma cash flow statement of the Enlarged Group, assuming that the Blackwater Acquisition had taken place on 1st January, 2003 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 Enlarged Group as a result of completion of the Blackwater Acquisition. As it is prepared for illustrative purpose only, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31st December, 2003 or any future period.

HK$ million	The Group	Adjustments	The Enlarged Group
Operating activities			
Cash generated from operations	1,264		1,264
Income taxes refunded	2		2
Net cash from operating activities	1,266		1,266
Investing activities			
Purchase of property, plant and equipment	(90)		(90)
Disposals of property, plant and equipment	66		66
Disposals of subsidiaries	(11)		(11)
Acquisition of an associate	–	(3,675)[(1)]	(3,675)
Advances to associates	(352)		(352)
Repayments from associates	2,108		2,108
Advance to a jointly controlled entity	(15)		(15)
Disposal of infrastructure project investment	61		61
Purchases of securities	(1,037)	(1,466)[(1)]	(2,503)
Repayments from finance lease debtors	11		11
Acquisitions of other non-current assets	(2)		(2)
Dividends received from associates	1,422		1,422
Distributions received from listed stapled securities	63		63
Interest received	456		456
Finance lease income received	4		4
Net cash from (utilised in) investing activities	2,684	(5,141)	(2,457)
Financing activities			
New bank and other loans	2,125		2,125
Repayments of bank loans	(4,311)		(4,311)
Finance costs paid	(179)		(179)
Dividends paid	(1,533)		(1,533)
Net cash (utilised in) financing activities	(3,898)		(3,898)
Net increase (decrease) in cash and cash equivalents	52	(5,141)	(5,089)
Cash and cash equivalents at 1st January	7,191		7,191
Cash and cash equivalents at 31st December	7,243	(5,141)[(1)]	2,102
Representing:			
Bank balances and deposits at 31st December	7,243	(5,141)	2,102

Note: (1) Adjustment to reflect the acquisition of 69.8% interest in Blackwater.

26th November, 2004

The Directors
Cheung Kong Infrastructure Holdings Limited
12th Floor, Cheung Kong Center,
2 Queen's Road Central,
Hong Kong

Dear Sirs,

We report on the pro forma financial information (the "Alpha Disposal Pro Forma Financial Information") of Cheung Kong Infrastructure Holdings Limited (the "Company") set out in Appendix IV of the circular of the Company dated 26th November, 2004 (the "Circular") in connection with the very substantial disposal of 19.9% interest in Blackwater F Limited ("Blackwater") by the Company. The Alpha Disposal Pro Forma Financial Information is prepared by the Directors of the Company, for illustrative purposes only, to demonstrate how the effect of the proposed disposal described in the section headed "Letter from the Board" of the Circular might have affected the financial information presented of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") following the acquisition of 69.8% interest in Blackwater.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Alpha Disposal Pro Forma Financial Information 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 the Listing Rules, on the Alpha Disposal Pro Forma Financial Information 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 Alpha Disposal Pro Forma Financial Information 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 Alpha Disposal Pro Forma Financial Information with the Directors of the Company.

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

The Alpha Disposal Pro Forma Financial Information has been prepared on the basis set out in the first paragraph of this letter for illustrative purpose only, and, because of its nature, it may not give an indicative financial position of the Group as at 31st December, 2003 or at any future date or results and cash flows of the Group for the year then ended or for any future period.

Opinion

In our opinion:

a. the Alpha Disposal Pro Forma Financial Information 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 Alpha Disposal 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 financial information of the remaining group (the "Remaining Group"), assuming the Alpha Disposal had taken place on 1st January, 2003, is prepared based on the unaudited financial information set out in Appendix III and the financial information of Blackwater for year ended 31st March, 2004 extracted from the accountants' report in Appendix II set out in the Circular and adjusted for the transactions resulting from the Alpha Disposal and on the same basis of preparation set out in Appendix III.

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma income statement of the Remaining Group for the purpose of illustrating how the transaction might have affected the results of the Group following the Blackwater Acquisition.

The unaudited pro forma income statement is prepared to provide financial information on the Remaining Group as a result of completion of the Alpha Disposal. As it is prepared for illustrative purpose only, it may not purport to represent what the results of the Remaining Group for the year ended 31st December, 2003 or any future period shall be.

HK$ million	**The Enlarged Group**	**Adjustments**	**The Remaining Group**
Turnover			
Group turnover	1,613		1,613
Share of turnover of jointly controlled entities	1,841		1,841
	3,454		3,454
Group turnover	1,613		1,613
Other revenue	1,196		1,196
Operating costs	(1,807)		(1,807)
Operating profit	1,002		1,002
Finance costs	(630)		(630)
Share of results of associates	3,968		3,968
Share of results of jointly controlled entities	611		611
Amortisation of goodwill	(27)		(27)
Profit before taxation	4,924		4,924
Taxation	(1,074)		(1,074)
Profit after taxation	3,850		3,850
Minority interests	10		10
Profit attributable to shareholders	3,860		3,860

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma balance sheet of the Remaining Group, assuming that the Alpha Disposal had been completed on 31st December, 2003 for the purpose of illustrating how the Alpha Disposal might have affected the financial position of the Group following the Blackwater Acquisition.

The unaudited pro forma balance sheet is prepared to provide financial information on the Remaining Group as a result of completion of the Alpha Disposal. As it is prepared for illustrative purpose only, it may not purport to represent what the balance sheet of the Remaining Group shall be on the actual completion of the Alpha Disposal.

HK$ million	The Enlarged Group	Adjustments	The Remaining Group
Property, plant and equipment	1,804		1,804
Interests in associates	27,356		27,356
Interests in jointly controlled entities	4,836		4,836
Interests in infrastructure project investments	1,948		1,948
Investments in securities	2,091		2,091
Other non-current assets	36		36
Total non-current assets	38,071		38,071
Investment in securities	1,466	(1,466)[1]	–
Inventories	164		164
Retention receivables	21		21
Debtors and prepayments	649		649
Bank balances and deposits	2,102	1,466[1]	3,568
Total current assets	4,402		4,402
Bank loans	1,258		1,258
Creditors and accruals	642		642
Taxation	109		109
Total current liabilities	2,009		2,009
Net current assets	2,393		2,393
Total assets less current liabilities	40,464		40,464

HK$ million	**The Enlarged Group**	**Adjustments**	**The Remaining Group**
Bank and other loans	11,079		11,079
Deferred tax liabilities	151		151
Total non-current liabilities	11,230		11,230
Minority interests	209		209
Net assets	29,025		29,025
Representing:			
Share capital	2,254		2,254
Reserves	26,771		26,771
Capital and reserves	29,025		29,025

Note: (1) Adjustment to reflect the disposal of 19.9% interest in Blackwater.

3. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma cash flow statement of the Remaining Group, assuming that the Alpha Disposal had taken place on 1st January, 2003 for the purpose of illustrating how the Alpha Disposal might have affected the cash flows of the Group following the Blackwater Acquisition.

The unaudited pro forma cash flow statement is prepared to provide financial information on the Remaining Group as a result of completion of the Alpha Disposal. As it is prepared for illustrative purpose only, it may not give a true picture of the cash flows of the Remaining Group for the year ended 31st December, 2003 or any future period.

HK$ million	**The Enlarged Group**	**Adjustments**	**The Remaining Group**
Operating activities			
Cash generated from operations	1,264		1,264
Income taxes refunded	2		2
Net cash from operating activities	1,266		1,266
Investing activities			
Purchase of property, plant and equipment	(90)		(90)
Disposals of property, plant and equipment	66		66
Disposals of subsidiaries	(11)		(11)
Acquisition of an associate	(3,675)		(3,675)
Advances to associates	(352)		(352)
Repayments from associates	2,108		2,108
Advance to a jointly controlled entity	(15)		(15)
Disposal of infrastructure project investment	61		61
Purchases of securities	(2,503)	1,466[1]	(1,037)
Repayments from finance lease debtors	11		11
Acquisitions of other non-current assets	(2)		(2)
Dividends received from associates	1,422		1,422
Distributions received from listed stapled securities	63		63
Interest received	456		456
Finance lease income received	4		4
Net cash (utilised in) from investing activities	(2,457)	1,466	(991)

HK$ million	**The Enlarged Group**	**Adjustments**	**The Remaining Group**
Financing activities			
New bank and other loans	2,125		2,125
Repayments of bank loans	(4,311)		(4,311)
Finance costs paid	(179)		(179)
Dividends paid	(1,533)		(1,533)
Net cash (utilised in) financing activities	(3,898)		(3,898)
Net (decrease) increase in cash and cash equivalents	(5,089)	1,466	(3,623)
Cash and cash equivalents at 1st January	7,191		7,191
Cash and cash equivalents at 31st December	2,102	1,466[(1)]	3,568
Representing:			
Bank balances and deposits at 31st December	2,102	1,466	3,568

Note: (1) Adjustment to reflect the reduction in consideration payable for acquisition of interests in Blackwater upon disposal of 19.9% interest in Blackwater.

26th November, 2004

The Directors
Cheung Kong Infrastructure Holdings Limited
12th Floor, Cheung Kong Center,
2 Queen's Road Central,
Hong Kong

Dear Sirs,

We report on the pro forma financial information (the "9.9% Disposal Pro Forma Financial Information") of Cheung Kong Infrastructure Holdings Limited (the "Company") set out in Appendix V of the circular of the Company dated 26th November, 2004 (the "Circular") in connection with the disposal of 9.9% interest in Blackwater F Limited ("Blackwater") by the Company. The 9.9% Disposal Pro Forma Financial Information is prepared by the Directors of the Company, for illustrative purposes only, to demonstrate how the effect of the proposed disposal described in the section headed "Letter from the Board" of the Circular might have affected the financial information presented of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") following the acquisition of 69.8% interest in Blackwater.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the 9.9% Disposal Pro Forma Financial Information 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 the Listing Rules, on the 9.9% Disposal Pro Forma Financial Information 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 9.9% Disposal Pro Forma Financial Information 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 9.9% Disposal Pro Forma Financial Information with the Directors of the Company.

Our work does not constitute an audit or a review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and accordingly, we do not express any such assurance on the 9.9% Disposal Pro Forma Financial Information.

The 9.9% Disposal Pro Forma Financial Information has been prepared on the basis set out in the first paragraph of this letter for illustrative purpose only, and, because of its nature, it may not give an indicative financial position of the Group as at 31st December, 2003 or at any future date or results and cash flows of the Group for the year then ended or for any future period.

Opinion

In our opinion:

a. the 9.9% Disposal Pro Forma Financial Information 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 9.9% Disposal 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 financial information of the remaining group (the "Remaining Group"), assuming the 9.9% Disposal had taken place on 1st January, 2003, is prepared based on the unaudited financial information set out in Appendix III and the financial information of Blackwater for year ended 31st March, 2004 extracted from the accountants' report in Appendix II set out in the Circular and adjusted for the transactions resulting from the 9.9% Disposal and on the same basis of preparation set out in Appendix III.

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma income statement of the Remaining Group illustrating how the 9.9% Disposal might have affected the results of the Group following the Blackwater Acquisition.

The unaudited pro forma income statement is prepared to provide financial information on the Remaining Group as a result of completion of the 9.9% Disposal. As it is prepared for illustrative purpose only, it may not purport to represent what the results of the Remaining Group for the year ended 31st December, 2003 or any future period shall be.

HK$ million	The Enlarged Group	Adjustments	The Remaining Group
Turnover			
Group turnover	1,613		1,613
Share of turnover of jointly controlled entities	1,841		1,841
	3,454		3,454
Group turnover	1,613		1,613
Other revenue	1,196	59(4)	1,255
Operating costs	(1,807)		(1,807)
Operating profit	1,002	59	1,061
Finance costs	(630)		(630)
Share of results of associates	3,968	(152)(1)	3,816
Share of results of jointly controlled entities	611		611
Amortisation of goodwill	(27)	5(2)	(22)
Profit before taxation	4,924	(88)	4,836
Taxation	(1,074)	45(3)	(1,029)
Profit after taxation	3,850	(43)	3,807
Minority interests	10		10
Profit attributable to shareholders	3,860	(43)	3,817

Note:

(1) Adjustment to reverse 9.9% share of results of Blackwater.

(2) Adjustment to reverse 9.9% amortisation of goodwill on acquisition of Blackwater.

(3) Adjustment to reverse 9.9% share of tax of Blackwater.

(4) Adjustment to reflect gain on disposal of 9.9% interest in Blackwater.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma balance sheet of the Remaining Group, assuming that the 9.9% Disposal had been completed on 31st December, 2003 for the purpose of illustrating how the 9.9% Disposal might have affected the financial position of the Group following the Blackwater Acquisition.

The unaudited pro forma balance sheet is prepared to provide financial information on the Remaining Group as a result of completion of the 9.9% Disposal. As it is prepared for illustrative purpose only, it may not purport to represent what the balance sheet of the Remaining Group shall be on the actual completion of the 9.9% Disposal.

HK$ million	The Enlarged Group	Adjustments	The Remaining Group
Property, plant and equipment	1,804		1,804
Interests in associates	27,356	(729)(1)	26,627
Interests in jointly controlled entities	4,836		4,836
Interests in infrastructure project investments	1,948		1,948
Investments in securities	2,091		2,091
Other non-current assets	36		36
Total non-current assets	38,071	(729)	37,342
Investments in securities	1,466		1,466
Inventories	164		164
Retention receivables	21		21
Debtors and prepayments	649		649
Bank balances and deposits	2,102	788(1)(2)	2,890
Total current assets	4,402	788	5,190
Bank loans	1,258		1,258
Creditors and accruals	642		642
Taxation	109		109
Total current liabilities	2,009		2,009
Net current assets	2,393	788	3,181
Total assets less current liabilities	40,464	59	40,523
Bank and other loans	11,079		11,079
Deferred tax liabilities	151		151
Total non-current liabilities	11,230		11,230
Minority interests	209		209
Net assets	29,025	59	29,084
Representing:			
Share capital	2,254		2,254
Reserves	26,771	59(2)	26,830
Capital and reserves	29,025	59	29,084

Note:

(1) Adjustment to reflect the disposal of 9.9% interest in Blackwater.

(2) Adjustment to reflect gain on disposal of 9.9% interest in Blackwater.

3. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma cash flow statement of the Remaining Group, assuming that the 9.9% Disposal had taken place on 1st January, 2003 for the purpose of illustrating how the 9.9% Disposal might have affected the cash flow of the Group following the Blackwater Acquisition.

The unaudited pro forma cash flow statement is prepared to provide financial information on the Remaining Group as a result of completion of the 9.9% Disposal. As it is prepared for illustrative purpose only, it may not give a true picture of the cash flows of the Remaining Group for the year ended 31st December, 2003 or any future period.

HK$ million	The Enlarged Group	Adjustments	The Remaining Group
Operating activities			
Cash generated from operations	1,264		1,264
Income taxes refunded	2		2
Net cash from operating activities	1,266		1,266
Investing activities			
Purchase of property, plant and equipment	(90)		(90)
Disposals of property, plant and equipment	66		66
Disposals of subsidiaries	(11)		(11)
Acquisition of an associate	(3,675)	729 (1)	(2,946)
Advances to associates	(352)		(352)
Repayments from associates	2,108		2,108
Advance to a jointly controlled entity	(15)		(15)
Disposal of infrastructure project investment	61		61
Purchases of securities	(2,503)		(2,503)
Net proceed from disposal of interest in an associate	–	59(2)	59
Repayments from finance lease debtors	11		11
Acquisitions of other non-current assets	(2)		(2)
Dividends received from associates	1,422		1,422
Distributions received from listed stapled securities	63		63
Interest received	456		456
Finance lease income received	4		4
Net cash (utilised in) from investing activities	(2,457)	788	(1,669)
Financing activities			
New bank and other loans	2,125		2,125
Repayments of bank loans	(4,311)		(4,311)
Finance costs paid	(179)		(179)
Dividends paid	(1,533)		(1,533)
Net cash (utilised in) financing activities	(3,898)		(3,898)
Net (decrease) increase in cash and cash equivalents	(5,089)	788	(4,301)
Cash and cash equivalents at 1st January	7,191		7,191
Cash and cash equivalents at 31st December	2,102	788	2,890
Representing:			
Bank balances and deposits at 31st December	2,102	788(1)(2)	2,890

Note:

(1) Adjustment to reflect the reduction in consideration payable for acquisition of interests in Blackwater upon disposal of 9.9% interest in Blackwater.

(2) Adjustment to reflect the net cash arising from the disposal of 9.9% interest in Blackwater.

26th November, 2004

The Directors
Cheung Kong Infrastructure Holdings Limited
12th Floor, Cheung Kong Center,
2 Queen's Road Central,
Hong Kong

Dear Sirs,

We report on the pro forma financial information (the "Alpha Disposal and 9.9% Disposal Pro Forma Financial Information") of Cheung Kong Infrastructure Holdings Limited (the "Company") set out in Appendix VI of the circular of the Company dated 26th November, 2004 (the "Circular") in connection with the very substantial disposal of 19.9% and 9.9% interest in Blackwater F Limited ("Blackwater") by the Company. The Alpha Disposal and 9.9% Disposal Pro Forma Financial Information are prepared by the Directors of the Company, for illustrative purposes only, to demonstrate how the effect of the proposed disposal described in the section headed "Letter from the Board" of the Circular might have affected the financial information presented of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") following the acquisition of 69.8% interest in Blackwater.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information 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 the Listing Rules, on the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information 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 Alpha Disposal and 9.9% Disposal Pro Forma Financial Information 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 Alpha Disposal and 9.9% Disposal Pro Forma Financial Information with the Directors of the Company.

Our work does not constitute an audit or a review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and accordingly, we do not express any such assurance on the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information.

The Alpha Disposal and 9.9% Disposal Pro Forma Financial Information has been prepared on the basis set out in the first paragraph of this letter for illustrative purpose only, and, because of its nature, it may give an indicative financial position of the Group as at 31st December, 2003 or at any future date or results and cash flows of the Group for the year then ended or for any future period.

Opinion

In our opinion:

a. the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information 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 Alpha Disposal and 9.9% Disposal 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 financial information of the remaining group (the "Remaining Group"), assuming the Alpha Disposal and 9.9% Disposal had taken place on 1st January, 2003, is prepared based on the unaudited financial information set out in Appendix III and the financial information of Blackwater for year ended 31st March, 2004 extracted from the accountants' report in Appendix II set out in the Circular and adjusted for the transactions resulting from the Alpha Disposal and 9.9% Disposal and on the same basis of preparation set out in Appendix III.

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma income statement of the Remaining Group illustrating how the Alpha Disposal and 9.9% Disposal might have affected the results of the Group following the Blackwater Acquisition.

The unaudited pro forma income statement is prepared to provide financial information on the Remaining Group as a result of completion of the Alpha Disposal and 9.9% Disposal. As it is prepared for illustrative purpose only, it may not purport to represent what the results of the Remaining Group for the year ended 31st December, 2003 or any future period shall be.

HK$ million	The Enlarged Group	Adjustments	The Remaining Group
Turnover			
Group turnover	1,613		1,613
Share of turnover of jointly controlled entities	1,841		1,841
	3,454		3,454
Group turnover	1,613		1,613
Other revenue	1,196	59(3)	1,255
Operating costs	(1,807)		(1,807)
Operating profit	1,002	59	1,061
Finance costs	(630)		(630)
Share of results of associates	3,968	(152)(1)	3,816
Share of results of jointly controlled entities	611		611
Amortisation of goodwill	(27)	5(2)	(22)
Profit before taxation	4,924	(88)	4,836
Taxation	(1,074)	45(1)	(1,029)
Profit after taxation	3,850	(43)	3,807
Minority interests	10		10
Profit attributable to shareholders	3,860	(43)	3,817

Note:

(1) Adjustment to reverse 9.9% share of results of Blackwater.

(2) Adjustment to reverse 9.9% share of goodwill on acquisition of Blackwater.

(3) Adjustment to reflect gain on disposal of 9.9% interest in Blackwater.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma balance sheet of the Remaining Group, assuming that the Alpha Disposal and 9.9% Disposal had been completed on 31st December, 2003 for the purpose of illustrating how the Alpha Disposal and 9.9% Disposal might have affected the financial position of the Group following the Blackwater Acquisition.

The unaudited pro forma balance sheet is prepared to provide financial information on the Remaining Group as a result of completion of the Alpha Disposal and 9.9% Disposal. As it is prepared for illustrative purpose only, it may not purport to represent what the balance sheet of the Remaining Group shall be on the actual completion of the Alpha Disposal and 9.9% Disposal.

HK$ million	The Enlarged Group	Adjustments	The Remaining Group
Property, plant and equipment	1,804		1,804
Interests in associates	27,356	(729)[(2)]	26,627
Interests in jointly controlled entities	4,836		4,836
Interests in infrastructure project investments	1,948		1,948
Investments in securities	2,091		2,091
Other non-current assets	36		36
Total non-current assets	38,071	(729)	37,342
Investments in securities	1,466	(1,466)[(1)]	–
Inventories	164		164
Retention receivables	21		21
Debtors and prepayments	649		649
Bank balances and deposits	2,102	1,466[(1)] 729[(2)] 59[(3)]	4,356
Total current assets	4,402	788	5,190
Bank loans	1,258		1,258
Creditors and accruals	642		642
Taxation	109		109
Total current liabilities	2,009		2,009
Net current assets	2,393	788	3,181
Total assets less current liabilities	40,464	59	40,523
Bank and other loans	11,079		11,079
Deferred tax liabilities	151		151
Total non-current liabilities	11,230		11,230
Minority interests	209		209
Net assets	29,025	59	29,084
Representing:			
Share capital	2,254		2,254
Reserves	26,771	59	26,830
Capital and reserves	29,025	59	29,084

Note:

(1) Adjustment to reflect disposal of 19.9% interest in Blackwater.

(2) Adjustment to reflect disposal of 9.9% interest in Blackwater.

(3) Adjustment to reflect gain on disposal of 9.9% interest in Blackwater.

3. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE REMAINING GROUP

The following is a summary of the unaudited pro forma cash flow statement of the Remaining Group, assuming that the Alpha Disposal and 9.9% Disposal had taken place on 1st January, 2003 for the purpose of illustrating how the Alpha Disposal and 9.9% Disposal might have affected the cash flows of the Group following the Blackwater Acquisition.

The unaudited pro forma cash flow statement is prepared to provide financial information on the Remaining Group as a result of completion of the Alpha Disposal and 9.9% Disposal. As it is prepared for illustrative purpose only, it may not give a true picture of the cash flows of the Remaining Group for the year ended 31st December, 2003 or any future period.

HK$ million	The Enlarged Group	Adjustments	The Remaining Group
Operating activities			
Cash generated from operations	1,264		1,264
Income taxes refunded	2		2
Net cash from operating activities	1,266		1,266
Investing activities			
Purchase of property, plant and equipment	(90)		(90)
Disposals of property, plant and equipment	66		66
Disposals of subsidiaries	(11)		(11)
Acquisition of an associate	(3,675)	729[(2)]	(2,946)
Advances to associates	(352)		(352)
Repayments from associates	2,108		2,108
Advance to a jointly controlled entity	(15)		(15)
Net proceed from disposal of interest in an associate	–	59[(3)]	59
Disposal of infrastructure project investment	61		61
Purchases of securities	(2,503)	1,466[(1)]	(1,037)
Repayments from finance lease debtors	11		11
Acquisitions of other non-current assets	(2)		(2)
Dividends received from associates	1,422		1,422
Distributions received from listed stapled securities	63		63
Interest received	456		456
Finance lease income received	4		4
Net cash (utilised in) from investing activities	(2,457)	2,254	(203)
Financing activities			
New bank and other loans	2,125		2,125
Repayments of bank loans	(4,311)		(4,311)
Finance costs paid	(179)		(179)
Dividends paid	(1,533)		(1,533)
Net cash (utilised in) financing activities	(3,898)		(3,898)
Net (decrease) increase in cash and cash equivalents	(5,089)	2,254	(2,835)
Cash and cash equivalents at 1st January	7,191		7,191
Cash and cash equivalents at 31st December	2,102	2,254	4,356
Representing:			
Bank balances and deposits at 31st December	2,102	2,254[(1)(2)]	4,356

Note:

(1) Adjustment to reflect the reduction in consideration payable for acquisition of interest in Blackwater upon disposal of 19.9% interest in Blackwater.

(2) Adjustment to reflect the reduction in consideration payable for acquisition of interest in Blackwater upon disposal of 9.9% interest in Blackwater.

(3) Adjustment to reflect the net cash arising from the disposal of 9.9% interest in Blackwater.

1. RESPONSIBILITY STATEMENT

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 herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of 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 the Directors or chief executives were deemed or taken to have under such provisions of the SFO); or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors adopted by the Company ("Model Code") were as follows:

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%
	George Colin Magnus	Beneficial owner & interest of child or spouse	990,100	9,900	–	–	1,000,000	0.02%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	2,510,875 *(Note 5)*	–	2,510,875	0.06%
	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%

Long Positions in Shares (cont'd)

Name of Company	Name of Director	Capacity	Number of Ordinary Shares: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	Beneficial owner & interest of controlled corporation	100,000	–	1,000,000 *(Note 5)*	–	1,100,000	0.16%
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 Global Communications Holdings Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation & beneficiary of trusts	–	–	26,300,000 *(Note 3)*	3,875,632,628 *(Note 6)*	3,901,932,628	56.52%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	10,000,000 *(Note 5)*	–	10,000,000	0.14%
Hutchison Telecommunications International Limited	Li Tzar Kuoi, Victor	Interest of controlled corporations & beneficiary of trusts	–	–	14,489 *(Note 3)*	3,185,589,325 *(Note 7)*	3,185,603,814	70.79%
	George Colin Magnus	Beneficial owner & interest of child or spouse	13,201	132	–	–	13,333	0.0003%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	250,000 *(Note 5)*	–	250,000	0.006%
	Chow Woo Mo Fong, Susan	Beneficial owner	250,000	–	–	–	250,000	0.006%

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	–	–	–	2 underlying shares by virtue of the HK$300,000,000 Capital Guaranteed Notes due 2009 issued by Cheung Kong Bond Finance Limited *(Note 1)*	2 underlying shares by virtue of the HK$300,000,000 Capital Guaranteed Notes due 2009 issued by Cheung Kong Bond Finance Limited
Hutchison Whampoa Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	757,939 underlying shares by virtue of US$5,000,000 Notes due 2005 issued by BNP Paribas *(Note 5)*	–	757,939 underlying shares by virtue of US$5,000,000 Notes due 2005 issued by BNP Paribas
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	Beneficial owner & interest of controlled corporation	134,000 underlying shares by virtue of 134,000 5.5% Unsecured Convertible Notes due 2007	–	1,340,001 underlying shares by virtue of 1,340,001 5.5% Unsecured Convertible Notes due 2007 *(Note 5)*	–	1,474,001 underlying shares by virtue of 1,474,001 5.5% Unsecured Convertible Notes due 2007
Hutchison Global Communications Holdings Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	3,333,333,333 underlying shares by virtue of HK$3,200,000,000 1% Unsecured Convertible Notes due 2009 *(Note 6)*	3,333,333,333 underlying shares by virtue of HK$3,200,000,000 1% Unsecured Convertible Notes due 2009
			–	–	–	1,041,666,666 underlying shares by virtue of Facility Convertible Notes to be issued pursuant to the terms of an unsecured loan facility of HK$1,000,000,000 *(Note 6)*	1,041,666,666 underlying shares by virtue of Facility Convertible Notes to be issued pursuant to the terms of an unsecured loan facility of HK$1,000,000,000
Hutchison Telecommunications International Limited	Frank John Sixt	Beneficial owner	255,000 underlying shares by virtue of 17,000 American Depository Shares	–	–	–	255,000 underlying shares by virtue of 17,000 American Depository Shares

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$2,000,000 7% Notes due 2011 *(Note 3)*	–	US$2,000,000 7% Notes due 2011
Hutchison Whampoa International (03/13) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$11,000,000 6.5% Notes due 2013 *(Note 3)*	–	US$11,000,000 6.5% Notes due 2013
Hutchison Whampoa Finance (03/13) Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	Euro20,900,000 5.875% Notes due 2013 *(Note 5)*	–	Euro20,900,000 5.875% 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

Notes:

1 The 1,912,109,945 shares in the Company comprise 1,906,681,945 shares held by a subsidiary of Hutchison Whampoa Limited ("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 2 underlying shares of the Company are held by an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("CKH").

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 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 and the underlying shares held by the subsidiary of CKH under the SFO as a Director. 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.

Notes (cont'd):–

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, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL under the SFO.

(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. 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 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 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 Hongkong Electric Holdings Limited 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 3,875,632,628 shares of Hutchison Global Communications Holdings Limited ("HGCH") are held by a wholly-owned subsidiary of CKH and a subsidiary which is owned as to 70.16% by HWL while the interests in 3,333,333,333 underlying shares and 1,041,666,666 underlying shares are held by certain subsidiaries which are owned as to 70.16% by 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, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares and underlying shares of HGCH under the SFO.

7 The 3,185,589,325 shares in Hutchison Telecommunications International Limited ("HTIL") comprise 3,185,436,045 shares held by certain subsidiaries of CKH and HWL and 153,280 shares held by TUT3 as trustee of UT3. 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 and by virtue of his being a discretionary beneficiary of each of DT3 and DT4 which hold units in UT3 as described in Notes 1 and 2 above and as a Director, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HTIL under the SFO.

Mr. Li Tzar Kuoi, Victor, by virtue of being a Director 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.

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, Company 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:

Long Positions of Substantial Shareholders in the Shares of the Company

Name	Capacity	Number of Ordinary Shares	Approximate % of Shareholding
Hutchison Infrastructure Holdings Limited	Beneficial owner	1,906,681,945 *(Note 1)*	84.58%
Hutchison International Limited	Interest of controlled corporation	1,906,681,945 *(Note 2)*	84.58%
Hutchison Whampoa Limited	Interest of controlled corporations	1,906,681,945 *(Note 2)*	84.58%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,906,681,945 *(Note 3)*	84.58%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	1,912,109,945 *(Note 4)*	84.82%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of trust	1,912,109,945 *(Note 5)*	84.82%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of trust	1,912,109,945 *(Note 5)*	84.82%
Li Ka-shing	Founder of discretionary trusts	1,912,109,945 *(Note 5)*	84.82%

Notes:

1 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 2 below.

2 HWL is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note 1 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.

3 CKH is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note 2 above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.

4 TUT1 as trustee of UT1 is deemed to be interested in those shares of the Company described in Note 3 above as TUT1 as trustee of UT1 and TUT1 related companies hold more than one-third of the issued share capital of CKH and in the 5,428,000 shares of the Company held by TUT1 as trustee of UT1.

5 Each of Mr. Li Ka-shing, TDT1 as trustee of DT1 and TDT2 as trustee of another discretionary trust 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 4 above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of another discretionary trust. 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.

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	% of Shareholding 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 Ltd.	2 ordinary	40%	–
Hornby Pacific Limited	Coulomb Technology Limited	50,000 ordinary	38%	–
SurfiT Systems Limited	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.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

Up to the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31st December, 2003, being the date to which the latest published audited financial statements of the Company were prepared.

3. COMPETING BUSINESS INTERESTS OF DIRECTORS

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 power plants and distribution facilities;

(2) Development, investment and operation of toll roads, toll bridges, tunnel and ancillary businesses and services;

(3) Development, investment and operation and commercialisation of infrastructure materials including cement, concrete and asphalt products;

(4) Investment holding and project management;

(5) Securities investment; and

(6) 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	(4), (5) & (6)
	Hutchison Whampoa Limited	Deputy Chairman	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Executive Director	(1), (4), (5) & (6)
	CK Life Sciences Int'l., (Holdings) Inc.	Chairman	(5) & (6)
Kam Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director	(4), (5) & (6)
	Hutchison Whampoa Limited	Executive Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Executive Director	(1), (4), (5) & (6)
	CK Life Sciences Int'l., (Holdings) Inc.	President and Chief Executive Officer	(5) & (6)
George Colin Magnus	Cheung Kong (Holdings) Limited	Deputy Chairman	(4), (5) & (6)
	Hutchison Whampoa Limited	Executive Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Chairman	(1), (4), (5) & (6)
Fok Kin Ning, Canning	Cheung Kong (Holdings) Limited	Non-executive Director	(4), (5) & (6)
	Hutchison Whampoa Limited	Group Managing Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Deputy Chairman	(1), (4), (5) & (6)
	Hutchison Harbour Ring Limited	Chairman	(6)
	Hutchison Global Communications Holdings Limited	Chairman	(6)
	Hutchison Telecommunications International Limited	Non-executive Director	(6)
	Hanny Holdings Limited	Non-executive Director	(4), (5) & (6)
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Executive Director	(4), (5) & (6)
	CK Life Sciences Int'l., (Holdings) Inc.	Senior Vice President and Chief Investment Officer	(5) & (6)
	TOM Group Limited	Non-executive Director	(4), (5) & (6)
	CATIC International Holdings Limited	Non-executive Director	(4) & (5)
	Excel Technology International Holdings Limited	Non-executive Director	(4), (5) & (6)
	Hanny Holdings Limited	Non-executive Director	(4), (5) & (6)
	Shougang Concord International Enterprises Company Limited	Non-executive Director	(1), (4) & (5)

(b) Interests in Competing Business (cont'd)

Name of Director	Name of Company	Nature of Interest	Competing Business *(Note)*
Chow Woo Mo Fong, Susan	Hutchison Whampoa Limited	Deputy Group Managing Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Non-executive Director	(1), (4), (5) & (6)
	TOM Group Limited	Non-executive Director	(4), (5) & (6)
	Hutchison Harbour Ring Limited	Executive Director	(6)
	Hutchison Global Communications Holdings Limited	Executive Director	(6)
	Hutchison Telecommunications International Limited	Non-executive Director	(6)
Frank John Sixt	Cheung Kong (Holdings) Limited	Non-executive Director	(4), (5) & (6)
	Hutchison Whampoa Limited	Group Finance Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Executive Director	(1), (4), (5) & (6)
	TOM Group Limited	Chairman	(4), (5) & (6)
	Hutchison Telecommunications International Limited	Non-executive Director	(6)
Tso Kai Sum	Hongkong Electric Holdings Limited	Group Managing Director	(1), (4), (5) & (6)

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 six 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.

4. MATERIAL CONTRACTS

No contracts (not being entered into in the ordinary course of business) have been entered into by the members of the Group within two years preceding the date of this circular and which are or may be material.

5. 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. QUALIFICATION

The following are the qualifications of the experts who have given an opinion or advice on the information contained in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements 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.

7. CONSENTS

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or summary of its opinions (as the case may be) and references to its name in the form and context in which they respectively appear herein.

8. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2003, being the date to which the latest published audited financial statements of the Group were made up.

9. MISCELLANEOUS

(a) As at the Latest Practicable Date, none of the Directors had any service contract with the Company or any of its subsidiaries.

(b) The company secretary of the Company is Ms. Eirene Yeung. She holds a Master's degree in Business Administration and is a solicitor of the High Court of Hong Kong and of the Supreme Court of Judicature in England and Wales.

(c) The qualified accountant of the Company is Mr. Chan Loi Shun, Dominic. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

(d) The registered office of the Company is at Clarendon House, Church Street, Hamilton, HM11, Bermuda.

(e) The principal place of business of the Company is at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

(f) The principal share registrars of the Company is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

(g) The branch share registrars of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(h) All references to times in this circular refer to Hong Kong times.

(i) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

10. PROCEDURE FOR DEMANDING A POLL BY COMPANY 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 Company Shareholders present in person (or in the case of a Company 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 Company Shareholder or Company Shareholders present in person (or in the case of a Company 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 Company Shareholders having the right to vote at the meeting; or

(d) by a Company Shareholder or Company Shareholders present in person (or in the case of a Company 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 Company Shareholder or in the case of a Company Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by the Company 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 Company 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 Company Shareholder present in person or by proxy or, in the case of Company 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.

11. 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 from 26th November, 2004 to 13th December, 2004 (both days inclusive):

(a) the memorandum of association and bye-laws of the Company;

(b) the annual report and accounts of the Company for each of the three years ended 31st December, 2001, 2002 and 2003;

(c) the accountants' report on the acquired business set out in Appendix II;

(d) the reports from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group dated 26th November, 2004 as set out in Appendices III, IV, V and VI;

(e) a copy of each circular published pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since the last audited accounts; and

(f) the written consent referred to in the section headed "Consents" in paragraph 7 of 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 14th December, 2004 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following Resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

(i) "**THAT** the Blackwater Acquisition (as defined in the circular of the Company dated 26th November, 2004 (the "**Circular**")) on the terms and subject to the conditions of the Blackwater Acquisition Agreement and the Gas Network Shareholders Agreement (each as defined in the Circular), copies of each of which have been produced to this meeting marked "A" and "B" respectively and signed by the Chairman of this meeting for the purpose of identification, be approved and that any one executive director of the Company be authorised to execute all such documents and if necessary apply the common seal of the Company thereto and do all such acts, matters and things as he/she may in his/her discretion consider necessary or desirable on behalf of the Company for the purpose of implementing, and otherwise in connection with, the Blackwater Acquisition or the implementation, exercise or enforcement of any of the rights, and performance of any of the obligations, under the Blackwater Acquisition Agreement and/or the Gas Network Shareholders Agreement including (i) exercising, or procuring the exercise of, the option to require Transco to sell to Gas Network the Blackwater Shares (as such terms are defined in the Circular) in accordance with the Blackwater Acquisition Agreement (including the service of the Option Exercise Notice (as defined in the Circular)) and doing all such acts and executing all such documents as may be necessary in connection therewith; and (ii) agreeing any modifications, amendments, waivers, variations or extensions of the Blackwater Acquisition Agreement and/or the Gas Network Shareholders Agreement as such director may deem fit."

(ii) "**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 26th November, 2004 (the "**Circular**")) of the Alpha Disposal Agreement (as defined in the Circular), the Alpha Disposal (as defined in the Circular) on the terms and subject to the conditions of the Alpha Disposal Agreement, a copy of which has been produced to this meeting marked "C" and signed by the Chairman of this meeting for the purpose of identification, be approved and that any one executive director of the Company be authorised to execute all such documents and if necessary apply the common seal of the Company thereto and do all such acts, matters and things as he/she may in his/her discretion consider necessary or desirable on behalf of the Company for the purpose of implementing, and otherwise in connection with, the Alpha Disposal or the implementation, exercise or enforcement of any of the rights, and performance of any of the obligations, under the Alpha Disposal Agreement including agreeing any modifications, amendments, waivers, variations or extensions of the Alpha Disposal Agreement as such director may deem fit."

(iii) "**THAT**, the 9.9% Disposal (as defined in the circular of the Company dated 26th November, 2004 (the "**Circular**")) on the terms and subject to the conditions of the 9.9% Disposal Agreement (as defined in the Circular), a copy of which has been produced to this meeting marked "D" and signed by the Chairman of this meeting for the purpose of identification, be approved and that any one executive director of the Company be authorised to execute all such documents and if necessary apply the common seal of the Company thereto and do all such acts, matters and things as he/she may in his/her discretion consider necessary or desirable on behalf of the Company for the purpose of implementing, and otherwise in connection with, the 9.9% Disposal or the implementation, exercise or enforcement of any of the rights, and performance of any of the obligations, under the 9.9% Disposal Agreement including agreeing any modifications, amendments, waivers, variations or extensions of the 9.9% Disposal Agreement as such director may deem fit."

By Order of the Board
Eirene Yeung
Company Secretary

Hong Kong, 26th November, 2004

Notes:

(1) A form of proxy for use at the meeting is enclosed.

(2) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.

(3) A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the meeting.

(4) 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.

(5) 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.

(6) 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.

(7) The register of members of the Company will be closed from Thursday, 9th December, 2004 to Tuesday, 14th December, 2004, 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 no later than 4.00 p.m. on Wednesday, 8th December, 2004.

This circular (in both English and Chinese versions) ("Circular") has been posted on the Company's website at http://www.cki.com.hk.

Company 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 Company 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.

Company 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.