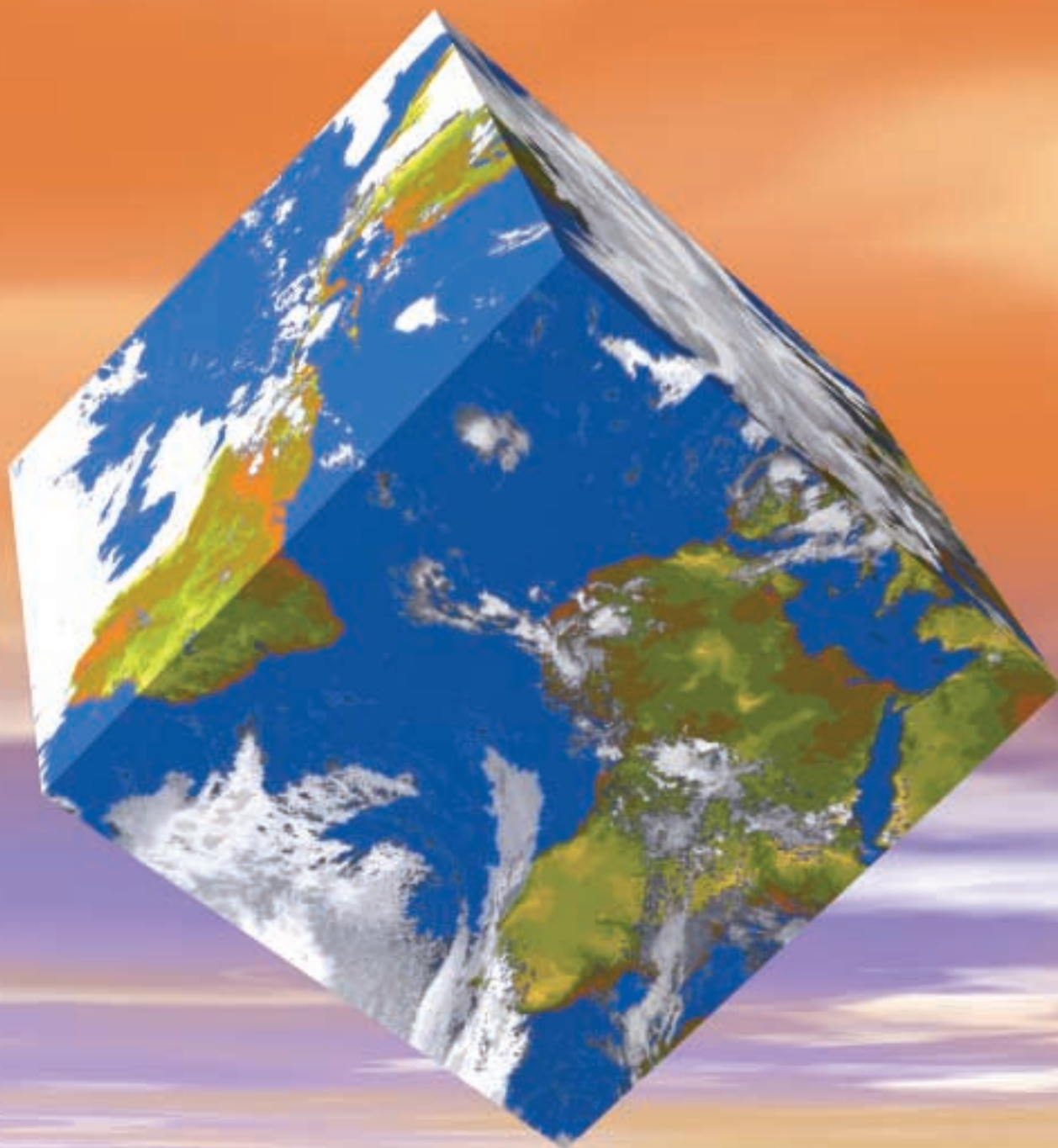




**Cheung Kong Infrastructure Holdings Limited**  
(Incorporated in Bermuda with limited liability)

Annual Report 2004



**THE POWER TO SHAPE  
GLOBAL OPPORTUNITIES**



CKI is the largest publicly listed infrastructure company in Hong Kong with diversified investments in Energy Infrastructure, Transportation Infrastructure, Water Infrastructure and Infrastructure Related Business. Operating in Hong Kong, Mainland China, Australia, the United Kingdom, Canada and the Philippines, it is a leading player in the global infrastructure arena.

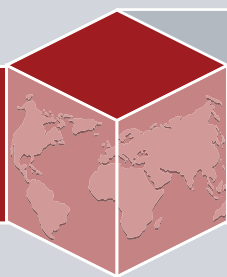
## THE YEAR AT A GLANCE

Profit attributable to shareholders (HK\$m)	3,556
Earnings per share (HK\$)	1.58
Dividends per share (HK\$)	0.79

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# Nine-Year Financial Summary

## Consolidated Income Statement

for the year ended 31st December

HK\$ million	2004	2003	2002	2001	2000	1999	1998	1997	1996
Turnover	<b>4,460</b>	4,309	4,256	4,422	3,938	3,209	3,372	3,377	3,013
Profit attributable to shareholders	<b>3,556</b>	3,349	3,326	3,152	3,114	3,043	2,770	2,353	854
Dividends									
Interim dividend paid	<b>496</b>	485	485	473	451	293	271	225	–
Proposed final dividend	<b>1,285</b>	1,127	1,048	947	902	654	586	496	361
	<b>1,781</b>	1,612	1,533	1,420	1,353	947	857	721	361

## Consolidated Balance Sheet

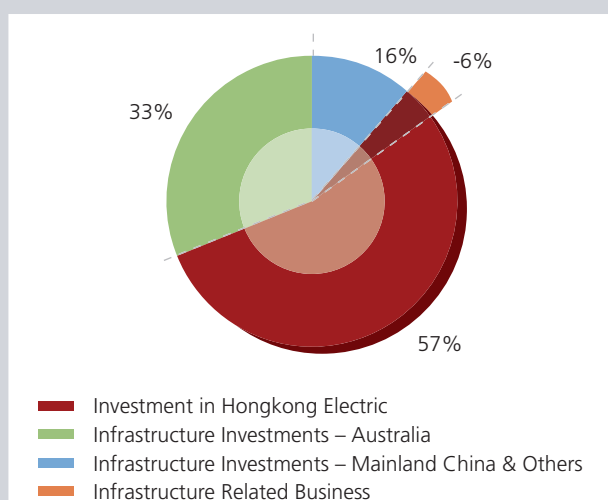
as at 31st December

HK\$ million	2004	2003	2002	2001	2000	1999	1998	1997	1996
Property, plant and equipment	<b>2,247</b>	1,804	1,992	2,137	2,267	2,328	2,336	1,700	1,627
Interests in associates	<b>25,657</b>	23,681	22,213	17,925	18,457	10,881	8,888	8,188	95
Interests in jointly controlled entities	<b>4,801</b>	4,836	4,538	4,606	4,791	2,591	2,276	1,629	1,000
Interests in infrastructure project investments	<b>1,855</b>	1,948	2,465	3,469	4,294	6,280	7,056	5,989	3,762
Investments in securities	<b>1,188</b>	2,091	803	759	754	676	–	–	–
Other non-current assets	<b>271</b>	36	43	43	39	11	6	4	2
Current assets	<b>10,070</b>	8,077	8,121	5,193	4,034	3,171	2,838	3,689	4,873
Total assets	<b>46,089</b>	42,473	40,175	34,132	34,636	25,938	23,400	21,199	11,359
Current liabilities	<b>(1,314)</b>	(2,009)	(2,939)	(4,726)	(4,526)	(609)	(686)	(727)	(2,639)
Non-current liabilities	<b>(13,399)</b>	(11,230)	(10,487)	(4,591)	(7,087)	(4,055)	(3,203)	(3,210)	(157)
Total liabilities	<b>(14,713)</b>	(13,239)	(13,426)	(9,317)	(11,613)	(4,664)	(3,889)	(3,937)	(2,796)
Minority interests	<b>(206)</b>	(209)	(219)	(224)	(256)	(253)	(256)	(10)	(5)
Net assets	<b>31,170</b>	29,025	26,530	24,591	22,767	21,021	19,255	17,252	8,558

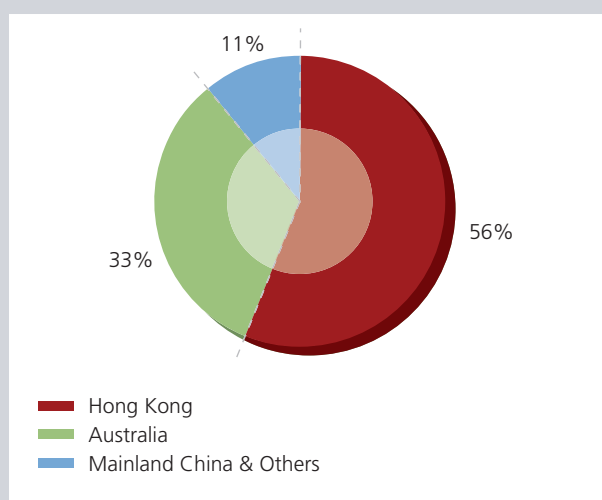
## Per Share Data

HK\$	2004	2003	2002	2001	2000	1999	1998	1997	1996
Earnings per share	<b>1.58</b>	1.49	1.48	1.40	1.38	1.35	1.23	1.13	0.72
Dividends per share	<b>0.79</b>	0.715	0.68	0.63	0.60	0.42	0.38	0.32	0.16
Net book value per share	<b>13.83</b>	12.88	11.77	10.91	10.10	9.33	8.54	7.65	6.26

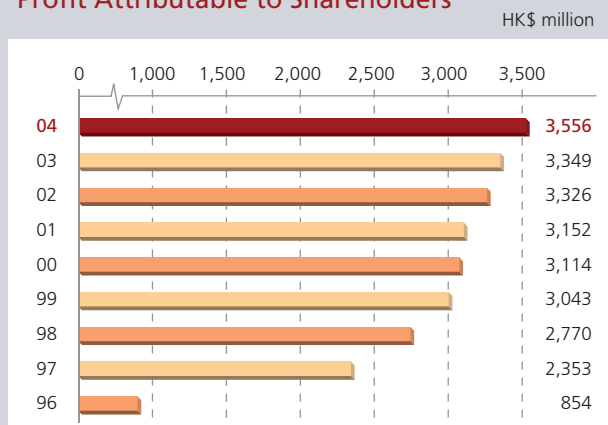
## 2004 Profit Contribution by Business Segment



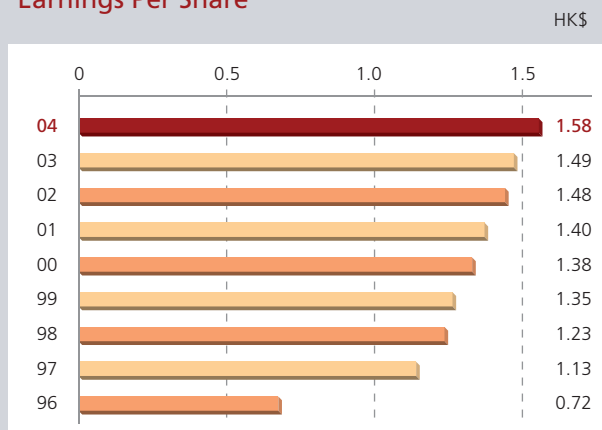
## 2004 Profit Contribution by Geographic Region



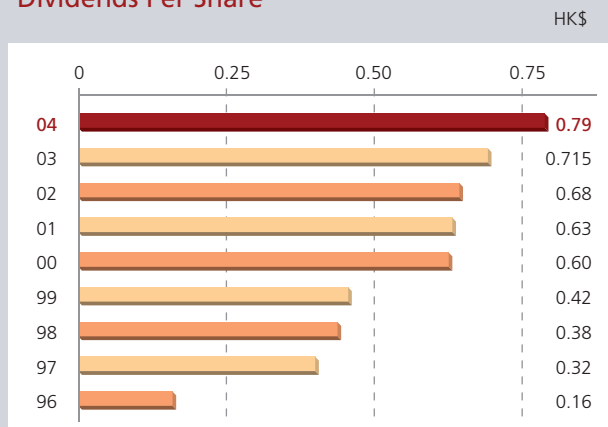
## Profit Attributable to Shareholders



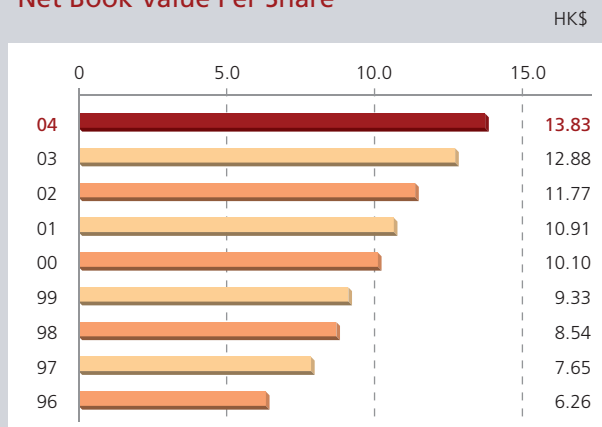
## Earnings Per Share

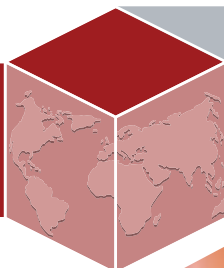


## Dividends Per Share



## Net Book Value Per Share





## New Heights in Global Achievements



### Global Achievements – From Strength to Strength

“2004 has been a year of good performance on all fronts.”

#### HIGHLIGHTS

- In 2004,
  - Profit after tax attributable to shareholders was HK\$3,556 million, an increase of 6.2%
  - Annual dividend growth of 10.5%
- Eight consecutive years of sustained growth
- Hongkong Electric continued to generate a substantial profit contribution: HK\$2,405 million
- Profit contribution from infrastructure investments up 26% to HK\$2,074 million
- A year of business diversification and expansion
  - Acquisition of 49% of AquaTower in Victoria, Australia
  - Acquisition of 100% of Cambridge Water in Cambridgeshire, the United Kingdom
  - Acquisition of 40% of Lane Cove Tunnel in Sydney, Australia
  - Acquisition of 40% of North England Gas Distribution Network, the United Kingdom
- Strong financial platform, poised for future growth
  - Cash on hand of HK\$9,029 million
  - Net debt to equity ratio of 14%
  - S&P ratings of “A-” reaffirmed

## A Year of Solid Financial Performance

We are pleased to report that Cheung Kong Infrastructure Holdings Limited ("CKI" or the "Group") has recorded its eighth consecutive year of growth in 2004. Profit after tax attributable to shareholders increased by 6.2 per cent. to HK\$3,556 million. Earnings per share were HK\$1.58.

The Board of Directors of CKI (the "Board") has recommended a final dividend of HK\$0.57 per share. Together with the interim dividend of HK\$0.22, this will bring the total dividend for the year to HK\$0.79 per share, a 10.5 per cent. increase from the HK\$0.715 per share paid for 2003. The proposed dividend will be paid on 17th May, 2005 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members on 12th May, 2005.

## A Year of Strong Organic Growth

2004 has been a year of good performance on all fronts. With strong organic growth and a number of milestone achievements in global acquisitions, we have further strengthened our position as the largest diversified infrastructure company listed on the Stock Exchange of Hong Kong and a key player in the international infrastructure arena.

### 1. Hongkong Electric

Hongkong Electric Holdings Limited ("Hongkong Electric") remains a steady and substantial revenue generator for the Group. In 2004, the contribution was HK\$2,405 million, accounting for approximately 57 per cent. of CKI's total profit contribution and representing an increase of 5 per cent. over last year. Performance in Hong Kong was affected by unforeseen increases in operating costs fuelled by volatile coal and freight markets, a substantial increase in Government rates as well as a tariff freeze in 2004, resulting in earnings below the permitted level specified in the Scheme of Control Agreement. Overseas investments in Australia have generated good returns and a strong growth in profit contribution.

### 2. Australian Investments

2004 has been another exceptional year for CKI's Australian investment portfolio, with a profit contribution growth of 41 per cent. over last year. Accounting for approximately 33 per cent. of the Group's profit contribution, Envestra Limited, ETSA Utilities, Powercor Australia Limited ("Powercor") and CitiPower I Pty Ltd. have all continued to generate a substantial income and source of cash for CKI. The Group's investments in these major assets have matured and prospered, backed by a strong management team as well as fuelled by the strong local economy in Australia and industrious activity in the country's infrastructure industry.





# New Heights in Global Achievements

A strong financial performance was achieved through a combination of customer growth, increased consumption and productivity improvements within and across the businesses. These investments have further benefited from the strengthening of the Australian dollar. In addition, under Australia's new tax consolidation rules, Powercor benefited from a one-off reduction in its deferred tax liability, further enhancing the financial results for 2004.

### 3. Infrastructure Portfolio in Mainland China

Our energy investments in the Mainland delivered a good performance, contributing HK\$480 million to the Group supported by the strong growth of the Mainland economy. The Zhuhai Power Plant registered a stellar performance in 2004 and recorded its best power performance to date, generating more than 30 per cent. above the minimum purchasing requirement with the power off-taker.

CKI's portfolio of toll roads in the Mainland reported a mixed performance in 2004. Despite the adverse effect of traffic diversion on completion of a new toll road which runs in parallel to our National Highway 107 (Zhuhadian Sections), a strong performance was recorded by our transportation infrastructure portfolio in Guangdong Province which reported a double-digit growth in toll revenue. In particular, the Shenzhen-Shantou Highway (Eastern Section), the Panyu Beidou Bridge and the Guangzhou East-South-West Ring Road in Guangzhou all registered over 30 per cent. increase in toll revenue.

## A Year of Global Expansion and Diversification

2004 represents a year of significant expansion and diversification for CKI as investments of HK\$13 billion were made. A number of key milestones have been recorded during the year as the Group aggressively grew the scope of its business through four major acquisitions. We have diversified into water and expanded into the United Kingdom.

### 1. AquaTower

CKI acquired a 49 per cent. stake in AquaTower Pty Ltd. in Victoria, Australia in March 2004. This acquisition represents CKI's first investment into the water industry in Australia.

### 2. Cambridge Water

In April 2004, CKI made its first foray into the United Kingdom through the acquisition of 100 per cent. shareholding of Cambridge Water PLC in Cambridgeshire. The acquisition represents CKI's second investment in water during the year.

### 3. Lane Cove Tunnel

The Group acquired the Lane Cove Tunnel Company Pty Ltd. in Australia in July 2004. CKI is the single largest shareholder with a 40 per cent. stake in the asset, representing the Group's second tunnel project in Sydney.

### 4. North of England Gas Distribution Network

In August 2004, CKI made an investment in the North of England Gas Distribution Network. The total consideration for the project was HK\$20 billion (GBP1.393 billion), of which CKI holds a 40 per cent. stake. The acquisition is CKI's first investment in gas distribution in the United Kingdom and the transaction is expected to be completed in mid-2005.



## A Year of Portfolio Consolidation

While looking at outward growth and expansion, CKI has also pursued a stringent strategy of portfolio consolidation during the course of 2004.

### 1. Transportation in Mainland China

Documentation for the buyback transactions by the Group's partners in the Shenyang Roads project and the Jianghe Highway in Jiangmen have been concluded.

### 2. Infrastructure Related Business

The Group's materials business has faced depressed market conditions for a number of years as the consumption of cement dropped to the lowest levels in the last two decades.

The merger of the concrete and quarry operations of Anderson Asia (Holdings) Limited with the Hong Kong arm of Hanson PLC in early 2004 has been a successful effort to consolidate operations and cut costs. Additionally, in accordance with the Group's prudent management principles, a sizeable impairment of HK\$250 million was taken in 2004 against certain assets.

I would like to take this opportunity to welcome four new Independent Non-executive Directors to the Board: Mrs. Kwok Eva Lee, Mrs. Sng Sow-Mei, Mr. Colin Stevens Russel and Mr. Lan Hong Tsung, David. I am sure CKI stands to benefit from their contributions to the Group in the future as they bring with them tremendous experience and a strong international outlook.

Finally, I would like to offer my thanks to the Board and our staff for their commitment, dedication and hard work, and to all our shareholders for their support and confidence in the Group.

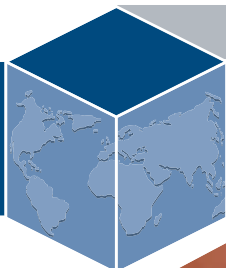
## Li Tzar Kuoi, Victor

Chairman

Hong Kong, 17th March, 2005

## New Horizons in the Global Infrastructure Arena

In 2004, CKI realised a number of expansion strategies and continued our course of organic growth. The Group has a strong foundation for future investments and expansion. We expect to reap the rewards of our much-strengthened investment portfolio while pursuing new investments and considering fresh opportunities in Australia, Europe and North America. The Group's financials remain very strong with cash on hand of HK\$9,029 million, net debt to equity ratio of 14 per cent. and an S&P rating of "A-". With our financial resources and industry expertise, it is expected that CKI will grow from strength to strength and reach higher levels of achievement. We will strive to reach new horizons in the arena of global infrastructure.



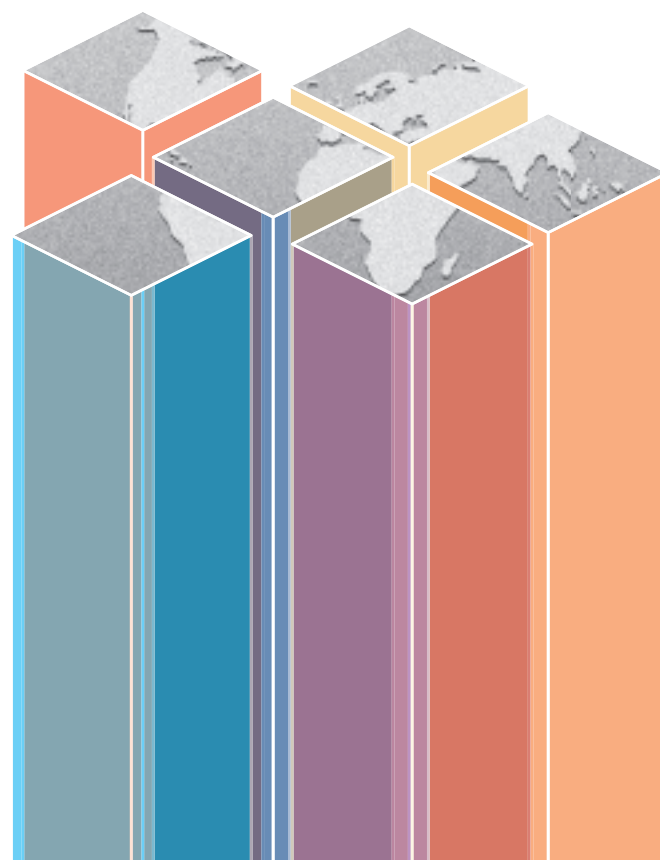
## Diversification and Globalisation



The profit contribution from the Group's investments in Australia and Mainland China was over HK\$2 billion, an increase of 25% over last year. For the first time, we have recorded earnings from the United Kingdom, representing globalisation into a new market for CKI. We have also diversified into the new industries of water and gas distribution. 2004 marked the eighth consecutive year of profit growth for the Group and a total of HK\$13 billion was committed in new investments during the year.

While many major corporations worldwide are consolidating and returning to their core operations and home markets, CKI has continued to execute its strategy of expansion and diversification with considerable aplomb. Through a series of acquisitions

In 2004, CKI's performance was buoyed by an impressive showing from our overseas investments.



this year, we have reached new horizons as a global infrastructure player.

Our achievements can be attributed to our prudent approach to investment. CKI's management team possesses a profound understanding of the infrastructure markets around the world and has extensive experience in sourcing prime projects, as well as professional know-how in the art of project finance, tender bidding, and negotiation. Our team conscientiously applies the two tenets of our investment ethos – calculated risks with justified returns. Applying this philosophy, we have been building a global network of infrastructure investments that play an intricate role in the communities we operate in.

2004 marked a fruitful year in terms of business developments. CKI has diversified into a new industry in a major way – the water business. Through the acquisition of a 49% stake in AquaTower, we have entered the realm of water treatment in Australia. AquaTower, a water supplier with 4 plants in Victoria, has immediately generated revenue for the Group since acquisition. In the same vein, CKI also acquired 100% of Cambridge Water, which supplies water to a population of approximately 300,000 in the region of South Cambridgeshire in the United Kingdom. Significantly, this acquisition marks CKI's first step into the United Kingdom market.

Strengthening our presence in the United Kingdom, we also acquired a majority shareholding interest in the North of England Gas Distribution Network, a project worth HK\$20 billion. One of eight major gas

distribution networks in the United Kingdom, the asset serves a total population of 6.7 million. The acquisition is due to be completed by mid-2005 and will start generating attractive returns to the Group upon financial close. On completion, CKI will hold a 40% stake in the asset and will be the single largest shareholder. Both our investments in the United Kingdom are expected to bring attractive cash yields and immediate revenue to the Group and will act as a platform for future investment and expansion in the country.

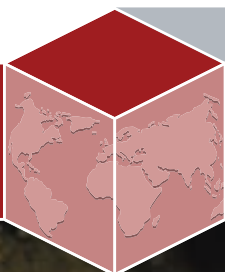
During the year, we also expanded our toll road portfolio in Australia with the acquisition of a 40% stake in the Lane Cove Tunnel in Sydney, with CKI being the single largest shareholder. The project is scheduled to be completed by mid-2007 and is expected to generate long term and good returns for CKI.

CKI's roadmap is to continue our plan of diversification, both into new markets and into new industries, and to capitalise on the organic growth and expansion of our existing operations. We are in the global business and we embrace our position as a leading market player. CKI will explore new opportunities around the world. With our strong war chest and financial backing, we will persist in our strategy for expansion, diversification and globalisation through new quality acquisitions that meet our stringent investment criteria.

**H.L. Kam**

Group Managing Director

Hong Kong, 17th March, 2005



## A New Chapter for CKI

2004 was another landmark year for CKI as the Group made a significant foray into the United Kingdom ("UK") market. The successful acquisition of Cambridge Water and the North of England Gas Distribution Network have heralded a two-pronged expansion into two new infrastructure industries – water and gas – in this new geographical market for CKI.

The North of England Distribution Network will be headed by Mr William Shurniak (left) as Chairman and Mr Basil Scarsella (right) as Chief Executive Officer.



## Cambridge Water

CKI acquired 100% of Cambridge Water in April 2004. It is expected that the investment will generate attractive double-digit returns.

Cambridge Water has a long-established pedigree that dates back to 1853. Originally just serving 600 houses, the network now serves approximately 300,000 people. In 1989, when the rest of the water industry in the UK was privatised, Cambridge Water became regulated by the Office of Water Services ("OFWAT"). Prices are reset by OFWAT every five years and a reset has just been completed for Cambridge Water, with prices increasing 11.8% plus inflation from 1st April, 2005.

Cambridge Water possesses an integrated distribution system that includes 7 service reservoirs, 10 water towers and 2,200 kilometres of water mains, in an area that spans over 1,173 square kilometres. The operations are highly efficient, scoring top rank from OFWAT for operating efficiency. Cambridge Water has also achieved a "good"<sup>1</sup> operating performance rating against all of OFWAT's key performance indicators.

According to the Office of Population, Censuses and Surveys in the UK, population growth within Cambridge Water's area has been one of the highest in the last two decades, with a cumulative annual growth rate four times the UK's average. The growth of

Cambridge Water's customer base is expected to be one of the highest in the region. Being one of the largest employment centres in the region with some 80,000 jobs, Cambridge is displaying rapid economic growth, particularly in the knowledge-based businesses around Cambridge University.

As the area of Cambridge flourishes, this water company is forecast to generate sustained growth that outperforms the UK's national average.

## North of England Gas Distribution Network

The North of England Gas Distribution Network is one of the eight regional distribution networks that serve the entire UK market. Its region extends from the Scottish border to South Yorkshire, containing a significant mixture of large cities (Newcastle, Middlesbrough, Leeds and Bradford) and a significant rural area including North Yorkshire and Cumbria. This represents a balanced demand portfolio with a large industrial and commercial consumer base accounting for approximately 48% of throughput and a sizeable domestic demand profile centred around the urban areas of Leeds and Newcastle. Growth in consumption over the last ten years in this region has outpaced the average in the UK. Serving a total population of 6.7 million, the extensive North of England distribution system comprises approximately 36,000 kilometres of distribution gas mains.

<sup>1</sup> OFWAT's key performance indicators include: customers at risk of receiving poor pressure, customers with an unplanned supply interruption greater than 6 hours, percentage of billing queries dealt with in less than 5 days, percentage of written complaints dealt with in 10 days and meter reading performance. The three categories of performance are "good", "acceptable" and "needs improvement".





## A New Chapter for CKI

In August 2004, a CKI-led consortium successfully won the tender to acquire the North of England Gas Distribution Network. The transaction will be completed in mid-2005 and is expected to generate attractive cash yields and a good return on equity to CKI. On completion of all related transactions, CKI will hold a 40% stake in the North of England Gas Distribution Network and become the single largest shareholder in the asset. The other shareholders will be Hongkong Electric Holdings Limited (19.9%), Li Ka Shing (Overseas) Foundation (15.2%), United Utilities PLC (15%), Challenger Life No.2 Limited (5.8%) and SAS Trustee Corporation (4.1%).

### The UK and Beyond

CKI is interested in investing in low risk regulated assets with steady and solid returns. In addition to strengthening our operations in existing markets, we are keen to explore other new markets around the world. CKI is a key player in global infrastructure industries and we will pursue new investment opportunities with vigour. We hope to expand our market penetration and geographical reach through more sound investments.



Cambridge Water serves approximately 300,000 people in South Cambridgeshire with highly efficient water services.

## The UK Gas Industry

The UK represents a market at the forefront of privatising previously state-owned assets. The process of privatisation began in 1984 with the sale of British Telecom and currently there is private financial involvement in all utility and public transportation sectors like airline and train operations. The market has emerged as a sophisticated mix of international investment. Investors from outside the UK have been attracted by consistent regulatory regimes that provide solid low risk returns in a steadily growing market place.

The UK's gas market is amongst the most developed in Western Europe, comprising a competitive market for the production and supply and sale of gas and a highly developed regulatory framework for transporting gas to consumers.

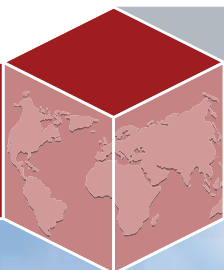
Gas consumption has doubled over the last 20 years to approximately 1,100 TWh in 2002, and is expected to grow to 1,370 TWh by 2012, making the UK the largest gas market in Western Europe. The gas industry has become an essential part of the British economy, with its share of UK primary energy consumption increasing from approximately 23% in 1983 to 41% in 2002. The growth in gas consumption can be seen in all sectors, from industrial and commercial to domestic. Growth in gas consumption in the industrial and commercial sectors have been driven by increasing levels of economic activity and fuel substitution brought about by the competitive position of gas in relation to other fuels, most notably oil. In the domestic sector, gas consumption continues to grow and over 70% of all homes in the UK are centrally heated by gas.

The gas distribution industry in the UK operates within one of the most highly developed incentive based regulatory frameworks in the world. The regulated monopoly businesses of gas distribution are advanced and transparent, benefiting from a number of factors:

- Consistent application of incentive-based regulation;
- Revenue visibility is expected until at least March 2007, the end of the current price control period;
- Transparent review process for the setting of price controls;
- Underpinning legislation ensures that businesses can finance major capital projects and mains replacement programmes while maintaining credit rating;
- Incentive based regulatory regime which allows companies to keep the benefit of outperformance.

Given the natural monopoly and regulatory aspects of the industry, gas distribution networks in the UK face limited risks and cash flow generation is extremely robust. The regulatory process also provides a clear basis for longer term forecasting due to its transparent and well-tested nature.





## A Year of Acquisition



### AQUATOWER

In March 2004, CKI acquired a 49% stake in AquaTower Pty Ltd. in Victoria, Australia. It comprises 4 water plants and is the exclusive potable water supplier of four regional towns in Victoria, serving a population of approximately 50,000 people.



### CAMBRIDGE WATER

In April 2004, CKI made its first foray in the United Kingdom through the 100% acquisition of Cambridge Water PLC in South Cambridgeshire. Supplying a population of approximately 300,000 in an area that spans over 1,173 square kilometres, Cambridge Water has an integrated distribution system which is made up of 7 service reservoirs, 10 water towers and 2,200 kilometres of water mains.



### LANE COVE TUNNEL

In July 2004, CKI made an investment in the Lane Cove Tunnel Company Pty Ltd. in Australia and is the single largest shareholder with a 40% stake. The Lane Cove Tunnel will run under the Epping Road and will complete the crucial link between Gore Hill Freeway and the M2 Motorway at North Ryde, representing the final stage of the most significant ring road built for Sydney. The Tunnel is expected to be completed in mid-2007 and the average daily traffic is expected to be well over 100,000 when operations commence.



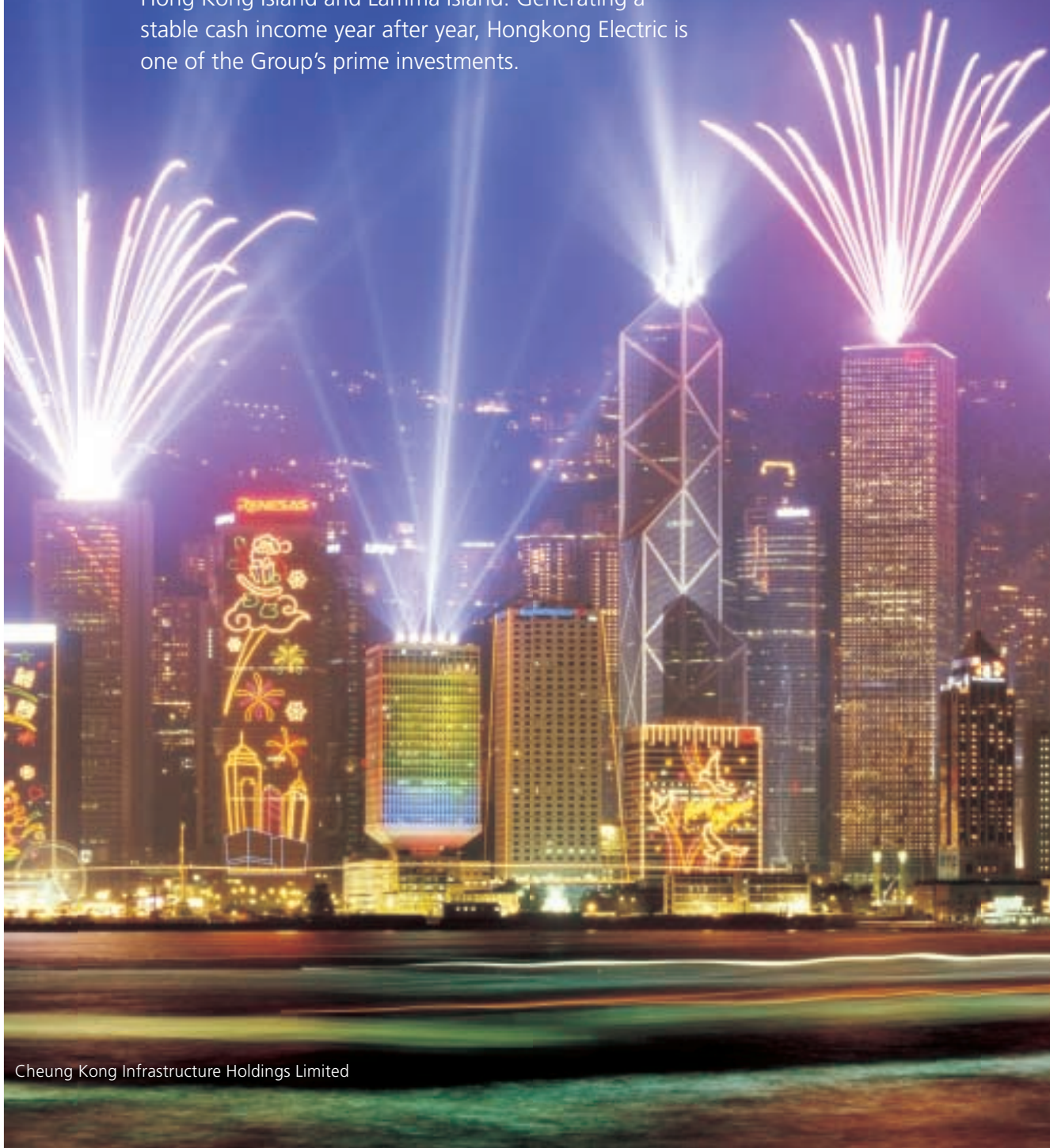
### NORTH OF ENGLAND GAS DISTRIBUTION NETWORK

In August 2004, CKI made an investment in the North of England Gas Distribution Network. The total consideration for the project was HK\$20 billion (GBP1.393 billion), of which CKI holds a 40% stake. It is one of the eight major gas distribution networks in the United Kingdom and serves a total population of 6.7 million. The acquisition is expected to be completed in mid-2005.

## INVESTMENT IN

# Hongkong Electric

CKI holds a 38.87% interest in Hongkong Electric, the sole electricity supplier for over 550,000 customers on Hong Kong Island and Lamma Island. Generating a stable cash income year after year, Hongkong Electric is one of the Group's prime investments.







Hongkong Electric's flue gas desulphurisation plants reduce sulphur dioxide emissions to the environment.



## INVESTMENT IN

## Hongkong Electric



A barge lays a new Hongkong Electric pipeline to carry natural gas from Shenzhen to Lamma Island for future gas-fired turbines.

Hongkong Electric reported a net profit of HK\$6,280 million in 2004, representing a growth of 3.7% over last year. This investment continued to be a major source of profit contribution for CKI.

### Hong Kong Operations

In 2004, Hongkong Electric recorded a year of solid performance in its core business of generating, transmitting and distributing power to Hong Kong Island and Lamma Island. A new system maximum demand of 2,588 MW was recorded, representing a 6.1% increase over 2003. Since 1997, an exceptionally high reliability rating of 99.999% has been maintained, while all of its pledged service standards, especially on the environmental front, were surpassed.

Hongkong Electric's performance was impacted by unforeseen increases in operating costs fuelled by volatile coal and freight markets, a substantial increase in Government rates, as well as a tariff freeze in 2004, resulting in the local business earning less than the permitted return specified in the Scheme of Control Agreement.

Satisfactory progress continues to be made on the target commissioning in 2006 of the new L9 unit at Lamma Power Station. The piling work for the first 300 MW power unit was completed and superstructure works commenced in March 2004. Work on the Main Station Building and the 275 kV Switching Station is on schedule and the manufacture





With total installed capacity of 3,420 MW, Lamma Power Station provides clean, reliable energy to Hongkong Electric's many customers.

of the power block equipment is in progress.

Hongkong Electric's land application for a pilot wind turbine site on Lamma Island was approved in November 2004. The contract for the supply of an 800 kW wind turbine was awarded the following month to meet a commissioning target of early 2006. This initiative is an ongoing effort of Hongkong Electric to explore the use of renewable energy in Hong Kong.



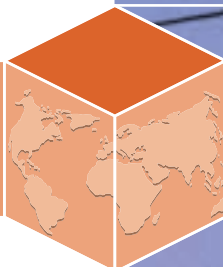
Lamma Power Station at night showing important environmental protection facilities: ash silos (foreground) and boilers fitted with low NOx burners (background).

## Overseas Operations

The Australian operations of Hongkong Electric continued to record robust growth in 2004. Profit contributions from ETSA Utilities, Powercor and CitiPower, all owned in equal partnership with CKI, registered a strong year-on-year growth of over 40%. Strong financial performance was achieved through a combination of customer growth, increased consumption, growth in non-electricity revenue and productivity improvements within and across the businesses. These investments have also benefited from the strengthening of the Australian dollar and the one-off reduction in deferred tax liability reported by Powercor under Australia's new tax consolidation rules.

The arrangements for the development of a 1,400 MW gas-fired power plant in Thailand were finalised in February 2004, with Hongkong Electric being the largest foreign shareholder with a 25% interest in the project. Financing is progressing and the project is on schedule for commissioning in 2008.

During the year, Hongkong Electric has expanded into a new energy market – gas distribution in the United Kingdom – through the acquisition of a 19.9% stake in the North of England Gas Distribution Network. The transaction is due to be completed in mid-2005.



## INFRASTRUCTURE INVESTMENTS

## Energy

CKI has built a strong portfolio of infrastructure investments in the energy sector. Primarily regulated assets, these investments have generated a steady cash flow and attractive returns for the Group. Together with Hongkong Electric, CKI is now one of the biggest overseas investors in Australia with a power and transportation portfolio totaling close to HK\$50 billion. In Mainland China, the Group has invested more than HK\$3 billion in energy projects. In 2004, CKI also extended its energy investments into gas distribution in the United Kingdom.





Zhuhai Power Plant performed strongly in 2004 and reported an excellent safety record.



## INFRASTRUCTURE INVESTMENTS

## Energy



The glowing spire above Melbourne's Arts Centre reflects Australia's most dependable power distribution network – CitiPower.

### Australian Energy

#### CitiPower I Pty Limited

Jointly acquired by CKI and Hongkong Electric in 2002, CitiPower is engaged in the distribution of electricity in the central business district and inner suburban areas of Melbourne. Serving over 270,000 premises, CitiPower is the most reliable power distribution network in Australia, achieving a record reliability rating of 99.996% in 2004.

#### ETSA Utilities

Jointly owned by CKI and Hongkong Electric since 2000, ETSA Utilities has proven to be a quality investment that continues to generate secure returns to the Group. Serving a customer base of 760,000 users, ETSA Utilities is the sole electricity distributor in the state of South Australia.

#### Powercor Australia Limited

Acquired in 2000 by CKI and Hongkong Electric, Powercor is the largest electricity distributor in the state of Victoria. Powercor serves approximately 65% of the state with over 630,000 customers. The company achieved its best supply performance ever during the year, as measured by minutes without supply.

Under Australia's new tax consolidation rules, Powercor revised the tax cost base of its assets and substantially reduced the deferred tax liability. This resulted in a one-off credit to the income tax expense in 2004. A secure and high yield investment for the Group, Powercor



Profit contributions from ETSA Utilities, Powercor and CitiPower registered a strong year-on-year growth of over 40% in 2004.



recorded an exceptional performance and accounted for over half of the profit contribution from CKI's Australian energy investments in 2004.

#### Envestra Limited

Envestra is the largest listed natural gas distributor in Australia with a network that spans over 18,500 kilometres. Serving 940,000 consumers, Envestra's network covers all states except Western Australia.

CKI has been a major investor of Envestra since 1999. Currently, the Group holds 17.53% of the company. This natural gas distributor continues to represent a stable, high yield investment, and generates cash returns of approximately 11% per annum.

#### China Power

Generating over 1,900 MW in gross capacity, CKI's power investment portfolio in China continues to perform well and generate satisfactory profits.

The Group holds a 45% stake in the Zhuhai Power Plant, which comprises 2 x 700 MW power units. In 2004, the Zhuhai Power Plant recorded a stellar year as one of the most efficient and reliable coal-fired power generation plants in Guangdong Province. Sales of electricity reached a record high during the year, generating close to 9 billion kWh of electricity; this represents more than 30% over the annual minimum quantity stipulated in the power purchase contract. The feasibility report on two extension units for the Zhuhai Power Plant was approved by the National Development and Reform Commission in August 2004.

The Group also holds a 45% stake in the Siping Cogen Power Plants, which consists of three generator sets of 200 MW in total capacity. Supplying reliable power to the Jilin power grid, the plant has operated safely without accident for a consecutive period of 1,575 days. The electricity generated exceeded the power purchase contract amount by 14.8% in 2004.

CKI has a 49% stake in the Qinyang Power Plants which increased its electricity tariff by 10% at the end of 2004. At the Fushun Cogen Power Plants in Liaoning, of which CKI holds a 60% stake, power generation increased by 16% over the previous year.

#### UK Gas

In August 2004, CKI diversified into the United Kingdom's gas sector through the successful tendering of the North of England Gas Distribution Network, a project worth HK\$20 billion (GBP1.393 billion). It is one of the eight major gas distribution networks in the United Kingdom and serves a total population of 6.7 million. Upon financial closing, which is expected to take place in mid-2005, double-digit returns on equity and cash yields are expected to be booked from the premium asset. In addition, a one-off profit generated from the disposal of a 9.9% stake to two Australian funds will be included in the coming financial year. On completion of the transaction, CKI will hold a 40% in the asset.

INFRASTRUCTURE INVESTMENTS

## Transportation

CKI's investments in transportation infrastructure projects continue to generate profits in 2004. Transportation operations in China registered overall growth in toll revenue during the year, and new construction projects in Australia are making very good progress.



From left to right, Mr Ian Hunt, Chief Executive Officer of Lane Cove Tunnel Company Pty Ltd. ("LCTC"), Mr H L Kam, Group Managing Director of CKI, and Mr Peter Tulloch, Director of LCTC, observed the rush hour congestion on Epping Road in the leafy Sydney suburb of Lane Cove at 7:45 a.m. on a working day.





## INFRASTRUCTURE INVESTMENTS



# Transportation

## China Transportation

CKI's portfolio of toll roads on the Mainland reported a mixed performance in 2004.

Guangdong Province has become a key driving force in the Group's portfolio of transportation projects. Due to the continued rapid economic expansion in the region, the majority of CKI's toll roads and bridges in Guangdong recorded double-digit growth in revenue. The Shenzhen-Shantou Highway (Eastern Section), the Panyu Beidou Bridge and the Guangzhou East-South-West Ring Road all recorded an impressive performance, with over 30% increase in toll revenue as compared to last year. As the economy of Guangdong

continues to grow, CKI anticipates that its portfolio of toll roads and bridges will continue to report high rates of organic growth in toll revenue.

Outside of Guangdong, the Tangshan Tangle Highway attained a 60% growth in toll revenue as Tangshan came of age as one of the major cities in the north-east of China with a significant increase in industrial output in 2004. The Changsha Bridges have continued to generate a steady income for CKI, while the National Highway 107 (Zhumadian Sections) experienced an expected drop in toll revenue as it was adversely affected by traffic diversion after completion of the Zhumadian Section of the Jing-Zhu Expressway.

The Shantou Bay Bridge recorded a double digit growth in toll revenue in 2004.



Construction at the Sydney Cross City Tunnel is well ahead of schedule and is due to be completed early in mid-2005, allowing for early completion revenue to be generated.



The required documentation and procedures for completing the buyback transactions for the Shenyang Roads project and the Jiangmen Jianghe Highway with CKI's joint venture partners have been concluded.

### Hong Kong Eastern Harbour Crossing Tunnel

CKI possesses a 50% stake in the Eastern Harbour Crossing Company Limited, owner and operator of the rail tunnel which connects eastern Hong Kong with eastern Kowloon. The tunnel continued to generate stable returns and cash flow for CKI during 2004.

### Australian Toll Road Projects

#### The Sydney Cross City Tunnel

CKI has a 50% stake in the A\$1 billion Cross City Tunnel, a project poised to improve east-west travel across the central business district in Sydney. After completion, the Cross City Tunnel will allow road users to avoid up to 18 sets of traffic lights in downtown Sydney.

Construction is well ahead of schedule and the Tunnel is due to commence operations in mid-2005, which will allow for early completion revenue to be generated. It is anticipated that a favourable return on equity will be generated for shareholders, while commuters and road users will benefit immensely from the convenience offered by the new toll tunnel.

#### The Lane Cove Tunnel

In July 2004, CKI became the biggest shareholder of the Lane Cove Tunnel Company Pty Ltd. after acquiring a 40% equity stake for a consideration of A\$239 million. This represents CKI's second major toll tunnel project in Australia.

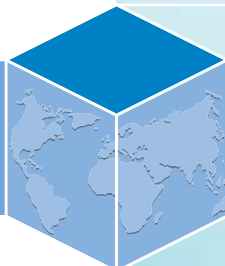
The Lane Cove Tunnel will run under the Epping Road and will complete the crucial link between Gore Hill Freeway and the M2 Motorway at North Ryde, representing the final stage of the most significant ring road built for Sydney. Underground excavation commenced in April 2004 and steady progress is being made. The Tunnel is expected to be completed in mid-2007 and the average daily traffic is expected to be well over 100,000 vehicles when operations commence. Total investment for the project is A\$1.7 billion, and the concession period is 30 years, excluding the construction period. A secure double-digit return on equity is expected for CKI.



Underground excavation for Lane Cove Tunnel commenced in April 2004 and steady progress is being made.



## INFRASTRUCTURE INVESTMENTS



## Water

In 2004, CKI has taken great strides in diversifying into the global water industry through acquisitions in Australia and the United Kingdom. The Group looks forward to expanding its presence in the global water industry as well as extending its reach in these two major markets.



In 2004, CKI diversified into the global water industry through the acquisitions of AquaTower in Australia and Cambridge Water in the United Kingdom.



## INFRASTRUCTURE INVESTMENTS

## Water



The Group acquired a 49% stake in AquaTower, a potable water supplier which serves four regional towns in Victoria, Australia.

### AquaTower

In March 2004, CKI acquired a 49% stake in AquaTower, which operates under a 25-year service contract to build, own, operate and transfer ("BOOT") water treatment plants. It is the exclusive potable water supplier of four regional towns in Victoria, Australia, serving a population of approximately 50,000 people. This secure and prime water plant asset has brought in immediate revenue to the Group since completion of the acquisition.

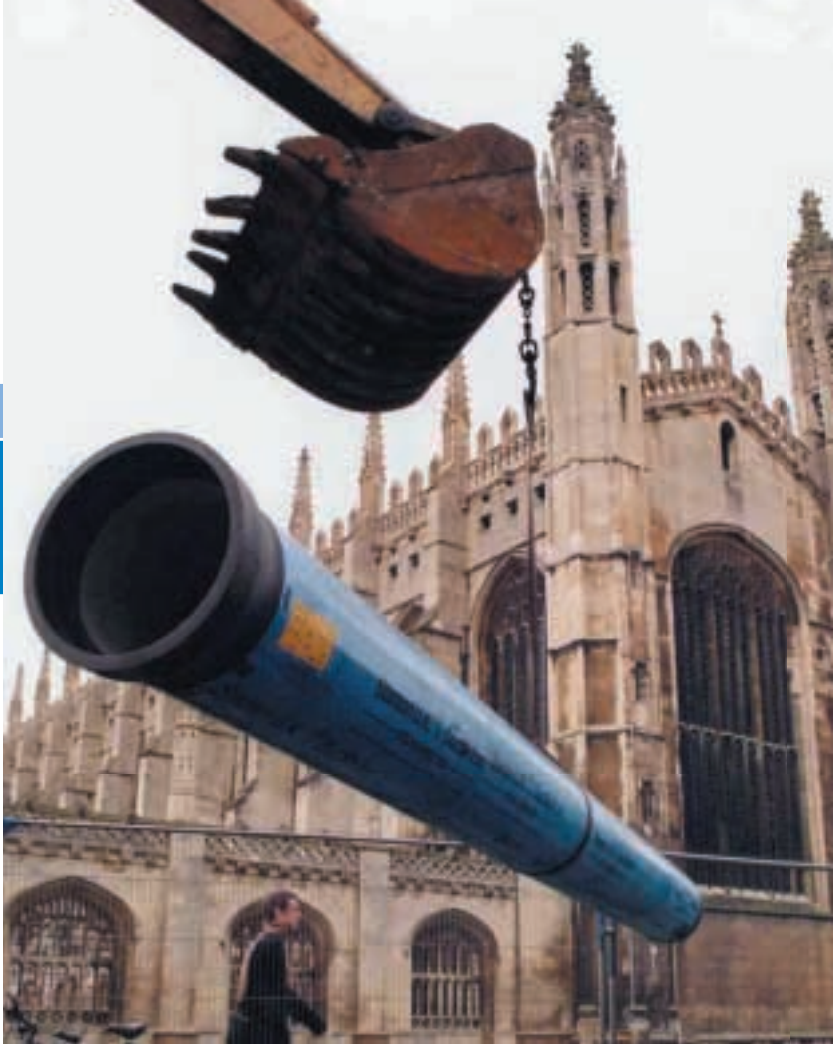
### Cambridge Water

CKI made its first foray into water assets in the United Kingdom in April 2004 with the 100% acquisition of Cambridge Water. This water asset has a long-established pedigree that dates back to 1853. Supplying a population of approximately 300,000 in an area that spans over 1,173 square kilometres, Cambridge Water has an integrated distribution system which is made up of 7 service reservoirs, 10 water towers and 2,200 kilometres of water mains.



According to the Office of Population, Censuses and Surveys in the United Kingdom, population growth within Cambridge Water's area has been one of the highest in the last two decades, with a cumulative annual growth rate four times the nation's average. The growth of Cambridge Water's customer base is anticipated to be one of the highest in the United Kingdom.

The consideration for the acquisition was over HK\$700 million (GBP51,375,000). Cambridge Water is expected to provide CKI with robust and secure double-digit returns, with sustained growth potential in the future.

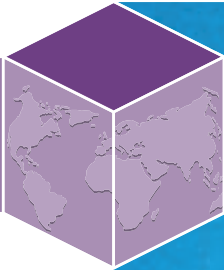


CKI ventured in the water industry in the United Kingdom for the first time by acquiring 100% of Cambridge Water, a water asset that dates back to 1853.



Cambridge Water scores top rank from Office of Water Services for operating efficiency.





## Infrastructure Related Business

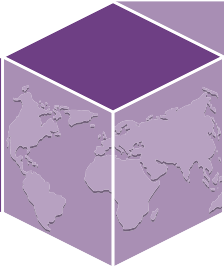
CKI possesses a leading market position in the realm of infrastructure materials. 2004 was another challenging year for the infrastructure materials industry and the Group has accordingly endeavoured to adjust to the adverse market conditions. A prudent asset impairment has therefore been taken against certain assets.





Alliance Construction Materials Ltd., the Group's new joint venture company, has enhanced efficiency, reduced costs and strengthened its market position.





## Infrastructure Related Business



Green Island Cement is the market leader in the domestic cement industry.

### Cement and Limestone

The demand for cement in Hong Kong remained weak, with the lowest take-up recorded in the last two decades. Green Island Cement, while only representing a very small proportion of CKI's total revenue, managed to maintain a strong cash balance and inflow amidst the bearish industry environment. Capital expenditure programmes were tightly monitored while cost containment exercises were carried out. Excluding the asset impairment item, the Hong Kong infrastructure material unit managed to report a small operating profit.

Heading north, the Group's cement operations in Yunfu in Mainland China recorded a small profit, fuelled by strong demand and high material prices during the first half of 2004. As construction activities slowed down in the second half of 2004, an oversupply situation coupled with pricing pressure affected the profit margin.

In line with the Group's prudent management philosophy, the Group has made a sizeable impairment of HK\$250 million against certain Hong Kong and Mainland China cement assets and other investments during the year.

### Concrete and Aggregates

The concrete and aggregates industries continued to be adversely affected by stagnant housing construction and civil works in Hong Kong. The merger between Anderson Asia's concrete and aggregates operations and the Hong Kong arm of Hanson PLC, the two



market leaders of the industry in Hong Kong, in May 2004 has demonstrated a timely strategic move. The merger of the two parties has been carried out smoothly and the rebranding of products and services are making good progress. The new company – Alliance Construction Materials Limited – is expected to reap the benefits of merger with efficiency enhanced significantly, costs realigned and reduced, and market leadership position strengthened.

### Asphalt

The market for asphalt was weak during the year as building activities remained lethargic. Anderson Asphalt continued with its stringent cost control measures and generated a small operating profit in line with budget.



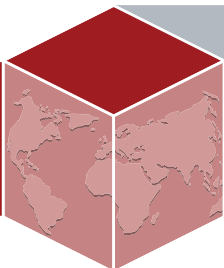
Stuart Energy Systems Corp. was merged with Hydrogenics Corporation and has entered into a new phase of its evolution as a leading global developer of clean energy solutions.



The merger between Anderson Asia's concrete and aggregate operations and the Hong Kong arm of Hanson PLC has been a timely strategic move.

### Hydrogen Energy

Further to the merger with Vandenberg Technologies, N.V., in 2002, CKI's investment in Stuart Energy Systems Corp. was further diluted to around 2% upon the completion of the merging of Stuart Energy with Hydrogenics Corporation – a leader in the design, development and manufacturing of fuel cell applications and hydrogen generation systems.



# Financial Review

## Financial Resources, Treasury Activities and Gearing Ratio

The Group's capital expenditure and investments were funded from cash in hand, internal cash generation, syndicated loans, notes issued and other project loans.

As at 31st December, 2004, total borrowings of the Group amounted to HK\$13,411 million, which included Hong Kong dollar syndicated loan of HK\$3.8 billion, foreign currency borrowings of HK\$9,254 million and RMB bank loans of HK\$357 million. Of the total borrowings, 3 per cent. were repayable in 2005, 78 per cent. repayable in 2006 to 2009 and 19 per cent. repayable beyond 2009. The Group's financing activities continue to be well received and fully supported by its bankers. In September 2004, the Group entered into a syndicated loan facility agreement of A\$300 million which has been fully drawn to refinance certain Australian dollar loans.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise the cost of funds, the Group's treasury activities are centralised. Cash is generally placed in short-term deposits mostly denominated in U.S. dollars, Hong Kong dollars or Australian dollars. The Group's liquidity and financing requirements are reviewed regularly. The Group will consider new financing while maintaining an appropriate level of gearing in anticipation of new investments or maturity of bank loans.

As at 31st December, 2004, the Group maintained a gearing ratio of 14 per cent. which was based on its net debt of HK\$4,382 million and equity of HK\$31,170 million. This ratio was lower than the gearing ratio of 18 per cent. at the year end of 2003 mainly due to strong cashflow generated from operation which was partially offset by the adverse exchange impact on the Group's foreign currency borrowings.

To minimise currency risk exposure in respect of its investments in other countries, the Group generally hedges those investments with the appropriate level of borrowings denominated in the local currencies of those countries. The Group also entered into certain interest rate and currency swaps to mitigate interest rate and other currency exposure risks. As at 31st December, 2004, the contractual notional amounts of these derivative instruments amounted to HK\$7,838 million.

## Charge on Group Assets

As at 31st December, 2004, the Group's interests in an affiliated company with carrying value of HK\$1,896 million were pledged as part of the security to secure bank borrowings totalling HK\$3,759 million granted to the affiliated company. Moreover, the Group's obligations under finance leases totalling HK\$55 million were secured by charge over the leased assets with carrying value of HK\$220 million.

## Contingent Liabilities

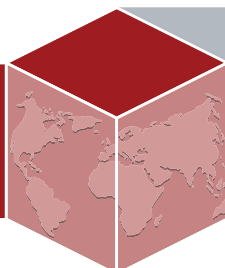
As at 31st December, 2004, the Group was subject to the following contingent liabilities:

HK\$ million	
Guarantees in respect of bank loans drawn by affiliated companies	1,942
Guarantee in respect of standby letter of credit	3
Total	1,945

## Employees

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,430 employees. Employees' cost (excluding directors' emoluments) amounted to HK\$298 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Preferential subscription of 2,978,000 new shares of the Company was given to those employees who had submitted the pink application forms to subscribe for shares of HK\$1.00 each in the Company at HK\$12.65 per share on the flotation of the Company in 1996. The Group does not have any share option scheme for employees.



## Directors' Biographical Information

**LI Tzar Kuoi, Victor**, aged 40, has been the Chairman of the Company since its incorporation in May 1996. He is also the Chairman of CK Life Sciences Int'l., (Holdings) Inc., the Managing Director and Deputy Chairman of Cheung Kong (Holdings) Limited, Deputy Chairman of Hutchison Whampoa Limited, an Executive Director of Hongkong Electric Holdings Limited, the Co-Chairman of Husky Energy Inc. and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Victor Li serves as a member of the Standing Committee of the 10th National Committee of the Chinese People's Political Consultative Conference. He is also a member of the Commission on Strategic Development and the Economic and Employment Council of the Hong Kong Special Administrative Region. Mr. Victor Li acts as a director of the substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), namely Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and Hutchison International Limited. He holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural Engineering. Mr. Victor Li is son of Mr. Li Ka-shing, a substantial shareholder of the Company within the meaning of Part XV of the SFO, and nephew of Mr. Kam Hing Lam, the Group Managing Director of the Company.

**KAM Hing Lam**, aged 58, has been the Group Managing Director of the Company since its incorporation in May 1996. He has also been the Deputy Managing Director of Cheung Kong (Holdings) Limited since February 1993. He is also the President and Chief Executive Officer of CK Life Sciences Int'l., (Holdings) Inc., and an Executive Director of Hutchison Whampoa Limited and Hongkong Electric Holdings Limited. He acts as a director of the substantial shareholders of the Company within the meaning of Part XV of the SFO, namely Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and Hutchison International Limited. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration. Mr. Kam is uncle of Mr. Li Tzar Kuoi, Victor, the Chairman of the Company.

**George Colin MAGNUS**, aged 69, has been an Executive Director and Deputy Chairman of the Company since its incorporation in May 1996. He is also an Executive Director and Deputy Chairman of Cheung Kong (Holdings) Limited, an Executive Director of Hutchison Whampoa Limited and a Director of Hutchison International Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO. In addition, he is the Chairman of Hongkong Electric Holdings Limited. He holds a Master's degree in Economics.

**IP Tak Chuen, Edmond**, aged 52, has been an Executive Director of the Company since its incorporation in May 1996 and Deputy Chairman of the Company since February 2003. He is also an Executive Director of Cheung Kong (Holdings) Limited which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. In addition, he is the Senior Vice President and Chief Investment Officer of CK Life Sciences Int'l., (Holdings) Inc., and a Non-executive Director of TOM Group Limited. He holds a Bachelor of Arts degree in Economics and a Master of Science degree in Business Administration.



#### Executive Committee

Ivan Chan

Edmond Ip

Lambert Leung

Victor Li

Eric Kwan

H. L. Kam

Dominic Chan

George Magnus

**FOK Kin Ning, Canning**, aged 53, has been an Executive Director and Deputy Chairman of the Company since March 1997. Mr. Fok is currently the Group Managing Director of Hutchison Whampoa Limited and a Director of Cheung Kong (Holdings) Limited, both being substantial shareholders of the Company within the meaning of Part XV of the SFO. In addition, he is the Chairman of Hutchison Telecommunications International Limited, Hutchison Harbour Ring Limited, Hutchison Telecommunications (Australia) Limited, Hutchison Global Communications Holdings Limited and Partner Communications Company Ltd. and the Co-Chairman of Husky Energy Inc. and Deputy Chairman of Hongkong Electric Holdings Limited. He also acts as a director of Hutchison International Limited which is also a substantial shareholder of the Company within the meaning of Part XV of the SFO. He holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants.

**KWAN Bing Sing, Eric**, aged 60, has been an Executive Director of the Company since January 2000 and the Deputy Managing Director of the Company since November 2002. He joined the Company in 1996 and has been with the Cheung Kong Group since February 1994. He holds a Master's degree in Business Administration and is a Chartered Engineer. He is also a member of the Institution of Electrical Engineers of UK, Chartered Management Institute of UK, and the Institution of Engineers of Australia.

**CHOW WOO Mo Fong, Susan**, aged 51, has been an Executive Director of the Company since March 1997. She is the Deputy Group Managing Director of Hutchison Whampoa Limited which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. She is also an Executive Director of Hutchison Global Communications Holdings Limited and Hutchison Harbour Ring Limited, a Director of Hongkong Electric Holdings Limited, Hutchison Telecommunications International Limited and Partner Communications Company Ltd. and a Non-executive Director of TOM Group Limited. She also acts as a director of each of Hutchison Infrastructure Holdings Limited and Hutchison International Limited, which are also substantial shareholders of the Company within the meaning of Part XV of the SFO. She is a solicitor and holds a Bachelor's degree in Business Administration.

**Frank John SIXT**, aged 53, has been an Executive Director of the Company since its incorporation in May 1996. He is a Director of Cheung Kong (Holdings) Limited and the Group Finance Director of Hutchison Whampoa Limited, both being substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Sixt is also the Chairman of TOM Group Limited and TOM Online Inc., and an Executive Director of Hutchison Global Communications Holdings Limited and Hongkong Electric Holdings Limited. In addition, he is a Director of Hutchison Telecommunications International Limited, Hutchison Telecommunications (Australia) Limited, Partner Communications Company Ltd. and Husky Energy Inc. He also acts as a director of each of the following substantial shareholders of the Company within the meaning of Part XV of the SFO: (i) Hutchison Infrastructure Holdings Limited, (ii) Hutchison International Limited, (iii) Li Ka-Shing Unity Trustee Company Limited, (iv) Li Ka-Shing Unity Trustee Corporation Limited, and (v) Li Ka-Shing Unity Trustcorp Limited. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada.





## Directors' Biographical Information

**TSO Kai Sum**, aged 73, has been an Executive Director of the Company since March 1997. He is also the Group Managing Director of Hongkong Electric Holdings Limited. He has broad experience in power business and property development. He holds a Bachelor of Science degree in Engineering and is also a Chartered Engineer.

**CHEONG Ying Chew, Henry**, aged 57, has been an Independent Non-executive Director of the Company since its incorporation in May 1996. He is also a member of the Audit Committee and the Remuneration Committee of the Company. He holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Operational Research and Management. He is also an Independent Non-executive Director of Cheung Kong (Holdings) Limited which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. In addition, he is an Independent Non-executive Director of Excel Technology International Holdings Limited, Forefront International Holdings Limited, TOM Group Limited and Hutchison Global Communications Holdings Limited, all being listed companies in Hong Kong. Mr. Cheong is a member of the Process Review Panel for the Securities and Futures Commission ("SFC"), a member of the Committee on Real Estate Investment Trust of the SFC, a member of GEM Listing Committee, Main Board Listing Committee and Derivatives Market Consultative Panel of the Hong Kong Exchanges and Clearing Limited and also a member of the Corporate Advisory Council of the Hong Kong Securities Institute.

**KWOK Eva Lee**, aged 62, has been an Independent Non-executive Director of the Company since September 2004. She is also an Independent Non-executive Director of CK Life Sciences Int'l., (Holdings) Inc. She currently serves as Chair and Chief Executive Officer of Amara International Investment Corporation. Mrs. Kwok also acts as an Independent Director for Husky Energy Inc., Bank of Montreal and Shoppers Drug Mart Corporation. Mrs. Kwok currently sits on the Audit Committee and Conduct Review Committee of the Bank of Montreal, the Compensation Committee and Corporate Governance Committee of Husky Energy Inc. and the Audit Committee of CK Life Sciences Int'l., (Holdings) Inc. and the Company. She is also a member of the Conference Board of Canada's Advisory Board for the National Awards in Governance. In addition, she previously sat on the Independent Committee of Directors and Human Resources Committee of Telesystems International Wireless (TIW) Inc., the Independent Committee of Directors and the Corporate Governance Committee of Fletcher Challenge Canada Ltd., the Audit and Corporate Governance Committees of Clarica Life Insurance Company and the Corporate Governance Committee of Air Canada.



**SNG Sow-Mei (PHOON Sui Moy, alias POON Sow Mei)**, aged 63, has been an Independent Non-executive Director and a member of the Audit Committee of the Company since September 2004. She has been an Independent Director of ARA Asset Management (Singapore) Limited since 23rd June, 2003, and an Independent Director of ARA Trust Management (Suntec) Limited since 28th October, 2004. She is currently the Senior Consultant (International Business) of Singapore Technologies Electronics Ltd. for business development in the areas of defence, industrial & commercial systems projects including intelligent building and property management systems. Singapore Technologies Electronics Ltd. is a member of the Singapore Technologies Pte Ltd. group in which Mrs. Sng was the Director, Special Projects (North East Asia) in 2000 and Consultant in 2001. Mrs. Sng is concurrently the Advisor of InfoWave Pte Ltd., a company which specialises in design, development and supply of mobile platform and wireless, communications technologies. Prior to the appointments with Singapore Technologies Pte Ltd. and Singapore Technologies Electronics Ltd., Mrs. Sng was the Managing Director of CapitalLand Hong Kong Ltd. for investment in Hong Kong and the region including Japan and Taiwan. CapitalLand Limited, listed on SGX-ST, is the property arm of the Singapore Technologies Pte Ltd. She holds a Bachelor of Arts from the Nanyang University in Singapore and has wide experience in various fields of industrial, investment, business development, strategic and financial management, especially in property investment and management. Mrs. Sng was conferred the title of PPA(P) – Pingat Pentadbiran Awam (Perak), the Singapore Public Administration Medal (Silver) by the former President of Singapore Mr. Ong Teng Cheong in 1996, for her contribution to the country.

**Colin Stevens RUSSEL**, aged 64, has been an Independent Non-executive Director and a member of the Audit Committee and the Remuneration Committee of the Company since January 2005. He is also an Independent Non-executive Director of CK Life Sciences Int'l., (Holdings) Inc. He is the founder and Managing Director of Emerging Markets Advisory Services Ltd., a company which provides advisory services to organisations on business strategy and planning, market development, competitive positioning and risk management. He was the Canadian Ambassador to Venezuela, Consul General for Canada in Hong Kong, Director for China of the Department of Foreign Affairs, Ottawa, Director for East Asia Trade in Ottawa, Senior Trade Commissioner for Canada in Hong Kong, Director for Japan Trade in Ottawa, and was in the Trade Commissioner Service for Canada in Spain, Hong Kong, Morocco, the Philippines, London and India. He was Project Manager for RCA Ltd in Liberia, Nigeria, Mexico and India and electronic equipment development engineer in Canada with RCA Ltd and in Britain with Associated Electrical Industries. Mr. Russel is a Professional Engineer and Qualified Commercial Mediator. He received his Master's degree in Business Administration and a degree in electronics engineering from McGill University, Canada.

**LAN Hong Tsung, David**, aged 64, has been an Independent Non-executive Director and a member of the Audit Committee of the Company since February 2005. He is the Chairman of David H T Lan Consultants Ltd., a company which provides consultancy services to organisations on business/investment strategy and planning, market development, competitive positioning and risk management. He is also a Director of Nanyang Commercial Bank Ltd., Cheung Fung Technology (Holdings) Limited, Sichuan Jinfeng Paper Co., Ltd. and a Senior Advisor of Mitsui & Co. (H.K.) Ltd. Mr. Lan was the Secretary for Home Affairs of the Hong Kong Special Administrative Region Government since September 1997 and until he retired in July 2000. He had served in many Government departments for 39 years. He was posted to Japan in October 1991 as the Principal Hong Kong Economic and Trade Representative in Tokyo. He was awarded the Gold Bauhinia Star Medal (GBS) on 1st July, 2000. In January 2003, he was appointed National Committee Member of the Chinese People's Political Consultative Conference, the People's Republic of China. Mr. Lan is a Chartered Secretary and a fellow member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries & Administrators. He received his Bachelor of Arts degree in Economics and Law from the University of London and completed the Advanced Management Program (AMP) of the Harvard Business School, Boston.



## Directors' Biographical Information

**LEE Pui Ling, Angelina**, aged 56, acted as an Independent Non-executive Director of the Company from May 1996 to September 2004 and has been a Non-executive Director of the Company since September 2004. She is a practising solicitor, has a Bachelor of Laws degree and is a Fellow of the Institute of Chartered Accountants in England and Wales. She is active in public service and currently serves on a number of statutory, advisory and appeal committees. She is also an Independent Non-executive Director of Great Eagle Holdings Limited, Henderson Land Development Company Limited and a Non-executive Director (*re-designated from Independent Non-executive Director effective on 4th August, 2004*) of TOM Group Limited, all being listed companies in Hong Kong.

**Barrie COOK**, aged 62, acted as an Executive Director of the Company from 2000 to September 2003 and has been a Non-executive Director of the Company since October 2003. He is the Honorary Chairman of the Hong Kong Construction Materials Association and a member of the Hong Kong Government's Council on Sustainable Development. Mr. Cook is a past Chairman of the East Asian Cement Forum, the Hong Kong Cement Association, the Hong Kong Government's Waste Reduction Committee. He was previously a member of the Hong Kong Government's Advisory Council on the Environment and was the Convenor of the Hong Kong Business Coalition on the Environment. Mr. Cook was very active in community affairs through his work with the Hong Kong General Chamber of Commerce.

## Senior Management's Biographical Information

**CHAN Kee Ham, Ivan**, aged 42, Senior Manager, Planning and Investment, has been with the Cheung Kong Group since September 1999. He has over 18 years of experience in investment, banking and finance. He holds a Bachelor's degree in Science, a Bachelor's degree in Chinese Law and a Master's degree in Business Administration.

**YEUNG, Eirene**, aged 44, the Company Secretary, has been with the Cheung Kong Group since August 1994. She is also the Corporate Business Counsel & Company Secretary of Cheung Kong (Holdings) Limited and the Company Secretary of CK Life Sciences Int'l., (Holdings) Inc. Ms. Yeung is a solicitor of the High Court of the Hong Kong Special Administrative Region and of the Supreme Court of Judicature in England and Wales. She holds a Bachelor's degree in Laws and a Master's degree in Business Administration. Ms. Yeung is a panel member of The Hong Kong Institute of Company Secretaries.

**CHAN Loi Shun, Dominic**, aged 42, the Financial Controller, joined Hutchison Whampoa Limited in January 1992 and has been with the Cheung Kong Group since May 1994. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

**TONG BARNES Wai Che, Wendy**, aged 44, Chief Corporate Affairs Officer, joined the Cheung Kong Group in March 1999. She is also the Chief Corporate Affairs Officer of Cheung Kong (Holdings) Limited and CK Life Sciences Int'l., (Holdings) Inc. She has over 20 years of experience in public relations and corporate affairs. She holds a Bachelor's degree in Business Administration.

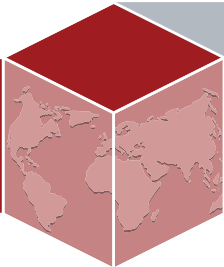
**YUEN Ming Kai, Clement**, aged 58, General Manager, China Transportation, has been with the Company since January 1997. He holds a Bachelor's degree in Civil and Structural Engineering, and a Doctor of Philosophy degree in Geotechnical Engineering. He is a Chartered Engineer.

**LUN Pak Lam**, aged 48, General Manager, China Energy, joined Hutchison Whampoa Limited and Cheung Kong (Holdings) Limited in May 1993 and June 1994 respectively and has been with the Company since July 1996. He holds a Bachelor's and a Master's degree in Engineering.

**LEUNG Ying Wah, Lambert**, aged 58, Chief Executive Officer of Cheung Kong Infrastructure Materials. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Quarrying (UK) and the past chairman of the Institute of Quarrying, Hong Kong Branch.

**Donald William JOHNSTON**, aged 62, Executive Director of Anderson Asia (Holdings) Limited, Green Island Cement (Holdings) Limited and Green Island International Limited, has been with the Cheung Kong Group since 1988. He holds a Master's degree in Business Administration and a Bachelor's degree in Civil Engineering and is a Chartered Professional Engineer. He is a member of the Institute of Engineers (Australia) and a fellow of the Institute of Quarrying.

**TSANG Pak Chung, Eddy**, aged 47, Executive Director of Green Island Cement (Holdings) Limited, joined the Cheung Kong Group in January 2005. Prior to this appointment, he was Vice Chairman of two listed companies. He is an associate member of each of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators. He holds a Master's degree in Commerce and a Bachelor's degree in Economics.



# Report of the Directors

The Directors are pleased to present shareholders with the annual report together with the audited financial statements of the Company and of the Group for the year ended 31st December, 2004.

## Principal Activities

The Company's principal activities during the year are development, investment and operation of infrastructure businesses in Hong Kong, the Mainland, Australia and the United Kingdom.

## Results and Dividends

Results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 65.

The Directors recommend the payment of a final dividend of HK\$0.57 per share which, together with the interim dividend of HK\$0.22 per share paid on 4th October, 2004, makes a total dividend of HK\$0.79 per share for the year.

## Fixed Assets

Movements in the Group's fixed assets during the year are set out in note 12 to the financial statements on page 85.

## Reserves

Details of changes in the reserves of the Company and the Group are set out in note 26 to the financial statements on pages 100 and 101.

## Group Financial Summary

Results, assets and liabilities of the Group for the last nine years are summarised on pages 2 and 3.

## Properties

Particulars of major properties held by the Group are set out in Appendix 5 on page 117.



## Directors

The Directors of the Company in office at the date of this report are listed on page 126 and their biographical information is set out on pages 38 to 42.

On 23rd September, 2004, Mrs. Lee Pui Ling, Angelina was re-designated as a Non-executive Director of the Company.

Mrs. Kwok Eva Lee and Mrs. Sng Sow-Mei (Phoon Sui Moy, alias Poon Sow Mei) were appointed as Independent Non-executive Directors of the Company on 23rd September, 2004. Mr. Colin Stevens Russel was appointed as Independent Non-executive Director of the Company on 1st January, 2005. Mr. Lan Hong Tsung, David was appointed as Independent Non-executive Director of the Company on 21st February, 2005.

The Company's Bye-laws provides that any Director appointed by the Board of Directors of the Company (the "Board") shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mrs. Kwok Eva Lee, Mrs. Sng Sow-Mei (Phoon Sui Moy, alias Poon Sow Mei), Mr. Colin Stevens Russel and Mr. Lan Hong Tsung, David being the Directors so appointed, shall hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Further, in accordance with the Company's Bye-laws, the Directors of the Company (including Non-executive Directors) shall be subject to retirement by rotation at each annual general meeting. Accordingly, Mr. Li Tzar Kuoi, Victor, Mr. Kam Hing Lam, Mr. George Colin Magnus, Mr. Ip Tak Chuen, Edmond, Mr. Frank John Sixt and Mrs. Lee Pui Ling, Angelina will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31st December, 2004, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (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,



# Report of the Directors

or which were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company (the “Model Code”), to be notified to the Company and the Stock Exchange, were as follows:

## 1. Long Positions in Shares

Name of Company	Name of Director	Capacity	Number of Ordinary Shares				Approximate % of	
			Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	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 & founder & beneficiary of a discretionary trust	40,000	9,900	–	950,100 (Note 6)	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%
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%

## 1. Long Positions in Shares (Cont'd)

Name of Company	Name of Director	Capacity	Number of Ordinary Shares				Approximate % of	
			Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Shareholding
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Interest of child or spouse & beneficiary of trusts	–	151,000	–	829,599,612 (Note 4)	829,750,612	38.88%
	Lee Pui Ling, Angelina	Beneficial owner	8,800	–	–	–	8,800	0.0004%
Hutchison Harbour Ring Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	5,000,000 (Note 5)	–	5,000,000	0.07%
Hutchison 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 7)	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 corporation & beneficiary of trusts	–	–	14,489 (Note 3)	3,185,589,325 (Note 8)	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%



# Report of the Directors

## 2. Long Positions in Underlying Shares

Name of Company	Name of Director	Capacity	Number of Underlying Shares				Total
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
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



## 2. Long Positions in Underlying Shares (Cont'd)

Name of Company	Name of Director	Capacity	Number of Underlying Shares				Total
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
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 7)	3,333,333,333 underlying shares by virtue of HK\$3,200,000,000 1% Unsecured Convertible Notes due 2009 (Note 7)
			–	–	–	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 7)	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 7)
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



# Report of the Directors

## 3. Long Positions in Debentures

Name of Company	Name of Director	Capacity	Amount of Debentures				Total
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
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	–	–	Euro 20,900,000 5.875% Notes due 2013 (Note 5)	–	Euro 20,900,000 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:

- 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.

Notes (Cont'd):

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 of the Company 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.

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 Such interests are indirectly held by a trust of which Mr. George Colin Magnus is the settlor and a discretionary beneficiary.



# Report of the Directors

Notes (Cont'd):

- 7 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.
- 8 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 31st December, 2004, 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.

No other contracts of significance to which the Company or a subsidiary was a party and in which a Director had a material interest subsisted at the balance sheet date or at any time during the year.

At no time during the year was the Company or subsidiary a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate.

None of the Directors has any service contract with the Company or any of its subsidiaries.



## Interests and Short Positions of Shareholders

So far as is known to any Director or chief executives of the Company, as at 31st December, 2004, 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 i)	84.58%
Hutchison International Limited	Interest of controlled corporation	1,906,681,945 (Note ii)	84.58%
Hutchison Whampoa Limited	Interest of controlled corporations	1,906,681,945 (Note ii)	84.58%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,906,681,945 (Note iii)	84.58%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	1,912,109,945 (Note iv)	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 v)	84.82%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of trust	1,912,109,945 (Note v)	84.82%
Li Ka-shing	Founder of discretionary trusts	1,912,109,945 (Note v)	84.82%

Notes:

- i 1,906,681,945 shares of the Company are held by Hutchison Infrastructure Holdings Limited, a subsidiary of HWL. Its interests are duplicated in the interests of HWL in the Company described in Note ii below.
- ii HWL is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note i above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited.



# Report of the Directors

Notes (Cont'd):

- iii CKH is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note ii above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.
- iv TUT1 as trustee of UT1 is deemed to be interested in those shares of the Company described in Note iii above as TUT1 as trustee of UT1 and TUT1 related companies hold more than one-third of the issued share capital of CKH and in the 5,428,000 shares of the Company held by TUT1 as trustee of UT1.
- v 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 iv 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.

Save as disclosed above, as at 31st December, 2004, the Company has 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Connected Transaction

The following transaction of the Group constituted a continuing connected transaction ("Continuing Connected Transaction") which is normally subject to the disclosure and/or shareholders' approval requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year ended 31st December, 2004:

A sponsors/shareholders' undertaking has been provided by each of CKH and HWL in relation to the loan facilities in relation to the Zhuhai Power Plant. Pursuant to the sponsors/shareholders' undertaking, each of CKH and HWL shall be severally liable for 50 per cent. of certain obligations of the foreign party (the "Zhuhai Foreign Party") to the PRC project company undertaking the Zhuhai Power Plant. The Zhuhai Foreign Party, which is an indirect wholly-owned subsidiary of the Company, has a 45 per cent. interest in the PRC project company. Pursuant to a deed of counter-indemnity given by the Company in favour of CKH and HWL, the Company has agreed with each of CKH and HWL to meet all future funding obligations of each of them which may be required under such sponsors/shareholders' undertaking and to counter-indemnify each of CKH and HWL in respect of any sum provided by each of them and generally in respect of each of their liabilities and obligations under such sponsors/shareholders' undertaking.

In the opinion of the Directors of the Company, the Continuing Connected Transaction is in the ordinary and usual course of business of the Company, on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties, and is fair and reasonable so far as the shareholders of the Company are concerned, having regard to the circumstances in which it was entered into.

### Connected Transaction (Cont'd)

On 12th August, 1996, the Stock Exchange granted conditional waivers (the "Waivers") to the Company from strict compliance with the disclosure and shareholders' approval requirements under the Listing Rules in respect of, inter alia, the Continuing Connected Transaction (the "Transactions") subject to the following conditions:

- (1) the Transactions have been entered into or the terms of the respective agreements governing such Transactions are (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; and (iii) fair and reasonable so far as the shareholders of the Company are concerned;
- (2) brief details of the Transactions shall be disclosed in the 1996 annual report and each successive annual report; and
- (3) the Independent Non-executive Directors of the Company shall review annually the Transactions and confirm in the 1996 annual report and each successive annual report that the Transactions are conducted in the manner as stated in condition (1) above or in accordance with the terms of the respective agreements governing such Transactions.

As a further condition of granting the Waivers, the Company is required to engage its auditors to provide the Board with a letter (the "Auditors' Letter") in respect of the Transactions occurring during the financial year ended 31st December, 1996. Where the Transactions will extend beyond one financial year, those requirements will apply for each successive financial year. The Auditors' Letter is to be provided by the Company to the Stock Exchange.

The Auditors' Letter must state that:

- the Transactions received the approval of the Board; and
- the Transactions have been entered into on normal commercial terms or in accordance with the terms of the agreements governing the Transactions, or where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties.

The Stock Exchange reserves the right to revoke or modify any waiver granted by the Waivers in the event of any change in the terms of the Transactions for which such waivers were granted (including any extension or renewal of the agreements evidencing such Transactions) or in the circumstances under which such waivers were granted. In any such case, the Company has to comply with provisions of the Listing Rules dealing with connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

The Continuing Connected Transaction has been reviewed and approved by the Directors of the Company (including the Independent Non-executive Directors). The Independent Non-executive Directors of the Company have confirmed that for the year 2004 the Continuing Connected Transaction was conducted in the manner as stated in condition (1) above or in accordance with the terms of the agreement governing the Continuing Connected Transaction.



# Report of the Directors

## Connected Transaction (Cont'd)

The auditors of the Company have also confirmed that for the year 2004 the Continuing Connected Transaction received the approval of the Board; and the Continuing Connected Transaction has been entered into on normal commercial terms or in accordance with the terms of the agreement governing the Continuing Connected Transaction.

In view of the fact that the Waivers were only granted on the basis of the facts and circumstances described in the Prospectus and the original submission made by the Company prior to its listing, an application was made to the Stock Exchange to confirm that such Waivers shall continue to be effective despite the change of circumstances which were resulted from the implementation of the Cheung Kong Group Restructuring. The Stock Exchange indicated that such waiver shall continue to be effective on the same conditions as referred to above.

## Major Customers and Suppliers

During the year, the Group's recognised sales attributable to the Group's five largest customers were less than 30 per cent. of the Group's sales and the Group's purchases attributable to the Group's five largest suppliers were less than 30 per cent. of the Group's purchases.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5 per cent. of the Company's issued share capital) has any interest in the Group's five largest suppliers.

## Competing Business Interests of Directors

During the year, the interests of Directors 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.
- (6) Information technology, e-commerce and new technology.



## Competing Business Interests of Directors (Cont'd)

### (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)
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)
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 Telecommunications International Limited	Chairman	(6)
	Hutchison Global Communications Holdings Limited	Chairman	(6)
	Hanny Holdings Limited	Non-executive Director	(4), (5) & (6)



# Report of the Directors

## (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 Telecommunications International Limited	Non-executive Director	(6)
	Hutchison Global Communications Holdings Limited	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)
	Hutchison Telecommunications International Limited	Non-executive Director	(6)
	Hutchison Global Communications Holdings Limited	Executive Director	(6)
	TOM Group Limited	Chairman	(4), (5) & (6)
	TOM Online Inc.	Chairman	(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.

Save as disclosed above, none of the Directors is 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.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda.

## Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## Rule 8.08 of the Listing Rules

As announced by the Company on 8th January, 1997 and 17th February, 1997, the Stock Exchange granted a waiver from strict compliance with Rule 8.08 of the Listing Rules to the Company on 9th January, 1997 subject to approximately not less than 15.2 per cent. of the issued share capital of the Company being held in public hands. Based on information available and within the knowledge of the Directors, the obligation has been complied with.

## Donations

Donations made by the Group during the year amounted to HK\$1,169,000.

## Disclosure under Chapter 13 of the Listing Rules

The following information is disclosed in accordance with Rules 13.20 and 13.21 of Chapter 13 of the Listing Rules:

- (a) The Group has entered into a syndicated loan facility agreement of HK\$3.8 billion, of which the whole amount was drawn as at 31st December, 2004. The facility will mature in 2007. Under the provision of the loan agreement, it is an event of default if HWL (the Company's controlling shareholder) ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (b) A sponsors/shareholders' undertaking referred to under the section headed "Connected Transaction" has been provided by HWL, the Zhuhai Foreign Party and the other parties in relation to two loan facilities of US\$125.5 million and US\$670 million granted to the PRC project company undertaking the Zhuhai Power Plant. The two loans with the outstanding amounts of US\$38 million and US\$444 million as at 31st December, 2004, are repayable by installments with the final repayment due in 2008 and 2012 respectively. It is an event of default for both facilities if CKH and HWL collectively own directly or indirectly less than 51 per cent. of the shareholding in the Zhuhai Foreign Party. The obligation has been complied with.
- (c) The Group has entered into a long term syndicated facility agreement of A\$405 million, of which the whole amount was drawn as at 31st December, 2004. The facility will mature in 2006. Under the provision of the loan agreement, it is an event of default if HWL ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (d) The Group has entered into a long term syndicated facility agreement of A\$400 million, of which the whole amount was drawn as at 31st December, 2004. The facility will mature in 2008. Under the provision of the loan agreement, it is an event of default if HWL ceases to own (directly or indirectly) at least 30 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (e) The Group has entered into a long term syndicated facility agreement of A\$300 million, of which the whole amount was drawn as at 31st December, 2004. The facility will mature in 2009. Under the provision of the loan agreement, it is an event of default if HWL ceases to own (directly or indirectly) at least 30 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (f) The Group has provided a guarantee to a bank for facilities of up to an aggregate amount of approximately A\$215 million granted to its indirect wholly-owned subsidiary expiring in 2006. As a term of the facilities, it is an event of default if HWL ceases to own (directly or indirectly) at least 30 per cent. of the issued share capital of the Company. The obligation has been complied with.



# Report of the Directors

## Disclosure under Chapter 13 of the Listing Rules (Cont'd)

- (g) As at 31st December, 2004, the Group has granted relevant advances to certain affiliated companies totalling HK\$11,671 million, equivalent to approximately 26 per cent. of the Group's total assets. Proforma combined balance sheet of the affiliated companies as at 31st December, 2004 is set out below:

HK\$ million

Non-current assets	62,424
Current assets	6,039
Current liabilities	(6,167)
Non-current liabilities	(59,681)
Net assets	2,615
Share capital	2,042
Reserves	573
Capital and reserves	2,615

As at 31st December, 2004, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$11,185 million.

## Corporate Governance

### Code of Best Practice and Code on Corporate Governance Practices

With the exception that the Non-executive Directors have no set term of office but retire from office on a rotational basis in accordance with the Company's Bye-laws, the Company has, throughout the year ended 31st December, 2004, complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules which was in force prior to 1st January, 2005. The Company's Bye-laws have been amended on 13th May, 2004 to provide that all Directors shall retire on such manner of rotation as required by the Listing Rules, i.e. once every three years.

The Code of Best Practice set out in Appendix 14 of the Listing Rules was replaced by the Code on Corporate Governance Practices ("Code on CG Practices") which has become effective for accounting periods commencing on or after 1st January, 2005. Appropriate actions are being taken by the Company for complying with the Code on CG Practices.



## Board Composition and Board Practices

The Board is collectively responsible for the management and operations of the Company. The Directors acknowledge their responsibilities for preparing the accounts of the Company for the year covered by this annual report.

The Listing Rules require every listed issuer to have at least three independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Board comprises a total of sixteen Directors, with nine Executive Directors, two Non-executive Directors and five Independent Non-executive Directors and more than one of the Independent Non-executive Directors have appropriate professional qualifications, or accounting or related financial management expertise.

All Directors are subject to retirement by rotation once every three years in accordance with the Company's Bye-laws and the Code on CG Practices. Review will be made regularly of the Board composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

The positions of the Chairman of the Board ("Chairman") and the Group Managing Director are held by separate individuals with a view to maintaining an effective segregation of duties respecting management of the Board and the day-to-day management of the Company's business. One of the important roles of the Chairman is to provide leadership for the Board. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

The Company is supportive to the establishment of good corporate governance practices and procedures and has delegated such responsibility to the Company Secretary. All Directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Company. Meeting between the Chairman and the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors has been scheduled to take place at least once every year.

Each newly appointed Director is provided with a package of orientation materials setting out the duties and responsibilities of Directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company.

The Board meets regularly and held two meetings in 2004 at half yearly intervals. Regular Board meetings of the year are scheduled in advance to give all Directors an opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Qualified Accountant normally attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.



# Report of the Directors

## Board Composition and Board Practices (Cont'd)

Appropriate insurance cover on Directors' and officers' liabilities has been in force to protect the Directors and officers of the Company from their risk exposure arising from the businesses of the Company.

## Confirmation of Independence of Independent Non-executive Directors

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

## Model Code for Securities Transactions by Directors

The Company has adopted the model code for securities transactions by directors set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions effective 31st March, 2004. Specific enquiry has been made with all Directors and the Directors have complied with the required standard set out in the Model Code for the period ended 31st December, 2004.

## Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee ("Audit Committee") in December 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the Code on CG Practices, the terms of reference of the Audit Committee were revised on 1st January, 2005 in terms substantially the same as the provisions set out in the Code on CG Practices.

The Audit Committee of the Company comprises five members all of whom are Independent Non-executive Directors, namely Mr. Cheong Ying Chew, Henry (Chairman of the Audit Committee), Mrs. Kwok Eva Lee, Mrs. Sng Sow-Mei, Mr. Colin Stevens Russel and Mr. Lan Hong Tsung, David. The principal duties of the Audit Committee include the review and supervision of the Company's financial reporting process and internal controls. Regular meetings have been held by the Audit Committee since its establishment and the Audit Committee met twice in 2004.

The Group's annual report for the year ended 31st December, 2004 has been reviewed by the Audit Committee.

### Remuneration Committee

According to the Code on CG Practices, the Company shall set up a remuneration committee with a majority of the members being independent non-executive directors. The Company established its remuneration committee ("Remuneration Committee") on 1st January, 2005 comprising two Independent Non-executive Directors, namely Mr. Colin Stevens Russel (Chairman of the Remuneration Committee) and Mr. Cheong Ying Chew, Henry.

The Remuneration Committee shall consult the Chairman and/or the Group Managing Director of the Company about their proposals relating to remuneration package and other human resources issues of the Directors and senior management of the Company. The emoluments of Directors are based on the skill, knowledge and involvement in the Company's affairs of each Director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

### Auditors

The financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu who retire and offer themselves for re-appointment.

On behalf of the Board

**LI TZAR KUOI, VICTOR**

Chairman

Hong Kong, 17th March, 2005

# 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 65 to 116 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 financial 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 Institute of Certified Public 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 judgments 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, 2004 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, 17th March, 2005



# Consolidated Income Statement

for the year ended 31st December

HK\$ million	Notes	2004	2003
<b>Turnover</b>	3		
Group turnover		<b>2,507</b>	2,468
Share of turnover of jointly controlled entities		<b>1,953</b>	1,841
		<b>4,460</b>	4,309
<b>Group turnover</b>	3	<b>2,507</b>	2,468
Other revenue	4	<b>361</b>	341
Operating costs	5	<b>(2,124)</b>	(1,807)
<b>Operating profit</b>	6	<b>744</b>	1,002
Finance costs	7	<b>(644)</b>	(630)
Share of results of associates		<b>3,150</b>	3,202
Share of results of jointly controlled entities		<b>630</b>	611
<b>Profit before taxation</b>		<b>3,880</b>	4,185
Taxation	8	<b>(327)</b>	(846)
<b>Profit after taxation</b>		<b>3,553</b>	3,339
Minority interests		<b>3</b>	10
<b>Profit attributable to shareholders</b>	9	<b>3,556</b>	3,349
<b>Earnings per share</b>	10	<b>HK\$1.58</b>	HK\$1.49
<b>Dividends</b>	11		
Interim dividend paid		<b>496</b>	485
Proposed final dividend		<b>1,285</b>	1,127
		<b>1,781</b>	1,612

# Balance Sheets

as at 31st December

HK\$ million	Notes	Group		Company	
		2004	2003	2004	2003
Property, plant and equipment	12	2,247	1,804	1	2
Interests in subsidiaries	13	–	–	28,720	28,573
Interests in associates	14	25,657	23,681	–	–
Interests in jointly controlled entities	15	4,801	4,836	–	–
Interests in infrastructure project investments	16	1,855	1,948	–	–
Investments in securities	17	1,188	2,091	–	–
Other non-current assets	18	271	36	–	–
<b>Total non-current assets</b>		<b>36,019</b>	<b>34,396</b>	<b>28,721</b>	<b>28,575</b>
Inventories	19	163	164	–	–
Debtors and prepayments	20	878	670	8	7
Dividend receivable		–	–	1,899	1,709
Bank balances and deposits		9,029	7,243	4	4
<b>Total current assets</b>		<b>10,070</b>	<b>8,077</b>	<b>1,911</b>	<b>1,720</b>
Bank and other loans	21	371	1,258	–	–
Creditors and accruals	22	839	642	229	159
Taxation		104	109	–	–
<b>Total current liabilities</b>		<b>1,314</b>	<b>2,009</b>	<b>229</b>	<b>159</b>
<b>Net current assets</b>		<b>8,756</b>	<b>6,068</b>	<b>1,682</b>	<b>1,561</b>
<b>Total assets less current liabilities</b>		<b>44,775</b>	<b>40,464</b>	<b>30,403</b>	<b>30,136</b>
Bank and other loans	21	13,040	11,079	–	–
Deferred tax liabilities	23	344	151	–	–
Other non-current liabilities	24(c)	15	–	–	–
<b>Total non-current liabilities</b>		<b>13,399</b>	<b>11,230</b>	<b>–</b>	<b>–</b>
<b>Minority interests</b>		<b>206</b>	<b>209</b>	<b>–</b>	<b>–</b>
<b>Net assets</b>		<b>31,170</b>	<b>29,025</b>	<b>30,403</b>	<b>30,136</b>
Representing:					
Share capital	25	2,254	2,254	2,254	2,254
Reserves	26	28,916	26,771	28,149	27,882
<b>Capital and reserves</b>		<b>31,170</b>	<b>29,025</b>	<b>30,403</b>	<b>30,136</b>

LI TZAR KUOI, VICTOR

Director

IP TAK CHUEN, EDMOND

Director

17th March, 2005

# Consolidated Statement of Changes in Equity

for the year ended 31st December

HK\$ million	2004	2003
<b>Total equity at 1st January</b>	<b>29,025</b>	26,530
Surplus on revaluation of non-trading securities	<b>144</b>	44
Deferred tax charges on revaluation surplus of non-trading securities	<b>(39)</b>	(23)
Exchange translation differences	<b>141</b>	675
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years	–	(36)
<b>Net gain not recognised in the consolidated income statement</b>	<b>246</b>	660
Profit for the year	<b>3,556</b>	3,349
Revaluation surplus realised upon disposals of non-trading securities	<b>(54)</b>	–
Impairment loss recognised in respect of non-trading securities	<b>20</b>	–
Goodwill charged to income statement on disposal of a subsidiary	–	19
Final dividend for the year 2003/2002 paid	<b>(1,127)</b>	(1,048)
Interim dividend for the year 2004/2003 paid	<b>(496)</b>	(485)
<b>Total equity at 31st December</b>	<b>31,170</b>	29,025

# Consolidated Cash Flow Statement

for the year ended 31st December

HK\$ million	Notes	2004	2003
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	27(a)	<b>1,329</b>	1,641
Income taxes (paid)/refunded		<b>(22)</b>	2
<b>Net cash from operating activities</b>		<b>1,307</b>	1,643
<b>INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		<b>(77)</b>	(90)
Disposals of property, plant and equipment		<b>44</b>	66
Acquisitions of subsidiaries	27(b)	<b>(705)</b>	–
Disposals of subsidiaries	27(c)	<b>50</b>	(11)
Acquisition of an associate		<b>(132)</b>	–
Advances to associates		<b>(42)</b>	(352)
Repayments from associates		<b>–</b>	2,108
Acquisition of a jointly controlled entity		<b>(10)</b>	–
Advance to a jointly controlled entity		<b>(179)</b>	(15)
Repayment from a jointly controlled entity		<b>15</b>	–
Disposal of infrastructure project investment		<b>–</b>	61
Purchases of securities		<b>(78)</b>	(1,037)
Disposals of listed securities		<b>1,132</b>	–
Repayments from finance lease debtors		<b>10</b>	11
Acquisitions of other non-current assets		<b>–</b>	(2)
Dividends received from associates		<b>1,423</b>	1,422
Interest received		<b>207</b>	142
Finance lease income received		<b>3</b>	4
<b>Net cash from investing activities</b>		<b>1,661</b>	2,307
<b>Net cash before financing activities</b>		<b>2,968</b>	3,950
<b>FINANCING ACTIVITIES</b>			
New bank and other loans		<b>2,511</b>	2,125
Repayments of bank and other loans		<b>(1,888)</b>	(4,311)
Finance costs paid		<b>(182)</b>	(179)
Dividends paid		<b>(1,623)</b>	(1,533)
<b>Net cash utilised in financing activities</b>		<b>(1,182)</b>	(3,898)
<b>Net increase in cash and cash equivalents</b>		<b>1,786</b>	52
Cash and cash equivalents at 1st January		<b>7,243</b>	7,191
<b>Cash and cash equivalents at 31st December</b>		<b>9,029</b>	7,243
Representing:			
<b>Bank balances and deposits at 31st December</b>		<b>9,029</b>	7,243

# 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, Australia and the United Kingdom.

## 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 ("SSAP"), Hong Kong Accounting Standards ("HKAS") and interpretations issued by the Hong Kong Institute of Certified Public Accountants.

In the financial statements for the year beginning on 1st January, 2004, the Group has early adopted HKFRS 3 "Business Combinations", together with HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets". Except for the change in accounting policy for goodwill pursuant to HKFRS 3 as detailed in b) below, the adoption of the three standards do not have any impact on the Group's financial statements.

The Group's 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.



# Notes to the Financial Statements

## 2. Principal Accounting Policies (Cont'd)

### b) Goodwill

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

Goodwill is recognised as an asset at cost less any identified impairment loss. In prior years, goodwill identified was either eliminated against reserves (attributable to acquisition prior to 1st January, 2001), or capitalised and then amortised using the straight-line method over its estimated useful life (attributable to acquisition on or after 1st January, 2001), with identified impairment loss recognised where appropriate.

The new accounting policy for goodwill has been applied prospectively. The effect of the change on the Group's results for the current year is a decrease of HK\$8 million in amortisation charge against goodwill. No comparative figures have been restated.

### 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.

# Notes to the Financial Statements

## 2. Principal Accounting Policies (Cont'd)

### 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.

### 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	1 $\frac{1}{4}$ % to 3 $\frac{1}{3}$ % or over the unexpired lease terms of the land, whichever is the higher
Mains, pipes, other plant and machinery	3 $\frac{1}{3}$ % to 33 $\frac{1}{3}$ %
Others	5% to 33 $\frac{1}{3}$ %

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.

# Notes to the Financial Statements

## 2. Principal Accounting Policies (Cont'd)

### 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.

### 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.

# Notes to the Financial Statements

## 2. Principal Accounting Policies (Cont'd)

### 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

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 is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### 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.



# Notes to the Financial Statements

## 2. Principal Accounting Policies (Cont'd)

### 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.

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

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

### 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.

# Notes to the Financial Statements

## 3. Turnover

Group turnover represents net sales of infrastructure materials, income from the supply of water, return and interest from infrastructure project investments, interest from loans granted to associates, and distribution from investments in 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 year is analysed as follows:

HK\$ million	2004	2003
Sales of infrastructure materials	1,243	1,401
Income from the supply of water	149	–
Return from infrastructure project investments	178	212
Interest from loans granted to associates	863	792
Distribution from investments in securities	74	63
<b>Group turnover</b>	<b>2,507</b>	2,468
Share of turnover of jointly controlled entities	1,953	1,841
<b>Total</b>	<b>4,460</b>	4,309

Commencing from 1st January, 2004, the Group has classified the interest from loans granted to associates and the distribution from investments in 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 year's presentation.

## 4. Other Revenue

Other revenue includes the following:

HK\$ million	2004	2003
Interest income from banks	132	97
Interest income from investments in securities	42	78
Finance lease income	3	4
Gain on disposals of subsidiaries	22	–
Gain on disposal of infrastructure project investment	–	11
Gain on disposals of listed securities	85	–
Unrealised holding gain on other securities	–	40

# Notes to the Financial Statements

## 5. Operating Costs

HK\$ million	2004	2003
Staff costs including directors' emoluments	326	353
Depreciation	171	181
Changes in inventories of finished goods and work-in-progress	–	4
Raw materials and consumables used	505	386
Amortisation of other non-current assets	–	1
Amortisation of costs of infrastructure project investments	85	107
Unrealised holding loss on other securities	61	–
Impairment losses	250	30
Loss on disposal of a subsidiary	–	19
Other operating expenses	726	726
<b>Total</b>	<b>2,124</b>	<b>1,807</b>

Details of the above impairment losses are as follows:

HK\$ million	2004	2003
Impairment loss recognised in respect of certain property, plant and equipment of infrastructure related business, by taking into consideration of current market conditions		
Hong Kong	140	–
Mainland China	90	30
Total impairment loss recognised in respect of property, plant and equipment	230	30
Impairment loss recognised in respect of non-trading securities of infrastructure related business with market value lower than investment cost	20	–
<b>Total</b>	<b>250</b>	<b>30</b>

# Notes to the Financial Statements

## 6. Operating Profit

HK\$ million	2004	2003
<b>Operating profit is arrived at after crediting:</b>		
Contract revenue	139	232
Gain on disposals of property, plant and equipment	3	–
Net exchange gain	–	13
<b>and charging:</b>		
Operating lease rental		
Land and buildings	16	37
Directors' emoluments (note 28)	28	32
Auditors' remuneration	3	2
Loss on disposals of property, plant and equipment	–	4

## 7. Finance costs

HK\$ million	2004	2003
<b>Interest and other finance costs on</b>		
Bank borrowings wholly repayable within five years	566	558
Notes and debentures not repayable within five years	78	72
<b>Total</b>	<b>644</b>	<b>630</b>

# Notes to the Financial Statements

## 8. Taxation

Hong Kong Profits Tax is provided for at the rate of 17.5 per cent. (2003: 17.5 per cent.) on the estimated assessable profits less available tax losses. Overseas tax is provided for at the applicable tax rate on the estimated assessable profits less available tax losses.

HK\$ million	2004	2003
<b>Company and subsidiaries</b>		
Current taxation		
– Hong Kong Profits Tax	5	9
– Overseas tax	6	–
Deferred taxation (note 23)	(9)	(4)
	2	5
<b>Share of taxation attributable to</b>		
Associates	275	780
Jointly controlled entities	50	61
	325	841
<b>Total</b>	<b>327</b>	<b>846</b>



# Notes to the Financial Statements

## 8. Taxation (Cont'd)

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

HK\$ million	2004	2003
<b>Profit before taxation</b>	<b>3,880</b>	4,185
Tax at the weighted average effective rate of 15.6% (2003: 15.3%)	<b>605</b>	642
<b>Tax impact on:</b>		
Income not subject to tax	<b>(99)</b>	(132)
Expenses not deductible for tax purpose	<b>167</b>	122
Tax losses and other temporary differences not recognised	<b>24</b>	22
Utilisation of previously unrecognised tax losses and other temporary differences	<b>(12)</b>	(8)
Recognition of previously unrecognised tax losses and other temporary differences	<b>13</b>	–
Undistributed reserves of associates	<b>112</b>	32
Change in tax base of an associate's assets	<b>(474)</b>	–
Change in tax rate attributable to deferred tax liabilities brought forward from prior years	<b>–</b>	169
Others	<b>(9)</b>	(1)
<b>Taxation charge</b>	<b>327</b>	846

The weighted average effective tax rate changes to 15.6% in 2004 from 15.3% in 2003 mainly due to change of profit mix from countries and regions of different tax jurisdictions.

## 9. Profit Attributable to Shareholders and Segment Information

Of the Group's profit attributable to shareholders for the year, HK\$1,890 million (2003: HK\$1,703 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.

# Notes to the Financial Statements

## 9. Profit Attributable to Shareholders and Segment Information (Cont'd)

### By business segment

for the year ended 31st December

	Investment in Hongkong Electric*		Infrastructure investments		Infrastructure related business		Unallocated items		Consolidated	
HK\$ million	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>Turnover</b>										
Group turnover	–	–	1,264	1,067	1,243	1,401	–	–	2,507	2,468
Share of turnover of jointly controlled entities	–	–	1,953	1,841	–	–	–	–	1,953	1,841
	–	–	3,217	2,908	1,243	1,401	–	–	4,460	4,309
<b>Segment revenue</b>										
Group turnover	–	–	1,264	1,067	1,243	1,401	–	–	2,507	2,468
Others	–	–	25	20	52	81	–	–	77	101
	–	–	1,289	1,087	1,295	1,482	–	–	2,584	2,569
<b>Segment result</b>										
Net gain/(loss) on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	–	11	22	(19)	85	–	107	(8)
Interest and finance lease income	–	–	1	–	77	81	99	98	177	179
Corporate overheads and others	–	–	–	–	–	–	(185)	(55)	(185)	(55)
<b>Operating profit</b>										
Finance costs	–	–	(6)	–	–	–	(638)	(630)	(644)	(630)
Share of results of associates and jointly controlled entities	2,810	2,942	968	877	2	(6)	–	–	3,780	3,813
<b>Profit before taxation</b>										
Taxation	(405)	(661)	66	(182)	17	2	(5)	(5)	(327)	(846)
Minority interests	–	–	–	–	3	10	–	–	3	10
<b>Profit attributable to shareholders</b>										
	2,405	2,281	2,074	1,641	(279)	19	(644)	(592)	3,556	3,349
<b>Other information</b>										
Capital expenditure	–	–	41	–	36	90	–	–	77	90
Depreciation and amortisation	–	–	101	107	154	180	1	2	256	289

# 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	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>Assets</b>										
Segment assets	–	–	4,339	2,845	3,296	3,775	–	–	7,635	6,620
Interests in associates and jointly controlled entities	16,148	15,195	14,044	13,205	266	117	–	–	30,458	28,517
Unallocated corporate assets	–	–	–	–	–	–	7,996	7,336	7,996	7,336
<b>Total assets</b>	<b>16,148</b>	<b>15,195</b>	<b>18,383</b>	<b>16,050</b>	<b>3,562</b>	<b>3,892</b>	<b>7,996</b>	<b>7,336</b>	<b>46,089</b>	<b>42,473</b>
<b>Liabilities</b>										
Segment liabilities	–	–	513	15	265	285	–	–	778	300
Taxation, deferred taxation and unallocated corporate liabilities	–	–	304	86	57	82	13,574	12,771	13,935	12,939
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>817</b>	<b>101</b>	<b>322</b>	<b>367</b>	<b>13,574</b>	<b>12,771</b>	<b>14,713</b>	<b>13,239</b>

\* During the year, the Group has a 38.87 per cent. 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		Mainland China		Australia		Others		Unallocated items		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>Turnover</b>												
Group turnover	890	1,012	531	564	937	855	149	37	-	-	2,507	2,468
Share of turnover of jointly controlled entities	-	-	1,953	1,841	-	-	-	-	-	-	1,953	1,841
	890	1,012	2,484	2,405	937	855	149	37	-	-	4,460	4,309
<b>Segment revenue</b>												
Group turnover	890	1,012	531	564	937	855	149	37	-	-	2,507	2,468
Others	51	60	17	41	-	-	9	-	-	-	77	101
	941	1,072	548	605	937	855	158	37	-	-	2,584	2,569
<b>Segment result</b>												
Net gain/(loss) on disposals of infrastructure project investment, subsidiaries and listed securities	(198)	64	(77)	49	937	855	(17)	(82)	-	-	645	886
Interest and finance lease income	22	-	-	11	-	-	-	(19)	85	-	107	(8)
Corporate overheads and others	77	81	-	-	-	-	1	-	99	98	177	179
	-	-	-	-	-	-	-	-	(185)	(55)	(185)	(55)
<b>Operating profit</b>	(99)	145	(77)	60	937	855	(16)	(101)	(1)	43	744	1,002
Finance costs	-	-	-	-	-	-	(6)	-	(638)	(630)	(644)	(630)
Share of results of associates and jointly controlled entities	2,827	2,962	630	610	322	247	1	(6)	-	-	3,780	3,813
<b>Profit before taxation</b>	2,728	3,107	553	670	1,259	1,102	(21)	(107)	(639)	(587)	3,880	4,185
Taxation	(389)	(663)	(50)	(61)	130	(117)	(13)	-	(5)	(5)	(327)	(846)
Minority interests	-	-	3	1	-	-	-	9	-	-	3	10
<b>Profit attributable to shareholders</b>	2,339	2,444	506	610	1,389	985	(34)	(98)	(644)	(592)	3,556	3,349
<b>Other information</b>												
Capital expenditure	15	44	21	46	-	-	41	-	-	-	77	90

# Notes to the Financial Statements

## 9. Profit Attributable to Shareholders and Segment Information (Cont'd)

### By geographic region (Cont'd)

as at 31st December

HK\$ million	Hong Kong		Mainland China		Australia		Others		Unallocated items		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>Assets</b>												
Segment assets	2,328	2,743	3,218	3,054	885	771	1,204	52	–	–	7,635	6,620
Interests in associates and jointly controlled entities	16,441	15,340	4,650	4,821	9,263	8,263	104	93	–	–	30,458	28,517
Unallocated corporate assets	–	–	–	–	–	–	–	–	7,996	7,336	7,996	7,336
<b>Total assets</b>	<b>18,769</b>	<b>18,083</b>	<b>7,868</b>	<b>7,875</b>	<b>10,148</b>	<b>9,034</b>	<b>1,308</b>	<b>145</b>	<b>7,996</b>	<b>7,336</b>	<b>46,089</b>	<b>42,473</b>

## 10. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$3,556 million (2003: HK\$3,349 million) and on 2,254,209,945 shares (2003: 2,254,209,945 shares) in issue during the year.

## 11. Dividends

HK\$ million	2004	2003
Interim dividend paid of HK\$ 0.22 (2003: HK\$0.215) per share	496	485
Proposed final dividend of HK\$0.57 (2003: HK\$0.5) per share	1,285	1,127
<b>Total</b>	<b>1,781</b>	<b>1,612</b>

# Notes to the Financial Statements

## 12. Property, Plant and Equipment

HK\$ million	Freehold land and buildings outside Hong Kong	Medium term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings outside Hong Kong	Mains, pipes, other plant and machinery	Furniture, fixtures and others	Total
<b>Group</b>						
Cost						
At 1st January, 2004	–	866	386	2,047	164	3,463
Additions	–	2	1	71	3	77
Disposals	(7)	(9)	(1)	(166)	(45)	(228)
Relating to subsidiaries acquired	11	–	–	964	3	978
Relating to subsidiaries disposed of	–	–	–	(72)	(9)	(81)
Exchange translation differences	1	–	–	75	–	76
Transfers	–	4	1	(5)	–	–
At 31st December, 2004	5	863	387	2,914	116	4,285
Accumulated depreciation and impairment						
At 1st January, 2004	–	328	97	1,116	118	1,659
Charge for the year	–	28	9	120	14	171
Impairment loss	–	–	30	190	10	230
Disposals	–	(5)	–	(150)	(41)	(196)
Relating to subsidiaries acquired	–	–	–	229	2	231
Relating to subsidiaries disposed of	–	–	–	(68)	(8)	(76)
Exchange translation differences	–	–	–	19	–	19
At 31st December, 2004	–	351	136	1,456	95	2,038
Net book value						
<b>At 31st December, 2004</b>	<b>5</b>	<b>512</b>	<b>251</b>	<b>1,458</b>	<b>21</b>	<b>2,247</b>
At 31st December, 2003	–	538	289	931	46	1,804
<b>Company</b>						
Cost						
At 1st January and 31st December, 2004	–	–	–	–	14	14
Accumulated depreciation						
At 1st January, 2004	–	–	–	–	12	12
Charge for the year	–	–	–	–	1	1
At 31st December, 2004	–	–	–	–	13	13
Net book value						
<b>At 31st December, 2004</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>1</b>
At 31st December, 2003	–	–	–	–	2	2

The net book value of the Group's mains, pipes, other plant and machinery includes an amount of HK\$220 million (2003: nil) in respect of assets held under finance leases.



# Notes to the Financial Statements

## 13. Interests in Subsidiaries

HK\$ million	Company	
	2004	2003
Unlisted shares, at cost	<b>22,757</b>	22,757
Amounts due by subsidiaries	<b>5,963</b>	5,816
<b>At 31st December</b>	<b>28,720</b>	28,573

Particulars of the principal subsidiaries are set out in Appendix 1 on pages 109 and 110.

## 14. Interests in Associates

HK\$ million	Group	
	2004	2003
<b>Share of net assets</b>		
Listed associate	<b>16,148</b>	15,195
Unlisted associates	<b>1,615</b>	960
	<b>17,763</b>	16,155
Amounts due by unlisted associates	<b>7,894</b>	7,526
<b>At 31st December</b>	<b>25,657</b>	23,681
<b>Market value of listed associate</b>	<b>29,451</b>	25,469

Included in the amounts due by unlisted associates are subordinated loan of HK\$6,589 million (2003: HK\$6,310 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 111 to 113.

An extract of the published financial statements of Hongkong Electric, a principal associate of the Group, for the year ended 31st December, 2004, is shown in Appendix 4 on pages 115 and 116.

# Notes to the Financial Statements

## 15. Interests in Jointly Controlled Entities

HK\$ million	Group	
	2004	2003
Investment costs	<b>2,497</b>	2,505
Shareholders' loans to jointly controlled entities	<b>2,093</b>	1,957
Share of undistributed post-acquisition results	<b>211</b>	374
<b>At 31st December</b>	<b>4,801</b>	4,836

The Group's interests in a jointly controlled entity with carrying value of HK\$1,896 million as at 31st December, 2004 (2003: HK\$1,888 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 114.

## 16. Interests in Infrastructure Project Investments

HK\$ million	Group	
	2004	2003
Investments	<b>2,550</b>	2,550
Accumulated amortisation	<b>(709)</b>	(624)
Infrastructure project receivables	<b>148</b>	156
	<b>1,989</b>	2,082
Allowance	<b>(134)</b>	(134)
<b>At 31st December</b>	<b>1,855</b>	1,948

# Notes to the Financial Statements

## 17. Investments In Securities

HK\$ million	Group	
	2004	2003
<b>Non-trading securities</b>		
Stapled securities, listed overseas, at market value	<b>885</b>	771
Equity investments, listed overseas, at market value	<b>67</b>	46
Debt investments, listed overseas, at market value	<b>–</b>	1,055
	<b>952</b>	1,872
<b>Other securities</b>		
Unlisted equity securities	<b>236</b>	219
<b>Total</b>	<b>1,188</b>	2,091

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	
	2004	2003
Goodwill	<b>257</b>	–
Finance lease debtors – non-current portion	<b>6</b>	13
Employee retirement benefit assets (note 24(b))	<b>8</b>	23
<b>At 31st December</b>	<b>271</b>	36

The above goodwill is related to the acquisition of 100 per cent. interest in Cambridge Water PLC (“Cambridge Water”) on 28th April, 2004, the water supplier operating in South Cambridgeshire of the United Kingdom. The post-acquisition turnover and net profit up to 31st December, 2004 contributed by Cambridge Water amounted to HK\$149 million and HK\$25 million, respectively. Should the acquisition had been completed on 1st January, 2004, Cambridge Water would have contributed annual turnover and net profit of HK\$216 million (unaudited) and HK\$35 million (unaudited), respectively.

# Notes to the Financial Statements

## 18. Other Non-current Assets (Cont'd)

Changes in the carrying value of goodwill are shown below:

HK\$ million	Group	
	2004	2003
Goodwill recognised from acquisition of subsidiary (note 27(b))	238	–
Exchange difference	19	–
<b>At 31st December</b>	<b>257</b>	<b>–</b>

Details of finance lease debtors are shown below:

HK\$ million	Group	
	2004	2003
Gross investment in leases receivable:		
Within one year	9	14
In the second to fifth year, inclusive	8	15
	17	29
Unearned finance lease income	(3)	(5)
<b>Present value of finance lease debtors</b>	<b>14</b>	<b>24</b>
<b>Portion receivable:</b>		
Within one year – current portion	8	11
In the second to fifth year, inclusive – non-current portion	6	13
<b>Total</b>	<b>14</b>	<b>24</b>

# Notes to the Financial Statements

## 19. Inventories

HK\$ million	Group	
	2004	2003
Raw materials	38	31
Work-in-progress	3	3
Stores, spare parts and supplies	93	107
Finished goods	23	23
	157	164
Contract work-in-progress	6	–
<b>Total</b>	<b>163</b>	<b>164</b>
<b>Portion carried at net realisable value</b>		
Raw materials	–	1
Stores, spare parts and supplies	66	65
<b>Total</b>	<b>66</b>	<b>66</b>
<b>Contract work-in-progress</b>		
Costs plus recognised profits less recognised losses	94	89
Progress billing	(88)	(89)
<b>Net amount</b>	<b>6</b>	<b>–</b>

The cost of inventories charged to the Group's income statement during the year was HK\$1,082 million (2003: HK\$1,075 million).

# Notes to the Financial Statements

## 20. Debtors and Prepayments

HK\$ million	Group	2003	Company	2003
	2004		2004	
Trade debtors and infrastructure project receivables	<b>379</b>	417	–	–
Prepayments, deposits and other receivables	<b>499</b>	253	<b>8</b>	7
<b>Total</b>	<b>878</b>	670	<b>8</b>	7

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

HK\$ million	2004	2003
Current	<b>228</b>	218
One month	<b>78</b>	107
Two to three months	<b>28</b>	38
Over three months	<b>187</b>	204
<b>Gross total</b>	<b>521</b>	567
Allowance	<b>(142)</b>	(150)
<b>Total after allowance</b>	<b>379</b>	417

Trade with customers for infrastructure materials is carried out largely on credit, except for new customers and customers with unsatisfactory payment records, where payment in advance is normally required. Trade with metered customers for water supply is carried out largely on credit and with unmetered customers largely by payment in advance. 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	
	2004	2003
Unsecured bank and other loans repayable:		
Within one year	357	1,258
In the second year	2,414	514
In the third to fifth year, inclusive	7,972	8,396
After five years	369	–
	11,112	10,168
Obligations under finance leases repayable:		
Within one year	14	–
In the second year	13	–
In the third to fifth year, inclusive	21	–
After five years	7	–
	55	–
Unsecured notes, 3.5%, repayable after five years	2,244	2,169
<b>Total</b>	<b>13,411</b>	<b>12,337</b>
<b>Portion classified as:</b>		
Current liabilities	371	1,258
Non-current liabilities	13,040	11,079
<b>Total</b>	<b>13,411</b>	<b>12,337</b>

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

HK\$ million	Group	
	2004	2003
Fixed rate loans and loans swapped to fixed rate	8,940	8,231
Floating rate loans	4,471	4,106
<b>Total</b>	<b>13,411</b>	<b>12,337</b>

# Notes to the Financial Statements

## 21. Bank and Other Loans (Cont'd)

Further details of the obligations under finance leases are summarised below:

HK\$ million	Group	
	2004	2003
Minimum lease payments:		
Within one year	16	–
In the second year	15	–
In the third to fifth year, inclusive	23	–
After five years	8	–
	62	–
Less: future finance charges	(7)	–
<b>Present value of lease payments</b>	<b>55</b>	–

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

## 22. Creditors and Accruals

HK\$ million	Group		Company	
	2004	2003	2004	2003
Trade creditors	160	117	–	–
Amount due to an unlisted associate	135	133	135	133
Other payables and accruals	544	392	94	26
<b>Total</b>	<b>839</b>	642	<b>229</b>	159

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

HK\$ million	2004	2003
Current	66	36
One month	17	25
Two to three months	19	13
Over three months	58	43
<b>Total</b>	<b>160</b>	117

# Notes to the Financial Statements

## 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	Others	Total
At 1st January, 2003	119	(57)	49	–	111
(Credit to)/charge against profit for the year	(11)	7	–	–	(4)
Charge against investment revaluation reserve	–	–	23	–	23
Change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries in prior years	6	–	–	–	6
Exchange translation differences	–	–	15	–	15
At 31st December, 2003	114	(50)	87	–	151
Credit to profit for the year	(3)	(6)	–	–	(9)
Charge against investment revaluation reserve	–	–	39	–	39
Relating to subsidiaries acquired and disposed of	152	–	–	(3)	149
Exchange translation differences	11	–	3	–	14
<b>At 31st December, 2004</b>	<b>274</b>	<b>(56)</b>	<b>129</b>	<b>(3)</b>	<b>344</b>

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

Apart from the unused tax losses of which the deferred tax assets have been recognised as presented above, the Group has unused tax losses and other unused tax credits totalling HK\$490 million (2003: HK\$397 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	2004	2003
Within one year	45	14
In the second year	41	45
In the third to fifth year, inclusive	88	117
No expiry date	316	221
<b>Total</b>	<b>490</b>	<b>397</b>

# Notes to the Financial Statements

## 24. Retirement Plans

### (a) Defined Contribution Retirement Plans

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

Contributions to the defined contribution plans are made by either the employer only at 10 per cent. of the employees' monthly basic salaries or by both the employer and the employees each at 10 or 15 per cent. of the employees' monthly 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 per cent. of the employees' monthly relevant income each capped at HK\$20,000.

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

The Group's costs in respect of defined contribution plans for the year amounted to HK\$9 million (2003: HK\$12 million). Forfeited contributions and earnings for the year under the defined contribution plans amounting to HK\$1 million (2003: HK\$1 million) were used to reduce the existing level of contributions. At 31st December, 2004, there was no forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years (2003: HK\$1 million).

### (b) Defined Benefit Retirement Plan operating in Hong Kong

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

# Notes to the Financial Statements

## 24. Retirement Plans (Cont'd)

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

Actuarial valuation of the defined benefit plan according to SSAP 34 "Employee Benefits" was carried out at 31st December, 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:

	2004	2003
Discount rate at 31st December	<b>3.25% per annum</b>	3.75% per annum
Expected return on plan assets	<b>7% per annum</b>	7% per annum
Expected rate of salary increase	<b>3% per annum for the next year and 5% per annum thereafter</b>	3% per annum for the next two years and 5% per annum thereafter

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

HK\$ million	2004	2003
Current service cost	<b>5</b>	7
Interest cost	<b>4</b>	8
Expected return on plan assets	<b>(7)</b>	(9)
Net actuarial loss recognised	<b>2</b>	1
Amortisation of transitional liability	<b>2</b>	2
Loss on curtailment and settlement	<b>15</b>	–
<b>Net amount charged to consolidated income statement</b>	<b>21</b>	9

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

The actual return on plan assets for the year ended 31st December, 2004 is a gain of HK\$9 million (2003: HK\$12 million).

# Notes to the Financial Statements

## 24. Retirement Plans (Cont'd)

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

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

HK\$ million	2004	2003
Present value of defined benefit obligations	62	172
Unrecognised actuarial losses	(8)	(37)
Fair value of plan assets	(60)	(150)
Unrecognised transitional liability	(2)	(8)
<b>Employee retirement benefit assets included in the consolidated balance sheet (note 18)</b>	<b>(8)</b>	<b>(23)</b>

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

HK\$ million	2004	2003
At 1st January	(23)	(12)
Employers' contributions	(6)	(20)
Amount charged to consolidated income statement	21	9
<b>At 31st December</b>	<b>(8)</b>	<b>(23)</b>

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 (2003: HK\$2 million) was recognised in the current year. An additional charge of HK\$4 million was recognised and included in the above loss on curtailment and settlement cost. As at 31st December, 2004, transitional liability of HK\$2 million (2003: HK\$8 million) remained unrecognised.

Another actuarial valuation was completed at 1st January, 2005 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 cent. per annum, and the average annual salary increases at 3 per cent. per annum for the next year and 5 per cent. per annum thereafter. The actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK\$60 million at 31st December, 2004 represents 110 per cent. of the present value of the obligations as at that day. Contributions to fund the obligations are based upon the recommendations of actuary to fully fund the retirement plan on an ongoing basis. The funding rates are subject to annual review.



# Notes to the Financial Statements

## 24. Retirement Plans (Cont'd)

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

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

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

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

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

HK\$ million

Current service cost	<b>7</b>
Interest cost	<b>19</b>
Expected return on plan assets	<b>(21)</b>
Net actuarial loss not recognised	<b>(2)</b>
<b>Net amount charged to consolidated income statement</b>	<b>3</b>

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

# Notes to the Financial Statements

## 24. Retirement Plans (Cont'd)

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

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

HK\$ million

Present value of defined benefit obligations	388
Unrecognised actuarial losses	(10)
Fair value of plan assets	(363)
<b>Employee retirement benefit liabilities classified as other non-current liabilities included in the consolidated balance sheet</b>	<b>15</b>

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

HK\$ million

At acquisition date	14
Exchange translation differences	1
Employers' contributions	(3)
Amount charged to consolidated income statement	3
<b>At 31st December</b>	<b>15</b>

The above actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK\$363 million at 31st December, 2004 represents 93 per cent. 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 April, 2004. The funding rates are subject to annual review.

## 25. Share Capital

HK\$ million	2004	2003
<b>Authorised:</b>		
4,000,000,000 shares of HK\$1 each	4,000	4,000
<b>Issued and fully paid:</b>		
2,254,209,945 shares of HK\$1 each	2,254	2,254

# Notes to the Financial Statements

## 26. Reserves

### Group

HK\$ million	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Retained profits	Proposed dividends	Total
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)
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
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)
Profit for the year	–	–	–	–	3,349	–	3,349
Goodwill charged to income statement on disposal of a subsidiary	–	19	–	–	–	–	19
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
Final dividend for the year 2003 paid	–	–	–	–	–	(1,127)	(1,127)
Surplus on revaluation of non-trading securities	–	–	144	–	–	–	144
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(39)	–	–	–	(39)
Exchange translation differences	–	–	–	141	–	–	141
Profit for the year	–	–	–	–	3,556	–	3,556
Revaluation surplus realised upon disposals of non-trading securities	–	–	(54)	–	–	–	(54)
Impairment loss recognised in respect of non-trading securities	–	–	20	–	–	–	20
Interim dividend paid	–	–	–	–	(496)	–	(496)
Proposed final dividend	–	–	–	–	(1,285)	1,285	–
<b>At 31st December, 2004</b>	<b>3,836</b>	<b>6,062</b>	<b>55</b>	<b>955</b>	<b>16,723</b>	<b>1,285</b>	<b>28,916</b>

# Notes to the Financial Statements

## 26. 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\$8,409 million (2003: HK\$6,957 million) and HK\$211 million (2003: HK\$374 million), respectively.

### Company

HK\$ million	Share premium	Contributed surplus	Retained profits	Proposed dividends	Total
At 1st January, 2003	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
Interim dividend paid	–	–	(485)	–	(485)
Proposed final dividend	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	20,810	2,109	1,127	27,882
Final dividend for the year 2003 paid	–	–	–	(1,127)	(1,127)
Profit for the year	–	–	1,890	–	1,890
Interim dividend paid	–	–	(496)	–	(496)
Proposed final dividend	–	–	(1,285)	1,285	–
<b>At 31st December, 2004</b>	<b>3,836</b>	<b>20,810</b>	<b>2,218</b>	<b>1,285</b>	<b>28,149</b>

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 per cent. subsidiary of Hutchison Whampoa and acquiring a 35.01 per cent. interest in Hongkong Electric.

Total distributable reserves of the Company amounted to HK\$24,313 million as at 31st December, 2004 (2003: HK\$24,046 million).

# Notes to the Financial Statements

## 27. Notes to Consolidated Cash Flow Statement

### (a) Cash generated from operations

HK\$ million	2004	2003
Profit before taxation	<b>3,880</b>	4,185
Share of results of associates	<b>(3,150)</b>	(3,202)
Share of results of jointly controlled entities	<b>(630)</b>	(611)
Interest income from loans granted to associates	<b>(863)</b>	(792)
Interest income	<b>(174)</b>	(175)
Finance lease income	<b>(3)</b>	(4)
Income from infrastructure project investments	<b>(178)</b>	(212)
Finance costs	<b>644</b>	630
Depreciation	<b>171</b>	181
(Gain)/loss on disposals of property, plant and equipment	<b>(3)</b>	4
Gain on disposal of infrastructure project investment	<b>–</b>	(11)
(Gain)/loss on disposals of subsidiaries	<b>(22)</b>	19
Allowance for amounts due by unlisted associates	<b>30</b>	49
Allowance for amounts due by jointly controlled entities	<b>7</b>	–
Allowance for investment in an associate	<b>1</b>	–
Amortisation of costs of infrastructure project investments	<b>85</b>	107
Gain on disposals of listed securities	<b>(85)</b>	–
Unrealised holding loss/(gain) on other securities	<b>61</b>	(40)
Impairment losses	<b>250</b>	30
Pension costs of defined benefit retirement plans	<b>24</b>	9
Amortisation of other non-current assets	<b>–</b>	1
Loss on disposals of other non-current assets	<b>–</b>	9
Unrealised exchange loss	<b>113</b>	195
Returns received from jointly controlled entities	<b>751</b>	744
Returns received from infrastructure project investments	<b>188</b>	262
Interest received from associates	<b>406</b>	314
Contributions to defined benefit retirement plans	<b>(9)</b>	(20)
Operating cash flows before changes in working capital	<b>1,494</b>	1,672
(Increase)/decrease in inventories	<b>(3)</b>	24
Increase in debtors and prepayments	<b>(138)</b>	(61)
Increase in creditors and accruals	<b>5</b>	53
Exchange translation differences	<b>(29)</b>	(47)
<b>Cash generated from operations</b>	<b>1,329</b>	1,641

# Notes to the Financial Statements

## 27. Notes to Consolidated Cash Flow Statement (cont'd)

### (b) Acquisitions of subsidiaries

HK\$ million	2004	2003
<b>Net assets acquired:</b>		
Property, plant and equipment	747	—
Inventories	2	—
Debtors and prepayments	108	—
Bank balances and deposits	19	—
Creditors and accruals	(129)	—
Taxation	(5)	—
Bank and other loans	(92)	—
Deferred taxation	(150)	—
Other non-current liabilities	(14)	—
	486	—
<b>Goodwill</b>	238	—
<b>Total consideration</b>	724	—
<b>Satisfied by:</b>		
Cash	724	—

The values of the assets and liabilities presented above represent their respective book values at acquisition dates, except for the fair value of property, plant and equipment in which a surplus of HK\$135 million has been accounted for.

Analysis of the net cash flow arising on the acquisitions:

HK\$ million	2004	2003
Cash consideration	(716)	—
Other transaction costs paid	(8)	—
Bank balances and deposits acquired	19	—
<b>Net cash outflow arising from the acquisitions</b>	(705)	—



# Notes to the Financial Statements

## 27. Notes to Consolidated Cash Flow Statement (cont'd)

### (c) Disposals of subsidiaries

HK\$ million	2004	2003
<b>Net assets disposed of :</b>		
Property, plant and equipment	5	–
Inventories	6	–
Debtors and prepayments	18	1
Bank balances and deposits	30	11
Creditors and accruals	(22)	(12)
Deferred taxation	(1)	–
	36	–
Attributable goodwill	–	19
Allowance for interest in a jointly controlled entity	22	–
Gain/(loss) on disposals of subsidiaries	22	(19)
<b>Total consideration</b>	<b>80</b>	<b>–</b>
<b>Satisfied by:</b>		
Cash	80	–

Analysis of the net cash flow arising on the disposals:

HK\$ million	2004	2003
Cash consideration	80	–
Bank balances and deposits disposed of	(30)	(11)
<b>Net cash inflow/(outflow) arising from the disposals</b>	<b>50</b>	<b>(11)</b>

# Notes to the Financial Statements

## 28. Emoluments of Directors and Five Highest Paid Individuals

Directors' emoluments comprise payments to the Company's directors by the Group in connection with the management of the affairs of the Group. The emoluments of each of the Company's directors for the current year, excluding emoluments received from the Group's associates, are as follows:

HK\$ million	Fees	Basic Salaries, Allowances and Other Benefits	Bonuses	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments 2004	Total Emoluments 2003
Li Tzar Kuoi, Victor <sup>(1)</sup>	0.07	–	6.24	–	–	<b>6.31</b>	5.57
Kam Hing Lam <sup>(1)</sup>	0.07	4.20	2.64	–	–	<b>6.91</b>	6.89
George Colin Magnus <sup>(1) &amp; (2)</sup>	0.07	–	–	–	–	<b>0.07</b>	0.05
Fok Kin Ning, Canning <sup>(1)</sup>	0.07	–	–	–	–	<b>0.07</b>	0.05
Ip Tak Chuen, Edmond	0.07	1.80	2.97	–	–	<b>4.84</b>	4.32
Kwan Bing Sing, Eric	0.07	4.99	3.00	0.50	–	<b>8.56</b>	7.37
Chow Woo Mo Fong, Susan <sup>(1)</sup>	0.07	–	–	–	–	<b>0.07</b>	0.05
Frank John Sixt <sup>(1)</sup>	0.07	–	–	–	–	<b>0.07</b>	0.05
Tso Kai Sum <sup>(1)</sup>	0.07	–	–	–	–	<b>0.07</b>	0.05
Cheong Ying Chew, Henry <sup>(3)</sup>	0.14	–	–	–	–	<b>0.14</b>	0.10
Lee Pui Ling, Angelina <sup>(3)</sup>	0.12	–	–	–	–	<b>0.12</b>	0.10
Barrie Cook <sup>(2)</sup>	0.07	0.32	–	–	–	<b>0.39</b>	7.76
Kwok Eva Lee <sup>(3)</sup>	0.04	–	–	–	–	<b>0.04</b>	–
Sng Sow-Mei <sup>(3)</sup>	0.04	–	–	–	–	<b>0.04</b>	–
<b>Total for the year 2004</b>	<b>1.04</b>	<b>11.31</b>	<b>14.85</b>	<b>0.50</b>	<b>–</b>	<b>27.70</b>	
Total for the year 2003	0.70	15.21	15.63	0.82	–		32.36

Notes:

- (1) During the current year, Mr. Li Tzar Kuoi, Victor, Mr. Kam Hing Lam, Mr. Fok Kin Ning, Canning, Mrs. Chow Woo Mo Fong, Susan, Mr. Frank John Sixt and Mr. Tso Kai Sum each received directors' fees of HK\$70,000 (2003: HK\$50,000), and Mr. George Colin Magnus received director's fees of HK\$120,000 (2003: HK\$100,000) from Hongkong Electric Holdings Limited, a listed associate of the Group. The directors' fees totalling HK\$540,000 (2003: HK\$400,000) were then paid back to the Company.
- (2) Directors' fees received by these directors from a subsidiary of the Company were paid back to the Company and are not included in the amounts above.
- (3) Independent non-executive directors and audit committee members ("INED and ACM") — During the current year, Mr. Henry Cheong has acted as an INED and ACM of the Company. Mrs. Angelina Lee resigned from INED and ACM effective from 23rd September, 2004. Ms. Kwok Eva Lee and Ms. Sng Sow-Mei have been appointed as INED and ACM of the Company since 23rd September, 2004. The total emoluments paid to these INED and ACM during the current year are HK\$318,254 (2003: HK\$200,000).

# Notes to the Financial Statements

## 28. Emoluments of Directors and Five Highest Paid Individuals (cont'd)

Of the five individuals with the highest emoluments in the Group, four (2003: four) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the remaining one (2003: one) individual falls within the band of HK\$4,500,001 to HK\$5,000,000, details of which is set out below:

HK\$ million	2004	2003
Salaries and benefits in kind	2	2
Contributions to retirement plan	1	1
Bonuses	2	2
<b>Total</b>	<b>5</b>	<b>5</b>

## 29. Commitments

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

HK\$ million	Contracted but not provided for		Authorised but not contracted for	
	2004	2003	2004	2003
Investments in associates and jointly controlled entities	6,299	1,711	–	–
Plant and machinery	10	9	71	84
Others	–	–	19	12
<b>Total</b>	<b>6,309</b>	<b>1,720</b>	<b>90</b>	<b>96</b>

- (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:

HK\$ million	Group		Company	
	2004	2003	2004	2003
Within one year	4	21	2	4
In the second to fifth year, inclusive	5	20	–	2
After five years	7	13	–	–
<b>Total</b>	<b>16</b>	<b>54</b>	<b>2</b>	<b>6</b>

# Notes to the Financial Statements

## 30. Contingent Liabilities

HK\$ million	Group		Company	
	2004	2003	2004	2003
Guarantees in respect of bank and other loans drawn by subsidiaries	–	–	<b>12,987</b>	12,337
Guarantee in respect of bank loans drawn by an associate	<b>1,257</b>	1,204	<b>1,257</b>	1,204
Guarantee in respect of bank loans drawn by a jointly controlled entity	<b>685</b>	696	<b>685</b>	696
Guarantee in respect of standby letter of credit	<b>3</b>	–	<b>3</b>	–
Performance bonds	–	36	–	–
<b>Total</b>	<b>1,945</b>	1,936	<b>14,932</b>	14,237

## 31. Material Related Party Transactions

During the year, the Group advanced HK\$179 million (2003: HK\$15 million) to a jointly controlled entity, and received repayment of HK\$15 million (2003: nil) from a jointly controlled entity. The total outstanding loan balances as at 31st December, 2004 amounted to HK\$2,093 million (2003: HK\$1,957 million), of which HK\$1,050 million (2003: HK\$905 million) bears interest with reference to Hong Kong dollar prime rate, and HK\$1,043 million (2003: HK\$1,052 million) are interest-free. The loans have no fixed terms of repayment.

The Group advanced HK\$42 million (2003: HK\$352 million) to its unlisted associates during the year. In the prior year, the Group received repayments totalling HK\$2,108 million from unlisted associates. The total outstanding loan balances as at 31st December, 2004 amounted to HK\$7,894 million (2003: HK\$7,526 million), of which HK\$7,370 million (2003: HK\$7,061 million) bears interest with reference to Australian Bank Bill Swap Reference Rate or fixed rate, and HK\$524 million (2003: HK\$465 million) are interest-free. As stated in note 3, interest from loans granted to associates during the year amounted to HK\$863 million (2003: HK\$792 million). Except for a loan of HK\$94 million which is repayable within seventeen years, the loans have no fixed terms of repayment.

During the year, the Group disposed of two wholly-owned subsidiaries with a net book value of HK\$33 million to a jointly controlled entity at a consideration of HK\$77 million, and recognised a gain of HK\$22 million. The Group also disposed of certain property, plant and equipment with a net book value of HK\$12 million to this jointly controlled entity at a consideration of HK\$30 million, and recognised a gain of HK\$9 million. The Group has 50 per cent. equity interest in the jointly controlled entity.

Moreover, the Group's sales and purchases of infrastructure materials to/from the same jointly controlled entity for the current year amounted to HK\$136 million and HK\$202 million, respectively (2003: nil).

# Notes to the Financial Statements

## **32. Recently Issued Accounting Standards**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("new HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are effective for accounting periods beginning on or after 1st January, 2005.

Apart from early adoption of the three standards as detailed in note 2 above, the Group has not adopted these new HKFRSs and HKASs in the financial statements for the year ended 31st December, 2004. The Group has carried out a preliminary assessment and has so far concluded that the adoption of these new HKFRSs and HKASs in 2005 would not have a significant impact on the Group's results of operations and financial position.

The Group will be continuing with the assessment of the impact of the new HKFRSs and HKASs. Other significant changes may be identified as a result.

## **33. Approval of Financial Statements**

The financial statements set out on pages 65 to 116 were approved by the Board of Directors on 17th March, 2005.

# Principal Subsidiaries

## Appendix 1

The table below shows the subsidiaries as at 31st December, 2004 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	Number	Share capital issued Par value per share	Proportion of nominal value of issued capital held by the Group (per cent.)	Principal activities
<b>Incorporated and operating in Hong Kong</b>				
Anderson Asia (Holdings) Limited	2 ordinary 65,780,000 non-voting deferred	HK\$0.5 HK\$0.5	100 —	Investment holding
Anderson Asphalt Limited	36,000 ordinary	HK\$100	100	Production and laying of asphalt and investment holding
Cheung Kong Infrastructure Finance Company Limited	2 ordinary	HK\$1	100	Financing
China Cement Company (International) Limited	1,000,000 ordinary	HK\$1	70	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK\$2	100	Manufacturing, sale and distribution of cement and property investment
Green Island Cement (Holdings) Limited	101,549,457 ordinary	HK\$2	100	Investment holding
Ready Mixed Concrete (H.K.) Limited	50,000,000 ordinary	HK\$1	100	Production and sale of concrete and investment holding

# Principal Subsidiaries

## Appendix 1 (Cont'd)

Name	Number	Share capital issued Par value per share	Proportion of nominal value of issued capital held by the Group (per cent.)	Principal activities
<b>Incorporated in British Virgin Islands and operating in Hong Kong</b>				
Cheung Kong Infrastructure Finance (BVI) Limited	1 ordinary	US\$1	100	Financing
Daredon Assets Limited	1 ordinary	US\$1	100	Treasury
Green Island International (BVI) Limited	1 ordinary	US\$1	100	Investment holding
<b>Incorporated in Hong Kong and operating in Mainland China</b>				
Cheung Kong China Infrastructure Limited	2 ordinary	HK\$1	100	Investment holding and investment in infrastructure projects in Mainland China
<b>Incorporated and operating in Australia</b>				
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
<b>Incorporated and operating in the United Kingdom</b>				
Cambridge Water PLC	14,621,152 ordinary	£0.05	100	Water supply

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, 2004 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 (per cent.)	Principal activities
<b>Incorporated and operating in Hong Kong</b>				
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
<b>Incorporated and operating in Australia</b>				
ETSA Utilities Partnership (note 2)	N/A	N/A	50	Electricity distribution
CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited (note 3)	200 ordinary	A\$1	50	Investment holding
CKI/HEI Electricity Distribution Pty Limited (note 4)	200 ordinary	A\$1	50	Electricity distribution
CKI/HEI Electricity Distribution Two Pty Limited (note 5)	200 ordinary	A\$1	50	Electricity distribution
CrossCity Motorway Holdings Pty Limited (note 6)	3,340,009 ordinary	A\$0.01	50	Construction and operation of Cross City Tunnel
CrossCity Motorway Holdings Trust (note 6)	N/A	N/A	50	Construction and operation of Cross City Tunnel
Lane Cove Tunnel Holding Company Pty Limited (note 7)	42,827,999 ordinary	A\$1	40	Construction and operation of Lane Cove Tunnel

# Principal Associates

## Appendix 2 (Cont'd)

Name	Share capital issued Number	Par value per share	Approximate share of equity shares held by the Group (per cent.)	Principal activities
<b>Incorporated and operating in Australia (Cont'd)</b>				
Lane Cove Tunnel Holding Trust (note 7)	N/A	N/A	40	Construction and operation of Lane Cove Tunnel
<b>Incorporated in British Virgin Islands</b>				
CKI/HEI Electricity Assignment Limited	2 ordinary	US\$1	50	Investment holding

Notes:

- The associate is listed on Hong Kong Stock Exchange.
- 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.
- CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited owns 100 per cent. interests in CKI/HEI Electricity Distribution Pty Limited and CKI/HEI Electricity Distribution Two Pty Limited.

# Principal Associates

## Appendix 2 (Cont'd)

Notes: (Cont'd)

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

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

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

5. CKI/HEI Electricity Distribution Two Pty Limited owns 100 per cent. interests in CitiPower I Pty Ltd, which is one of five electricity distributors in the State of Victoria of Australia.
6. CrossCity Motorway Holdings Pty Limited or CrossCity Motorway Holdings Trust own 100 per cent. interests in the following companies ("the Cross City Tunnel Group"):

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

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

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

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

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

# Principal Jointly Controlled Entities

## Appendix 3

The table below shows the jointly controlled entities as at 31st December, 2004 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
<b>Incorporated and operating in Mainland China</b>			
Guangdong Shantou Bay Bridge Co. Ltd.	30	30	Operation of Shantou Bay Bridge
Guangdong Zhuhai Power Station Co., Ltd.	45	45	Operation of Zhuhai Power Station
Guangdong Shenzhen-Shantou Highway (East) Co., Ltd.	33.5	33.5	Operation of Shenzhen–Shantou Highway (Eastern Section)
Guangzhou E-S-W Ring Road Co., Ltd.	44.5	45 *	Operation of Guangzhou East South West Ring Road
<b>Incorporated and operating in Hong Kong</b>			
Alliance Construction Materials Limited	50	50	Quarry operation and production and sale of concrete and aggregates

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

# 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, 2004, as extracted from the 2004 published financial statements of Hongkong Electric.

### Consolidated Profit and Loss Account

for the year ended 31st December

HK\$ million	2004	2003
<b>Turnover</b>	<b>11,407</b>	11,250
Direct costs	<b>(3,999)</b>	(3,915)
	<b>7,408</b>	7,335
Other revenue and net income	<b>938</b>	1,283
Other operating costs	<b>(760)</b>	(578)
Finance costs	<b>(569)</b>	(646)
<b>Operating profit</b>	<b>7,017</b>	7,394
Share of results of associates	<b>314</b>	241
<b>Profit before taxation</b>	<b>7,331</b>	7,635
Income tax:		
Current	<b>(1,048)</b>	(1,092)
Deferred	<b>(3)</b>	(619)
<b>Profit after taxation</b>	<b>6,280</b>	5,924
<b>Scheme of Control transfers</b>		
From/(To):		
Development Fund	–	139
Rate Reduction Reserve	–	(6)
<b>Profit attributable to shareholders</b>	<b>6,280</b>	6,057
<b>Dividends</b>		
Interim dividend paid	<b>1,238</b>	1,238
Proposed final dividend	<b>2,540</b>	2,412
	<b>3,778</b>	3,650
<b>Earnings per share</b>	<b>HK\$2.94</b>	HK\$2.84
<b>Dividends per share</b>	<b>HK\$1.77</b>	HK\$1.71

# Extracts of Financial Statements of Hongkong Electric

## Appendix 4 (cont'd)

### Consolidated Balance Sheet

as at 31st December

HK\$ million	2004	2003
Fixed assets		
Property, plant and equipment	41,308	42,024
Assets under construction	3,968	3,000
Interest in associates	9,198	8,425
Other investments	39	7
Employee retirement benefit assets	296	236
Current assets	4,158	3,020
Current liabilities	(2,916)	(3,865)
Non-current liabilities	(18,195)	(17,531)
Rate Reduction Reserve	–	(5)
<b>Net assets</b>	<b>37,856</b>	<b>35,311</b>
Share capital	2,134	2,134
Reserves	35,722	33,177
<b>Capital and reserves</b>	<b>37,856</b>	<b>35,311</b>

# Schedule of Major Properties

## Appendix 5

Location	Lot Number	Group's Interest (per cent.)	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	5,528	C	Medium

I: Industrial

C: Commercial





## Investment in Hongkong Electric

### Hongkong Electric, Hong Kong

CKI shareholding	38.87%
Installed capacity	3,420 MW
Business	Exclusive right to generate and distribute electricity to Hong Kong Island and Lamma Island
2004 net profit	HK\$6,280 million



## Infrastructure Investments – Energy

### CitiPower I Pty Limited, Victoria, Australia

CKI shareholding	50% (another 50% held by Hongkong Electric)
Business	To operate the electricity distribution network in the central business district and inner suburban areas of Melbourne, Victoria
Electricity distribution network	4,013 km
Consumer coverage	281,000 customers



### Envestra Limited, Australia

CKI shareholding	17.53%
Business	Envestra Limited is Australia's largest distributor of natural gas with operations in all mainland states other than Western Australia
Natural gas distribution network	18,500 km
Consumer coverage	940,000 customers



### ETSA Utilities, South Australia, Australia

CKI shareholding	50% (another 50% held by Hongkong Electric)
Business	To operate the electricity distribution network covering an area of 178,200 square km in the state of South Australia for 200 years
Electricity distribution network	80,103 km
Consumer coverage	759,000 customers





## Infrastructure Investments – Energy

### Powercor Australia Limited, Victoria, Australia

CKI shareholding	50% (another 50% held by Hongkong Electric)
Business	To operate the electricity distribution network covering an area of over 150,000 square km in the state of Victoria
Electricity distribution network	81,271 km
Consumer coverage	635,000 customers



### Fushun Cogen Power Plants, Liaoning

Location	Fushun, Liaoning Province
Total capacity	150 MW
Joint venture contract date	1997
Joint venture expiring	2017
Operational status	Operational
Total project cost	HK\$690 million
CKI's interest	HK\$414 million
Interest in JV	60%



### Qinyang Power Plants, Henan

Location	Qinyang, Henan Province
Total capacity	110 MW
Joint venture contract date	1997
Joint venture expiring	2017
Operational status	Operational
Total project cost	HK\$457 million
CKI's interest	HK\$224 million
Interest in JV	49%



### Siping Cogen Power Plants, Jilin

Location	Siping, Jilin Province
Total capacity	200 MW
Joint venture contract date	1997
Joint venture expiring	2019
Operational status	Operational
Total project cost	HK\$1,610 million
CKI's interest	HK\$725 million
Interest in JV	45%





## Infrastructure Investments – Energy

### Zhuhai Power Plant, Guangdong

Location	Zhuhai, Guangdong Province
Total capacity	1,400 MW
Joint venture contract date	1995
Joint venture expiring	2019
Operational status	Operational
Total project cost	HK\$9,493 million
CKI's interest	HK\$1,284 million
Interest in JV	45%



## Infrastructure Investments – Transportation

### Eastern Harbour Crossing Rail Tunnel, Hong Kong

CKI shareholding	50%
Road type	Rail tunnel
Length	2.2 km
Rail franchise period	1986-2008



### Lane Cove Tunnel, Sydney, New South Wales, Australia

CKI shareholding	40%
Road type	Tunnel
Length	7.4 km
No. of lanes	Dual two/three lane
Operational status	Construction commencing June 2004
Completion	2007
Total project cost	A\$1.7 billion



### Sydney Cross City Tunnel, New South Wales, Australia

CKI shareholding	50%
Road type	Tunnel
Length	2 km
No. of lanes	Dual two-lane
Operational status	Construction commencing Jan 2003
Completion	mid 2005
Total project cost	A\$1 billion







## Infrastructure Investments – Transportation

### Changsha Wujialing and Wuyilu Bridges, Hunan

Location	Changsha, Hunan Province
Road type	Bridge
Length	5 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiring	2022
Operational status	Operational
Total project cost	HK\$465 million
CKI's interest	HK\$206 million
Interest in JV	44.2%



### Guangzhou East-South-West Ring Road, Guangdong

Location	Guangzhou, Guangdong Province
Road type	Expressway
Length	39 km
No. of lanes	Dual three-lane
Joint venture contract date	1997
Joint venture expiring	2032
Operational status	Operational
Total project cost	HK\$4,220 million
CKI's interest	HK\$1,169 million
Interest in JV	44.4%



### Jiangmen Chaolian Bridge, Guangdong

Location	Jiangmen, Guangdong Province
Road type	Bridge
Length	2 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiring	2027
Operational status	Operational
Total project cost	HK\$130 million
CKI's interest	HK\$65 million
Interest in JV	50%



### Jiangmen Jiangsha Highway, Guangdong

Location	Jiangmen, Guangdong Province
Road type	Class 1 highway
Length	21 km
No. of lanes	Dual two-lane
Joint venture contract date	1996
Joint venture expiring	2026
Operational status	Operational
Total project cost	HK\$207 million
CKI's interest	HK\$103 million
Interest in JV	50%





## Infrastructure Investments – Transportation

### National Highway 107 (Zhumadian Sections), Henan

Location	Zhumadian, Henan Province
Road type	Class 2 highway
Length	114 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiring	2024
Operational status	Operational
Total project cost	HK\$461 million
CKI's interest	HK\$304 million
Interest in JV	66%



### Panyu Beidou Bridge, Guangdong

Location	Panyu, Guangdong Province
Road type	Bridge
Length	3 km
No. of lanes	Dual three-lane
Joint venture contract date	1999
Joint venture expiring	2024
Operational status	Operational
Total project cost	HK\$164 million
CKI's interest	HK\$66 million
Interest in JV	40%



### Shantou Bay Bridge, Guangdong

Location	Shantou, Guangdong Province
Road type	Bridge
Length	6 km
No. of lanes	Dual three-lane
Joint venture contract date	1993
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$665 million
CKI's interest	HK\$200 million
Interest in JV	30%



### Shen-Shan Highway (Eastern Section), Guangdong

Location	Lufeng/Shantou, Guangdong Province
Road type	Expressway
Length	140 km
No. of lanes	Dual two-lane
Joint venture contract date	1993
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$2,619 million
CKI's interest	HK\$877 million
Interest in JV	33.5%





## Infrastructure Investments – Transportation

### Shenyang Changqing Bridge, Liaoning

Location	Shenyang, Liaoning Province
Road type	Bridge
Length	3 km
No. of lanes	Dual three-lane
Joint venture contract date	1996
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$269 million
CKI's interest	HK\$81 million
Interest in JV	30%



### Shenyang Da Ba Road and South-West Elevated Section, Liaoning

Location	Shenyang, Liaoning Province
Road type	Class 1 highway
Length	23 km
No. of lanes	Dual three-lane
Joint venture contract date	1996 & 1997
Joint venture expiring	2027
Operational status	Operational
Total project cost	HK\$1,504 million
CKI's interest	HK\$451 million
Interest in JV	30%



### Shenyang Gongnong Bridge, Liaoning

Location	Shenyang, Liaoning Province
Road type	Bridge
Length	1 km
No. of lanes	Dual three-lane
Joint venture contract date	1996
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$121 million
CKI's interest	HK\$36 million
Interest in JV	30%



### Shenyang Shensu Expressway, Liaoning

Location	Shenyang, Liaoning Province
Road type	Class 1 highway
Length	12 km
No. of lanes	Dual three-lane
Joint venture contract date	1996
Joint venture expiring	2028
Operational status	Operational
Total project cost	HK\$395 million
CKI's interest	HK\$118 million
Interest in JV	30%







## Infrastructure Investments – Transportation

### Tangshan Tangle Road, Hebei

Location	Tangshan, Hebei Province
Road type	Class 2 highway
Length	100 km
No. of lanes	Dual one-lane
Joint venture contract date	1997
Joint venture expiring	2019
Operational status	Operational
Total project cost	HK\$187 million
CKI's interest	HK\$95 million
Interest in JV	51%



## Infrastructure Investments – Water

### AquaTower Pty Limited, Australia

CKI shareholding	49%
Business	AquaTower has the exclusive rights until 2027 to provide potable water to four towns in Victoria
Consumer coverage	50,000 consumers



### Cambridge Water PLC, the United Kingdom

CKI shareholding	100%
Business	Supplies water in and surrounding the 1,173 sq km area of South Cambridgeshire
Water Distribution System	7 service reservoirs, 10 water towers and 2,200 km of water mains
Consumer coverage	300,000 consumers







## Infrastructure Related Business

### Alliance Construction Materials, Hong Kong

#### Concrete Division

Total capacity: 4 million cubic meters per annum

Hong Kong's largest concrete producer

6 strategically-located batching plants throughout Hong Kong

Over 250 mixer trucks

CKI's interest: 50%

#### Quarry Division

Total capacity (Aggregates): 7 million tonnes per annum

5 quarries in total: 3 in Hong Kong and 2 in Mainland China

CKI's interest: 50%



### Anderson Asphalt, Hong Kong

Total asphalt capacity: 2.8 million tonnes per annum

Total recycling capacity: 0.5 million tonnes per annum

Total sub-base capacity: 1.6 million tonnes per annum

Founded in 1977

Operations in Hong Kong, Mainland China, the Philippines and the Bahamas

Specially designed mastic asphalt for Tsing Ma Bridge (Hong Kong), Jiangyin

Bridge (Mainland China) and Irtys River Bridge (Kazakhstan)

One of Hong Kong's largest asphalt producers, pavement contractors and recyclers



### Green Island Cement, Hong Kong

Total capacity: 1.5 million tonnes (clinker), 2.5 million tonnes (cement grinding) per annum

Origins date back to 1887

Hang Seng constituent stock prior to privatisation in 1987

Only integrated cement producer in Hong Kong

About one-third Hong Kong market share

Only producer of high early strength and low alkaline cement in Hong Kong



### Guangdong GITIC Green Island Cement Co. Ltd., Guangdong

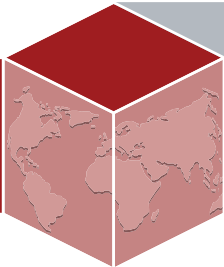
Location: Yunfu, Guangdong Province

Total cement: 800,000 tonnes per annum

Cement production facilities upgraded in 1998 to produce high-quality cement

CKI's interest: 67%





# Corporate Information

## DIRECTORS

### Executive Directors

LI Tzar Kuoi, Victor (*Chairman*)

George Colin MAGNUS (*Deputy Chairman*)

IP Tak Chuen, Edmond (*Deputy Chairman*)

FOK Kin Ning, Canning (*Deputy Chairman*)

KAM Hing Lam (*Group Managing Director*)

KWAN Bing Sing, Eric (*Deputy Managing Director*)

### Independent Non-executive Directors

CHEONG Ying Chew, Henry

KWOK Eva Lee

SNG Sow-Mei (PHOON Sui Moy, alias POON Sow Mei)

Colin Stevens RUSSEL

LAN Hong Tsung, David

### Executive Directors

CHOW WOO Mo Fong, Susan

Frank John SIXT

TSO Kai Sum

### Non-executive Directors

LEE Pui Ling, Angelina

Barrie COOK

## COMPANY SECRETARY

Eirene YEUNG

## QUALIFIED ACCOUNTANT

CHAN Loi Shun, Dominic

## AUDIT COMMITTEE

CHEONG Ying Chew, Henry (*Chairman*)

KWOK Eva Lee

SNG Sow-Mei (PHOON Sui Moy, alias POON Sow Mei)

Colin Stevens RUSSEL

LAN Hong Tsung, David

## REMUNERATION COMMITTEE

Colin Stevens RUSSEL (*Chairman*)

CHEONG Ying Chew, Henry

## SOLICITORS

Woo, Kwan, Lee & Lo

## AUDITORS

Deloitte Touche Tohmatsu

## **BANKERS**

Bank of China (Hong Kong) Limited  
Barclays Bank PLC  
Bayerische Landesbank  
BNP Paribas  
The Hongkong and Shanghai Banking Corporation Limited  
National Australia Bank

## **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

## **INTERNET ADDRESS**

<http://www.cki.com.hk>

## **PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE**

Butterfield Fund Services (Bermuda) Limited,  
Rosebank Centre,  
11 Bermudiana Road,  
Pembroke HM08,  
Bermuda

## **BRANCH SHARE REGISTRARS AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited,  
Rooms 1712-1716, 17th Floor, Hopewell Centre,  
183 Queen's Road East, Hong Kong

## **SHARE LISTING**

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.  
The stock codes are:  
The Stock Exchange of Hong Kong Limited -1038;  
Reuters -1038.HK;  
Bloomberg -1038 HK.

## **INVESTOR RELATIONS**

For further information about Cheung Kong Infrastructure Holdings Limited, please contact:

### **Ivan CHAN**

Cheung Kong Infrastructure Holdings Limited,  
12th Floor, Cheung Kong Center,  
2 Queen's Road Central, Hong Kong  
Telephone: (852) 2122 3986  
Facsimile: (852) 2501 4550  
Email: [contact@cki.com.hk](mailto:contact@cki.com.hk)



This annual report 2004 ("Annual Report") is available in both English and Chinese. Shareholders who have received either the English or the Chinese version of the Annual Report may request a copy in the language different from that has been received by 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.

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The Annual Report (in both English and Chinese versions) has been posted on the Company's website at <http://www.cki.com.hk>. Shareholders may at any time choose to change your choice of the language of the Company's corporate communication (including but not limited to annual report, summary financial report (where applicable), interim report, notice of meeting and circular) by notice in writing to the Company's Branch Share Registrars.



**Cheung Kong Infrastructure Holdings Limited**

12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong