
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Hongkong Electric Holdings Limited**, you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is solely for the purpose of providing shareholders with certain information in connection with an extraordinary general meeting of the Company and does not constitute an invitation or offer to acquire or subscribe for securities.



香港電燈集團有限公司 ***Hongkong Electric Holdings Ltd.***

(Incorporated in Hong Kong with limited liability)

(Stock Code: 006)

DISCLOSEABLE AND CONNECTED TRANSACTIONS

ACQUISITION OF ALPHA CENTRAL PROFITS LIMITED

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Board is set out on pages 8 to 25 of this circular and a letter from the Independent Board Committee is set out on page 26 of this circular.

The text of a letter of advice from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 39 of this circular.

The Resolution will be proposed at the EGM to be held at 11:30 a.m. on 14 December 2004 (Tuesday) at the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong to approve the matters referred to in this circular.

A notice dated 26 November 2004 convening the EGM is set out on pages 48 to 49 of this circular.

Whether or not you are able to attend the EGM or any adjourned meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed on it and return it to the registered office of the Company, 44 Kennedy Road, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment of it. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

26 November 2004

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DEFINITIONS

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

“9.9% Buyers”	the buyers of the 9.9% Sale Shares, being Challenger (as to the portion of the 9.9% Sale Shares representing 5.8% of the issued share capital of Gas Network) and STC (as to the portion of the 9.9% Sale Shares representing 4.1% of the issued share capital of Gas Network), both of whom are independent third parties unconnected with the Company and are not connected persons of the Company
“9.9% Sale”	the sale of the 9.9% Sale Shares by Able Venture to the 9.9% Buyers pursuant to the 9.9% Sale Agreement
“9.9% Sale Agreement”	the agreement dated 12 November 2004 between CKI, Able Venture and the 9.9% Buyers relating to the sale and purchase of the 9.9% Sale Shares and the transaction documents to be entered into under such agreement
“9.9% Sale Shares”	99 ordinary shares of £1 each in the share capital of Gas Network, being 9.9% of the issued share capital of Gas Network as at the date of the 9.9% Sale Agreement
“Able Venture”	Able Venture Profits Limited, a company incorporated in the British Virgin Islands with limited liability under number 602782 and a wholly-owned indirect subsidiary of CKI
“Alpha”	Alpha Central Profits Limited, a company incorporated in the British Virgin Islands with limited liability under number 607423 and which, until Alpha Completion, is a wholly-owned indirect subsidiary of CKI
“Alpha Acquisition”	the acquisition by the Company or its nominee, and the sale to be procured by CKI, of the Alpha Share pursuant to the Alpha Acquisition Agreement
“Alpha Acquisition Agreement”	the agreement dated 10 September 2004 between CKI and the Company relating to the sale and purchase of the Alpha Share and the transaction documents to be entered into under such agreement
“Alpha Acquisition Announcement”	the joint announcement of HWL, CKI and the Company dated and published on 10 and 13 September 2004 respectively, relating to, amongst other things, the Alpha Acquisition

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“Alpha Completion”	completion of the Alpha Acquisition Agreement in accordance with its terms
“Alpha Conditions”	the condition precedents to Alpha Completion as set out in the Alpha Acquisition Agreement
“Alpha Share”	1 ordinary share of US\$1 in the share capital of Alpha, being the entire issued share capital of Alpha as at the date of the Alpha Acquisition Agreement
“Ancillary Transactions”	means the transactions associated with the Alpha Acquisition described in section 2.2, and the entering into by the Company of the Restated Gas Network Shareholders Agreement described in section 4, of the letter from the Board in this circular
“associate”	has the meaning ascribed to it in the Listing Rules
“Associated Corporations”	has the meaning ascribed to it under Part XV of the SFO
“Authority”	the Gas and Electricity Markets Authority for the United Kingdom
“Blackwater”	Blackwater F Limited, a company incorporated in England and Wales with limited liability under number 5167070
“Blackwater Acquisition”	the acquisition of the Blackwater Shares by Gas Network pursuant to the Blackwater Acquisition Agreement
“Blackwater Acquisition Agreement”	the agreement dated 31 August 2004 between Gas Network, Transco and Blackwater relating to the sale and purchase of the Blackwater Shares and the transaction documents to be entered into under such agreement
“Blackwater Completion”	completion of the Blackwater Acquisition Agreement in accordance with its terms
“Blackwater Conditions”	the conditions to Blackwater Completion as set out in the Blackwater Acquisition Agreement
“Blackwater Consideration”	the consideration (after deducting the Intra-Group Indebtedness) for the Blackwater Shares which is expected to be approximately £524,000,000 (HK\$7,336,000,000) at Blackwater Completion

DEFINITIONS

“Blackwater Shares”	100 ordinary shares of £1 each in the share capital of Blackwater, being the entire issued share capital of Blackwater as at the date of the Blackwater Acquisition Agreement
“Board”	the board of Directors of the Company
“Challenger”	Challenger Life No. 2 Limited, a company incorporated in Australia under number ABN44072486938
“circular”	this circular, including the appendix to it
“Circular Despatch Announcement”	the joint announcement of HWL, CKI and the Company dated and published on 21 and 22 September 2004 respectively, relating to, amongst other things, the extension of the date for the despatch of this circular
“CKI”	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability under number EC21980, the shares of which are listed on the Stock Exchange (Stock Code: 1038)
“CKI Announcement”	the announcement published by CKI on 1 September 2004 relating to the Blackwater Acquisition
“CKI Circular”	the circular of CKI dated 26 November 2004 sent to the CKI Shareholders relating to the Blackwater Acquisition, the Alpha Acquisition and the 9.9% Sale
“CKI SGM”	a special general meeting of CKI to be held to approve, inter alia, the Blackwater Acquisition, the sale of the Alpha Share under the Alpha Acquisition Agreement, and certain associated transactions
“CKI Shareholders”	the shareholders of CKI
“CLSA”	CLSA Equity Capital Markets Limited, a deemed licensed corporation under the SFO, licensed to conduct Types 4, 6 and 9 regulated activities under the SFO, being the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Alpha Acquisition and the Ancillary Transactions
“Company”	Hongkong Electric Holdings Limited, a company incorporated in Hong Kong with limited liability under number 46996, the shares of which are listed on the Stock Exchange (Stock Code: 006)

DEFINITIONS

“DeAM”	Deutsche Asset Management (Australia) Limited, a company incorporated in Australia under number ABN 44072486938
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be held to approve the Alpha Acquisition, related transactions and matters contemplated under the Alpha Acquisition Agreement, the Gas Network Shareholders Agreement, the Restated Gas Network Shareholders Agreement and the Ancillary Transactions
“EGM Notice”	a notice, which is set out at the end of this circular, convening the EGM
“Foundation”	Li Ka Shing (Overseas) Foundation, a company limited by guarantee incorporated in the Cayman Islands for charitable purposes
“Gas Network”	Gas Network Limited, a company incorporated in England and Wales with limited liability under number 5213525, in which CKI indirectly holds a 69.8% interest as at the date of this circular
“Gas Network Shareholders Agreement”	the shareholders agreement dated 31 August 2004 between Alpha, Able Venture, Goldia, CKI, the Foundation, UUG and UUGS relating to their interests in, and management of, Gas Network, which shall be replaced and superseded by the Restated Gas Network Shareholders Agreement
“Gas Network’s Cost Contribution”	the sum of £13,980,000 (HK\$195,720,000), being the contribution to be made by Gas Network in respect of costs and expenses suffered or incurred by Transco in connection with the transactions contemplated by and/or in connection with the Blackwater Acquisition Agreement, as agreed between Transco, Blackwater and Gas Network in the Blackwater Acquisition Agreement
“Goldia”	Goldia Resources Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Foundation
“Group”	the Company and its subsidiaries
“GS(M)R”	the Gas Safety (Management) Regulations 1996 of the United Kingdom

DEFINITIONS

“Hive Down Agreement”	the agreement dated 31 August 2004 between Transco and Blackwater relating to the acquisition by Blackwater of the Network Business
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HSE”	the Health and Safety Executive of the United Kingdom
“HWL”	Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability under number 54532, the shares of which are listed on the Stock Exchange (Stock Code: 013)
“Independent Board Committee”	an independent committee of the Board, consisting of Mr. Ralph R. Shea, formed to advise the Independent Shareholders in respect of the Alpha Acquisition and the Ancillary Transactions
“Independent Financial Adviser”	the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Alpha Acquisition and the Ancillary Transactions
“Independent Shareholders”	Shareholders other than CKI and its associates
“Intra-Group Indebtedness”	the intra-group debt owed by Blackwater to Transco, which is expected to be approximately £870,000,000 (HK\$12,180,000,000) at Blackwater Completion, that Blackwater is obliged to repay to Transco at Blackwater Completion
“Latest Practicable Date”	19 November 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“Network Business”	the Assets and Business, as defined in the Hive Down Agreement, comprising, inter alia: (a) the pipeline infrastructure required to transport the gas from the national gas transmission network in the United Kingdom to consumers’ premises within the network’s region, comprising approximately 36,000 kilometres of distribution gas mains;

DEFINITIONS

- (b) the property, warehouses and fleet utilised in the network's operations;
- (c) the contracts, intellectual property rights, policies and procedures and licences necessary to operate the network;
- (d) a network management team with significant knowledge of the gas transportation industry and extensive experience in running gas distribution networks in the United Kingdom; and
- (e) the business of the conveyance of gas carried on by Transco in the region between the Scottish border and South Yorkshire immediately prior to the completion of the Hive Down Agreement

"NGT"	National Grid Transco plc, a company incorporated in England and Wales with limited liability under number 4031152, the shares of which are listed on the London Stock Exchange and the New York Stock Exchange
"Option Exercise Notice"	the call option exercise notice or put option exercise notice, as the case may be, relating to the sale and purchase of the Blackwater Shares, to be given in accordance with the terms of the Blackwater Acquisition Agreement
"Ordinary Shares"	ordinary shares of HK\$1 each in the share capital of the Company
"PRC"	The People's Republic of China
"Resolution"	the ordinary resolution to be proposed at the EGM as set out in the Notice of Extraordinary General Meeting which is set out at the end of this circular
"Restated Gas Network Shareholders Agreement"	the Amended and Restated Shareholders' Agreement relating to Gas Network to be entered into between the Company, Alpha, Able Venture, Goldia, CKI, the Foundation, UUO, UUCS, the 9.9% Buyers and DeAM, referred to in section 4 of the letter from the Board in this circular
"SFO"	the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong)

DEFINITIONS

“Shareholders”	shareholders of the Company
“STC”	SAS Trustee Corporation, a statutory corporation incorporated in New South Wales, the trustee of an overseas government pension fund and a client of DeAM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transco”	Transco plc, a company incorporated in England and Wales with limited liability under number 2006000 and a wholly-owned subsidiary of NGT
“United Utilities”	United Utilities plc, a company incorporated under the laws of England and Wales with limited liability under number 2366616, the shares of which are listed on the London Stock Exchange
“UUCS”	United Utilities Contract Solutions Limited, a company incorporated under the laws of England and Wales and a wholly-owned subsidiary of United Utilities
“UO”	United Utilities Operations Limited, a company incorporated under the laws of England and Wales and a wholly-owned subsidiary of United Utilities
“US\$”	United States dollars, the law currency of the United States of America
“£”	pounds sterling, the lawful currency of the United Kingdom
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“A\$”	Australian dollars, the lawful currency of Australia

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

LETTER FROM THE BOARD



香港電燈集團有限公司 ***Hongkong Electric Holdings Ltd.***

(Incorporated in Hong Kong with limited liability)

(Stock Code: 006)

Executive Directors:

Mr. George Colin MAGNUS (*Chairman*)
Mr. FOK Kin Ning, Canning (*Deputy Chairman*)
Mr. TSO Kai Sum (*Group Managing Director*)
Mr. Andrew J. HUNTER
Mr. KAM Hing Lam
Mr. LEE Lan Yee, Francis
Mr. LI Tzar Kuoi, Victor
Mr. Frank John SIXT

Registered Office:

44 Kennedy Road
Hong Kong

Non-Executive Directors:

Mr. Ronald Joseph ARCULLI
Mrs. CHOW WOO Mo Fong, Susan
Mr. Holger KLUGE*
Mr. Ralph Raymond SHEA*
Mr. WONG Chung Hin*
Mr. YEE Lup Yuen, Ewan

* *Independent Non-Executive Directors*

26 November 2004

To the Independent Shareholder(s) and, for information only, CKI and its associates

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS

ACQUISITION OF ALPHA CENTRAL PROFITS LIMITED

1. INTRODUCTION

On 13 September 2004, in the Alpha Acquisition Announcement, the Company announced that it had entered into the Alpha Acquisition Agreement with CKI, under which CKI agreed to procure the sale, and the Company agreed to purchase, or procure the purchase by its wholly-owned subsidiary, of the Alpha Share, being the entire issued share capital of Alpha as at the date of the Alpha Acquisition Agreement.

LETTER FROM THE BOARD

Alpha is a newly formed wholly-owned indirect subsidiary of CKI that owns 19.9% of the entire issued share capital of Gas Network. Under the Blackwater Acquisition Agreement, Gas Network has conditionally agreed to acquire the Blackwater Shares, being the entire issued share capital of Blackwater. Blackwater is a newly formed wholly-owned subsidiary of Transco that will, at completion of the Hive Down Agreement, own the Network Business presently carried on by Transco.

The Alpha Acquisition constitutes a discloseable and connected transaction for the Company under the Listing Rules and is, therefore, subject to, inter alia, the approval by the Independent Shareholders.

Upon Alpha Completion, the Company will assume certain of the obligations of CKI in connection with the Blackwater Acquisition, including, among other things, certain indemnity obligations in respect of Gas Network's and CKI's liabilities. Further details of all of the Ancillary Transactions are set out in sections 2.2 and 4 below.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Alpha Acquisition and the Ancillary Transactions. CLSA has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Alpha Acquisition and the Ancillary Transactions.

As stated in the Circular Despatch Announcement, under Rules 14.38 and 14A.49 of the Listing Rules, a circular in relation to the Alpha Acquisition was required to be sent to the Shareholders within 21 days of the date of publication of the Alpha Acquisition Announcement, being in this case on or before 4 October 2004.

The Blackwater Acquisition and the Alpha Acquisition constitute Very Substantial Acquisition (as defined in the Listing Rules) and Very Substantial Disposal (as defined in the Listing Rules) respectively of CKI. Under the Listing Rules, CKI is required to despatch a circular to the CKI Shareholders including, amongst other things, an accountants' report on the Network Business.

Given the fact that the Blackwater Acquisition and the Alpha Acquisition are closely linked, the Directors consider it appropriate that information contained in the CKI Circular be available to the Shareholders. The Directors therefore decided to extend the period for posting of this circular to coincide with that of the CKI Circular in order that the Shareholders can have access to the additional information.

Accordingly, an application was made by the Company to the Stock Exchange for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with the Listing Rules by extending the despatch date of this circular to no later than 3 December 2004.

LETTER FROM THE BOARD

The purpose of this circular is (i) to provide you with further information in respect of the Alpha Acquisition Agreement and the Ancillary Transactions; (ii) to set out the opinions and recommendations of the Independent Board Committee and CLSA in relation to the Alpha Acquisition and the Ancillary Transactions; and (iii) to give you notice of the EGM at which the Resolution will be proposed as an ordinary resolution to seek the Independent Shareholders' approval for the Alpha Acquisition and the Ancillary Transactions.

A copy of the CKI Circular is enclosed for your information only. In particular, Appendix II of the CKI Circular sets out certain financial information in respect of the Network Business.

Except to the extent that information contained in the CKI Circular is also contained in this circular, the Directors take no responsibility for the content of the CKI Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the CKI Circular.

2. DETAILS OF THE ALPHA ACQUISITION AND THE ANCILLARY TRANSACTIONS

2.1 Overview

The Alpha Acquisition Agreement was entered into between CKI and the Company on 10 September 2004, under which CKI agreed to procure the sale, and the Company agreed to purchase, or procure the purchase by its wholly-owned subsidiary, of the Alpha Share, being the entire issued share capital of Alpha.

Alpha is a wholly-owned indirect subsidiary of CKI that owns 19.9% of the issued share capital of Gas Network. Under the Blackwater Acquisition Agreement, Gas Network has agreed to acquire the entire issued share capital of Blackwater, a newly formed wholly-owned subsidiary of Transco that will, at completion of the Hive Down Agreement, own the Network Business presently carried on by Transco. Further details of the Blackwater Acquisition and the Hive Down Agreement are set out in section 3 below.

Upon completion of both the Alpha Acquisition Agreement and the Blackwater Acquisition Agreement:

- (a) the Company shall own, indirectly through Alpha, a 19.9% interest in Gas Network and Blackwater, and, therefore, a 19.9% interest in the Network Business; and
- (b) Alpha shall become a wholly-owned indirect subsidiary of the Company.

After completion of the Alpha Acquisition and the Blackwater Acquisition, since the Company's interest in Gas Network will be less than 20%, Blackwater will be treated as an investment in the Company's financial statements.

LETTER FROM THE BOARD

If the 9.9% Sale Agreement (details of which are set out in section 4 below) were to proceed to completion, upon completion of each of the Alpha Acquisition Agreement, the Blackwater Acquisition Agreement, the 9.9% Sale Agreement and the Hive Down Agreement, the Company, CKI and the 9.9% Buyers between them, will own, directly or indirectly (as the case may be), a 19.9%, 40% and 9.9% interest respectively in Gas Network.

2.2 Consideration and the Ancillary Transactions

The consideration for the Alpha Share, which will be payable in cash on Alpha Completion, is HK\$1.

Alpha is required to fund its pro rata share of the Blackwater Consideration payable by Gas Network on Blackwater Completion. Therefore, prior to Blackwater Completion, Alpha will subscribe approximately £104,276,000 (HK\$1,459,864,000) for new share capital in Gas Network, which will represent 19.9% of the Blackwater Consideration payable by Gas Network on Blackwater Completion. This will be met from the Company's internal cash resources and/or bank borrowing.

Under the Gas Network Shareholders Agreement, CKI undertook to procure compliance by Alpha with its obligation to subscribe for shares in Gas Network, as described above.

On or before Alpha Completion, the Company will enter into such agreements as may be necessary to, amongst other things, assume all liabilities of CKI under the Gas Network Shareholders Agreement in respect of the obligations and commitments of Alpha. This will include the assumption of the undertaking to subscribe for shares in Gas network as referred to in the preceding paragraphs. Amongst other things, the Company will enter into the Restated Gas Network Shareholders Agreement with Alpha, Able Venture, Goldia, CKI, the Foundation, UUO, UUCS, the 9.9% Buyers and DeAM. Goldia is a wholly-owned subsidiary of the Foundation. Both UUO and UUCS are wholly-owned subsidiaries of United Utilities.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, none of NGT, Transco, Blackwater, Goldia, the Foundation and United Utilities is a connected person of the Company. None of the connected persons of the Company has control over the Foundation nor has any beneficial interest in the Foundation. The Directors are not aware of any of NGT, Transco, Blackwater and United Utilities having any interest in the Company. Further details of the Restated Gas Network Shareholders Agreement are set out in section 4 below.

During the period between the date of the Alpha Acquisition Agreement and Blackwater Completion, the Company will provide additional undertakings and enter into such commitments as may be reasonably required in connection with the financing of Gas Network and its acquisition of the entire issued share capital of Blackwater provided that all the other shareholders of Gas Network have also agreed to give similar undertakings or enter into similar commitments. The Company's proportionate share of

LETTER FROM THE BOARD

any such undertakings or commitments will not exceed 19.9% of the relevant total monetary amount that is the subject of such undertakings and commitments.

The undertakings and commitments which, as at the Latest Practicable Date, the Company is required to give or enter into are disclosed in this circular. If in due course the Company is required to provide additional undertakings and/or enter into additional commitments as described in the preceding paragraph, the Company will take such steps as are required to comply with the Listing Rules.

Termination of the Blackwater Acquisition Agreement will, in the circumstances described in section 3.3 below, give rise to a break fee of £13,980,000 (HK\$195,720,000) payable by Gas Network to Transco. Alpha has undertaken in the Gas Network Shareholders Agreement to contribute 19.9% of this amount through a subscription of shares in Gas Network in the event of termination, for the purpose of enabling Gas Network to pay the break fee. CKI has also undertaken in the Gas Network Shareholders Agreement to procure compliance by Alpha with this obligation. This undertaking of CKI will also be assumed by the Company on Alpha Completion.

On or before Alpha Completion, the Company will execute an undertaking letter to be addressed to Transco (the “**Transco Undertaking Letter**”). In that letter, the Company will undertake to Transco to procure Alpha to subscribe in cash at par for shares of £1 (HK\$14) each of Gas Network in an aggregate amount of £2,782,020 (HK\$38,948,280), to enable Gas Network to pay the break fee in the sum of £13,980,000 (HK\$195,720,000) referred to in the last paragraph, if the Blackwater Acquisition Agreement is terminated in circumstances giving rise to an obligation on Gas Network to pay Gas Network’s Cost Contribution under the Blackwater Acquisition Agreement. However, the Company will not be obliged to procure Alpha to subscribe for shares in Gas Network for that purpose if the termination of the Blackwater Acquisition Agreement is a result of the failure of CKI to obtain the requisite approval of its shareholders.

In addition, upon Alpha Completion, the Company will also assume the following obligations in connection with the Blackwater Acquisition:

- (a) Gas Network and CKI have incurred certain costs and expenses in connection with the Blackwater Acquisition. The Company has agreed (i) to assume responsibility for a proportion of these costs and expenses; and (ii) to give an indemnity to CKI in respect of these costs and expenses. As at the Latest Practicable Date, these costs and expenses to be assumed by the Company are estimated to be approximately HK\$12,000,000.
- (b) Barclays Capital (the investment banking division of Barclays Bank PLC), J.P. Morgan plc, Royal Bank of Canada (acting through RBC Capital Markets), Barclays Bank PLC, JPMorgan Chase Bank, Royal Bank of Canada, Goldia, UUCS and CKI (or some of them) were

LETTER FROM THE BOARD

parties to a number of agreements and side-letters dated 30 August 2004 (collectively, the “**Finance Agreements**”), under which certain finance facilities in connection with the Network Business will be provided to Blackwater. Upon Alpha Completion, the Company will assume CKI’s obligations under the Finance Agreements to the extent that it arises from the indirect ownership by CKI of the Alpha Share and the resulting indirect interest in 19.9% of Gas Network by executing an undertaking letter addressed to the banks. Under the Finance Agreements, Goldia, UUCS and CKI have agreed to indemnify certain other parties to the Finance Agreements against any reasonable loss, cost, claim, liability or expense as they may incur or suffer in connection with such finance facilities or the Finance Agreements, up to a maximum of £15,000,000 (HK\$210,000,000). The Company has agreed to assume such obligation of CKI to the extent that it arises from CKI’s indirect interest in 19.9% of Gas Network.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Barclays Capital, J.P. Morgan plc, Royal Bank of Canada, Barclays Bank PLC and JPMorgan Chase Bank are not connected persons of the Company.

2.3 Condition precedents

Alpha Completion is conditional on the satisfaction of the following conditions:

- (a) the CKI Shareholders approving at the CKI SGM (i) the transactions contemplated by the Blackwater Acquisition Agreement and the Gas Network Shareholders Agreement; and (ii) the sale of the Alpha Share as contemplated by the Alpha Acquisition Agreement; and
- (b) the Independent Shareholders approving at the EGM (i) the Alpha Acquisition; and (ii) the related transactions and matters contemplated under the Alpha Acquisition Agreement and the Gas Network Shareholders Agreement.

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

2.4 Completion

Subject to the satisfaction of the Alpha Conditions, Alpha Completion is expected to take place shortly after the conclusion of the CKI’s SGM and the EGM and is required to occur on the date which is three business days following the date on which the Alpha Conditions are satisfied.

LETTER FROM THE BOARD

If (i) at the CKI SGM, the CKI Shareholders fail to give the approvals contemplated in Alpha Condition (a) referred to above; or (ii) at the EGM, the Independent Shareholders fail to give the approval contemplated in Alpha Condition (b) referred to above, then the Alpha Acquisition Agreement shall automatically terminate and the Alpha Acquisition will not proceed.

The Alpha Acquisition Agreement will automatically terminate if the Alpha Conditions have not been satisfied before 30 August 2005.

3. DETAILS OF THE BLACKWATER ACQUISITION

3.1 Overview

NGT, through its wholly-owned subsidiary, Transco, owns, operates and develops the substantial majority of the natural gas transmission and distribution system in the United Kingdom. It publicly announced in December 2003 that it was seeking indicative offers for five of its eight regional gas distribution networks in the United Kingdom.

Gas Network is a consortium vehicle, the shareholders of which comprise wholly-owned subsidiaries of the Foundation and United Utilities (namely Goldia and UUG respectively), and Alpha and Able Venture, both wholly-owned indirect subsidiaries of CKI. Gas Network is an associate of CKI, a substantial shareholder (as defined in the Listing Rules) of the Company, and is therefore a connected person (as defined in the Listing Rules) of the Company.

The Gas Network Shareholders Agreement was entered into between, inter alia, each of Alpha and Able Venture, and the wholly-owned subsidiaries of the Foundation and United Utilities on 30 August 2004 to govern their relationship as shareholders of Gas Network.

Following a successful bidding process, Gas Network was chosen as the preferred bidder for the Network Business. As a result, the Blackwater Acquisition Agreement was entered into between Gas Network, Transco and Blackwater on 31 August 2004, under which Gas Network has an option to require Transco to sell to it, and Transco has an option to require Gas Network to purchase from it, the Blackwater Shares, being the entire issued share capital of Blackwater.

On the same date, the Hive Down Agreement was executed between Transco and Blackwater by which Blackwater agreed to acquire the Network Business from Transco. On or prior to Blackwater Completion, the Network Business will be sold to Blackwater in accordance with the terms of the Hive Down Agreement. On Blackwater Completion, Gas Network will acquire Blackwater, and will, therefore, own the Network Business through its shareholding in Blackwater.

LETTER FROM THE BOARD

Blackwater Completion is subject to the satisfaction or, where permitted, waiver of certain conditions precedent. These include the Authority having given its consent to the sale of the Blackwater Shares to Gas Network under Blackwater's gas transporter licence. The terms of Blackwater's gas transporter licence have not yet been finalised. However, assuming that the terms of such licence are similar to those set out in Transco's gas transporter licence, such terms may indirectly restrict the persons to whom shares in Blackwater may be transferred. However, such restrictions will not affect the Blackwater Acquisition, the Alpha Acquisition and the 9.9% Sale.

3.2 Consideration

The Blackwater Consideration is £1,393,700,000 (HK\$19,511,800,000) less the Intra-Group Indebtedness. The Intra-Group Indebtedness, which Gas Network will procure Blackwater to pay to Transco at Blackwater Completion, is expected to be approximately £870,000,000 (HK\$12,180,000,000). Blackwater will fund the repayment of the Intra-Group Indebtedness through an external bank facility effected by the Finance Agreements.

The Blackwater Consideration payable by Gas Network to Transco in cash on Blackwater Completion is therefore expected to be approximately £524,000,000 (HK\$7,336,000,000), being the difference of £1,393,700,000 (HK\$19,511,800,000) and the Intra-Group Indebtedness.

Both the cash consideration and the repayment of the Intra-Group Indebtedness to Transco referred to in the last paragraph will be subject to adjustment following the preparation of completion accounts. The adjustment is not subject to a cap. The Blackwater Consideration will be funded by shareholders' equity of Gas Network in proportion to their respective shareholdings in Gas Network and by external bank borrowings.

Upon Alpha Completion, the Company will assume CKI's obligations under the Finance Agreements to the extent that it arises from the indirect ownership by CKI of the Alpha Share and the resulting indirect interest in 19.9% of Gas Network by executing an undertaking letter to be addressed to JPMorgan Chase Bank, Barclays Bank PLC and Royal Bank of Canada. The facility is non-recourse to the shareholders of Gas Network.

CKI has undertaken to Transco that it will procure that Alpha and Able Venture, its subsidiaries, will subscribe, prior to Blackwater Completion or the date on which any break fee is payable by Gas Network to Transco (whichever is earlier), in cash at par for not less than:

- (a) 13,980,000 shares of £1 (HK\$14) each of Gas Network (equal to 100% of the entire issued share capital of Gas Network), if Gas Network is obliged to pay a break fee to Transco as a result of a failure by Gas Network to satisfy the Blackwater Condition (d) referred to below; or
- (b) 9,758,040 shares of £1 (HK\$14) each of Gas Network (equal to 69.8% of the entire issued share capital of Gas Network), in all other circumstances.

LETTER FROM THE BOARD

The reason for this is that if a break fee becomes payable by Gas Network as a result of the Blackwater Condition (d) referred to below not being satisfied, CKI agrees to pay the proportion of such fee which would otherwise be attributable to the Foundation and United Utilities. Under the Alpha Acquisition Agreement, these obligations of CKI in relation to Alpha will be assumed by the Company from Alpha Completion — see section 2.2 above.

The Blackwater Consideration was arrived at following a competitive auction process conducted by NGT, of which Transco is a wholly owned subsidiary, and after arm's length negotiations between CKI and Transco.

3.3 Condition precedents

Blackwater Completion is conditional upon the satisfaction or, where permitted, waiver of the following conditions:

- (a) completion of the Hive Down Agreement in accordance with its terms;
- (b) HSE having confirmed in writing its acceptance of the amended safety cases of each of Transco and Blackwater in accordance with GS(M)R;
- (c) the Authority having given its consent to the sale of the Blackwater Shares to Gas Network under Blackwater's gas transporter licence;
- (d) the approval of the transactions contemplated by the Blackwater Acquisition Agreement by the CKI Shareholders or, if permitted under the Listing Rules, obtaining a written consent or approval of the transactions contemplated by the Blackwater Acquisition Agreement by a CKI Shareholder or group of CKI Shareholders together holding over 50% of CKI's issued share capital; and
- (e) notification, if any, of the Blackwater Acquisition to the European Commission under Council Regulation (EC) 139/2004 concerning control of concentrations between undertakings being dealt with by the Commission in accordance with the Blackwater Acquisition Agreement.

None of the Blackwater Conditions referred to above may be waived save with the express written agreement of both Transco and Gas Network. As at the Latest Practicable Date, none of the Blackwater Conditions has been satisfied.

If the Blackwater Acquisition Agreement is terminated as a result of Transco failing to use all reasonable endeavours to procure the satisfaction of the Blackwater Conditions (a), (b) and (c) referred to above, Transco will pay to Gas Network a break fee of £13,980,000 (HK\$195,720,000).

LETTER FROM THE BOARD

Gas Network will be obliged to pay to Transco a break fee of £13,980,000 (HK\$195,720,000) if:

- (a) Gas Network fails to pay the Blackwater Consideration or procure the repayment by Blackwater of the Intra-Group Indebtedness at Blackwater Completion;
- (b) the Blackwater Acquisition Agreement is terminated as a result of Gas Network failing to use all reasonable endeavours to procure the satisfaction of the Blackwater Conditions (b), (c), (d) and (e) referred to above;
- (c) the Blackwater Condition (c) referred to above is not satisfied as a result of Gas Network being the proposed owner of the Network Business or as a result of the proposed financing structure adopted by Gas Network; or
- (d) the Blackwater Condition (d) referred to above is not satisfied.

If the break fee becomes payable by Gas Network as a result of the Blackwater Condition (d) referred to above not being satisfied, CKI has agreed to pay the proportion of such fee which would otherwise be attributable to the Foundation and United Utilities.

If prior to Blackwater Completion, a fundamental adverse change under the terms of the Blackwater Acquisition Agreement occurs which Transco fails to remedy, Gas Network shall be entitled to terminate the Blackwater Acquisition Agreement and no break fee will be payable by either Transco or Gas Network in such circumstances.

Prior to Blackwater Completion, Transco may terminate the Blackwater Acquisition Agreement if:

- (a) the Authority indicates that it will require Transco to place its retained gas distribution business into separate legal entities;
- (b) the Authority decides that any income received by Transco in respect of services to be provided to Blackwater is not permissible revenue under the terms of Transco's gas transporter licence;
- (c) there is a change in applicable pensions legislation in the United Kingdom which has the effect of requiring an employer to make a payment on ceasing to participate in an occupational pension scheme;
- (d) there is a reasonable likelihood that Transco will be required to make any payment on the cessation of the participation of the employees of Blackwater in the Transco's occupational pension scheme in respect of the period prior to the hive down of the Network Business to Blackwater; or

LETTER FROM THE BOARD

- (e) Transco's occupational pension scheme is terminated between the date of the hive down of the Network Business to Blackwater and Blackwater Completion.

If Transco exercises its right to terminate the Blackwater Acquisition Agreement on any of the bases referred to above, it shall pay to Gas Network a break fee of £13,980,000 (HK\$195,720,000).

3.4 Completion

Subject to the fulfilment of the Blackwater Conditions and to the termination rights referred to in section 3.3 above not having been exercised, Blackwater Completion shall take place on the first day of the month following service of the first (in time) Option Exercise Notice to be served or at such other time as Transco and Gas Network shall agree.

If the Blackwater Conditions are not satisfied or waived by 1 July 2005 (or such later date as Transco and Gas Network, each acting reasonably, may agree), or it is agreed between Transco and Gas Network (acting reasonably) that a Blackwater Condition is incapable of being satisfied, the Blackwater Acquisition Agreement shall automatically terminate and the Blackwater Acquisition will not proceed.

The Blackwater Acquisition Agreement shall terminate if Blackwater Completion has not taken place on or before 29 August 2005, unless such failure to complete by such date is as a result of the parties being unable to agree on the occurrence of a fundamental adverse change and an independent expert subsequently determines that no fundamental adverse change has occurred.

4. DETAILS OF THE 9.9% SALE

On 12 November 2004, after the execution of the Alpha Acquisition Agreement, CKI, Able Venture and the 9.9% Buyers entered into the 9.9% Sale Agreement under which Able Venture agreed to sell, and the 9.9% Buyers agreed to purchase between them, the 9.9% Sale Shares.

Upon completion of each of the Alpha Acquisition Agreement, the Blackwater Acquisition Agreement, the 9.9% Sale Agreement and the Hive Down Agreement, the Company, CKI and, the 9.9% Buyers between them, will own, directly or indirectly (as the case may be), a 19.9%, 40% and 9.9% interest respectively in Gas Network.

On or before Alpha Completion, the Company shall enter into the Restated Gas Network Shareholders Agreement with Alpha, Able Venture, Goldia, CKI, the Foundation, UUO, UUCS, the 9.9% Buyers and DeAM. The Restated Gas Network Shareholders Agreement will set out the terms on which Alpha, Able Venture, Goldia, UUO and the 9.9% Buyers will agree to subscribe for shares of Gas Network. It also sets out the manner in which parties to that agreement will agree to regulate the operation and management of Gas Network and its subsidiaries

LETTER FROM THE BOARD

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

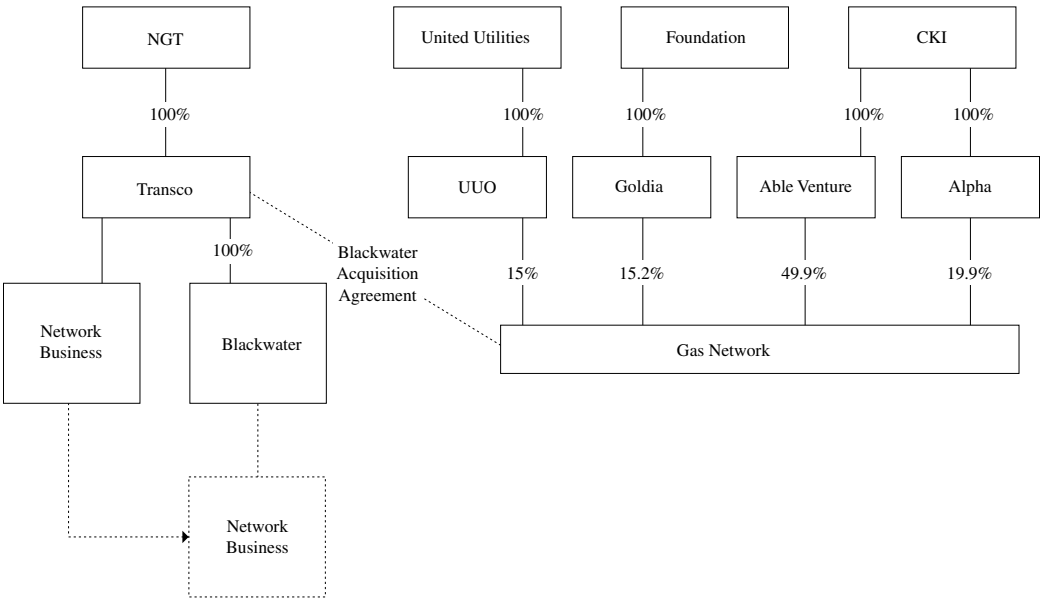
To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the 9.9% Buyers, DeAM and their ultimate beneficial owners are independent third parties unconnected with the Company and are not connected persons of the Company.

The Alpha Acquisition and the 9.9% Sale are not conditional upon one another. Accordingly, it is possible that either one or both of the Alpha Acquisition and the 9.9% Sale may not complete.

5. CORPORATE STRUCTURE AND OWNERSHIP CHART

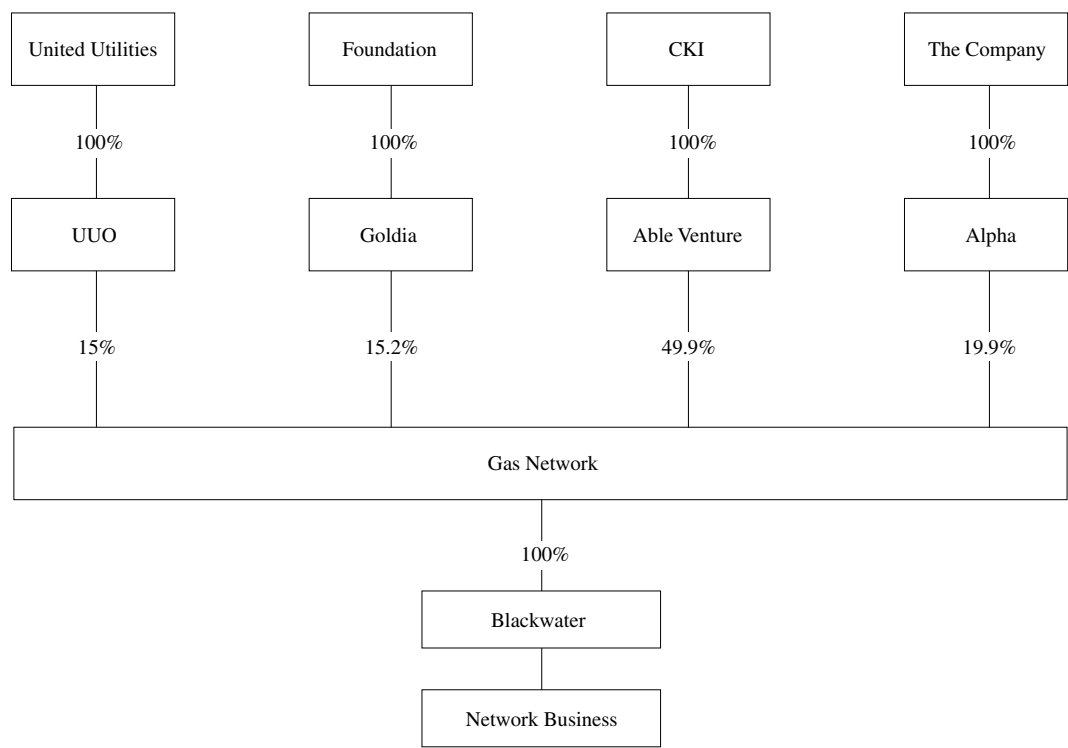
The following are the shareholding structures of Gas Network and Blackwater before the Alpha Acquisition, following completion of the Alpha Acquisition and the Blackwater Acquisition, and following completion of the Alpha Acquisition, the Blackwater Acquisition and the 9.9% Sale:

Before the Alpha Acquisition

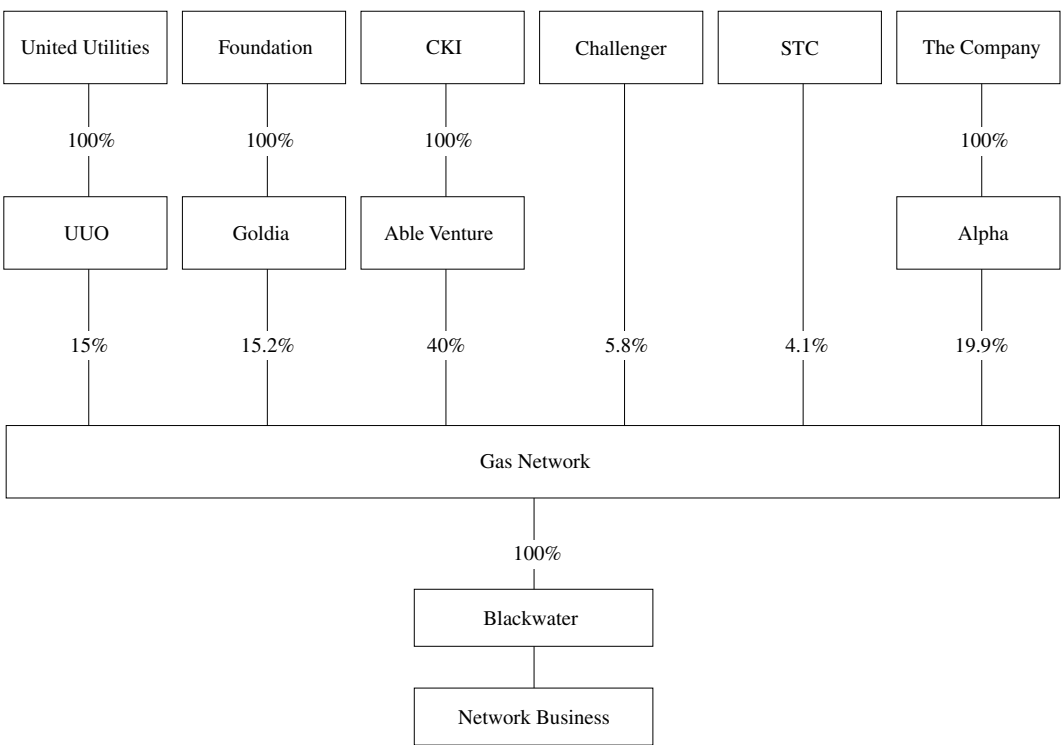


LETTER FROM THE BOARD

Following completion of the Alpha Acquisition and the Blackwater Acquisition



Following completion of the Alpha Acquisition, the Blackwater Acquisition and the 9.9% Sale



LETTER FROM THE BOARD

6. REASONS AND BENEFITS

The principal activity of the Group is the generation of electricity and its transmission and distribution to Hong Kong Island. The Company has, for some time, been looking for opportunities to expand its activities outside Hong Kong. The Company has been studying the British energy market for some time and the Alpha Acquisition represents an opportunity for the Company to gain entry to this market for the first time.

It is currently (and was at the time the Blackwater Acquisition Agreement was entered into) CKI's intention, prior to Blackwater Completion, to on-sell part of its interest in Blackwater so that its interest in Blackwater will be less than 50%. CKI and the Company have worked together on a number of joint venture projects in the past and this previous experience of working together successfully made the Company the most suitable purchaser of the Alpha Share. Following completion of both the Alpha Acquisition and the Blackwater Acquisition, the Company will hold an indirect 19.9% interest in Blackwater whilst CKI will retain an indirect 49.9% interest in Blackwater. Following completion of the Alpha Acquisition, the Blackwater Acquisition and the 9.9% Sale, the Company will hold an indirect 19.9%, CKI an indirect 40% and the 9.9% Buyers an indirect 9.9%, interest in Blackwater.

We believe that the Alpha Acquisition is in the interests of the Company and the Shareholders as a whole, and that the terms of the Alpha Acquisition Agreement are fair and reasonable so far as the Shareholders as a whole are concerned.

7. INFORMATION ON THE COMPANY

The Company is incorporated in Hong Kong with limited liability and its shares are listed on the Stock Exchange. Its principal activity is the generation, transmission and distribution to Hong Kong Island of electricity.

For the year ended 31 December 2003, the audited consolidated turnover, audited consolidated profit before taxation, audited consolidated profit after taxation and audited consolidated profit attributable to shareholders were approximately HK\$11,250,000,000, HK\$7,635,000,000, HK\$5,924,000,000 and HK\$6,057,000,000, respectively. The comparative figures for the year ended 31 December 2002 were approximately HK\$11,605,000,000, HK\$7,840,000,000, HK\$6,636,000,000 and HK\$6,624,000,000, respectively.

For the six months ended 30 June 2004, the unaudited consolidated turnover, unaudited consolidated profit before taxation, unaudited consolidated profit after taxation and unaudited consolidated profit attributable to shareholders were approximately HK\$5,327,000,000, HK\$3,335,000,000, HK\$2,709,000,000 and HK\$2,228,000,000, respectively.

As at the date of this circular, the Company's Board comprises Mr. George C. Magnus, Mr. Canning Fok Kin-ning, Mr. Tso Kai-sum, Mr. Andrew Hunter, Mr. Kam Hing-lam, Mr. Francis Lee Lan-yee, Mr. Victor Li Tzar-kuoi and Mr. Frank J. Sixt, being the executive directors, Mr. Ronald J. Arculli, Mrs. Susan M.F. Chow and Mr. Ewan Yee Lup-yuen, being the non-executive directors, Mr. Holger Kluge, Mr. Ralph Shea and Mr. Wong Chung-hin, being the independent non-executive directors.

LETTER FROM THE BOARD

8. INFORMATION ON CKI

CKI is a diversified infrastructure investment company with a focus in the development, investment and operation of infrastructure businesses. Currently it has investments in Hong Kong, Mainland China, Australia, the United Kingdom, Canada and the Philippines. It holds approximately 38.87% of the issued share capital of the Company.

CKI is also a subsidiary of HWL, which holds approximately 84.6% of the issued share capital of CKI. HWL and its subsidiaries operate and invest in five core businesses: ports and related services; telecommunications; property and hotels; retail and manufacturing; and energy, infrastructure, finance and investments.

9. INFORMATION ON ALPHA, BLACKWATER AND THE NETWORK BUSINESS

Following Alpha Completion, the Company or its nominee will own the Alpha Share, being the entire issued share capital of Alpha. Alpha is a newly formed wholly-owned indirect subsidiary of CKI that owns 19.9% of the issued share capital of Gas Network. Following Blackwater Completion, Blackwater will become a wholly-owned subsidiary of Gas Network.

The assets included in the Network Business include:

- (a) the pipeline infrastructure required to transport the gas from the national gas transmission network in the United Kingdom to consumers' premises within the network's region, comprising approximately 36,000 kilometres of distribution gas mains;
- (b) the property, warehouses and fleet utilised in the network's operations;
- (c) the contracts, intellectual property rights, policies and procedures and licences necessary to operate the network; and
- (d) a network management team with significant knowledge of the gas transportation industry and extensive experience in running gas distribution networks in the United Kingdom.

The region serviced by the Network Business extends south from the Scottish border to South Yorkshire and has coastlines on both the east and west sides of the region. The region contains a mixture of large cities (Newcastle, Middlesbrough, Leeds and Bradford) and a significant rural area including North Yorkshire and Cumbria, and has a total population of approximately 6.7 million.

The region benefits from Leeds' growing position as an important regional financial and commercial centre, the rapid expansion of development along the River Tyne, and a number of large industrial consumers based along the North Sea coastline.

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

LETTER FROM THE BOARD

As at 31 March 2004, the regulated assets value of the Network Business was £1,207,000,000 (HK\$16,898,000,000).

NGT, of which Transco is a wholly owned subsidiary, whose shares are listed on the London Stock Exchange and New York Stock Exchange, is an international energy delivery business, whose principal activities are in the regulated electricity and gas industries. In the United Kingdom, NGT owns and operates the high-voltage electricity transmission network in England and Wales, and the United Kingdom's natural gas transportation system. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries:

- (a) Transco and NGT and their respective ultimate beneficial owners are third parties independent of the Company and connected persons (as defined under the Listing Rules) of the Company; and
- (b) Transco and NGT and their respective ultimate beneficial owners are not connected persons (as defined under the Listing Rules) of the Company.

Further details, including financial information, in respect of the Network Business can be found in the CKI Circular.

10. FINANCIAL EFFECTS OF THE ALPHA ACQUISITION

Since the consideration for the Alpha Acquisition and Alpha's pro rata share of the consideration payable for the Blackwater Acquisition will be met from the Company's internal cash resources and/or bank borrowing, the Directors are of the opinion that there will be no effect on the Company's net tangible asset value per share, but there will be a slight increase in the gearing ratio of the Group after completion of the acquisitions. After the Blackwater Acquisition, the earnings of the Group will be enhanced upon receipt of dividends from Blackwater.

11. GENERAL

The Alpha Acquisition and the Ancillary Transactions constitute discloseable and connected transactions for the Company under the Listing Rules and will be subject to, inter alia, approval by the Independent Shareholders at the EGM.

Any connected person with a material interest in the Alpha Acquisition and the Ancillary Transactions, and any other Shareholders and their respective associates with a material interest in the Alpha Acquisition and the Ancillary Transactions, shall abstain from voting in respect of the Resolution.

CKI holds approximately 38.87% of the entire issued share capital of the Company. By virtue of this shareholding interest, CKI is a substantial shareholder (as defined in the Listing Rules) of the Company and is accordingly regarded as a connected person (as defined in the Listing Rules) of the Company. CKI and its associates will abstain from voting in respect of the Resolution. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, each of CKI and those associates is entitled to exercise control over the voting rights in respect of its shares in the Company.

LETTER FROM THE BOARD

The following Directors, namely, Mr. George C. Magnus, Mr. Fok Kin Ning, Canning, Mr. Tso Kai Sum, Mrs. Chow Woo Mo Fong, Susan, Mr. Kam Hing Lam, Mr. Li Tzar Kuoi, Victor and Mr. Frank J. Sixt, who are also directors of CKI, and their associates will also abstain from voting in respect of the Resolution.

Since Mr. Wong Chung Hin and Mr. Holger Kluge, two of the three independent non-executive Directors, are also independent non-executive directors of HWL of which CKI is a subsidiary, they will not be appointed as members of the Independent Board Committee.

As a result, only Mr. Ralph R. Shea has been appointed as the sole member of the Independent Board Committee to advise the Independent Shareholders in respect of the Resolution.

12. RECOMMENDATION

We believe that the Alpha Acquisition and the Ancillary Transactions are in the interests of the Company and the Shareholders as a whole, and that the terms of the Alpha Acquisition Agreement and the Ancillary Transactions are fair and reasonable so far as the Shareholders as a whole are concerned.

Accordingly, we recommend the Shareholders to vote in favour of the Resolution, which will be proposed as an ordinary resolution at the EGM.

The Independent Board Committee is required under the Listing Rules to advise the Independent Shareholders in relation to the Alpha Acquisition and the Ancillary Transactions. CLSA has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard. Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on page 26 of this circular, which contains its recommendation to the Independent Shareholders, and the text of a letter of advice from CLSA set out on pages 27 to 39 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Independent Board Committee, after taking into account the advice of CLSA, is of the opinion that the Alpha Acquisition and the Ancillary Transactions are in the interests of the Company and the Independent Shareholders as a whole, and the terms of the Alpha Acquisition Agreement are fair and reasonable so far as the Independent Shareholders as a whole are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the Resolution to be proposed at the EGM.

13. EXTRAORDINARY GENERAL MEETING

Set out on pages 48 to 49 is a notice convening the EGM to be held at 11:30 a.m. on 14 December 2004 (Tuesday) at the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing the Resolution as an ordinary resolution.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM or any adjourned meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Company, 44 Kennedy Road, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

14. FURTHER INFORMATION

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

By Order of the Board
Hongkong Electric Holdings Limited
George C. Magnus
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



香港電燈集團有限公司 ***Hongkong Electric Holdings Ltd.***

(Incorporated in Hong Kong with limited liability)

(Stock Code: 006)

Independent Board Committee:
Mr. Ralph Raymond SHEA

Registered Office:
44 Kennedy Road
Hong Kong

26 November 2004

To the Independent Shareholder(s)

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS ACQUISITION OF ALPHA CENTRAL PROFITS LIMITED

I refer to the circular of which this letter forms part. Terms defined in the circular shall have the same meanings when used herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in its opinion, the Alpha Acquisition and the Ancillary Transactions are in the interests of the Company and the Independent Shareholders as a whole, and the terms of the Alpha Acquisition Agreement and the Ancillary Transactions are fair and reasonable so far as the Independent Shareholders as a whole are concerned. CLSA has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

I wish to draw your attention to the letter from the Board, as set out on pages 8 to 25 of this circular and the text of a letter of advice from CLSA, as set out on pages 27 to 39 of this circular, both of which provide details of the Alpha Acquisition and the Alpha Acquisition Agreement and the Ancillary Transactions.

Having considered the Alpha Acquisition and the Ancillary Transactions, the Alpha Acquisition Agreement, the Gas Network Shareholders Agreement, the Restated Gas Network Shareholders Agreement, the advice of CLSA and the relevant information contained in the letter from the Board, I am of the opinion that the Alpha Acquisition and the Ancillary Transactions are in the interests of the Company and the Independent Shareholders as a whole, and the terms of the Alpha Acquisition Agreement, the Gas Network Shareholders Agreement and the Restated Gas Network Shareholders Agreement are fair and reasonable so far as the Independent Shareholders as a whole are concerned.

Accordingly, I recommend the Independent Shareholders to vote in favour of the Resolution, which will be proposed as an ordinary resolution at the EGM.

Yours faithfully,
**The Independent Board Committee
of Hongkong Electric Holdings Limited
Ralph Raymond SHEA**

LETTER FROM CLSA

The following is the text of the letter from CLSA, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in relation to the Alpha Acquisition pursuant to the Alpha Acquisition Agreement, the Ancillary Transactions, the Gas Network Shareholders Agreement and the Restated Gas Network Shareholders Agreement, which has been prepared for the purpose of inclusion in this circular.



26 November 2004

To *The Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS ACQUISITION OF ALPHA CENTRAL PROFITS LIMITED

We refer to our engagement pursuant to which CLSA Equity Capital Markets Limited ("CLSA") has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the acquisition of the entire issued share capital of Alpha by the Company or its nominee and the related transactions and matters contemplated under the Alpha Acquisition Agreement, the Gas Network Shareholders Agreement and the Restated Gas Network Shareholders Agreement (the "Alpha Acquisition" and the "Ancillary Transactions" respectively), as more particularly detailed herein below, are on normal commercial terms, in the ordinary and usual course of the business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

This letter has been prepared for inclusion in the circular dated 26 November 2004 (the "Circular") issued by the Company to its Shareholders. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 10 September 2004, CKI and the Company entered into the Alpha Acquisition Agreement, pursuant to which CKI agreed to procure the sale, and the Company agreed to purchase, or procure the purchase by its wholly-owned subsidiary, of the entire issued share capital of Alpha for a consideration of HK\$1.00. Alpha is a newly formed wholly-owned indirect subsidiary of CKI that owns 19.9% of the issued share capital of Gas Network. Under the Blackwater Acquisition Agreement, Gas Network has conditionally agreed to acquire Blackwater, a newly formed wholly-owned subsidiary of Transco that will, at completion of the Hive Down Agreement, own the Network Business in the United Kingdom presently carried on by Transco.

LETTER FROM CLSA

On 12 November 2004, after the execution of the Alpha Acquisition Agreement, CKI, Able Venture and the 9.9% Buyers entered into the 9.9% Sale Agreement pursuant to which Able Venture agreed to sell, and the 9.9% Buyers agreed to purchase between them, the 9.9% Sale Shares. Upon completion of each of the Alpha Acquisition Agreement, the Blackwater Acquisition Agreement, the 9.9% Sale Agreement and the Hive Down Agreement, each of the Company, CKI and, the 9.9% Buyers, will own, directly or indirectly (as the case may be), a 19.9%, 40% and 9.9% interest, respectively, in Gas Network.

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

Alpha has undertaken in the Gas Network Shareholders Agreement to contribute 19.9% of a break fee of £13,980,000 (HK\$195,720,000) in the event of such a break fee becoming payable by Gas Network to Transco, through a subscription of shares in Gas Network, for the purpose of enabling Gas Network to pay the break fee. CKI has also undertaken in the Gas Network Shareholders Agreement to procure compliance by Alpha with this obligation. This undertaking of CKI will also be assumed by the Company on Alpha Completion.

Upon Alpha Completion, the Company will assume certain other obligations of CKI in connection with the Blackwater Acquisition, including, among other things, certain indemnity obligations in respect of Gas Network's and CKI's liabilities.

As at the Latest Practicable Date, CKI is the legal and beneficial owner of approximately 38.87% of the issued share capital of the Company and is therefore a substantial shareholder of the Company and it and its associates are connected persons of the Company as defined in the Listing Rules. The Alpha Acquisition and the Ancillary Transactions constitute discloseable and connected transactions of the Company under the Listing Rules and are therefore subject to, inter alia, the approval by the Independent Shareholders.

Any connected person with a material interest in the Alpha Acquisition and the Ancillary Transactions, and any other Shareholders and their respective associates with a material interest in the Alpha Acquisition and the Ancillary Transactions, are required to abstain from voting in respect of the Resolution. In view of CKI's interest in the Alpha Acquisition and the Ancillary Transactions, CKI and its associates which have an interest in the shares of the Company will abstain from voting in respect of the Resolution. The following Directors, namely, Mr. George C. Magnus, Mr. Fok Kin Ning, Canning, Mr. Tso Kai Sum, Mrs. Chow Woo Mo Fong, Susan, Mr. Kam Hing Lam, Mr. Li Tzar Kuoi, Victor and Mr. Frank J. Sixt, who are also directors of CKI, and their associates which have an interest in the shares of the Company will also abstain from voting in respect of the Resolution. As stated in the letter from the Board, since Mr. Wong Chung Hin and Mr. Holger Kluge, two of the three independent non-executive Directors, are also independent non executive directors of HWL of which CKI is a subsidiary, they will not be appointed

LETTER FROM CLSA

as members of the Independent Board Committee. As a result, only Mr. Ralph R. Shea has been appointed as the sole member of the Independent Board Committee to advise the Independent Shareholders in respect of the Resolution.

In formulating our opinion with regard to the Alpha Acquisition and the Ancillary Transactions, we have relied on the information, opinions and facts supplied, and representations made to us by the Directors and representatives of the Company (including those contained or referred to in the Circular). We have assumed that all such information, opinions, facts and representations, which have been provided to us by the Directors, and representatives of the Company, and for which they are wholly responsible, are true and accurate in all material respects. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. Further, we have relied on the representations of the Directors that they have made all reasonable inquiries, and that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement contained in the Circular untrue or misleading. We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Alpha Acquisition and the Ancillary Transactions and to justify our recommendation, relying on the accuracy of the information provided in the Circular as well as to provide a reasonable basis for our advice. It is not within our terms of reference to comment on the commercial feasibility of the Alpha Acquisition and the Ancillary Transactions, which remains the responsibility of the Directors. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms and conditions of the Alpha Acquisition and the Ancillary Transactions. Our opinion with regard to the terms and conditions thereof has been made on the assumption that all obligations to be performed by each of the parties to the Alpha Acquisition and the Ancillary Transactions will be fully performed in accordance with the terms and conditions thereof. Further, we have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth, accuracy and completeness of the information, facts and representations provided, or the reasonableness of the opinions expressed, to us by the Company, its Directors and representatives. We have not, however, made any independent verification of the information and facts provided, representations made or opinions expressed by the Company, its Directors and representatives, nor have we conducted any form of independent investigation into the business affairs or assets and liabilities of the Group. Accordingly, we do not warrant the accuracy or completeness of any such information.

Our opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information publicly available to us as of, the date of this opinion. We have no obligation to update this opinion to take into account events occurring after the date that this opinion is delivered to the Independent Board Committee. As a result, circumstances could develop prior to completion of the Alpha Acquisition and the Ancillary Transactions that, if known to us at the time we rendered our opinion, would have altered our opinion.

LETTER FROM CLSA

This letter is for the information of the Independent Board Committee solely in connection with their consideration of the Alpha Acquisition and the Ancillary Transactions and, except for its inclusion in the Circular and for references thereto in the letter from the Independent Board Committee set out in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

CLSA is a licensed securities adviser and corporate finance adviser under the SFO and we, together with our affiliates, provide a full range of investment banking and brokerage services, which, in the course of normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of the Company, its subsidiaries or its substantial shareholder (as defined in the Listing Rules) or that of CKI, its subsidiaries or its substantial shareholder (as defined in the Listing Rules) for our own account and the accounts of customers. CLSA will receive a fee from the Company for rendering this opinion. The Company has also agreed to indemnify CLSA and certain related persons against liabilities and expenses in connection with this engagement.

PRINCIPAL FACTORS CONSIDERED

In considering whether or not the terms and conditions of the Alpha Acquisition and Ancillary Transactions are on normal commercial terms, in the ordinary and usual course of the business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, we have taken into consideration, inter alia, the following factors:

1. Background to entering into the Alpha Acquisition

As stated in the letter from the Board, the Company has, for some time, been looking for opportunities to expand its activities outside Hong Kong. The Directors have confirmed that the Company has been studying the British energy market for some time and that the UK gas distribution business operates in a transparent and stable regulatory environment with predictable cash flow. The Alpha Acquisition therefore represents an opportunity for the Company to gain entry to this market for the first time.

As stated in the letter from the Board, it is currently (and was at the time the Blackwater Acquisition Agreement was entered into) CKI's intention, prior to Blackwater Completion, to on-sell part of its interest in Blackwater so that its interest in Blackwater will be less than 50%.

As stated in the letter from the Board, the Directors believe that the Alpha Acquisition is in the interests of the Company and the Shareholders as a whole, and that the terms of the Alpha Acquisition Agreement are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

In view of the foregoing, we note that the Alpha Acquisition is consistent with the overall corporate strategy of the Group.

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2. Reasons for entering into the Alpha Acquisition Agreement with CKI

As disclosed in the letter from the Board, CKI is a diversified infrastructure investment company with a focus in the development, investment and operation of infrastructure businesses. Currently it has investments in Hong Kong, Mainland China, Australia, the United Kingdom, Canada and the Philippines. It is the legal and beneficial owner of approximately 38.87% of the issued share capital of the Company. CKI is also a subsidiary of HWL, which holds approximately 84.6% of the issued share capital of CKI. HWL and its subsidiaries operate and invest in five core businesses: ports and related services; telecommunications; property and hotels; retail and manufacturing; and energy, infrastructure, finance and investments. As stated in CKI's annual report for the financial year ended 31 December 2003, the CKI Group generated a net profit of HK\$3.3 billion and cash in hand amounted to HK\$7.2 billion.

As stated in the Company's annual report for the financial year ended 31 December 2003, the principal activity of the Group is the generation and supply of electricity. As confirmed by the Directors, the Company is also a partner with CKI in several power-related businesses in Australia, as follows:

- since December 1999, ETSA Utilities in South Australia;
- since August 2000, Powercor in Victoria; and
- since July 2002, Citipower in Victoria.

As CKI and the Company have previously worked together on several joint venture projects, the success of their working relationship makes the Company the most suitable purchaser of the Alpha Share. As stated in the letter from the Board, upon completion of each of the Alpha Acquisition Agreement, the Blackwater Acquisition Agreement, the 9.9% Sale Agreement and the Hive Down Agreement, each of the Company, CKI and, the 9.9% Buyers between them, will own, directly or indirectly (as the case may be), a 19.9%, 40% and 9.9% interest, respectively, in Gas Network.

With the Group's extensive experience in power generation and distribution and the CKI Group's extensive experience in the development, investment and operation of infrastructure businesses, we concur with the Directors' view that both parties will leverage on each other's strengths through their joint ownership and investment opportunity in Gas Network, which will indirectly own all the interest in the Network Business upon completion of the Blackwater Acquisition, and this will be beneficial to both parties.

3. The Blackwater Acquisition

As stated in the letter from the Board, NGT, through its wholly-owned subsidiary, Transco, owns, operates and develops the substantial majority of the natural gas transmission and distribution system in the United Kingdom. NGT publicly announced in December 2003 that it was seeking indicative offers for five of the

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eight regional gas distribution networks in the United Kingdom. Following a successful bidding process, Gas Network was chosen as the preferred bidder for the Network Business. On 31 August 2004, the Blackwater Acquisition Agreement was entered into between Gas Network, Transco and Blackwater, pursuant to which Gas Network has an option to require Transco to sell to it, and Transco has an option to require Gas Network to purchase from it, the Blackwater Shares, being the entire issued share capital of Blackwater.

3.1 Consideration

The Blackwater Consideration is £1,393,700,000 (HK\$19,511,800,000) less the Intra-Group Indebtedness. The Intra-Group Indebtedness is expected to be approximately £870,000,000 (HK\$12,180,000,000) and will be funded by Blackwater through an external bank facility effected by the Finance Agreements. The Blackwater Consideration is therefore expected to be approximately £524,000,000 (HK\$7,336,000,000) and will be funded by shareholders' equity of Gas Network in proportion to their respective shareholdings in Gas Network and by external bank borrowings.

As confirmed by the Directors, the Blackwater Consideration was arrived at following a competitive auction process conducted by NGT and its advisors, Rothschild and Morgan Stanley, and after arm's length negotiations between CKI and Transco. The directors of CKI believe that the terms of the Blackwater Acquisition are fair and reasonable and are in the interests of CKI's shareholders as a whole. The Directors also believe that the terms of the Blackwater Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

In order to analyse whether the net consideration (net of Intra-Group Indebtedness) for the acquisition of Blackwater of approximately £524,000,000 (HK\$7,336,000,000) payable under the Blackwater Acquisition Agreement is fair and reasonable to the Company and the Shareholders, and in view of the absence of transaction multiples, we have analysed P/EBITDA (Share price / Earnings before interest, taxes, depreciation and amortization) multiples for comparable listed companies (collectively the "Comparables") as at 18 November 2004. The use of P/EBITDA analysis is commonly used in all financial comparable analysis. By using EBITDA, we are able to focus on the operating cashflow of a company, thereby providing a meaningful comparable so as to eliminate effects on different companies selected with different debt structures, taxation structures, fixed asset bases, and amortization assumptions. As the Network Business is principally engaged in the natural gas transmission and distribution system in the United Kingdom, the Comparables were selected as being representative of listed Western European gas distributors and, in our view, represent companies which operate businesses which are comparable to the Network Business.

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Based on the Blackwater Consideration of £524,000,000 (HK\$7,336,000,000) and the Network Business's EBITDA for the financial year ended 31 March 2003 of £77,000,000 (HK\$1,078,000,000), the acquisition represents a P/EBITDA multiple of 6.8x, which is in line with the mean P/EBITDA multiple of the Comparables below.

Company	Country	Market Cap (Local, m)	Market Cap (US\$m)	P/EBITDA (year end)
Centrica PLC	UK	GBP 9,310	17,330	6.2x
Gas Natural SDG SA	Spain	EUR 9,417	12,310	7.0x
Enagas	Spain	EUR 2,352	3,074	5.4x
Mainova AG	Germany	EUR 1,521	1,988	9.7x
Fluxys-D	Belgium	EUR 1,237	1,617	na
Azienda Mediterran Gas Acqua SpA	Italy	EUR 498	651	4.8x
International Energy Group Plc	UK	GBP 138	256	6.4x
ACSM Como SPA	Italy	EUR 93	122	3.0x
Gasanstalt Kaiserslautern AG	Germany	EUR 85	112	na
Compagnie Industrielle et Commerciale du Gaz SA	Switzerland	CHF 53	45	8.7x
Societe DU Gaz de la Plaine DU Rhone SA	Switzerland	CHF 45	39	10.2x
				Mean 6.8x
				Max 10.2x
				Min 3.0x

Source: Bloomberg, 18 November 2004

In view of the above analysis and as the consideration payable of approximately £104,276,000 (HK\$1,459,864,000) by Alpha to subscribe for 19.9% of the share capital in Gas Network is based on 19.9% of the net consideration of £524,000,000 (HK\$7,336,000,000) paid under the Blackwater Acquisition Agreement, we concur with the view of the Directors that the consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.2 Undertakings by the Company

Break Fee

As stated in the letter from the Board, under the Gas Network Shareholders Agreement, termination of the Blackwater Acquisition Agreement, will, in certain circumstances, give rise to a break fee of £13,980,000 (HK\$195,720,000) becoming payable by Gas Network to Transco. The Directors have confirmed that the break fee, negotiated by CKI and UUCS on an arms length basis, is calculated based on 1% of the original cash consideration of £1,398,000,000 (HK\$19,572,000,000). CKI has undertaken to procure compliance by Alpha with this obligation and this undertaking will be assumed by the Company upon the Alpha Completion. We concur with the Directors' views that the break fee is fair and reasonable to the Company and the Shareholders.

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Other obligations

As stated in the letter from the Board, upon Alpha Completion, the Company will also assume the following obligations in connection with the Blackwater Acquisition:

- (a) Assume responsibility for a pro rata portion representing 19.9% of all costs and expenses incurred by Gas Network and CKI, these costs and expenses to be assumed by the Company are estimated to be approximately HK\$12,000,000 as at the Latest Practicable Date in connection with the Blackwater Acquisition and to give an indemnity to CKI in this respect.
- (b) Under the Finance Agreements, Goldia, UUCS and CKI have agreed to indemnify certain other parties to the Finance Agreements against any reasonable loss, cost, claim, liability or expense which they may incur or suffer in connection with such finance facilities or the Finance Agreements, up to a maximum of £15,000,000 (HK\$210,000,000). The Company has agreed to assume a pro rata portion representing 19.9% of such obligation.

As confirmed by the Directors, as the obligations assumed by the Company referred to above are calculated on a pro rata basis (19.9%) and relate to obligations negotiated by CKI under the Blackwater Acquisition following an arms length bidding process where Gas Network was chosen as the preferred bidder for the Network Business, we concur with the Directors' views that the obligations to be assumed by the Company as a result of the Alpha Acquisition Agreement are fair and reasonable to the Company and the Shareholders as a whole.

3.3 Conditions of the Blackwater Completion

As stated in the letter from the Board, the Blackwater Completion is subject to the satisfaction or, where permitted, waiver of certain conditions precedent. These include the Authority having given its consent to the sale of the Blackwater Shares to Gas Network, since Blackwater's gas transporter licence contains some restrictions on the categories of persons to whom shares in Blackwater may be transferred.

In addition, as stated in the letter from the Board, the Blackwater Acquisition Agreement is conditional upon the obtaining of the approval of the CKI Shareholders. The Blackwater Acquisition Agreement shall terminate if Blackwater Completion has not taken place on or before 29 August 2005, details of which are contained under section 3.4 of the letter from the Board.

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4. Principal Terms of the Alpha Acquisition

On 10 September 2004, CKI and the Company, entered into the Agreement, pursuant to which CKI agreed to procure the sale, and the Company agreed to purchase, or procure the purchase by its wholly-owned subsidiary, of the entire issued share capital of Alpha for a consideration of HK\$1.00, which will be payable in cash upon Alpha Completion. Alpha is a newly formed wholly-owned indirect subsidiary of CKI that owns 19.9% of the issued share capital of Gas Network. Gas Network has agreed to acquire Blackwater, a newly formed wholly-owned subsidiary of Transco that will, at completion of the Hive Down Agreement, own the Network Business presently carried on by Transco.

4.1 Consideration

As confirmed by the Directors, the consideration of HK\$1.00 represents adequate consideration and is sufficient to make the Alpha Acquisition Agreement legally valid and binding. The Directors further confirmed that they are of the opinion that the consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to the Alpha Acquisition Agreement, the Company will assume certain obligations of CKI in respect of Alpha. Upon Alpha Completion, the Company will assume some of the obligations of CKI in connection with the Blackwater Acquisition, including, among other things, certain indemnity obligations in respect of Gas Network's and CKI's liabilities.

4.2 Undertakings by the Company

As stated in the letter from the Board, Alpha is required to fund its pro rata share of the Blackwater Consideration payable by Gas Network upon Blackwater Completion. Therefore, prior to the Blackwater Completion, Alpha will subscribe approximately £104,276,000 (HK\$1,459,864,000) for new shares in the share capital of Gas Network, which will represent approximately 19.9% of the Blackwater Consideration payable by Gas Network on Blackwater Completion.

Under the Gas Network Shareholders Agreement, CKI undertook to procure compliance by Alpha with its obligation to subscribe for new shares in the share capital of Gas Network which will amount to approximately £104,276,000 (HK\$1,459,864,000), which will represent approximately 19.9% of the Blackwater Consideration payable by Gas Network on Blackwater Completion. This undertaking of CKI will be assumed by the Company upon the Alpha Completion and as stated in the letter from the Board, this obligation will be met from the Company's internal cash resources and/or bank borrowings.

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As stated in the letter from the Board, on or before the Alpha Completion, the Company will also enter into such agreements as may be necessary to, amongst other things, assume all liabilities of CKI under the Gas Network Shareholders Agreement in respect of the obligations and commitments of Alpha. Amongst other things, the Company will enter into the Restated Gas Network Shareholders Agreement with Alpha, Able Venture, Goldia, CKI, the Foundation, UUO, UUCS, the 9.9% Buyers and DeAM. Further details of the Restated Gas Network Shareholders Agreement are set out in section 4 of the letter from the Board.

During the period between the date of the Alpha Acquisition Agreement and Blackwater Completion, the Company will provide such undertakings and enter into such commitments as may be reasonably required in connection with the financing of Gas Network and its acquisition of the entire issued share capital of Blackwater provided that all the other shareholders of Gas Network have also agreed to give similar undertakings or enter into similar commitments. The Company's proportionate share of any such undertakings or commitments will not exceed 19.9% of the relevant total monetary amount that is the subject of such undertakings and commitments.

As stated in the letter from the Board, termination of the Blackwater Acquisition Agreement will, in the circumstances described in section 3.3 in the letter from the Board and section 3 above, give rise to a break fee of £13,980,000 (HK\$195,720,000) being payable by Gas Network to Transco. Alpha has undertaken in the Gas Network Shareholders Agreement to contribute 19.9% of this amount through a subscription of new shares in the share capital of Gas Network in the event of termination, for the purpose of enabling Gas Network to pay the break fee. CKI has also undertaken in the Gas Network Shareholders Agreement to procure compliance by Alpha with this obligation. This obligation will be assumed by the Company.

On or before Alpha Completion, the Company will also execute an undertaking letter to be addressed to Transco (the "**Transco Undertaking Letter**"). Pursuant to the Transco Undertaking Letter, the Company will undertake to Transco to procure Alpha to subscribe in cash at par for shares of £1 (HK\$14) each of Gas Network in an aggregate amount of £2,782,020 (HK\$38,948,280), to enable Gas Network to pay the break fee referred to in the last paragraph, if the Blackwater Acquisition Agreement is terminated in circumstances giving rise to an obligation on Gas Network to pay Gas Network's Cost Contribution (as defined in the letter from the Board) under the Blackwater Acquisition Agreement. However, the Company will not be obliged to procure Alpha to subscribe for shares in Gas Network for that purpose if the termination of the Blackwater Acquisition Agreement is as a result of the failure of CKI to obtain the requisite approval of the CKI Shareholders.

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4.3 Conditions of Alpha Completion

As stated in the letter from the Board, Alpha Completion is conditional upon the approval by CKI Shareholders at the CKI SGM of (i) the transactions contemplated by the Blackwater Acquisition Agreement and the Gas Network Shareholders Agreement; and (ii) the sale of the Alpha Share as contemplated by the Alpha Acquisition Agreement.

Alpha Completion is conditional upon the approval by the Independent Shareholders at the Company's EGM of (i) the Alpha Acquisition; and (ii) the related transactions and matters contemplated under the Alpha Acquisition Agreement and the Gas Network Shareholders Agreement, none of which may be waived by either party. The Alpha Acquisition Agreement will automatically terminate if the Alpha Conditions have not been satisfied before 30 August 2005, details of which are stated under section 2.4 of the letter from the Board.

Having considered the fact that (i) HK\$1.00 was paid as adequate consideration to make the Alpha Acquisition Agreement legally valid and binding, (ii) Alpha's subscription for shares in Gas Network will represent a 19.9% pro rata share of the original consideration negotiated by CKI under the Blackwater Acquisition, and (iii) the financial obligations and other obligations assumed by the Company under the Alpha Acquisition Agreement represent a 19.9% pro rata share of CKI's obligations under the Blackwater Acquisition, we concur with the Directors' views that the consideration for the Alpha Acquisition, the undertakings and the obligations assumed by the Company and the terms of the Alpha Acquisition Agreement are in the interests of the Company and the Shareholders and are fair and reasonable so far as the Company and the Shareholders as a whole are concerned. Please also refer to section 3 above for our analysis of the fairness of the Blackwater Acquisition.

5. Financial effects on the Group

As stated in the Company's annual report for the financial year ended 31 December 2003, the Company's cash in hand amounted to HK\$459,000,000 and the Directors have confirmed to us that (i) the financial obligations of £104,276,000 (HK\$1,459,864,000) for the new share subscription in Gas Network, (ii) the £2,782,020 (HK\$38,948,280) pro rata share of the break fee payable if the Blackwater Acquisition Agreement is terminated, (iii) the pro rata share of the costs and expenses to be assumed by the Company of approximately HK\$12,000,000 in connection with the Blackwater Acquisition Agreement as at the Latest Practicable Date, and (iv) up to 19.9% of the maximum £15,000,000 (HK\$210,000,000) obligation under the indemnity in the Finance Agreements that is assumed by the Company under the Alpha Acquisition Agreement, could be met as a result of the Company's adequate financial situation and sufficient credit lines with banks.

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As stated in the letter from the Board and confirmed by the Directors, after completion of the Alpha Acquisition and the Blackwater Acquisition, the Company's interest in Gas Network will be less than 20% and consequently, Gas Network and Blackwater will be treated as an investment in the financial statements of the Company.

As stated in the letter from the Board, since the consideration for the Alpha Acquisition and Alpha's pro rata share of the consideration payable for the Blackwater Acquisition will be met from the Company's internal cash resources and/or bank borrowing, the Directors are of the opinion that there will be no effect on the net tangible asset value per share of the Company and we note that there will be no material effect on the net tangible asset value of the Group pursuant to the completion of the Alpha Acquisition and the Blackwater Acquisition.

The Directors have confirmed that based on the audited financial statements of the Group for the financial year ended 31 December 2003, the net gearing ratio stood at approximately 37%. The Directors have also confirmed that upon completion of the Alpha Acquisition and the Blackwater Acquisition, the maximum net gearing ratio of the Group would increase by 4%, assuming that the subscription of 19.9% new shares in the share capital of Gas Network (approximately £104,276,000 (HK\$1,459,864,000)) is completely financed by bank borrowings. We concur with the Directors' views regarding the impact of the Alpha Acquisition on the net gearing ratio. As stated in the letter from the Board, such subscription will be satisfied and financed by the Company's internal cash reserves and/or external bank borrowings. In addition, we concur with the Directors' views that the earnings of the Group in 2006 can be expected to be enhanced upon receipt of dividends from Blackwater in 2006 pursuant to the completion of the Alpha Acquisition and the Blackwater Acquisition.

CONCLUSION AND OPINION

In reaching our opinion (on the basis set out at the beginning of this letter), we have considered the following principal factors and reasons:

- background for the Alpha Acquisition and the Blackwater Acquisition;
- reasons for entering into the Alpha Acquisition Agreement with CKI; and
- principal terms of the Alpha Acquisition Agreement including:
 - the consideration of HK\$1.00;
 - Alpha's subscription for shares in the share capital of Gas Network for approximately £104,276,000 (HK\$1,459,864,000), which represents a pro rata portion of the original consideration negotiated on an arm's length basis by CKI under the Blackwater Acquisition; and

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- the undertakings and the obligations assumed by the Company, namely (the £2,782,020 (HK\$38,948,280) pro rata share of the break fee payable if the Blackwater Acquisition Agreement is terminated, the pro rata share of the costs and expenses to be assumed by the Company of approximately HK\$12,000,000 in connection with the Blackwater Acquisition Agreement as at the Latest Practicable Date, and up to 19.9% of the maximum £15,000,000 (HK\$210,000,000) obligation under the indemnity in the Finance Facilities that is assumed by the Company under the Alpha Acquisition Agreement) which represent pro rata portions of the undertakings and obligations negotiated on an arms length basis by CKI under the Blackwater Acquisition.

Based on these principal factors and reasons, we have concluded that:

- as the Company has, for some time, been looking for opportunities to expand its activities outside Hong Kong and as the Company has been studying the British energy market for some time, the entering into the Alpha Acquisition Agreement to acquire a 19.9% interest in Gas Network through Alpha, is consistent with the overall corporate strategy of the Group;
- since the Company has previous experience working with CKI and as CKI is a diversified infrastructure investment company, both parties should leverage on each other's strengths through their joint ownership and investment opportunity in Gas Network and this will be beneficial to both parties;
- the HK\$1.00 consideration payable for the Alpha Share is adequate consideration to make the Alpha Acquisition Agreement legally valid and binding and that the Directors are of the opinion that such consideration is fair and reasonable and in the interests of the Company and the Shareholders; and
- the Directors confirmed that the obligations to be assumed by the Company as a result of its indirect 19.9% interest in Gas Network, represent a 19.9% pro rata share of what was negotiated on an arm's length basis by CKI under the Blackwater Acquisition and are of the opinion that the obligations to be assumed are fair and reasonable and in the interests of the Company and the Shareholders.

Based on these conclusions, we are of the opinion that the terms and conditions of the Alpha Acquisition and the Ancillary Transactions are on normal commercial terms, in the ordinary and usual course of the business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the Alpha Acquisition and the Ancillary Transactions at the extraordinary general meeting to be convened on Tuesday, 14 December 2004, at 11:30 a.m.

Yours faithfully,
For and on behalf of
CLSA Equity Capital Markets Limited
Tim Ferdinand
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The issue of this circular has been approved by the Directors.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the issued share capital of the Company and its Associated Corporations as recorded in the register required to be kept under Section 352 of the SFO were as follows:

Name of Director	Capacity	Personal Interests	Number of Ordinary Shares			Total	Approximate Shareholding %
			Family Interests	Corporate Interests	Other Interests		
Victor Li Tzar-kuoi	Interest of child or spouse & beneficiary of trusts	—	151,000	—	829,599,612 (Notes 1 & 2)	829,750,612	38.88%
Ronald Joseph Arculli	Interest of controlled corporation	—	—	2,011	—	2,011	0%
Francis Lee Lan-yee	Beneficial owner	739	—	—	—	739	0%

Notes:

- (1) These shares are held by subsidiaries of Cheung Kong Infrastructure Holdings Limited (“CKI”).
- The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and another discretionary trust (“DT2”) are, inter alia, Mr. Victor Li Tzar-kuoi, his wife and children, and Mr. Richard Li Tzar-kai. 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 The Li Ka-Shing Unity Trust (“UT1”) but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. Li Ka-Shing Unity Trustee Company Limited (“TUT1”) as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings (“TUT1 related companies”) hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited (“CKH”). Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of Hutchison Whampoa Limited (“HWL”). A subsidiary of HWL in turn holds more than one-third of the issued share capital of CKI.
- The 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. Victor Li Tzar-kuoi and Mr. Richard Li Tzar-kai is interested in one-third of the 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. Victor Li Tzar-kuoi and Mr. Richard Li Tzar-kai as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a director of CKH, Mr. Victor Li Tzar-kuoi 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, the shares of CKI held by the subsidiary of HWL and the shares of the Company held by the subsidiaries of CKI under the SFO as a Director. Although Mr. Richard Li Tzar-kai is interested in one-third of the 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)
- Mr. Victor Li Tzar-kuoi, by virtue of his interests as described in Note (1) above and as a Director, is also deemed to be interested in the shares of Associated Corporations of the Company held through the Company under the SFO.

The following are the Company’s Associated Corporations:

Name	Percentage of equity held by the Company
Associated Technical Services Limited	100
Best Liaison Limited	100
Cavendish Construction Limited	100
CitiPower I Pty Limited	50
CitiPower II Pty Limited	50
CKI Power Development Limited	50
CKI Power Distribution Limited	50
CKI Utilities Development Limited	50
CKI Utilities Holdings Limited	50
CKI/HEI Electricity Assignment Limited	50
CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited	50
CKI/HEI Electricity Holdings (Malaysian) Limited	50
CKI/HEI Electricity Distribution Pty Limited	50
CKI/HEI Electricity Distribution Two Pty Limited	50
CKI/HEI Power Holdings Limited	50
CKI/HEI Utilities Distribution Limited	50
Dunway Investment Limited	100
ETSA Utilities Finance Pty Limited	50
Fenning Limited	100
Fortress Advertising Company Limited	100
Gusbury Enterprises Incorporation	100
HEI Distribution Finance (Australia) Pty Ltd.	100
HEI Electricity Distribution (Malaysian) Limited	100
HEI Investment Holdings Limited	100
HEI Power (Malaysian) Limited	100
HEI Power Development Limited	50
HEI Power Distribution Limited	50
HEI Transmission Finance (Australia) Pty Limited	100
HEI Utilities (Malaysian) Limited	100
HEI Utilities Development Limited	100
HEI Utilities Holdings Limited	50
HKE International Limited	100
Hong Kong Electric International Finance (Australia) Pty Limited	100
Hongkong Electric (Cayman) Limited	100
Hongkong Electric (Natural Gas) Limited	100
Hongkong Electric Finance (Cayman) Limited	100
Hongkong Electric Finance Limited	100
Hongkong Electric Fund Management Limited	100
Hongkong Electric International Limited	100
Hongkong Electric International Power (Mauritius) Limited	100
Kentson Limited	100
Marregon (No.2) Pty Limited	50
Marregon Pty Limited	50
Powercor Australia Limited	50
Powercor Pty Limited	50
Powercor Australia LLC	50
Powercor Australia Holdings Limited	50
Ratchaburi Power Company Limited	4.6
Rayong Energy Developments Limited	100
Riverland Investment Limited	100
Secan Limited	20
Sigerson Business Corp.	100
Takako Holdings Limited	100
The Hongkong Electric Company, Limited	100
Utilities Management Pty Limited	50

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its Associated Corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV 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.

There is no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

None of the Directors has had any direct or indirect interest in any assets which have since 31 December 2003 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

According to the register kept under Section 336 of the SFO and information received by the Company, as at the Latest Practicable Date, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Part XV of the SFO were as follows:

Name	Capacity	Number of Ordinary Shares	Approximate % of Shareholding
Interman Development Inc.	Beneficial owner	186,736,842 (Note 1)	8.75%
Venniton Development Inc.	Beneficial owner	197,597,511 (Note 1)	9.26%
Univest Equity S.A.	Beneficial owner	279,011,102 (Note 1)	13.07%
Monitor Equities S.A.	Beneficial owner & Interest of controlled corporation	287,211,674 (Note 1)	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612 (Note 2)	38.87%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 2)	38.87%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%

APPENDIX

GENERAL INFORMATION

Name	Capacity	Number of Ordinary Shares	Approximate % of Shareholding
Hutchison International Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Hutchison Whampoa Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	829,599,612 (Note 4)	38.87%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	829,599,612 (Note 5)	38.87%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	38.87%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	38.87%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	829,599,612 (Note 6)	38.87%

Notes:

- (1) These are direct or indirect wholly-owned subsidiaries of Hyford Limited (“Hyford”) and their interests are duplicated in the same 829,599,612 shares of the Company held by Hyford described in (2) below.
- (2) Cheung Kong Infrastructure Holdings Limited (“CKI”) is deemed to be interested in the 829,599,612 shares of the Company as referred to in (1) above as it holds more than one-third of the issued share capital of Hyford indirectly. Its interests are duplicated in the interest of Hutchison Whampoa Limited (“HWL”) in the Company described in (3) below.
- (3) HWL is deemed to be interested in the 829,599,612 shares of the Company as referred to in (2) 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 (“HIH”). HIH holds more than one-third of the issued share capital of CKI.
- (4) Cheung Kong (Holdings) Limited (“CKH”) is deemed to be interested in the 829,599,612 shares of the Company as referred to in (3) above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.
- (5) Li Ka-Shing Unity Trustee Company Limited (“TUT1”) as trustee of The Li Ka-Shing Unity Trust (“UT1”) is deemed to be interested in those shares of the Company described in (4) above as 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 hold more than one-third of the issued share capital of CKH.

(6) Each of Mr. Li Ka-shing, Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and Li Ka-Shing Unity Trustcorp Limited (“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 (5) 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 Li Ka-Shing Unity Holdings Limited (“Unity Holdco”). Mr. Li Ka-shing owns one-third of the issued share capital of Unity Holdco.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 Part XV of the SFO, or who are interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

The following is a list of directors of the Company who, as at the Latest Practicable Date, are also directors of the companies which have 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:

Name of Common Director	Name of Company
Mr. Li Tzar Kuoi, Victor Mr. George Colin Magnus Mr. Kam Hing Lam Mr. Fok Kin Ning, Canning Mr. Frank John Sixt	Cheung Kong (Holdings) Limited
Mr. Li Tzar Kuoi, Victor Mr. Kam Hing Lam Mr. George Colin Magnus Mr. Fok Kin Ning, Canning Mrs. Chow Woo Mo Fong, Susan Mr. Frank John Sixt Mr. Tso Kai Sum	Cheung Kong Infrastructure Holdings Limited
Mr. Li Tzar Kuoi, Victor Mr. Kam Hing Lam Mr. George Colin Magnus	Hyford Limited
Mr. Kam Hing Lam Mrs. Chow Woo Mo Fong, Susan	Interman Development Inc.
Mr. Frank John Sixt	Li Ka-Shing Unity Trustcorp Limited
Mr. Frank John Sixt	Li Ka-Shing Unity Trustee Company Limited
Mr. Frank John Sixt	Li Ka-Shing Unity Trustee Corporation Limited

Name of Common Director	Name of Company
Mr. Kam Hing Lam Mrs. Chow Woo Mo Fong, Susan	Monitor Equities S.A.
Mr. Kam Hing Lam Mrs. Chow Woo Mo Fong, Susan	Univest Equity S.A.
Mr. Kam Hing Lam Mrs. Chow Woo Mo Fong, Susan	Venniton Development Inc.
Mr. Li Tzar Kuoi, Victor Mr. Fok Kin Ning, Canning Mrs. Chow Woo Mo Fong, Susan Mr. Frank John Sixt Mr. George Colin Magnus Mr. Kam Hing Lam Mr. Wong Chung Hin Mr. Holger Kluge	Hutchison Whampoa Limited
Mr. Li Tzar Kuoi, Victor Mr. Fok Kin Ning, Canning Mrs. Chow Woo Mo Fong, Susan Mr. Frank John Sixt Mr. George Colin Magnus Mr. Kam Hing Lam	Hutchison International Limited
Mrs. Chow Woo Mo Fong, Susan Mr. Frank John Sixt	Hutchison Infrastructure Holdings Limited

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation, other than statutory compensation.

5. COMPETING BUSINESS INTERESTS OF DIRECTORS

The following Directors, Messrs. George Magnus, Canning Fok, K.S. Tso, Victor Li, H.L. Kam, Frank Sixt and Mrs. Susan Chow, are also directors of CKI whose principal activities are the investment and operation of infrastructure businesses in Hong Kong, Mainland China and other countries.

These activities may be in competition with the Group’s overseas businesses of investing in power generation, transmission and distribution facilities. The Board is of the view that the Group is capable of carrying on these overseas businesses independently of, and at arms length from the business of CKI. When making decisions on these overseas businesses, those Directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the commercial best interest of the Group and all its shareholders.

6. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 80 of the Articles of Association of the Company, subject to the Listing Rules, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

- (i) by the chairman;
- (ii) by at least five members present in person or by proxy;
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; and
- (iv) by a member or members holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

The vote on the Resolution at the EGM shall be taken by poll.

7. INDEPENDENT FINANCIAL ADVISER

The following is the qualification of the Independent Financial Adviser which has given advice contained in this circular:

Name	Qualification
CLSA	A deemed licensed corporation under the SFO, licensed to conduct Types 4, 6 and 9 regulated activities

CLSA has confirmed that it has no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. CONSENTS

CLSA has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and letter in the form and context in which it appears.

9. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claim of material importance and, so far as the Directors are aware, no litigation or arbitration or claim of material importance is pending or threatened by or against any member of the Group.

10. NO MATERIAL ADVERSE CHANGE

Since 31 December 2003 (being the date to which the latest published audited financial statements of the Company were made up), there has been no material adverse change in the financial or trading position of the Group.

11. MISCELLANEOUS

- (a) The Qualified Accountant of the Company is Mr. Andrew J. Hunter, a member of the Institute of Chartered Accountants of Scotland.
- (b) The Secretary of the Company is Ms Lillian Wong, a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.
- (c) The Company's share registrars is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company at 44 Kennedy Road, Hong Kong from the date of this circular up to and including 13 December 2004:

- (a) the Blackwater Acquisition Agreement;
- (b) the Alpha Acquisition Agreement;
- (c) the letter from the Independent Board Committee dated 26 November 2004 as set out on page 26 of this circular;
- (d) the text of a letter of advice from CLSA dated 26 November 2004 as set out on pages 27 to 39 of this circular;
- (e) the CKI Circular;
- (f) the written consent of CLSA referred to in this Appendix;
- (g) Gas Network Shareholders Agreement;
- (h) Restated Gas Network Shareholders Agreement; and
- (i) the Finance Agreements.

NOTICE OF EXTRAORDINARY GENERAL MEETING



香港電燈集團有限公司 ***Hongkong Electric Holdings Ltd.***

(Incorporated in Hong Kong with limited liability)

(Stock Code: 006)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Hongkong Electric Holdings Limited (the “Company”) will be held at the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Tuesday, 14 December 2004 at 11:30 a.m. for the purposes of considering and, if thought fit, passing with or without modification the following resolution as an **ORDINARY RESOLUTION**:

“**THAT** the acquisition by the Company of the entire issued share capital of Alpha Central Profits Limited (the “**Alpha Acquisition**”) on the terms and subject to the conditions of the agreement made between the Company and Cheung Kong Infrastructure Holdings Limited dated 10 September 2004 (the “**Alpha Acquisition Agreement**”), a copy of which has been produced to this meeting marked “A” and signed by the Chairman hereof for the purpose of identification, and the entering into by the Company of certain associated transactions (“**Ancillary Transactions**”), details of which are set out in the circular to the shareholders of the Company dated 26 November 2004 (the “**Circular**”) of which this notice of meeting forms part, and the implementation, exercise or enforcement of any of the rights, and performance of any of the obligations, under the Alpha Acquisition Agreement and/or the Ancillary Transactions, including entering into and/or performing any agreement, undertaking or other obligation associated with them be and are hereby approved; and any two executive Directors be and are hereby authorised to execute all such documents and deeds and do and authorise all such acts, matters and things as they may in their discretion consider necessary or desirable on behalf of the Company for the purpose of implementing, and otherwise in connection with, the Alpha Acquisition and the Ancillary Transactions or the implementation, exercise or enforcement of any of the rights, and performance of any of the obligations, under the Alpha Acquisition Agreement and/or any deed, document, undertaking or obligation entered into or associated with the Alpha Acquisition and/or the Ancillary Transactions, including agreeing any modifications, amendments, waivers, variations or extensions of the Alpha Acquisition Agreement and/or any deed, document, undertaking or obligation entered into or associated with the Alpha Acquisition and/or the Ancillary Transactions, as such Directors may deem fit.”

By order of the Board
Hongkong Electric Holdings Limited
Lillian Wong
Company Secretary

Hong Kong, 26 November 2004

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) The above resolution will be put to the vote at the meeting by way of a poll.
- (2) A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him. (The number of proxies appointed by any member who is a holder of two or more shares shall not exceed two). A proxy need not be a member of the Company. To be valid, all proxies must be deposited at the registered office of the Company, 44 Kennedy Road, Hong Kong not later than 48 hours before the time for holding the meeting (or any adjournment thereof).
- (3) The Register of Members of the Company will be closed from Thursday, 9 December 2004 to Tuesday, 14 December 2004, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the above meeting (or any adjournment thereof), all share transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Wednesday, 8 December 2004.
- (4) Shareholders are advised to read the circular to shareholders of the Company dated 26 November 2004 which contains information concerning the resolution to be proposed at the above meeting (or any adjournment thereof).

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSALS

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

A notice dated 26th November, 2004 convening a SGM of the Company to be held at the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Tuesday, 14th December, 2004 at 10:30 a.m. is set out on pages 155 to 157 of this circular.

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

26th November, 2004

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DEFINITIONS

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

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

DEFINITIONS

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

DEFINITIONS

“Challenger Life”	Challenger Life No.2 Limited, a company incorporated in Australia
“Circular Despatch Announcement”	the announcement of the Company, Hutchison Whampoa Limited and HEH dated 21st September, 2004 relating to the extension of the dates for, among other things, the despatch of this circular
“Company”	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
“Company Shareholders”	shareholders of the Company
“connected person”	has the meaning ascribed to it in the Listing Rules
“Costs Undertaking Letter”	a letter of undertaking relating to costs incurred by Gas Network and its shareholders in relation to the bid for Blackwater from each of the 9.9% Buyers to the Company
“DeAM”	SAS Trustee Corporation, a client of Deutsche Asset Management (Australia) Limited
“Directors”	the directors of the Company
“Enlarged Group”	the Group and Blackwater
“the Foundation”	Li Ka Shing (Overseas) Foundation, a company limited by guarantee incorporated in the Cayman Islands for charitable purposes
“Gas Network”	Gas Network Limited (registered in England with registered number 5213525), currently a non wholly-owned subsidiary of the Company (the Company’s stated intention is to reduce its shareholding in Gas Network to below 50% prior to completion of the Blackwater Acquisition and this will be achieved upon completion of the Alpha Disposal. Accordingly, for the purposes of preparing the pro forma financial information set out in Appendices III to VI (inclusive) Gas Network is treated as an associate of the Company)
“Gas Network Shareholders Agreement”	the shareholders’ agreement dated 31st August, 2004 between the Company, Alpha, Able Venture, Goldia Resources, the Foundation, UUO and UUC relating to their interests in, and management of, Gas Network as shall be replaced and superseded by the Amended and Restated Gas Network Shareholders Agreement

DEFINITIONS

“Goldia Resources”	Goldia Resources Limited, a company incorporated under the laws of the British Virgin Islands, a wholly-owned subsidiary of the Foundation
“Group”	the Company and its subsidiaries
“GS(M)R”	the Gas Safety (Management) Regulations 1996 of the United Kingdom
“HEH”	Hongkong Electric Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 006)
“HEH EGM”	an extraordinary general meeting of HEH to be held to approve the Alpha Disposal and related transactions and the matters contemplated under the Alpha Disposal Agreement and the Gas Network Shareholders Agreement
“HEH Independent Board Committee”	an independent committee of the board of directors of HEH to be formed to advise the HEH Independent Shareholders in respect of the Alpha Disposal
“HEH Independent Shareholders”	HEH Shareholders other than the Company and its associates (as that term is defined in the Listing Rules)
“HEH Shareholders”	shareholders of HEH
“Hive Down Agreement”	the agreement dated 31st August, 2004 relating to the acquisition by Blackwater of the North of England Gas Distribution Network business of Transco
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HSE”	the Health and Safety Executive of the United Kingdom
“Implementation Agreement”	the commitment offer letter between Gas Network and the banks providing financing to Gas Network
“Latest Practicable Date”	19th November, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“NGT”	National Grid Transco plc, whose shares are listed on the London Stock Exchange and the New York Stock Exchange
“Option Exercise Notice”	the call option exercise notice or put option exercise notice, as the case may be, to be given in accordance with the terms of the Blackwater Acquisition Agreement

DEFINITIONS

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

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

LETTER FROM THE BOARD



CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

Board of Directors:*Executive Directors*

LI Tzar Kuoi, Victor *Chairman*

KAM Hing Lam *Group Managing Director*

George Colin MAGNUS *Deputy Chairman*

FOK Kin Ning, Canning *Deputy Chairman*

IP Tak Chuen, Edmond *Deputy Chairman*

KWAN Bing Sing, Eric *Deputy Managing Director*

CHOW WOO Mo Fong, Susan

Frank John SIXT

TSO Kai Sum

Non-executive Directors

CHEONG Ying Chew, Henry*

LEE Pui Ling, Angelina

Barrie COOK

KWOK Eva Lee*

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

* *Independent Non-executive Directors*

Company Secretary:

Eirene YEUNG

Registered office:

Clarendon House

Church Street

Hamilton HM11

Bermuda

Principal Place of Business:

12th Floor, Cheung Kong Center

2 Queen's Road Central

Hong Kong

26th November, 2004

Dear Shareholder(s),

**VERY SUBSTANTIAL ACQUISITION
AND
VERY SUBSTANTIAL DISPOSALS**

INTRODUCTION

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

LETTER FROM THE BOARD

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

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

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

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

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

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

LETTER FROM THE BOARD

PART A

BLACKWATER ACQUISITION AGREEMENT

Date

31st August, 2004

Parties

Gas Network

Transco

Blackwater

Conditions precedent

Completion of the Blackwater Acquisition Agreement is conditional upon:

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

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

Prior to completion of the Blackwater Acquisition Agreement, Transco may terminate the transaction if: (a) the Authority indicates that it will require Transco to place its retained gas distribution business into separate legal entities; or (b) the Authority decides that any income

LETTER FROM THE BOARD

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

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

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

Completion

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

LETTER FROM THE BOARD

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

CONSIDERATION

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

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

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

GENERAL NATURE OF THE TRANSACTION

Summary

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

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

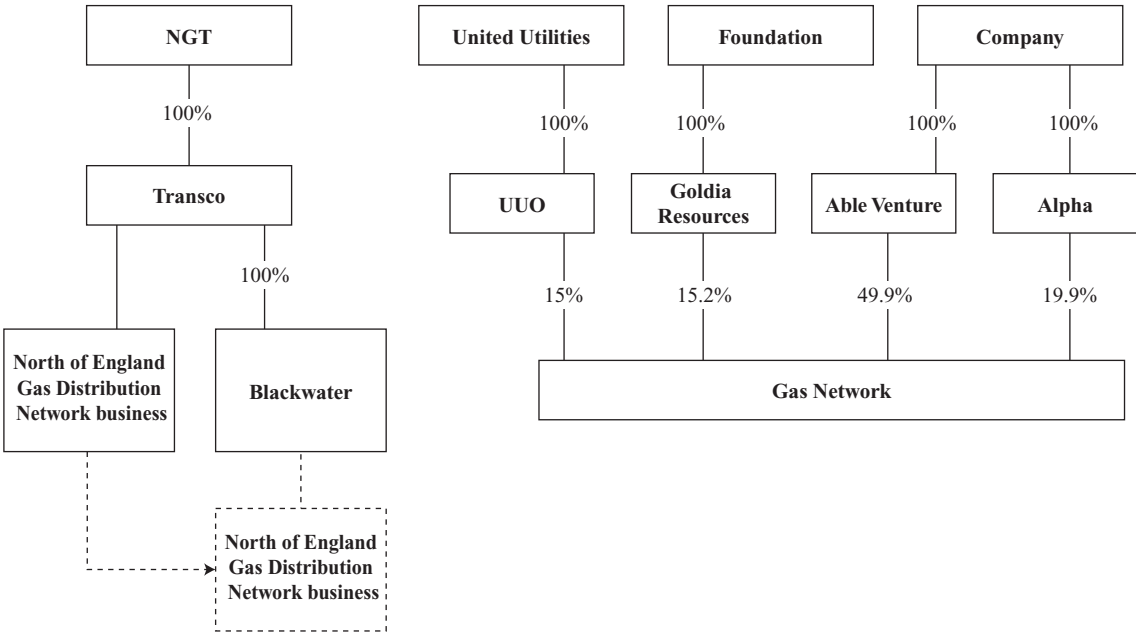
The terms of the Blackwater gas transporter licence have not yet been finalised. However, assuming that the terms of such licence are similar to those set out in the Transco gas transporter licence, such terms may indirectly restrict the persons to whom shares in Blackwater may be transferred. However,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

LETTER FROM THE BOARD

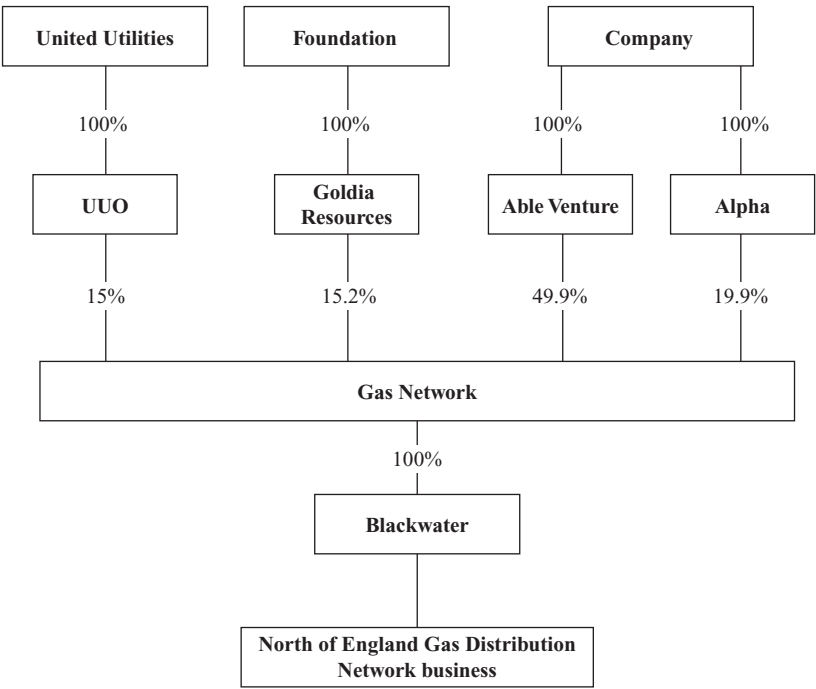
Structure

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

Before the Blackwater Acquisition



After the Blackwater Acquisition



LETTER FROM THE BOARD

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

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

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

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

INFORMATION ON BLACKWATER AND THE NORTH OF ENGLAND GAS DISTRIBUTION NETWORK

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

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

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

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

FINANCIAL EFFECTS OF THE BLACKWATER ACQUISITION

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

LETTER FROM THE BOARD

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

TREND OF THE BUSINESS AND FINANCIAL AND TRADING PROSPECTS

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

REASONS FOR AND BENEFITS OF THE BLACKWATER ACQUISITION

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

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

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

VERY SUBSTANTIAL ACQUISITION

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

RECOMMENDATION

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

LETTER FROM THE BOARD

PART B

ALPHA DISPOSAL AGREEMENT

Date

10th September, 2004

Parties

Company

HEH

Conditions precedent

Completion of the Alpha Disposal Agreement is conditional upon:

- (i) the Company Shareholders approving at the SGM: (a) the transactions contemplated by the Blackwater Acquisition Agreement and the Gas Network Shareholders Agreement; and (b) the Alpha Disposal as contemplated by the Alpha Disposal Agreement; and
- (ii) the HEH Independent Shareholders approving the Alpha Disposal and the related transactions and matters contemplated under the Alpha Disposal Agreement and the Gas Network Shareholders Agreement.

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

Completion

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

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

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

LETTER FROM THE BOARD

CONSIDERATION

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

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

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

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

GENERAL NATURE OF THE TRANSACTION

Summary

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

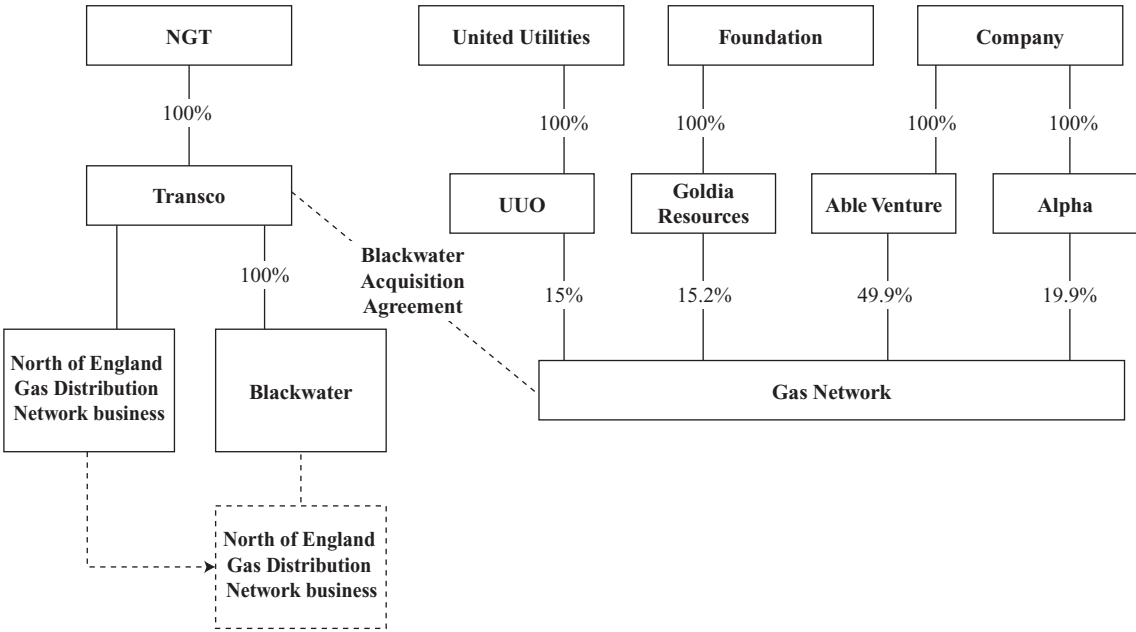
LETTER FROM THE BOARD

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

Structure

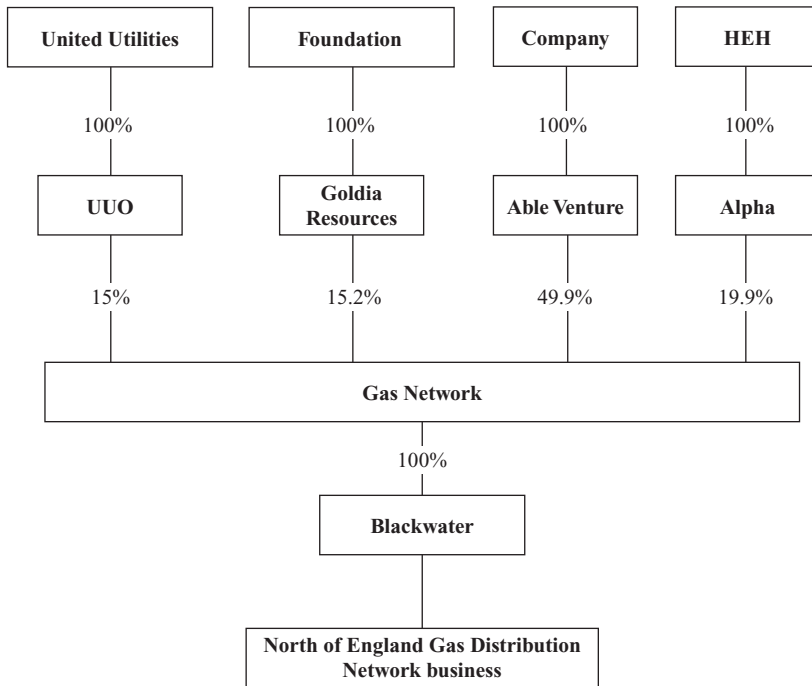
The following is the shareholding structure of Gas Network and Blackwater before completion of the Blackwater Acquisition and the Alpha Disposal and after completion of the Blackwater Acquisition and the Alpha Disposal (but taking no account of the 9.9% Disposal):

Before completion of the Blackwater Acquisition and the Alpha Disposal



LETTER FROM THE BOARD

After completion of the Blackwater Acquisition and the Alpha Disposal



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

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

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

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

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

LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries HEH is not a connected person of the Company notwithstanding that the Company holds approximately 39% of the issued share capital of HEH.

REASONS FOR AND BENEFITS OF THE ALPHA DISPOSAL

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

FINANCIAL EFFECTS OF THE ALPHA DISPOSAL

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

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

VERY SUBSTANTIAL DISPOSAL

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

LETTER FROM THE BOARD

RECOMMENDATION

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

PART C

9.9% DISPOSAL AGREEMENT

Date

12th November, 2004

Parties

The Company

Able Venture

The 9.9% Buyers

Conditions precedent

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

- (i) the Company Shareholders approving at the SGM the transactions contemplated by the Blackwater Acquisition Agreement;
- (ii) the Company Shareholders approving the transactions contemplated by the 9.9% Disposal Agreement (if required);
- (iii) no: (a) breach of certain specific Warranties; and (b) material breach (meaning a breach the effect of which would be to cause direct loss or damage to Gas Network of in excess of £50,000,000 (HK\$700,000,000)) of the Warranties and/or certain undertakings contained in the 9.9% Disposal Agreement relating to the exercise by Able Venture of voting rights in Gas Network, having occurred and, where such breach is capable of remedy, having not been remedied within a period of 21 days from the date of notice to Able Venture; and
- (iv) no material default by Gas Network or any of the shareholders of Gas Network subsisting under the terms of the Bank Letters and/or the Implementation Agreement at a time when the 9.9% Disposal Conditions set out in (i) and (ii) above have been satisfied and no event having occurred which would result in the lenders to Gas Network under such agreements being entitled to refuse to drawdown thereunder.

LETTER FROM THE BOARD

Completion

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

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

Guarantees

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

CONSIDERATION

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

LETTER FROM THE BOARD

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

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

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

- (i) the Blackwater Acquisition Agreement is terminated in accordance with its terms (including on the expiry of the long stop date for completion thereof being 29th August, 2005); or
- (ii) an agreed form assets services agreement between Gas Network and a service provider has not been signed or initialed by Gas Network and UUO or any other wholly-owned subsidiary of UUC one month prior to the date of completion of the Blackwater Acquisition Agreement; or
- (iii) at any time prior to one month prior to the date of completion of the Blackwater Acquisition Agreement the estimated transaction costs of Gas Network exceeds a certain level.

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

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

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

GENERAL NATURE OF THE TRANSACTION

Summary

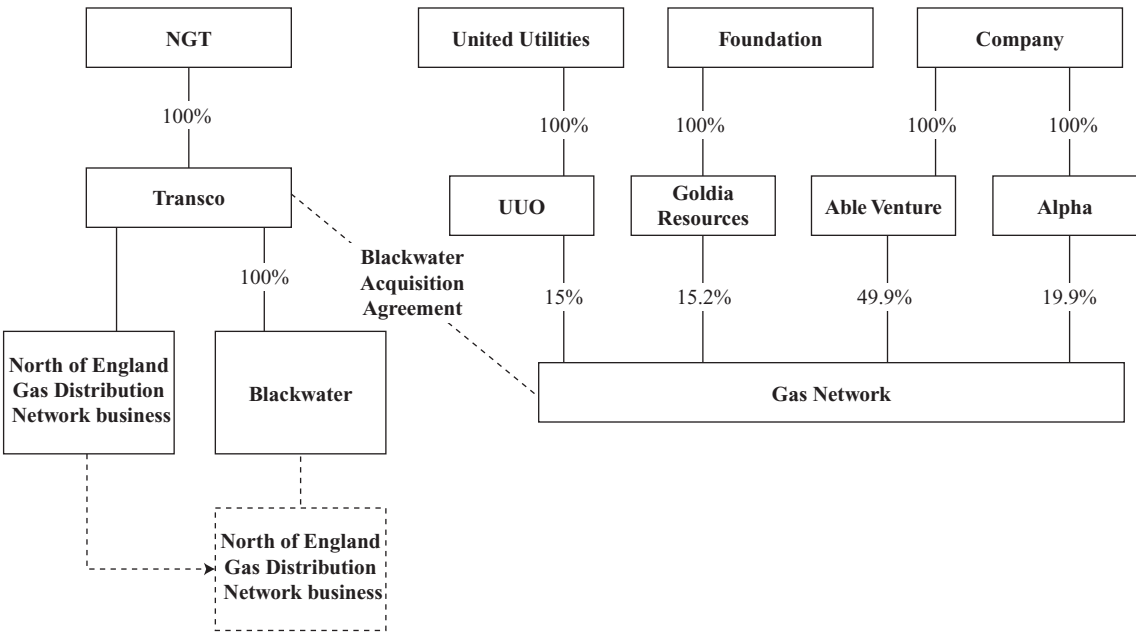
Reference is made to the statements contained in the section headed “General Nature of the Transaction” in Part A of this letter (page 11).

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

Structure

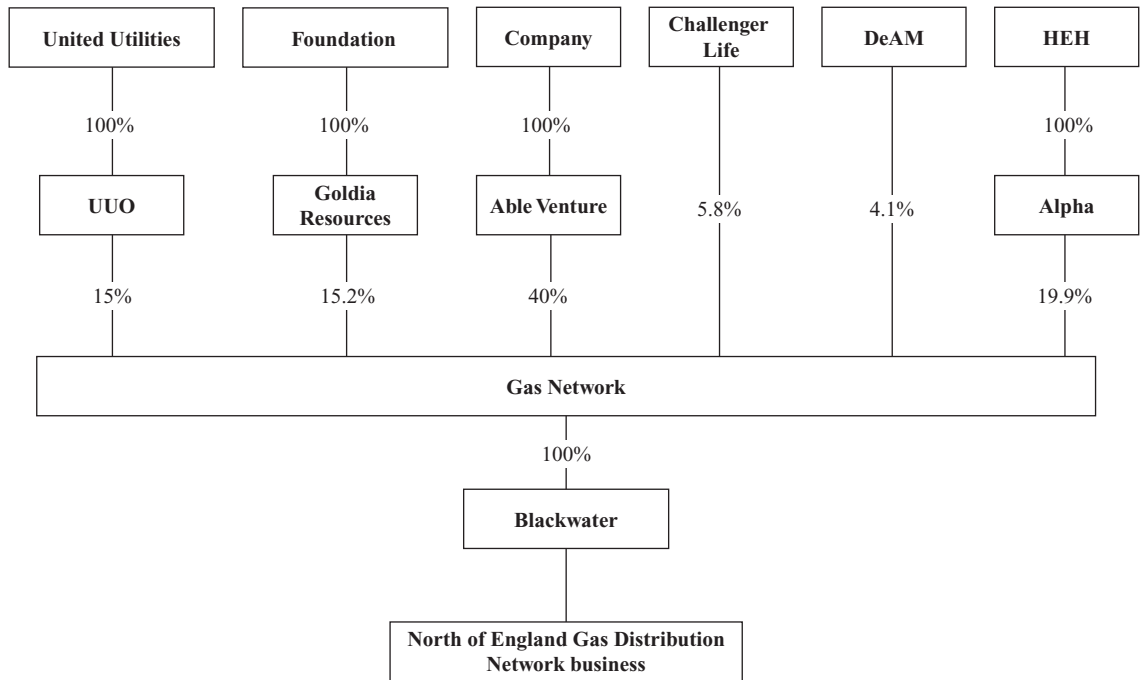
The following is the shareholding structure of Gas Network and Blackwater before completion of the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal and after completion of the Blackwater Acquisition, the Alpha Disposal and the 9.9% Disposal:

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



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



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

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

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

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

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

LETTER FROM THE BOARD

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

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

REASONS FOR AND BENEFITS OF THE 9.9% DISPOSAL

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

FINANCIAL EFFECTS OF THE 9.9% DISPOSAL

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

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

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

LETTER FROM THE BOARD

VERY SUBSTANTIAL DISPOSAL

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

RECOMMENDATION

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

SPECIAL GENERAL MEETING

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

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

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

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

ADDITIONAL INFORMATION

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

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

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

(Expressed in HK\$ million)

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

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

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

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

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

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

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

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

Respective Responsibilities of Directors and Auditors

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

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

Basis of Opinion

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

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

Opinion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 9th March, 2004

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December

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

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

BALANCE SHEETS

as at 31st December

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

LI TZAR KUOI, VICTOR
Director

IP TAK CHUEN, EDMOND
Director

9th March, 2004

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December

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

NOTES TO THE FINANCIAL STATEMENTS**1. CORPORATE INFORMATION**

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). The Directors consider that the Company’s ultimate holding company is Hutchison Whampoa Limited (“Hutchison Whampoa”), a company incorporated in Hong Kong with limited liability, the shares of which are listed on Hong Kong Stock Exchange.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

a) Basis of Consolidation

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

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

b) Goodwill

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

c) **Subsidiaries**

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

d) **Associates**

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

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

e) **Joint Ventures**

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

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

f) **Infrastructure Project Investments**

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

g) Property, Plant and Equipment

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

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

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

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

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

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

h) Inventories

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

i) Contract Work

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

j) Investments in Securities

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

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

k) Revenue Recognition

(i) Sales of goods

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

(ii) Contract revenue

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

(iii) Income from infrastructure projects and investments in securities

Income from infrastructure projects and investments in securities is recognised when the Group's right to receive payment is established. Income from infrastructure project investments is calculated in accordance with the terms and conditions of the relevant contracts.

(iv) Interest income

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

l) Foreign Currencies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

m) Deferred Taxation

In accordance with SSAP 12 (Revised) "Income Taxes" which became effective from 1st January, 2003, deferred taxation is provided using balance sheet liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding period. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS**2. PRINCIPAL ACCOUNTING POLICIES (cont'd)****n) Operating Leases**

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

o) Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases. The amounts due from the lessees under finance lease contracts are recorded as finance lease debtors. The finance lease debtors comprise the gross investment in leases less unearned finance lease income allocated to future accounting periods. The unearned finance lease income is allocated to future accounting periods so as to reflect constant periodic rates of return on the Group's net investments outstanding in respect of the leases.

p) Employee Retirement Benefits

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

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

The cost of providing retirement benefits under the Group's defined benefit retirement plan is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the employees participating in the plan. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

q) Borrowing Costs

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

3. TURNOVER

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. TURNOVER (cont'd)

By business segment

for the year ended 31st December

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

By geographic region

for the year ended 31st December

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

4. OTHER REVENUE

Other revenue includes the following:

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

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING COSTS

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

6. OPERATING PROFIT

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

7. FINANCE COSTS

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

NOTES TO THE FINANCIAL STATEMENTS

8. TAXATION

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND SEGMENT INFORMATION

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

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

By business segment

for the year ended 31st December

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

NOTES TO THE FINANCIAL STATEMENTS

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

By business segment (cont'd)

as at 31st December

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

By geographic region

for the year ended 31st December

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

as at 31st December

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

NOTES TO THE FINANCIAL STATEMENTS

10. EARNINGS PER SHARE

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

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

11. DIVIDENDS

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

12. PROPERTY, PLANT AND EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

13. INTERESTS IN SUBSIDIARIES

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

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

14. INTERESTS IN ASSOCIATES

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

NOTES TO THE FINANCIAL STATEMENTS

14. INTERESTS IN ASSOCIATES (cont'd)

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

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

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

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

16. INTERESTS IN INFRASTRUCTURE PROJECT INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN SECURITIES

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

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

18. OTHER NON-CURRENT ASSETS

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

Details of finance lease debtors are shown below:

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

NOTES TO THE FINANCIAL STATEMENTS

19. INVENTORIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

20. DEBTORS AND PREPAYMENTS

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

21. BANK AND OTHER LOANS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. CREDITORS AND ACCRUALS

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

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

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

23. DEFERRED TAX LIABILITIES

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

HK\$ million	Accelerated tax depreciation	Tax Losses	Revaluation of investments in securities	Total
At 1st January, 2002, as previously reported	–	–	–	–
Prior year adjustment (<i>note 2(m)</i>)	119	(61)	28	86
At 1st January, 2002, as restated	119	(61)	28	86
Charge against profit for the year	–	4	–	4
Charge against investment revaluation reserve	–	–	18	18
Exchange translation differences	–	–	3	3
At 31st December, 2002	119	(57)	49	111
(Credit to)/charge against profit for the year	(11)	7	–	(4)
Charge against investment revaluation reserve	–	–	23	23
Change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries in prior years	6	–	–	6
Exchange translation differences	–	–	15	15
At 31st December, 2003	114	(50)	87	151

NOTES TO THE FINANCIAL STATEMENTS

23. DEFERRED TAX LIABILITIES (cont'd)

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

Apart from the unused tax losses of which the deferred tax assets have been recognised as presented above, the Group has unused tax losses and other unused tax credits totalling HK\$397 million (2002: HK\$450 million) at the balance sheet date. No deferred tax asset has been recognised in respect of these tax losses and tax credits due to the unpredictability of future profit streams to utilise the available tax losses and tax credits. An analysis of the expiry dates of the tax losses and tax credits is as follows:

HK\$ million	2003	2002
Within one year	14	25
In the second year	45	20
In the third to fifth year, inclusive	117	146
After five years	—	15
No expiry date	221	244
Total	397	450

24. SHARE CAPITAL

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

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES

Group

HK\$ million	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Retained profits	Proposed dividends	Total
At 1st January, 2002, as previously reported	3,836	7,632	108	(22)	12,032	947	24,533
Prior year adjustment (<i>note 2 (m)</i>)	–	(1,553)	(28)	(1)	(614)	–	(2,196)
At 1st January, 2002, as restated	3,836	6,079	80	(23)	11,418	947	22,337
Final dividend for the year 2001 paid	–	–	–	–	–	(947)	(947)
Deficit on revaluation of non-trading securities	–	–	(9)	–	–	–	(9)
Surplus realised on disposals of non-trading securities	–	–	(90)	–	–	–	(90)
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(18)	–	–	–	(18)
Exchange translation differences	–	–	–	162	–	–	162
Profit for the year	–	–	–	–	3,326	–	3,326
Proposed interim dividend	–	–	–	–	(485)	485	–
Interim dividend paid	–	–	–	–	–	(485)	(485)
Proposed final dividend	–	–	–	–	(1,048)	1,048	–
At 31st December, 2002	3,836	6,079	(37)	139	13,211	1,048	24,276
Final dividend for the year 2002 paid	–	–	–	–	–	(1,048)	(1,048)
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years	–	(36)	–	–	–	–	(36)
Goodwill charged to income statement on disposal of a subsidiary	–	19	–	–	–	–	19
Surplus on revaluation of non-trading securities	–	–	44	–	–	–	44
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(23)	–	–	–	(23)
Exchange translation differences	–	–	–	675	–	–	675
Profit for the year	–	–	–	–	3,349	–	3,349
Proposed interim dividend	–	–	–	–	(485)	485	–
Interim dividend paid	–	–	–	–	–	(485)	(485)
Proposed final dividend	–	–	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	6,062	(16)	814	14,948	1,127	26,771

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES (cont'd)

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

Company

HK\$ million	Share premium	Contributed surplus	Retained profits	Proposed dividends	Total
At 1st January, 2002	3,836	20,810	1,873	947	27,466
Final dividend for the year 2001 paid	–	–	–	(947)	(947)
Profit for the year	–	–	1,678	–	1,678
Proposed interim dividend	–	–	(485)	485	–
Interim dividend paid	–	–	–	(485)	(485)
Proposed final dividend	–	–	(1,048)	1,048	–
At 31st December, 2002	3,836	20,810	2,018	1,048	27,712
Final dividend for the year 2002 paid	–	–	–	(1,048)	(1,048)
Profit for the year	–	–	1,703	–	1,703
Proposed interim dividend	–	–	(485)	485	–
Interim dividend paid	–	–	–	(485)	(485)
Proposed final dividend	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	20,810	2,109	1,127	27,882

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

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

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Disposals of subsidiaries

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

Analysis of the net cash flow arising on the disposals:

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

27. RETIREMENT PLANS

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

Contributions to the defined contribution plans are made by either the employer only at 10% of the employees' monthly basic salaries or by both the employer and the employees each at 10 or 15% of the employees' monthly basic salaries. The Company and its Hong Kong subsidiaries also participate in master trust Mandatory Provident Fund ("MPF") schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5% of the employees' monthly relevant incomes each capped at HK\$20,000. As the Group's retirement plans in Hong Kong, including the defined benefit plan mentioned above, are all MPF-exempted recognised occupational retirement schemes ("ORSO schemes"), except for certain subsidiaries of which the new Hong Kong employees have to join the MPF schemes, the Group offers an option to its new Hong Kong employees to elect between the ORSO schemes and the MPF schemes.

Contributions to the defined benefit plan are made by the employees at either 5 or 7% of the employees' salaries and contributions made by the employer are based on the recommendations of an independent actuary according to a periodic actuarial valuation of the plan.

NOTES TO THE FINANCIAL STATEMENTS

27. RETIREMENT PLANS (cont'd)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. RETIREMENT PLANS (cont'd)

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

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

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

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

Since 1st January, 2002, the Group has adopted SSAP 34 "Employee Benefits". As at that date, the Group determined the transitional liability for its defined benefit plan to be HK\$13 million. This amount is being recognised on a straight-line basis over a period of five years from 1st January, 2002. A charge of HK\$2 million (2002: HK\$3 million) was recognised in the current year. As at 31st December, 2003, transitional liability of HK\$8 million (2002: HK\$10 million) remained unrecognised.

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

NOTES TO THE FINANCIAL STATEMENTS

28. REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES

(a) Directors' Remuneration

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Senior Executives' Remuneration

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

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

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

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

29. COMMITMENTS

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

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

- (b) At 31st December, the Group and the Company had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

HK\$ million	Group		Company	
	2003	2002	2003	2002
Within one year	21	41	4	6
In the second to fifth year, inclusive	20	78	2	9
After five years	13	22	–	–
Total	54	141	6	15

NOTES TO THE FINANCIAL STATEMENTS

30. CONTINGENT LIABILITIES

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

31. MATERIAL RELATED PARTY TRANSACTIONS

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

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

32. APPROVAL OF FINANCIAL STATEMENTS

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

PRINCIPAL SUBSIDIARIES

APPENDIX 1

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

Name	Share capital issued Number	Par value per share	Proportion of nominal value of issued capital held by the Group (%)	Principal activities
Incorporated and operating in Hong Kong				
Anderson Asia (Holdings) Limited	2 ordinary 65,780,000 non-voting deferred	HK\$0.5 HK\$0.5	100 –	Investment holding
Anderson Asia Concrete Limited	800,000 ordinary	HK\$1	100	Investment holding
Anderson Asphalt Limited	36,000 ordinary	HK\$100	100	Production and laying of asphalt and investment holding
Asia Stone Company, Limited	33,000,000 ordinary	HK\$1	100	Quarry operation and manufacture of aggregates
Cheung Kong Infrastructure Finance Company Limited	2 ordinary	HK\$1	100	Financing
China Cement Company (International) Limited	1,000,000 ordinary	HK\$1	70	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK\$2	100	Manufacturing, sale and distribution of cement and property investment

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

APPENDIX 1 (cont'd)

Name	Share capital issued Number	Par value per share	Proportion of nominal value of issued capital held by the Group (%)	Principal activities
Incorporated and operating in Hong Kong (cont'd)				
Green Island Cement (Holdings) Limited	101,549,457 ordinary	HK\$2	100	Investment holding
Ready Mixed Concrete (H.K.) Limited	50,000,000 ordinary	HK\$1	100	Production and sale of concrete and investment holding
Incorporated in British Virgin Islands and operating in Hong Kong				
Cheung Kong Infrastructure Finance (BVI) Limited	1 ordinary	US\$1	100	Financing
Green Island International (BVI) Limited	1 ordinary	US\$1	100	Investment holding
Incorporated in Hong Kong and operating in Mainland China				
Cheung Kong China Infrastructure Limited	2 ordinary	HK\$1	100	Investment holding and investment in infrastructure projects in Mainland China
Incorporated and operating in Australia				
Cheung Kong Infrastructure Finance (Australia) Pty Ltd	1 ordinary	A\$1	100	Financing
CKI Transmission Finance (Australia) Pty Ltd	12 ordinary	A\$1	100	Financing
CKI Distribution Finance (Australia) Pty Ltd	100 ordinary	A\$1	100	Financing

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

PRINCIPAL ASSOCIATES

APPENDIX 2

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

Name	Share capital issued Number	Par value per share	Approximate share of equity shares held by the Group (%)	Principal activities
Incorporated and operating in Hong Kong				
Hongkong Electric Holdings Limited (<i>note 1</i>)	2,134,261,654 ordinary	HK\$1	39	Electricity generation and distribution
Eastern Harbour Crossing Company Limited	35,000,000 ordinary	HK\$10	50	Exercise of a franchise to operate the rail section of a tunnel
Incorporated and operating in Australia				
ETSA Utilities Partnership (<i>note 2</i>)	N/A	N/A	50	Electricity distribution
CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited (<i>note 3</i>)	200 ordinary	A\$1	50	Investing holding
CKI/HEI Electricity Distribution Pty Limited (<i>note 4</i>)	200 ordinary	A\$1	50	Electricity distribution
CKI/HEI Electricity Distribution Two Pty Limited (<i>note 5</i>)	200 ordinary	A\$1	50	Electricity distribution
CrossCity Motorway Holdings Pty Limited (<i>note 6</i>)	3,339,969 ordinary	A\$0.01	50	Construction and operation of Cross City Tunnel
CrossCity Motorway Holdings Trust (<i>note 6</i>)	N/A	N/A	50	Construction and operation of Cross City Tunnel
Incorporated in British Virgin Islands				
CKI/HEI Electricity Assignment Limited	2 ordinary	US\$1	50	Investment holding

APPENDIX 2 (cont'd)

Notes:

1. The associate is listed on Hong Kong Stock Exchange.
2. ETSA Utilities Partnership, an unincorporated body, is formed by the following companies:

CKI Utilities Development Limited

CKI Utilities Holdings Limited

CKI/HEI Utilities Distribution Limited

HEI Utilities Development Limited

HEI Utilities Holdings Limited

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

The partnership operates and manages the electricity distribution business in the State of South Australia of Australia.
3. CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited owns 100% interests in CKI/HEI Electricity Distribution Pty Limited and CKI/HEI Electricity Distribution Two Pty Limited.
4. CKI/HEI Electricity Distribution Pty Limited owns 100% interests in the following companies (“the Powercor Group”):

Powercor Proprietary Limited

Powercor Australia Limited Liability Company

Powercor Australia Holdings Pty Limited

Powercor Australia Limited

The Powercor Group operates and manages an electricity distribution business in the State of Victoria of Australia.
5. CKI/HEI Electricity Distribution Two Pty Limited owns 100% interests in CitiPower I Pty Ltd, which is one of five electricity distributors in the State of Victoria of Australia.
6. CrossCity Motorway Holdings Limited or CrossCity Motorway Holdings Trust own 100% interests in the following companies (“the Cross City Tunnel Group”):

CrossCity Motorway Pty Limited

CrossCity Motorway Property Trust

CrossCity Motorway Finance Pty Limited

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

PRINCIPAL JOINTLY CONTROLLED ENTITIES

APPENDIX 3

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

Name	Percentage of interest held by the Group	Profit sharing percentage	Principal activities
Incorporated and operating in Mainland China			
Guangdong Shantou Bay Bridge Co. Ltd.	30	30	Operation of Shantou Bay Bridge
Guangdong Zhuhai Power Station Co., Ltd.	45	45	Operation of Zhuhai Power Station
Guangdong Shenzhen-Shantou Highway (East) Co., Ltd.	33.5	33.5	Operation of Shenzhen-Shantou Highway (Eastern Section)
Guangzhou E-S-W Ring Road Co., Ltd.	44.5	45*	Operation of Guangzhou East South West Ring Road
* Years from 2012 to 2021, inclusive : 37.5%			
Thereafter : 32.5%			

EXTRACTS OF FINANCIAL STATEMENTS OF HONGKONG ELECTRIC

APPENDIX 4

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December

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

APPENDIX 4 (cont'd)

CONSOLIDATED BALANCE SHEET

as at 31st December

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

SCHEDULE OF MAJOR PROPERTIES

APPENDIX 5

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

I : Industrial C : Commercial

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

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

CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June

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

CONSOLIDATED BALANCE SHEET

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

2. TURNOVER

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

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

The turnover for the current period is analysed as follows:

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

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

3. OTHER REVENUE

Other revenue includes the following:

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

4. OPERATING COSTS

Operating costs include the following:

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

5. SEGMENT INFORMATION

By business segment

for the six months ended 30th June

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

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

5. SEGMENT INFORMATION (cont'd)

By geographic region

for the six months ended 30th June

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

6. TAXATION

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

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

7. EARNINGS PER SHARE

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

8. DEBTORS AND PREPAYMENTS

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

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

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

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

9. CREDITORS AND ACCRUALS

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

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

10. SHARE CAPITAL

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

11. RESERVES

HK\$ million	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Retained profits	Proposed dividends	Total
At 1st January, 2004	3,836	6,062	(16)	814	14,948	1,127	26,771
Final dividend for the year 2003 paid	—	—	—	—	—	(1,127)	(1,127)
Surplus on revaluation of non-trading securities	—	—	82	—	—	—	82
Deferred tax charge on revaluation surplus of non-trading securities	—	—	(18)	—	—	—	(18)
Exchange translation differences	—	—	—	(151)	—	—	(151)
Profit for the period	—	—	—	—	1,438	—	1,438
Proposed interim dividend	—	—	—	—	(496)	496	—
At 30th June, 2004	3,836	6,062	48	663	15,890	496	26,995
At 1st January, 2003	3,836	6,079	(37)	139	13,211	1,048	24,276
Final dividend for the year 2002 paid	—	—	—	—	—	(1,048)	(1,048)
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years	—	(36)	—	—	—	—	(36)
Surplus on revaluation of non-trading securities	—	—	89	—	—	—	89
Deferred tax charge on revaluation surplus of non-trading securities	—	—	(28)	—	—	—	(28)
Exchange translation differences	—	—	—	412	—	—	412
Profit for the period	—	—	—	—	1,403	—	1,403
Proposed interim dividend	—	—	—	—	(485)	485	—
At 30th June, 2003	3,836	6,043	24	551	14,129	485	25,068

12. CAPITAL COMMITMENTS

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

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

13. CONTINGENT LIABILITIES

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

14. COMPARATIVE FIGURES

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

(D) MANAGEMENT DISCUSSION AND ANALYSIS**The year ended 31st December, 2001****Results**

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

Business review*Investment in HEH*

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

Infrastructure investments

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

Infrastructure materials and infrastructure related businesses

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

Financial position

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

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

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

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

The year ended 31st December, 2002**Results**

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

Business review*Investment in HEH*

The Company maintained its stake in HEH at 38.87% in 2002. The Company's investment in HEH accounted for HK\$2,556 million of the Company's profit attributable to shareholders in 2002 representing an increase of 7.8% over the previous year. HEH reported a net profit of HK\$6,624 million in 2002, a 7.6% increase from 2001. The growth in net profit of HEH was attributable to stable income from HEH's domestic business as well as significant returns from HEH's overseas investments in Australia.

Infrastructure investments

The Company's infrastructure investments accounted for HK\$1,357 million of the Company's profit attributable to shareholders in 2002 representing an increase of 7.1% compared with the previous year. This overall increase reflected the acquisition of the CitiPower electricity distributor serving customers in Melbourne, Australia; satisfactory performance of the Company's other Australian and Chinese energy related investments; and overall good performance from the Company's transport related investments in Hong Kong and Mainland China. In December 2002 a consortium in which the Company has a 50% stake was awarded the Cross City Tunnel project in Sydney, Australia.

Infrastructure materials and infrastructure related businesses

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

Financial position

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

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

As at 31st December, 2002, the Group maintained a gearing ratio at 21% which was based on its net debt of HK\$5,454 million and equity of HK\$26,530 million.

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

The year ended 31st December, 2003**Results**

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

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

Business review*Investment in HEH*

The Company maintained its stake in HEH at 38.87% in 2003. The Company's investment in HEH accounted for HK\$2,281 million of the Company's profit attributable to shareholders in 2003 representing a decrease of 11% over the previous year. HEH reported a net profit of HK\$6,057 million in 2003, an 8.6% drop from 2002. This drop in net profit of HEH was attributable to a change in the accounting rules relating to deferred tax, an increase in the corporate tax rate, as well as a soft domestic economy caused by Severe Acute Respiratory Syndrome. HEH's Australian operations continued to register strong financial growth in 2003.

Infrastructure investments

The Company's infrastructure investments accounted for HK\$1,641 million of the Company's profit attributable to shareholders in 2003 representing an increase of 21% compared with the previous year. This overall increase reflected strong performance in the Company's Australian energy investments which was attributable to organic growth, a first full-year contribution from CitiPower, and the strength of the Australian dollar. Energy investments in China also performed strongly due to sound performance of Zhuhai Power Plant and the smooth operation of the other three power plants during the year. As a result of growing economy and soaring GDP of China, the Group's transportation investments in Mainland China also continued to report organic growth in 2003. In Australia, the construction of the Cross City Tunnel made steady progress.

Infrastructure materials and infrastructure related businesses

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

Financial position

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

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

As at 31st December, 2003, the Group maintained a gearing ratio at 18% which was based on its net debt of HK\$5,094 million and equity of HK\$29,025 million.

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

To minimise currency risk exposure in respect of its investments in other countries, the Group has a policy of hedging those investments with the appropriate level of borrowings denominated in the local currencies of those countries. As at 31st December, 2003, the Group

has swapped the floating interest rates of its borrowings totalling HK\$6,062 million into fixed interest rates. The Group will consider entering into further interest and currency swap transactions to hedge against its interest rate and currency risk exposures, as appropriate.

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

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

Employees

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,678 employees. Employees' costs (excluding directors' emoluments) amounted to HK\$321 million in 2003. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

(E) INDEBTEDNESS

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

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

Save as disclosed above or as otherwise mentioned herein and apart from intra-group liabilities, the Enlarged Group did not, at the close of business on 31st October, 2004 have any mortgages, charges, debentures, bank overdrafts or loan capital, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, finance lease commitment, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or guarantees or other contingent liabilities.

(F) WORKING CAPITAL

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

26th November, 2004

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

Dear Sirs,

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

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

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

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

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

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

APPENDIX II

FINANCIAL INFORMATION OF THE ACQUIRED BUSINESS

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

A. FINANCIAL INFORMATION

INCOME STATEMENTS

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

APPENDIX II FINANCIAL INFORMATION OF THE ACQUIRED BUSINESS

BALANCE SHEETS

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

STATEMENTS OF CHANGES IN EQUITY

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

CASH FLOW STATEMENTS

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

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

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

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

(a) General basis of preparation

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

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

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

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

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

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

(b) Specific bases of preparation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are as follows:

(a) Property, plant and equipment

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

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

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

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

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

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

(b) Inventories

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

(c) Revenue recognition

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

(d) Leases

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

(e) Employee retirement benefits

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

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

(f) Environmental costs

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

(g) Deferred taxation

Deferred taxation is provided on all temporary differences arising between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit of the corresponding period. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement. No provision is made where it is more likely than not that any taxable gain will be rolled over into replacement assets.

3. SEGMENT INFORMATION

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

4. TURNOVER

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

5. STAFF COSTS

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

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

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

6. PROFIT FROM OPERATIONS

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

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

7. FINANCE COSTS

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

8. TAXATION

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

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

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

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

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

APPENDIX II FINANCIAL INFORMATION OF THE ACQUIRED BUSINESS

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

9. PROPERTY, PLANT AND EQUIPMENT

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

APPENDIX II

FINANCIAL INFORMATION OF THE ACQUIRED BUSINESS

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

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

10. INVENTORIES

Inventories comprise raw materials.

11. TRADE DEBTORS, OTHER DEBTORS AND PREPAYMENTS

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

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

12. TRADE CREDITORS, OTHER CREDITORS AND ACCRUALS

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

13. OBLIGATIONS UNDER FINANCE LEASES

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

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

14. BORROWINGS

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

15. PROVISIONS

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

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

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

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

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

16. DEFERRED TAX LIABILITIES

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

Deferred tax liabilities was provided on the following temporary differences:

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

17. SHARE CAPITAL

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

18. INVESTED CAPITAL

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

19. COMMITMENTS

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

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

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

20. RETIREMENT BENEFIT SCHEMES

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

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

21. RELATED PARTY TRANSACTIONS

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

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

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

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

B. ULTIMATE HOLDING COMPANY

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

C. SUBSEQUENT EVENTS

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

D. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP FOLLOWING THE BLACKWATER ACQUISITION BUT NOT TAKING ACCOUNT OF THE ALPHA DISPOSAL AND/OR THE 9.9% DISPOSAL
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26th November, 2004

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

Dear Sirs,

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

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Acquisition Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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

Basis of opinion

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

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

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

Opinion

In our opinion:

- a. the Acquisition Pro Forma Financial Information has been properly compiled on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Acquisition Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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

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

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

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

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

APPENDIX III **UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP FOLLOWING THE BLACKWATER ACQUISITION BUT NOT TAKING ACCOUNT OF THE ALPHA DISPOSAL AND/OR THE 9.9% DISPOSAL**

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

Notes:

- (1) Adjustment to reflect the 49.9% share of result of Blackwater for the year.
- (2) Adjustment to reflect the 49.9% share of tax of Blackwater for the year.
- (3) Adjustment to reflect the amortisation of goodwill.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

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

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

APPENDIX III **UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP FOLLOWING THE BLACKWATER ACQUISITION BUT NOT TAKING ACCOUNT OF THE ALPHA DISPOSAL AND/OR THE 9.9% DISPOSAL**

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

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

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

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

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

APPENDIX III **UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP FOLLOWING THE BLACKWATER ACQUISITION BUT NOT TAKING ACCOUNT OF THE ALPHA DISPOSAL AND/OR THE 9.9% DISPOSAL**

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

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

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
FOLLOWING THE BLACKWATER ACQUISITION AND THE ALPHA DISPOSAL
BUT NOT TAKING ACCOUNT OF THE 9.9% DISPOSAL

26th November, 2004

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

Dear Sirs,

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

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Alpha Disposal Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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

Basis of opinion

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

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

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

Opinion

In our opinion:

- a. the Alpha Disposal Pro Forma Financial Information has been properly compiled on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Alpha Disposal Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
FOLLOWING THE BLACKWATER ACQUISITION AND THE ALPHA DISPOSAL
BUT NOT TAKING ACCOUNT OF THE 9.9% DISPOSAL**

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

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE REMAINING GROUP

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

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

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
FOLLOWING THE BLACKWATER ACQUISITION AND THE ALPHA DISPOSAL
BUT NOT TAKING ACCOUNT OF THE 9.9% DISPOSAL**

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

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
FOLLOWING THE BLACKWATER ACQUISITION AND THE ALPHA DISPOSAL
BUT NOT TAKING ACCOUNT OF THE 9.9% DISPOSAL**

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE REMAINING GROUP

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

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

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

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
FOLLOWING THE BLACKWATER ACQUISITION AND THE ALPHA DISPOSAL
BUT NOT TAKING ACCOUNT OF THE 9.9% DISPOSAL**

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

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

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

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

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

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
FOLLOWING THE BLACKWATER ACQUISITION AND THE ALPHA DISPOSAL
BUT NOT TAKING ACCOUNT OF THE 9.9% DISPOSAL**

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

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
FOLLOWING THE BLACKWATER ACQUISITION AND THE ALPHA DISPOSAL
BUT NOT TAKING ACCOUNT OF THE 9.9% DISPOSAL**

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

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

26th November, 2004

The Directors

Cheung Kong Infrastructure Holdings Limited

12th Floor, Cheung Kong Center,

2 Queen's Road Central,

Hong Kong

Dear Sirs,

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

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the 9.9% Disposal Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the 9.9% Disposal Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the 9.9% Disposal Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where

applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the 9.9% Disposal Pro Forma Financial Information with the Directors of the Company.

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

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

Opinion

In our opinion:

- a. the 9.9% Disposal Pro Forma Financial Information has been properly compiled on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the 9.9% Disposal Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE REMAINING GROUP

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

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

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

Note:

- (1) Adjustment to reverse 9.9% share of results of Blackwater.
- (2) Adjustment to reverse 9.9% amortisation of goodwill on acquisition of Blackwater.
- (3) Adjustment to reverse 9.9% share of tax of Blackwater.
- (4) Adjustment to reflect gain on disposal of 9.9% interest in Blackwater.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE REMAINING GROUP

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

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

APPENDIX V

**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP FOLLOWING THE BLACKWATER ACQUISITION AND
THE 9.9% DISPOSAL BUT NOT TAKING ACCOUNT OF THE ALPHA DISPOSAL**

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

Note:

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

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

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

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

APPENDIX V

**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP FOLLOWING THE BLACKWATER ACQUISITION AND
THE 9.9% DISPOSAL BUT NOT TAKING ACCOUNT OF THE ALPHA DISPOSAL**

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

Note:

- (1) Adjustment to reflect the reduction in consideration payable for acquisition of interests in Blackwater upon disposal of 9.9% interest in Blackwater.
- (2) Adjustment to reflect the net cash arising from the disposal of 9.9% interest in Blackwater.

26th November, 2004

The Directors

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

Dear Sirs,

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

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying

financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information with the Directors of the Company.

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

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

Opinion

In our opinion:

- a. the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information has been properly compiled on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Alpha Disposal and 9.9% Disposal Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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

1. UNAUDITED PRO FORMA INCOME STATEMENT OF THE REMAINING GROUP

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

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

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

Note:

- (1) Adjustment to reverse 9.9% share of results of Blackwater.
- (2) Adjustment to reverse 9.9% share of goodwill on acquisition of Blackwater.
- (3) Adjustment to reflect gain on disposal of 9.9% interest in Blackwater.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE REMAINING GROUP

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

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

APPENDIX VI
**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP FOLLOWING THE BLACKWATER ACQUISITION,
THE ALPHA DISPOSAL AND THE 9.9% DISPOSAL**

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

Note:

- (1) Adjustment to reflect disposal of 19.9% interest in Blackwater.
- (2) Adjustment to reflect disposal of 9.9% interest in Blackwater.
- (3) Adjustment to reflect gain on disposal of 9.9% interest in Blackwater.

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

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

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

APPENDIX VI
**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP FOLLOWING THE BLACKWATER ACQUISITION,
THE ALPHA DISPOSAL AND THE 9.9% DISPOSAL**

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

Note:

- (1) Adjustment to reflect the reduction in consideration payable for acquisition of interest in Blackwater upon disposal of 19.9% interest in Blackwater.
- (2) Adjustment to reflect the reduction in consideration payable for acquisition of interest in Blackwater upon disposal of 9.9% interest in Blackwater.
- (3) Adjustment to reflect the net cash arising from the disposal of 9.9% interest in Blackwater.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executives were deemed or taken to have under such provisions of the SFO); or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors adopted by the Company (“Model Code”) were as follows:

Long Positions in Shares

Name of Company	Name of Director	Capacity	Number of Ordinary Shares				Total	Approximate % of Shareholding
			Personal Interests	Family Interests	Corporate Interests	Other Interests		
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	1,912,109,945 (Note 1)	1,912,109,945	84.82%
	Kam Hing Lam	Beneficial owner	100,000	–	–	–	100,000	0.004%
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation & beneficiary of trusts	–	–	1,086,770 (Note 3)	2,141,698,773 (Note 2)	2,142,785,543	50.26%
	Kam Hing Lam	Beneficial owner	60,000	–	–	–	60,000	0.001%
	George Colin Magnus	Beneficial owner & interest of child or spouse	990,100	9,900	–	–	1,000,000	0.02%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	2,510,875 (Note 5)	–	2,510,875	0.06%
	Chow Woo Mo Fong, Susan	Beneficial owner	150,000	–	–	–	150,000	0.003%
	Frank John Sixt	Beneficial owner	50,000	–	–	–	50,000	0.001%
	Lee Pui Ling, Angelina	Beneficial owner	38,500	–	–	–	38,500	0.0009%

Long Positions in Shares (cont’d)

Name of Company	Name of Director	Capacity	Number of Ordinary Shares				Approximate % of Shareholding	
			Personal Interests	Family Interests	Corporate Interests	Other Interests		Total
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	Beneficial owner & interest of controlled corporation	100,000	–	1,000,000 (Note 5)	–	1,100,000	0.16%
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Interest of child or spouse & beneficiary of trusts	–	151,000	–	829,599,612 (Note 4)	829,750,612	38.88%
	Lee Pui Ling, Angelina	Beneficial owner	8,800	–	–	–	8,800	0.0004%
Hutchison Harbour Ring Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	5,000,000 (Note 5)	–	5,000,000	0.07%
Hutchison Global Communications Holdings Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation & beneficiary of trusts	–	–	26,300,000 (Note 3)	3,875,632,628 (Note 6)	3,901,932,628	56.52%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	10,000,000 (Note 5)	–	10,000,000	0.14%
Hutchison Telecommunications International Limited	Li Tzar Kuoi, Victor	Interest of controlled corporations & beneficiary of trusts	–	–	14,489 (Note 3)	3,185,589,325 (Note 7)	3,185,603,814	70.79%
	George Colin Magnus	Beneficial owner & interest of child or spouse	13,201	132	–	–	13,333	0.0003%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	250,000 (Note 5)	–	250,000	0.006%
	Chow Woo Mo Fong, Susan	Beneficial owner	250,000	–	–	–	250,000	0.006%

Long Positions in Underlying Shares

Name of Company	Name of Director	Capacity	Number of Underlying Shares				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
Hutchison Global Communications Holdings Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	3,333,333,333 underlying shares by virtue of HK\$3,200,000,000 1% Unsecured Convertible Notes due 2009 (Note 6)	3,333,333,333 underlying shares by virtue of HK\$3,200,000,000 1% Unsecured Convertible Notes due 2009
			–	–	–	1,041,666,666 underlying shares by virtue of Facility Convertible Notes to be issued pursuant to the terms of an unsecured loan facility of HK\$1,000,000,000 (Note 6)	1,041,666,666 underlying shares by virtue of Facility Convertible Notes to be issued pursuant to the terms of an unsecured loan facility of HK\$1,000,000,000
Hutchison Telecommunications International Limited	Frank John Sixt	Beneficial owner	255,000 underlying shares by virtue of 17,000 American Depositary Shares	–	–	–	255,000 underlying shares by virtue of 17,000 American Depositary Shares

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	–	–	Euro20,900,000 5.875% Notes due 2013 (Note 3)	–	Euro20,900,000 5.875% Notes due 2013
Hutchison Whampoa International (03/33) Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US\$6,500,000 6.25% Notes due 2014 (Note 3)	–	US\$6,500,000 6.25% Notes due 2014

Notes:

- 1 The 1,912,109,945 shares in the Company comprise 1,906,681,945 shares held by a subsidiary of Hutchison Whampoa Limited (“HWL”) and 5,428,000 shares held by Li Ka-Shing Unity Trustee Company Limited (“TUT1”) as trustee of The Li Ka-Shing Unity Trust (“UT1”). The 2 underlying shares of the Company are held by an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited (“CKH”).

The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and another discretionary trust (“DT2”) are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Each of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”, which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”, which is the trustee of DT2) holds units in UT1 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. TUT1 as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings (“TUT1 related companies”) hold more than one-third of the issued share capital of CKH. Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of HWL.

The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited (“Unity Holdco”). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a director of CKH, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies, the shares of HWL held by the subsidiaries of CKH and the shares of the Company held by each of the subsidiary of HWL and TUT1 as trustee of UT1 and the underlying shares held by the subsidiary of CKH under the SFO as a Director. Although Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco and is a discretionary beneficiary of each of DT1 and DT2, he is not a director of CKH and has no duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies under the SFO.

Notes (cont'd):—

2 The 2,141,698,773 shares in HWL comprise:

- (a) 2,130,202,773 shares held by certain subsidiaries of CKH. By virtue of the interests in shares of CKH in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH as described in Note 1 above and as a Director, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL under the SFO.
- (b) 11,496,000 shares held by Li Ka-Shing Castle Trustee Company Limited (“TUT3”) as trustee of The Li Ka-Shing Castle Trust (“UT3”). The discretionary beneficiaries of each of the two discretionary trusts (“DT3” and “DT4”) are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Each of the trustees of DT3 and DT4 holds units in UT3 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust.

The entire issued share capital of TUT3 and the trustees of DT3 and DT4 are owned by Li Ka-Shing Castle Holdings Limited (“Castle Holdco”). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Castle Holdco. TUT3 is only interested in the shares of HWL by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of HWL independently without any reference to Castle Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Castle Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT3 and DT4 and as a director of HWL, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL held by TUT3 as trustee of UT3 under the SFO as a Director. Although Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Castle Holdco and is a discretionary beneficiary of each of DT3 and DT4, he is not a Director and has no duty of disclosure in relation to the shares of HWL held by TUT3 as trustee of UT3 under the SFO.

- 3 Such interests are held by certain companies of which Mr. Li Tzar Kuoi, Victor is interested in the entire issued share capital.
- 4 By virtue of being a Director and his deemed interest in those shares of the Company as described in Note 1 above, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to those shares of Hongkong Electric Holdings Limited held through the Company under the SFO.
- 5 These interests are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.
- 6 3,875,632,628 shares of Hutchison Global Communications Holdings Limited (“HGCH”) are held by a wholly-owned subsidiary of CKH and a subsidiary which is owned as to 70.16% by HWL while the interests in 3,333,333,333 underlying shares and 1,041,666,666 underlying shares are held by certain subsidiaries which are owned as to 70.16% by HWL. By virtue of the interests in the shares of CKH and HWL in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH and HWL as described in Notes 1 and 2 above and as a Director, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares and underlying shares of HGCH under the SFO.
- 7 The 3,185,589,325 shares in Hutchison Telecommunications International Limited (“HTIL”) comprise 3,185,436,045 shares held by certain subsidiaries of CKH and HWL and 153,280 shares held by TUT3 as trustee of UT3. By virtue of the interests in the shares of CKH and HWL in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH and HWL and by virtue of his being a discretionary beneficiary of each of DT3 and DT4 which hold units in UT3 as described in Notes 1 and 2 above and as a Director, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HTIL under the SFO.

Mr. Li Tzar Kuoi, Victor, by virtue of being a Director and his interests in the share capital of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1 above, is deemed to be interested in those securities of subsidiaries and associated companies of the Company held through the Company and in those securities of the subsidiaries of HWL held through HWL under the SFO.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Shareholders

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, Company Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions of Substantial Shareholders in the Shares of the Company

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

Notes:

- 1 1,906,681,945 shares of the Company are held by Hutchison Infrastructure Holdings Limited, a subsidiary of HWL. Its interests are duplicated in the interests of HWL in the Company described in Note 2 below.
- 2 HWL is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note 1 above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited.
- 3 CKH is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note 2 above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.
- 4 TUT1 as trustee of UT1 is deemed to be interested in those shares of the Company described in Note 3 above as TUT1 as trustee of UT1 and TUT1 related companies hold more than one-third of the issued share capital of CKH and in the 5,428,000 shares of the Company held by TUT1 as trustee of UT1.
- 5 Each of Mr. Li Ka-shing, TDT1 as trustee of DT1 and TDT2 as trustee of another discretionary trust is deemed to be interested in the same block of shares TUT1 as trustee of UT1 is deemed to be interested in as referred to in Note 4 above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of another discretionary trust. More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Unity Holdco. Mr. Li Ka-shing owns one-third of the issued share capital of Unity Holdco.

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following shareholders were interested in 10% or more of the equity interests of the following subsidiaries of the Company:

Name of Subsidiary	Name of Shareholder	No. and Class of Shares held	% of Shareholding	
			Directly	Indirectly
China Cement Company (International) Limited	Bell Investment Limited	300,000 ordinary	30%	–
Shenzhen Ready Mixed Concrete Co., Ltd. (深圳現成混凝土有限公司)	Shenzhen Construction Engineering Co. Ltd. (深圳市建築工程有限公司)	9,000,000 ordinary	45%	–
	Bell Investment Limited	N/A	–	16.5%
Guangdong GITIC Green Island Cement Co. Limited (廣信青洲水泥有限公司)	Bell Investment Limited	N/A	–	28.5%
Green Harbour Pacific Company Limited	China Harbour Engineering Company (Group) (中國港灣建設(集團)總公司)	20,000 ordinary	20%	–
	Wai Hing Quarries (China) Limited	20,000 ordinary	20%	–
Oceanblue Holdings Limited	Wai Kee (Zens) Holdings Ltd.	2 ordinary	40%	–
Hornby Pacific Limited	Coulomb Technology Limited	50,000 ordinary	38%	–
SurfiT Systems Limited	Coulomb Technology Limited	N/A	–	24.32%

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

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

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

3. COMPETING BUSINESS INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests of Directors or their respective associates (as that term is defined in the Listing Rules) in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the “Competing Business”) as required to be disclosed pursuant to the Listing Rules were as follows:

(a) Core business activities of the Group

- (1) Development, investment and operation of power plants and distribution facilities;
- (2) Development, investment and operation of toll roads, toll bridges, tunnel and ancillary businesses and services;
- (3) Development, investment and operation and commercialisation of infrastructure materials including cement, concrete and asphalt products;
- (4) Investment holding and project management;
- (5) Securities investment; and
- (6) Information technology, e-commerce and new technology.

(b) Interests in Competing Business

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

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

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

Note: Such businesses may be made through subsidiaries, associated companies or by way of other forms of investments. The Note references in the table above refer to the six core business activities referred to in part (a) above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

4. MATERIAL CONTRACTS

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

5. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

6. QUALIFICATION

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

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants

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

7. CONSENTS

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

8. MATERIAL ADVERSE CHANGE

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

9. MISCELLANEOUS

- (a) As at the Latest Practicable Date, none of the Directors had any service contract with the Company or any of its subsidiaries.
- (b) The company secretary of the Company is Ms. Eirene Yeung. She holds a Master's degree in Business Administration and is a solicitor of the High Court of Hong Kong and of the Supreme Court of Judicature in England and Wales.
- (c) The qualified accountant of the Company is Mr. Chan Loi Shun, Dominic. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

- (d) The registered office of the Company is at Clarendon House, Church Street, Hamilton, HM11, Bermuda.
- (e) The principal place of business of the Company is at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.
- (f) The principal share registrars of the Company is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.
- (g) The branch share registrars of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (h) All references to times in this circular refer to Hong Kong times.
- (i) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

10. PROCEDURE FOR DEMANDING A POLL BY COMPANY SHAREHOLDERS

A resolution put to a vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Company Shareholders present in person (or in the case of a Company Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Company Shareholder or Company Shareholders present in person (or in the case of a Company Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Company Shareholders having the right to vote at the meeting; or
- (d) by a Company Shareholder or Company Shareholders present in person (or in the case of a Company Shareholder being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Company Shareholder or in the case of a Company Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by the Company Shareholder.

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Company's bye-laws, at any general meeting on a show of hands every Company Shareholder present in person or by proxy or being a corporation, is present by a duly authorised representative, shall have one vote and on a poll every Company Shareholder present in person or by proxy or, in the case of Company Shareholder being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong from 26th November, 2004 to 13th December, 2004 (both days inclusive):

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual report and accounts of the Company for each of the three years ended 31st December, 2001, 2002 and 2003;
- (c) the accountants' report on the acquired business set out in Appendix II;
- (d) the reports from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group dated 26th November, 2004 as set out in Appendices III, IV, V and VI;
- (e) a copy of each circular published pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since the last audited accounts; and
- (f) the written consent referred to in the section headed "Consents" in paragraph 7 of this Appendix.

NOTICE OF SPECIAL GENERAL MEETING



CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

NOTICE IS HEREBY GIVEN that a Special General Meeting of the Company will be held at the Ballroom, 1st Floor, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Tuesday 14th December, 2004 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following Resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

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

NOTICE OF SPECIAL GENERAL MEETING

he/she may in his/her discretion consider necessary or desirable on behalf of the Company for the purpose of implementing, and otherwise in connection with, the Alpha Disposal or the implementation, exercise or enforcement of any of the rights, and performance of any of the obligations, under the Alpha Disposal Agreement including agreeing any modifications, amendments, waivers, variations or extensions of the Alpha Disposal Agreement as such director may deem fit.”

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

By Order of the Board
Eirene Yeung
Company Secretary

Hong Kong, 26th November, 2004

Notes:

- (1) A form of proxy for use at the meeting is enclosed.
- (2) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (3) A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the meeting.
- (4) To be valid, the proxy form, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at 12th Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the meeting (or any adjournment thereof) should they so wish. If a member who has lodged a form of proxy attends the meeting, his form of proxy will be deemed to have been revoked.
- (5) If there are joint registered holders of a share in the Company, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the joint

NOTICE OF SPECIAL GENERAL MEETING

holders so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

- (6) The Chairman of the meeting will exercise his power under the Company's bye-law 66 to put each of the above resolutions to the vote by way of a poll.
- (7) The register of members of the Company will be closed from Thursday, 9th December, 2004 to Tuesday, 14th December, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4.00 p.m. on Wednesday, 8th December, 2004.

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

Company Shareholders may at any time choose to change their choice of language of the Company’s corporate communication to be despatched in the future (“Corporate Communication”) by notice in writing to the Company’s Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong. Corporate Communication includes any document to be given or issued by or on behalf of the Company for Company Shareholders information or action, including but not limited to, annual reports, summary financial reports (where applicable), interim reports, summary interim reports (where applicable), notices of meetings, listing documents, circulars and proxy forms.

Company Shareholders who have chosen to receive Corporate Communication in either English or Chinese will receive both English and Chinese versions of this Circular since both languages are bound together into one booklet.