



*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1038)**

## **INTERIM RESULTS FOR 2005**

### **Highlights**

- Unaudited profit attributable to shareholders reached HK\$1,528 million, up 10%
- Interim dividend of HK\$0.24 per share, up 9%
- Substantial profit contribution recorded from:
  - Hongkong Electric: HK\$872 million
  - Australian portfolio: HK\$612 million
  - Investments in Mainland China: HK\$327 million
- Strong balance sheet and financial platform:
  - Cash on hand of HK\$6,074 million
  - Net debt to equity ratio of 25%

### **Continuing Momentum of Strong Growth**

Entering into its tenth year since listing, Cheung Kong Infrastructure Holdings Limited (“CKI” or the “Group”) is pleased to report continued growth momentum for the period under review. Unaudited profit attributable to shareholders increased by a respectable 10 per cent. to HK\$1,528 million for the six months ended 30th June, 2005 and earnings per share were HK\$0.68.

The Board of Directors of CKI (the “Board”) has declared an interim dividend for 2005 of HK\$0.24 per share (2004: HK\$0.22 per share), representing an increase of 9 per cent. The interim dividend will be paid on Friday, 30th September, 2005 to shareholders whose names appear on the Register of Members on Thursday, 29th September, 2005.

The Group's momentum has been fuelled by the engines of organic growth, acquisitions and asset divestments:

## **1. Strong Organic Growth Recorded**

In Hong Kong, investment in Hongkong Electric Holdings Limited ("Hongkong Electric") continued to be a major revenue generator for CKI. Hongkong Electric reported a solid performance during the period under review and delivered HK\$872 million in profit contribution to the Group.

CKI's portfolio of investments in Australia has been a key driving force for the Group and again provided substantial returns to CKI with a profit growth of 14 per cent. over the same period last year. Envestra Limited, ETSA Utilities, Powercor Australia Limited and CitiPower I Pty Ltd. all performed well and together accounted for a significant 33 per cent. of the Group's profit contribution.

During the first half, the United Kingdom became a substantive stream of revenue for the Group. Satisfactory returns were recorded by Cambridge Water PLC ("Cambridge Water") and 2005 will mark the asset's first full year of profit contribution. The acquisition of the North of England Gas Distribution Network ("North England Gas") was completed in June 2005 and revenue contribution has been booked since then.

The Group's investments in Mainland China maintained satisfactory profit levels. The Zhuhai Power Plant was in full operations for only four months of the period under review. After completing a scheduled two-month stoppage for maintenance of one of the two units in May and June 2005, the Zhuhai Power Plant has resumed operations to meet the strong electricity demand in Guangdong. In terms of transport investments, the Group's toll roads continued to generate good returns. In particular, the Guangzhou East-South-West Ring Road reported a strong performance for the period under review as traffic volume grew by approximately 30 per cent.

The continuing low levels of demand in the construction industry have resulted in low volume contracts and these have adversely affected the Group's cement, concrete, aggregates and asphalt businesses.

## **2. Expansion Through Acquisition**

CKI recently signed a RMB 6 billion joint venture contract with its local partner to take a 45 per cent. shareholding in the expansion of the installed capacity of the Zhuhai Power Plant from 1,400 MW to 2,600 MW. As demand for electricity in the Pearl River Delta surges to new highs, the Group will be well-placed to increase its power generating capacity.

## **3. Asset Divestment**

During the first half, the Group booked two divestment gains: (1) Net premium of HK\$64 million was recorded from the sale of 9.9 per cent. of the North England Gas; and (2) HK\$14 million in profit was generated by the local partner's buyback of the Jiangmen Jianghe Highway in Mainland China.

## **Strong Financial Resources for Future Growth**

CKI possesses strong financial resources for future investments and business expansion with cash on hand of HK\$6,074 million and a net debt to equity ratio of 25 per cent. Interest coverage is approximately 7 times. Shareholders' equity reached HK\$29,911 million and bank loans totalled HK\$13,496 million. The Group's credit rating of "A-" from Standard & Poor's has been maintained since July 1997.

## **Significant Sustainable Growth Expected**

Looking forward, the Group is confident that the second half of the year will be another period of growth and the outlook is promising. Continued strong organic growth can be expected from operations in Australia and Mainland China. At the same time, CKI's new acquisitions are poised to boost overall growth for the fiscal year. Returns have been posted by North England Gas since the beginning of June and recurring profits will be booked for the full period of the second half of the year. The opening of the Sydney Cross City Tunnel later in the year will start bringing in revenue for the Group.

CKI has a proven track record in making astute acquisitions that meet its stringent investment criteria. The Group will continue to explore investment opportunities around the globe to expand its portfolio of quality infrastructure investments. At the moment, the Group is closely looking at a number of investment projects in Canada, Europe, the Middle East, Mainland China and Australia. In addition to its acquisition strategy, alternative corporate finance channels and asset divestments are also being explored to maximise financial returns.

Entering into its tenth year since listing, considerable achievements have been made by CKI. The Group is pleased to have reported continuous growth during the period and has emerged as a well-respected player in the global infrastructure arena. From being primarily focused on infrastructure in China, CKI now has substantial investments in Hong Kong, Mainland China, Australia and the United Kingdom. The Group's asset base has increased by approximately three times to HK\$45 billion since listing. Market capitalisation has more than tripled, from HK\$17 billion to HK\$52 billion as at 30th June, 2005, while CKI has outperformed the Hang Seng Index by approximately 50 per cent. during the same period. Capitalising on its strong balance sheet, management expertise and the opportunities in the global infrastructure sector, the Group aims to continue this momentum of sustained growth in the coming years.

I would like to take this opportunity to thank the Board, management and staff for their hard work and dedication, as well as our shareholders for the support and confidence in the Group.

**Li Tzar Kuoi, Victor**

Chairman

Hong Kong, 18th August, 2005

## **FINANCIAL REVIEW**

### **Financial Resources, Treasury Activities and Gearing Ratio**

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

As at 30th June, 2005, total borrowings of the Group amounted to HK\$13,496 million, which included Hong Kong dollar syndicated loan of HK\$3.8 billion, foreign currency borrowings of HK\$9,188 million and RMB bank loans of HK\$508 million. Of the total borrowings, 81 per cent. were repayable in 2006 to 2009 and 19 per cent. repayable beyond 2009. The Group's financing activities continue to be well received and fully supported by its bankers.

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

As at 30th June, 2005, the Group maintained a gearing ratio of 25 per cent. which was based on its net debt of HK\$7,422 million and shareholders' equity of HK\$29,911 million. This ratio was higher than the gearing ratio of 14 per cent. at the year end of 2004 mainly due to the acquisition of the North of England Gas Distribution Network funded from cash on hand in June 2005.

To minimise currency risk exposure in respect of its investments in other countries, the Group generally hedges those investments with the appropriate level of borrowings denominated in the local currencies of those countries. The Group also entered into certain interest rate and currency swaps to mitigate interest rate and other currency exposure risks. As at 30th June, 2005, the contractual notional amounts of these derivative instruments amounted to HK\$10,342 million.

## **Adoption of New and Revised Financial Reporting Standards**

Due to the requirement to adopt the new and revised Hong Kong Financial Reporting Standards on 1st January, 2005, the Group has incorporated prior year and opening adjustments in its 2005 Interim Financial Statements, mainly related to change in accounting policy in respect of interests in associates, restatement of certain assets at fair values and recognition of derivative financial instruments at market values. These adjustments have resulted in a restating of the shareholders' equity on 1st January, 2005 to HK\$29,670 million, which does not have any impact on the Group's cashflow position. Further details of the implications have been provided in notes 2 and 3 to the 2005 Interim Financial Statements of the Group.

## **Charge on Group Assets**

As at 30th June, 2005, the Group's interests in an affiliated company with carrying value of HK\$2,070 million were pledged as part of the security to secure bank borrowings totalling HK\$3,504 million granted to the affiliated company. Moreover, the Group's obligations under finance leases totalling HK\$41 million were secured by charge over the leased assets with carrying value of HK\$208 million.

## **Contingent Liabilities**

As at 30th June, 2005, the Group has granted guarantees totalling HK\$1,952 million in respect of certain bank loans drawn by its affiliated companies.

## **Employees**

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

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

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares during the six months ended 30th June, 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during this period.

## **CORPORATE GOVERNANCE**

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Code on CG Practices”) throughout the six months ended 30th June, 2005.

## **AUDIT COMMITTEE**

The Company established an audit committee (“Audit Committee”) in December 1998 and has formulated its written terms of reference in accordance with the provisions set out in the Code on CG Practices. The existing Audit Committee of the Company comprises five members all of whom are Independent Non-executive Directors, namely, Mr. Cheong Ying Chew, Henry (Chairman of the Audit Committee), Mrs. Kwok Eva Lee, Mrs. Sng Sow-Mei (Phoon Sui Moy, alias Poon Sow Mei), Mr. Colin Stevens Russel and Mr. Lan Hong Tsung, David. The principal duties of the Audit Committee include the review and supervision of the Group’s financial reporting system and internal control procedures, review of the Group’s financial information and review of the relationship with the external auditors of the Company.

The Group’s interim results for the period ended 30th June, 2005 has been reviewed by the Audit Committee.



# Cheung Kong Infrastructure Holdings Limited

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## NOTICE OF PAYMENT OF INTERIM DIVIDEND, 2005

The Board of Directors of Cheung Kong Infrastructure Holdings Limited announces that the Group's unaudited profit attributable to shareholders for the six months ended 30th June, 2005 amounted to HK\$1,528 million which represents earnings of HK\$0.68 per share. The Directors have resolved to pay an interim dividend for 2005 of HK\$0.24 per share to shareholders whose names appear on the Register of Members of the Company on Thursday, 29th September, 2005. The dividend will be paid on Friday, 30th September, 2005.

The Register of Members of the Company will be closed from Thursday, 22nd September, 2005 to Thursday, 29th September, 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Wednesday, 21st September, 2005.

By Order of the Board

**Eirene Yeung**

Company Secretary

Hong Kong, 18th August, 2005

*As at the date hereof, the Executive Directors of the Company are Mr. LI Tzar Kuoi, Victor (Chairman), Mr. KAM Hing Lam (Group Managing Director), Mr. George Colin MAGNUS (Deputy Chairman), Mr. IP Tak Chuen, Edmond (Deputy Chairman), Mr. FOK Kin Ning, Canning (Deputy Chairman), Mr. KWAN Bing Sing, Eric (Deputy Managing Director), Mrs. CHOW WOO Mo Fong, Susan, Mr. Frank John SIXT and Mr. TSO Kai Sum; and the Non-executive Directors are Mr. CHEONG Ying Chew, Henry (Independent Non-executive Director), Mrs. KWOK Eva Lee (Independent Non-executive Director), Mrs. SNG Sow-Mei (PHOON Sui Moy, alias POON Sow Mei) (Independent Non-executive Director), Mr. Colin Stevens RUSSEL (Independent Non-executive Director), Mr. LAN Hong Tsung, David (Independent Non-executive Director), Mrs. LEE Pui Ling, Angelina and Mr. Barrie COOK.*

## CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June

HK\$ million	Notes	Unaudited	
		2005	Restated 2004
<b>Turnover</b>			
Group turnover		1,135	1,135
Share of turnover of jointly controlled entities		1,099	1,017
	4	2,234	2,152
<b>Group turnover</b>			
Other revenue	4	1,135	1,135
Operating costs	5	389	166
	6	(907)	(803)
<b>Operating profit</b>	7	617	498
Finance costs		(337)	(340)
Share of results of associates		1,384	1,283
Share of results of jointly controlled entities		312	320
<b>Profit before taxation</b>		1,976	1,761
Taxation	8	(450)	(378)
<b>Profit for the period</b>	7	1,526	1,383
<b>Attributable to:</b>			
Shareholders of the Company		1,528	1,385
Minority interests		(2)	(2)
		1,526	1,383
<b>Interim dividend</b>			
		541	496
<b>Earnings per share</b>			
	9	HK\$0.68	HK\$0.61
<b>Interim dividend per share</b>			
		HK\$0.24	HK\$0.22

## CONSOLIDATED BALANCE SHEET

HK\$ million	Notes	Unaudited 30/6/2005	Restated Audited 31/12/2004
Property, plant and equipment		1,793	1,864
Investment properties		39	-
Leasehold land		341	383
Interests in associates		28,170	25,261
Interests in jointly controlled entities		5,066	4,801
Interests in infrastructure project investments		762	1,855
Investments in securities		1,177	1,188
Derivative financial instruments		390	-
Goodwill		243	257
Other non-current assets		10	14
<b>Total non-current assets</b>		<b>37,991</b>	<b>35,623</b>
Inventories		156	163
Interests in infrastructure project investments		171	-
Debtors and prepayments	10	944	878
Bank balances and deposits		6,074	9,029
<b>Total current assets</b>		<b>7,345</b>	<b>10,070</b>
Bank and other loans		2,955	371
Creditors and accruals	11	846	839
Taxation		114	104
<b>Total current liabilities</b>		<b>3,915</b>	<b>1,314</b>
<b>Net current assets</b>		<b>3,430</b>	<b>8,756</b>
<b>Total assets less current liabilities</b>		<b>41,421</b>	<b>44,379</b>
Bank and other loans		10,541	13,040
Derivative financial instruments		384	-
Deferred tax liabilities		366	344
Other non-current liabilities		15	15
<b>Total non-current liabilities</b>		<b>11,306</b>	<b>13,399</b>
<b>Net assets</b>		<b>30,115</b>	<b>30,980</b>
Representing:			
Share capital		2,254	2,254
Reserves		27,657	28,520
<b>Equity attributable to the Company's shareholders</b>		<b>29,911</b>	<b>30,774</b>
Minority interests		204	206
<b>Total equity</b>		<b>30,115</b>	<b>30,980</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The accounting policies adopted for preparation of the interim financial statements are consistent with those set out in the Group's annual financial statements for the year ended 31st December, 2004, except that the Group has changed certain accounting policies to comply with the new and revised Hong Kong Financial Reporting Standards which are effective for accounting periods commencing on or after 1st January, 2005 ("New HKFRSs").

## 2. CHANGES IN ACCOUNTING POLICIES

The Group early adopted HKFRS 3 "Business Combinations", Hong Kong Accounting Standard ("HKAS") 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" during 2004. Apart from the aforesaid 3 standards, the Group has adopted other New HKFRSs, which includes all HKASs and Interpretations, with effect from 1st January, 2005. Material changes in the Group's accounting policies or presentation of financial statements in compliance with these New HKFRSs are summarised as follows:

- (a) Presentation of minority interests has been changed with adoption of HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements". Minority interests now form part of the total equity as presented in the Group's consolidated balance sheet. In the Group's consolidated income statements, minority interests are now presented as an allocation of profit and loss.
- (b) Leasehold land has been accounted for as prepaid operating lease payments with adoption of HKAS 17 "Leases". The land and buildings elements of a lease of land and buildings are now considered separately for the purpose of lease classification. The buildings element is classified as finance lease and is included in property, plant and equipment. In previous accounting periods, both leasehold land and buildings were included in property, plant and equipment.
- (c) Accounting policies in respect of interests in associates and interests in jointly controlled entities have been changed with adoption of HKAS 28 "Investments in Associates" and HKAS 31 "Interests in Joint Ventures". The Group now discontinues recognising its

## 2. CHANGES IN ACCOUNTING POLICIES (Cont'd)

share of further loss of an associate or jointly controlled entity if the cumulative losses recognised equal or exceed the aggregate of the Group's equity interest and other long-term interests in the associate or jointly controlled entity. In previous accounting periods, the Group discontinued recognising its share of further loss of an associate or jointly controlled entity with the cumulative losses recognised in excess of its equity interest in the associate or jointly controlled entity.

- (d) Accounting policies in respect of derivative financial instruments, interests in infrastructure project investments and investments in securities have been changed with adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement".

All derivatives are now stated in the Group's consolidated balance sheet at their fair values. Subsequent changes in their fair values are recognised in the income statement, except that the derivatives are qualified as effective hedging financial instruments and are designated as cash flow hedges where the subsequent changes in fair values are accounted for as movements in hedging reserve. In previous accounting periods, the Group did not recognise any derivatives on balance sheet.

The Group's interests in infrastructure project investments, which are financial assets classified as loans and receivables under HKAS 39, are now measured at amortised cost over the relevant contract period using the effective interest method. In previous accounting periods, the Group's interest in infrastructure project investments were recorded at cost less amortisation over the relevant contract period on a straight-line basis.

Certain investments in securities of the Group have been re-designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39. Changes in fair values of these financial assets from 1st January, 2005 are recognised in income statements. In previous accounting periods, changes in fair values of such investments in securities are dealt with as movements in investment revaluation reserve.

Apart from HKASs 32 and 39 which are adopted prospectively as of 1st January, 2005, the Group has applied the above changes in new accounting policies arising from other New HKFRSs retrospectively, with relevant adjustments incorporated in prior period comparative figures.

### 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

#### (a) Consolidated income statement

HK\$ million	Effect of adopting			Total
	HKAS 17	HKASs 28 & 31	HKASs 32 & 39	
<b>For the six months ended 30th June, 2005</b>				
<i>Profit/(loss) impact from changes in:</i>				
Group turnover	-	-	(10)	(10)
Share of turnover of jointly controlled entities	-	183	-	183
	-	183	(10)	173
Group turnover	-	-	(10)	(10)
Other revenue	-	-	34	34
Operating costs	-	(7)	33	26
Share of results of associates	(1)	51	63	113
Share of results of jointly controlled entities	-	7	-	7
Profit before taxation	(1)	51	120	170
Taxation	-	(43)	(29)	(72)
<b>Profit/(loss) impact attributable to the Company's shareholders</b>	<b>(1)</b>	<b>8</b>	<b>91</b>	<b>98</b>
<b>For the six months ended 30th June, 2004</b>				
<i>Profit/(loss) impact from changes in:</i>				
Share of turnover of jointly controlled entities	-	74	-	74
Operating costs	-	3	-	3
Share of results of associates	-	(37)	-	(37)
Share of results of jointly controlled entities	-	(3)	-	(3)
Profit before taxation	-	(37)	-	(37)
Taxation	-	(16)	-	(16)
<b>Loss impact attributable to the Company's shareholders</b>	<b>-</b>	<b>(53)</b>	<b>-</b>	<b>(53)</b>
<b>For the year ended 31st December, 2004</b>				
<i>Profit/(loss) impact from changes in:</i>				
Share of turnover of jointly controlled entities	-	287	-	287
Operating costs	-	7	-	7
Share of results of associates	-	18	-	18
Share of results of jointly controlled entities	-	(7)	-	(7)
Profit before taxation	-	18	-	18
Taxation	-	(51)	-	(51)
<b>Loss impact attributable to the Company's shareholders</b>	<b>-</b>	<b>(33)</b>	<b>-</b>	<b>(33)</b>

**3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES**  
(Cont'd)

**(b) Consolidated balance sheet**

HK\$ million	Effect of adopting			Total
	HKAS 17	HKASs 28 & 31	HKASs 32 & 39	
<b>At 30th June, 2005</b>				
<i>Increase/(decrease) in:</i>				
Property, plant and equipment	(341)	-	-	(341)
Leasehold land	341	-	-	341
Interests in associates	(1)	(391)	(466)	(858)
Interests in infrastructure project investments	-	-	(448)	(448)
Derivative financial instruments	-	-	390	390
Debtors and prepayment	-	-	(70)	(70)
<b>Total assets</b>	<b>(1)</b>	<b>(391)</b>	<b>(594)</b>	<b>(986)</b>
<u>Less:</u>				
Creditors and accruals	-	-	(7)	(7)
Derivative financial instruments	-	-	384	384
<b>Net assets</b>	<b>(1)</b>	<b>(391)</b>	<b>(971)</b>	<b>(1,363)</b>
Investment revaluation reserve	-	-	(6)	(6)
Exchange translation reserve	-	(104)	(2)	(106)
Hedging reserve	-	-	(306)	(306)
Retained profits	(1)	(287)	(657)	(945)
<b>Equity</b>	<b>(1)</b>	<b>(391)</b>	<b>(971)</b>	<b>(1,363)</b>
<b>At 31st December, 2004</b>				
<i>Increase/(decrease) in:</i>				
Property, plant and equipment	(383)	-	-	(383)
Leasehold land	383	-	-	383
Interests in associates	-	(396)	-	(396)
<b>Net assets</b>	<b>-</b>	<b>(396)</b>	<b>-</b>	<b>(396)</b>
Exchange translation reserve	-	(101)	-	(101)
Retained profits	-	(295)	-	(295)
<b>Equity</b>	<b>-</b>	<b>(396)</b>	<b>-</b>	<b>(396)</b>
<b>At 1st January, 2005 (disclosure of impact on equity only)</b>				
<i>Increase/(decrease) in:</i>				
Exchange translation reserve	-	(101)	-	(101)
Hedging reserve	-	-	(356)	(356)
Retained profits	-	(295)	(748)	(1,043)
<b>Equity</b>	<b>-</b>	<b>(396)</b>	<b>(1,104)</b>	<b>(1,500)</b>

#### 4. TURNOVER

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

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

The turnover for the current period is analysed as follows:

HK\$ million	Six months ended 30th June	
	2005	2004
Sales of infrastructure materials	497	547
Income from the supply of water	118	36
Return from infrastructure project investments	73	92
Interest from loans granted to associates	436	432
Distribution from investments in securities	11	28
<b>Group turnover</b>	<b>1,135</b>	1,135
Share of turnover of jointly controlled entities	1,099	1,017
<b>Total</b>	<b>2,234</b>	2,152

## 5. OTHER REVENUE

Other revenue includes the following:

HK\$ million	Six months ended 30th June	
	2005	2004
Interest income	126	90
Finance lease income	1	2
Gain on disposal of interest in an associate	64	-
Gain on disposal of infrastructure project investment	14	-
Change in fair values of investments in securities	14	-
Gain on disposal of subsidiaries	-	22
Gain on disposal of investments in securities	-	27

## 6. OPERATING COSTS

Operating costs include the following:

HK\$ million	Six months ended 30th June	
	2005	2004
Depreciation	71	86
Amortisation of costs of infrastructure project investments	-	45
Cost of inventories sold	521	476

## 7. 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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Turnover</b>										
Group turnover	-	-	638	588	497	547	-	-	1,135	1,135
Share of turnover of jointly controlled entities	-	-	916	943	183	74	-	-	1,099	1,017
	-	-	1,554	1,531	680	621	-	-	2,234	2,152
<b>Segment revenue</b>										
Group turnover	-	-	638	588	497	547	-	-	1,135	1,135
Others	-	-	17	13	13	12	-	-	30	25
	-	-	655	601	510	559	-	-	1,165	1,160
<b>Segment result</b>										
Gain on disposals of interest in an associate, infrastructure project investment, subsidiaries and investments in securities	-	-	78	-	-	22	-	27	78	49
Change in fair values of investments in securities	-	-	34	-	-	-	(20)	-	14	-
Interest and finance lease income	-	-	1	-	44	37	82	55	127	92
Corporate overheads and others	-	-	-	-	-	-	(77)	(79)	(77)	(79)
<b>Operating profit</b>	-	-	664	509	(32)	(14)	(15)	3	617	498
Finance costs	-	-	(12)	-	-	-	(325)	(340)	(337)	(340)
Share of results of associates and jointly controlled entities	1,127	1,079	557	522	12	2	-	-	1,696	1,603
Taxation	(255)	(246)	(191)	(144)	(4)	12	-	-	(450)	(378)
<b>Profit for the period</b>	<b>872</b>	<b>833</b>	<b>1,018</b>	<b>887</b>	<b>(24)</b>	<b>-</b>	<b>(340)</b>	<b>(337)</b>	<b>1,526</b>	<b>1,383</b>
<b>Attributable to:</b>										
Shareholders of the Company	872	833	1,018	887	(22)	2	(340)	(337)	1,528	1,385
Minority interests	-	-	-	-	(2)	(2)	-	-	(2)	(2)
	872	833	1,018	887	(24)	-	(340)	(337)	1,526	1,383

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

## 7. SEGMENT INFORMATION (Cont'd)

### By geographic region

for the six months ended 30th June

HK\$ million	Hong Kong		Mainland China		Australia		UK & Others		Unallocated items		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Turnover</b>												
Group turnover	371	414	199	225	447	460	118	36	-	-	1,135	1,135
Share of turnover of jointly controlled entities	173	59	926	958	-	-	-	-	-	-	1,099	1,017
	<b>544</b>	<b>473</b>	<b>1,125</b>	<b>1,183</b>	<b>447</b>	<b>460</b>	<b>118</b>	<b>36</b>	-	-	<b>2,234</b>	<b>2,152</b>
<b>Segment revenue</b>												
Group turnover	371	414	199	225	447	460	118	36	-	-	1,135	1,135
Others	3	10	16	12	-	-	11	3	-	-	30	25
	<b>374</b>	<b>424</b>	<b>215</b>	<b>237</b>	<b>447</b>	<b>460</b>	<b>129</b>	<b>39</b>	-	-	<b>1,165</b>	<b>1,160</b>
<b>Segment result</b>												
Gain on disposals of interest in an associate, infrastructure project investment, subsidiaries and investments in securities	(57)	(45)	36	15	447	460	49	6	-	-	475	436
Change in fair values of investment in securities	-	22	14	-	-	-	64	-	-	27	78	49
Interest and finance lease income	44	37	-	-	-	-	1	-	82	55	127	92
Corporate overheads and others	-	-	-	-	-	-	-	-	(77)	(79)	(77)	(79)
<b>Operating profit</b>	<b>(13)</b>	<b>14</b>	<b>50</b>	<b>15</b>	<b>481</b>	<b>460</b>	<b>114</b>	<b>6</b>	<b>(15)</b>	<b>3</b>	<b>617</b>	<b>498</b>
Finance costs	-	-	-	-	-	-	(12)	-	(325)	(340)	(337)	(340)
Share of results of associates and jointly controlled entities	1,151	1,084	296	323	260	191	(11)	5	-	-	1,696	1,603
Taxation	(259)	(234)	(38)	(25)	(129)	(116)	(24)	(3)	-	-	(450)	(378)
<b>Profit for the period</b>	<b>879</b>	<b>864</b>	<b>308</b>	<b>313</b>	<b>612</b>	<b>535</b>	<b>67</b>	<b>8</b>	<b>(340)</b>	<b>(337)</b>	<b>1,526</b>	<b>1,383</b>
<b>Attributable to:</b>												
Shareholders of the Company	879	864	310	315	612	535	67	8	(340)	(337)	1,528	1,385
Minority interests	-	-	(2)	(2)	-	-	-	-	-	-	(2)	(2)
	<b>879</b>	<b>864</b>	<b>308</b>	<b>313</b>	<b>612</b>	<b>535</b>	<b>67</b>	<b>8</b>	<b>(340)</b>	<b>(337)</b>	<b>1,526</b>	<b>1,383</b>

## 8. TAXATION

Overseas tax is provided for at the applicable tax rate on the estimated assessable profits less available tax losses. 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	
	2005	2004
<b>Company and subsidiaries</b>		
Current taxation – overseas tax	6	3
Deferred taxation	30	(12)
	<b>36</b>	<b>(9)</b>
<b>Share of taxation attributable to</b>		
Associates	373	362
Jointly controlled entities	41	25
	<b>414</b>	<b>387</b>
<b>Total</b>	<b>450</b>	<b>378</b>

## 9. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$1,528 million (2004: HK\$1,385 million) and on 2,254,209,945 shares (2004: 2,254,209,945 shares) in issue during the interim period.

## 10. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors and infrastructure project receivables of HK\$263 million (HK\$379 million at 31st December, 2004) and their ageing analysis is as follows:

HK\$ million	30/6/2005	31/12/2004
Current	74	228
One month	56	78
Two to three months	35	28
Over three months	238	187
<b>Gross total</b>	<b>403</b>	<b>521</b>
Provision	(140)	(142)
<b>Total after provision</b>	<b>263</b>	<b>379</b>

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

## 11. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors of HK\$130 million (HK\$160 million at 31st December, 2004) and their ageing analysis is as follows:

HK\$ million	30/6/2005	31/12/2004
Current	59	66
One month	21	17
Two to three months	6	19
Over three months	44	58
<b>Total</b>	<b>130</b>	<b>160</b>

Please also refer to the published version of this announcement in The Standard dated 19/8/2005.