Cheung Kong Infrastructure Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

THE CHAIRMAN'S LETTER FOR 2005

2005 – Solid Performance; Notable Achievements

Highlights

- Record high in profitability – profit after tax attributable to shareholders was HK$6 billion
- Substantial income of HK$3.7 billion from listing of Spark Infrastructure
- Continuing profit contribution of HK$2.5 billion generated by Hongkong Electric
- Profit contribution from infrastructure investments up by 140% to HK$4.9 billion
- Sizeable impairments of HK$1,727 million were made against infrastructure materials and certain infrastructure investments
- Balance sheet stronger than ever, with ample resources to fund expansion:
  - Cash on hand of over HK$8.1 billion
  - Net debt to equity ratio of 3%
  - S&P ratings of "A-" reaffirmed
- Final dividend of HK$0.708 per share

As we embark upon our tenth year since listing on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), Cheung Kong Infrastructure Holdings Limited ("CKI" or the "Group") is pleased to report continued growth momentum for the year under review. An overall good performance was achieved by the Group in 2005. Profit after tax attributable to shareholders increased by an outstanding 71 per cent. to HK$6,007 million. Earnings per share were HK$2.66.

The Board of Directors of CKI (the "Board") has recommended a final dividend of HK$0.708 per share. Together with the interim dividend of HK$0.24 per share, this will bring the total dividend for the year to HK$0.948 per share, an increase of 20 per cent. from 2004. The proposed dividend will be paid on 16th May, 2006 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members on 11th May, 2006.

Unprecedented Performance – Exceptional Returns
The Year in Review

During the year under review, an overall good performance has been recorded. Operations in Hong Kong, Mainland China, Australia, and the United Kingdom all experienced satisfactory organic growth, and a sizeable one-off gain from the listing of Spark Infrastructure Group ("Spark Infrastructure") on the Australian Stock Exchange Limited (the "Australian Stock Exchange") significantly boosted our profits for 2005.

The key operating highlights of 2005 are as follows:

1. Hongkong Electric Holdings Limited ("Hongkong Electric") continued to be an important profit contributor for the Group due to the continued success of its overseas diversification strategy. A profit contribution of HK$2,492 million was recorded in 2005.

2. Operations in Mainland China delivered a steady performance for the year under review:

    - The Zhuhai Power Plant remains the top performer of CKI's China portfolio. Units of electricity sold far exceeded the annual minimum quantity as stipulated in the power off-take contract. The Group also entered into a joint venture for the construction and operation of Units 3 and 4 extension to the Zhuhai Power Plant. The financing of the extension has been completed and construction works on the Units have made good progress.

    - The Group's portfolio of toll roads in Mainland China also continued to deliver solid returns. Of particular note, the Guangzhou East-South-West Ring Road registered double-digit growth in traffic volume and toll revenue.

3. Powercor Australia Limited ("Powercor"), CitiPower I Pty Ltd. ("CitiPower") and ETSA Utilities – three prime assets in the Group's Australian power portfolio – recorded 40 per cent. growth in contributions (after including tax adjustments). In 2005, the three asset companies have completed the 5-year tariff reset process as required under the respective government regulations. As a result, CKI can expect price certainty and stable returns for the next five years.

4. Cambridge Water PLC contributed its first full-year of profit in 2005.

5. Completion of the acquisition of Northern Gas Networks Limited took place during the year under review, and the profit contribution from this project commenced during the course of 2005. A substantial one-off gain was also booked during the year under review from the sale of a 9.9 per cent. stake in the asset.

6. In August 2005, the Sydney Cross City Tunnel opened two months ahead of schedule.

7. One of the major highlights of 2005 was the listing of Spark Infrastructure on the Australian Stock Exchange:

   - Through selling a 49 per cent. stake in Powercor, CitiPower and ETSA Utilities to Spark Infrastructure, the underlying values of these prime assets were realised. A significant one-off gain of HK$3.7 billion was generated.

   - On completion of the deal, CKI owns a 9.9 per cent. stake in Spark Infrastructure, which represents an indirect stake of 4.9 per cent. in the three assets. The fund is managed by a Manager, in which CKI holds a 50 per cent. interest. The Group will retain a direct 51 per cent. shareholding in the three assets together with Hongkong Electric.

   - This deal is a significant milestone for CKI. As a result, our balance sheet and financial position is stronger than ever. There will be substantial resources retained for new capital intensive investments and it is expected that we will continue to book recurring income from our stake in Spark Infrastructure and the three power assets.

8. Depressed conditions in the materials market continued to pose challenges for our materials business. A one-off asset impairment of HK$790 million was made, resulting in a loss of HK$845 million being reported.

9. In addition, one-off impairments of HK$937 million were made against certain infrastructure assets and investments.

Coming of Age in the Infrastructure Arena
A Decade in Review

CKI has come a long way in the ten years since listing on the Hong Kong Stock Exchange in 1996. The Group has evolved from a Greater China-focused company into one of the world's leading infrastructure players. Our investments now span Hong Kong, Mainland China, Australia and the United Kingdom. We have attained global reach across four continents. The breadth of our business has also expanded – our diverse range of investments now encompass energy, toll roads, water, materials and environmental initiatives. The size of our assets is now HK$44.6 billion versus HK$11.4 billion ten years ago.

The Group's earnings reached HK$6 billion in 2005 as compared to HK$854 million in 1996. It is clear that the Group has achieved continuous and sustained growth over the last ten years. Our exceptional performance in 2005 marks a high point in our endeavours. We are proud of the milestones that we have achieved in our first decade and look forward to more growth and development in the coming years.

A Preview

With our strong position in the infrastructure industry, and formidable financial resources that include cash on hand of over HK$8.1 billion and a net debt to equity ratio of 3 per cent., CKI is well-placed to benefit from opportunities that arise in the global infrastructure arena. Our businesses are healthy and sound. We are confident of achieving continued growth in the future based on our strong foundations. We look forward to growing CKI's business by further expanding our market presence and aggressively making more acquisitions.

During the year under review, Mr. George Magnus retired as Deputy Chairman and an Executive Director of CKI. He has been with the Group since its listing in 1996 and has been an instrumental force in our growth. I would like to extend my thanks and appreciation for his contribution to CKI over the years, and look forward to the benefits of Mr. Magnus' expertise and experience as a Non-executive Director of the Company.

I would like to take this opportunity to thank the Board, management and staff of CKI for their commitment and efforts, as well as our shareholders for their support and confidence in the Group.

Li Tzar Kuoi, Victor
Chairman

Hong Kong, 16th March, 2006

FINANCIAL REVIEW

Financial Resources, Treasury Activities and Gearing Ratio

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

As at 31st December, 2005, total borrowings of the Group amounted to HK$9,056 million, which included Hong Kong dollar syndicated loan of HK$3.8 billion and foreign currency borrowings of HK$5,256 million. Of the total borrowings, 78 per cent. were repayable between 2007 and 2010 and 22 per cent. repayable beyond 2010. 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 31st December, 2005, the Group maintained a gearing ratio of 3 per cent. which was based on its net debt of HK$946 million and shareholders' equity of HK$33,498 million. This ratio was significantly lower than the gearing ratio of 14 per cent. at the year end of 2004, mainly due to proceeds from divestment of interests in certain Australian energy projects in December 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 31st December, 2005, the contractual notional amounts of these derivative instruments amounted to HK$8,123 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 Financial Statements, mainly related to the 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 1 and 2 to the 2005 Financial Statements of the Group (see below).

Charge on Group Assets

As at 31st December, 2005, the Group's interests in an affiliated company with carrying value of HK$1,736 million were pledged as part of the security to secure bank borrowings totalling HK$3,249 million granted to the affiliated company. Moreover, the Group's obligations under finance leases totalling HK$35 million were secured by charge over the leased assets with carrying value of HK$199 million.

Contingent Liabilities

As at 31st December, 2005, the Group was subject to the following contingent liabilities:

HK$ million	
Guarantee in respect of a bank loan drawn by an affiliated company	644
Performance bonds	20
Total	664

Employees

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,077 employees. Employees' cost (excluding directors' emoluments) amounted to HK$279 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 year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Code on Corporate Governance Practices

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 ("Code on CG Practices") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December, 2005.

Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee ("Audit Committee") in December 1998 and has formulated its written terms of reference in accordance with the provisions set out in the Code on CG Practices.

The Audit Committee of the Company comprises five members all of whom are Independent Non-executive Directors, namely Mr. Cheong Ying Chew, Henry (Chairman of the Audit Committee), Mrs. Kwok Eva Lee, Mrs. Sng Sow-Mei (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 annual results for the year ended 31st December, 2005 have been reviewed by the Audit Committee.

Annual General Meeting

The 2006 Annual General Meeting of the shareholders 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 Thursday, 11th May, 2006 at 2:45 p.m. and the Notice of Annual General Meeting will be published and despatched to the shareholders in the manner as required by the Listing Rules in due course.

Closure of Register of Members

The Register of Members of the Company will be closed from Thursday, 4th May, 2006 to Thursday, 11th May, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final 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, 3rd May, 2006.

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. 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, Mr. Barrie COOK and Mr. George Colin MAGNUS.

AUDITED CONSOLIDATED INCOME STATEMENT

for the year ended 31st December

HK$ million	Notes	**2005**	Restated 2004
Turnover	3		
Group turnover		**2,247**	2,507
Share of turnover of jointly controlled entities		**2,503**	1,953
		4,750	4,460
Group turnover		**2,247**	2,507
Other income	4	**592**	361
Operating costs	5	**(1,729)**	(1,867)
Finance costs		**(732)**	(644)
Gain on disposals of associates	6	**3,763**	-
Impairment losses	7	**(1,727)**	(250)
Share of results of associates		**3,183**	2,842
Share of results of jointly controlled entities		**311**	573
Profit before taxation		**5,908**	3,522
Taxation	8	**(67)**	(2)
Profit for the year	9	**5,841**	3,520
Attributable to:			
Shareholders of the Company		**6,007**	3,523
Minority interests		**(166)**	(3)
		5,841	3,520
Earnings per share	10	**HK$2.66**	HK$1.56
Dividends			
Interim dividend paid		**541**	496
Proposed final dividend		**1,596**	1,285
		2,137	1,781
Dividends per share			
Interim		**HK$ 0.24**	HK$0.22
Proposed final		**HK$0.708**	HK$0.57
		HK$0.948	HK$0.79

CONSOLIDATED BALANCE SHEET

as at 31st December

HK$ million	Notes	2005	Restated 2004
Property, plant and equipment		**919**	1,864
Investment properties		**59**	-
Leasehold land		**326**	383
Interests in associates		**26,911**	25,261
Interests in jointly controlled entities		**4,337**	4,801
Interests in infrastructure project investments		**579**	1,855
Investments in securities		**2,092**	1,188
Derivative financial instruments		**447**	-
Goodwill		**175**	257
Other non-current assets		**9**	14
Total non-current assets		**35,854**	35,623
Inventories		**105**	163
Interests in infrastructure project investments		**86**	-
Derivative financial instruments		**12**	-
Debtors and prepayments	11	**388**	878
Bank balances and deposits		**8,110**	9,029
Total current assets		**8,701**	10,070
Bank and other loans		**11**	371
Creditors and accruals	12	**1,105**	839
Taxation		**105**	104
Total current liabilities		**1,221**	1,314
Net current assets		**7,480**	8,756
Total assets less current liabilities		**43,334**	44,379
Bank and other loans		**9,045**	13,040
Derivative financial instruments		**370**	-
Deferred tax liabilities		**362**	344
Other non-current liabilities		**21**	15
Total non-current liabilities		**9,798**	13,399
Net assets		**33,536**	30,980
Representing:			
Share capital		**2,254**	2,254
Reserves		**31,244**	28,520
Equity attributable to shareholders of the Company		**33,498**	30,774
Minority interests		**38**	206
Total equity		**33,536**	30,980

NOTES TO THE FINANCIAL STATEMENTS

1. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. Moreover, the adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have material impacts on how the Group's financial position and/or results are prepared and presented:

a) Leasehold Land

Prior to 1st January, 2005, the Group's leasehold land was included in property, plant and equipment and measured at cost less accumulated depreciation using the straight-line method over the unexpired lease terms of the land.

From 1st January, 2005 onwards, the Group's leasehold land is separated from property, plant and equipment and accounted for as prepaid operating leases pursuant to HKAS 17 "Leases", which are amortised over the unexpired lease terms using the straight-line method. The change in accounting policy has been adopted retrospectively, and the Group applied a prior year adjustment to separate leasehold land of HK$383 million from property, plant and equipment on the balance sheet as at 31st December, 2004.

b) Interests in associates and interests in jointly controlled entities

Prior to 1st January, 2005, the Group discontinued recognising its share of further loss of an associate or jointly controlled entity with the applicable share of cumulative losses in excess of the Group's equity interest in the associate or jointly controlled entity.

1. CHANGES IN ACCOUNTING POLICIES (Cont'd)

b) Interests in associates and interests in jointly controlled entities (Cont'd)

From 1st January, 2005 onwards, the Group recognises its share of cumulative losses (if any) to the extent of the Group's equity and other long term interests in that associate or jointly controlled entity, which in substance represent the Group's investment in that associate or jointly controlled entity, pursuant to HKAS 28 "Investments in Associates" and HKAS 31 "Interests in Joint Ventures". The change in accounting policy has been adopted retrospectively and the Group has applied prior year adjustments of HK$295 million and HK$101 million to reduce retained profits and exchange translation reserve as at 31st December, 2004, respectively, for recognition of its share of relevant losses of certain associates and jointly controlled entities.

c) Financial Instruments

In the current year, the Group has adopted HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application whereas HKAS 39, which is effective for the accounting periods beginning on or after 1st January, 2005, generally does not permit restatement of comparative information on a retrospective basis. The application of HKAS 32 has no material effect on the presentation of financial instruments in the financial statements of The Group. The principal effects resulting from the application of HKAS 39 on different categories of the Group's assets or liabilities are summarised below:

Infrastructure project investments

Prior to 1st January, 2005, the Group's interests in the infrastructure project investments were stated at cost less amortisation over the relevant contract periods on a straight-line basis from commencement of operation of the projects or from commencement of the Group's entitlement to income. The carrying amount of such interests was reduced to recognise any identified impairment losses in the values of individual investments. Income from these investments and related infrastructure project receivables were recognised when the Group's right to receive payments was established.

1. CHANGES IN ACCOUNTING POLICIES (Cont'd)

c) Financial Instruments (Cont'd)

Infrastructure project investments (Cont'd)

From 1st January, 2005 onwards, the Group's interests in the infrastructure project investments and related infrastructure project receivables are combined and classified as "loans and receivables" under HKAS 39 and are subsequently measured at amortised cost using the effective interest rate method. Accordingly, the Group applied an opening adjustment of HK$559 million to reduce the Group's retained profits as at 1st January, 2005 for restating the carrying amounts of its infrastructure project investments.

Investments in securities

Prior to 1st January, 2005, the Group's non-trading securities intended to be held long-term were stated at fair values, with gains or losses arising from changes in their fair values dealt with as movements in investment revaluation reserve. Other securities were stated at fair value in the balance sheet, with changes in their fair values dealt with in the income statement.

From 1st January, 2005 onwards, the Group's investments in securities are classified as either "financial assets at fair value through profit or loss" or "available-for-sale financial assets" in accordance with HKAS 39, and are measured at fair values. Where securities are designated as "financial assets at fair value through profit or loss", gains or losses arising from changes in fair values are dealt with in the income statement. For "available-for-sale financial assets", gains and losses arising from changes in fair value are dealt with as movements in investment revaluation reserve.

Under the relevant transitional provisions of HKAS 39, certain investments which were previously disclosed as non-trading securities were re-designated as "financial assets at fair value through profit or loss" since 1st January, 2005. Changes in fair values of these investments are now recognised in income statement. In previous years, changes in fair values of these non-trading securities were dealt with as movements in investment revaluation reserve. Such re-designation and change in accounting policy applicable to these investments have been adopted prospectively and no adjustments are applied on the Group's results for previous years or balance sheet items as at 31st December, 2004 or 1st January, 2005.

1. CHANGES IN ACCOUNTING POLICIES (Cont'd)

c) Financial Instruments (Cont'd)

Derivative financial instruments and hedge accounting

Prior to 1st January, 2005, the Group did not recognise any derivatives on balance sheet.

From 1st January, 2005 onwards, all the Group's derivatives covered by HKAS 39 are carried at fair value on balance sheet. Subsequent changes in their values are recognised in the income statement, except for derivatives which qualify as effective hedging instruments and are designated as cash flow hedges where the subsequent changes in fair values are dealt with as movements in hedging reserve. Pursuant to the relevant transitional provisions in HKAS 39, the Group has applied opening adjustments of HK$189 million and HK$356 million to reduce retained profits and hedging reserve as at 1st January, 2005, respectively, for recognition of the Group's and its share of associates' derivative financial instruments.

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

(a) Consolidated income statement items

For the year ended 31st December

HK$ million	**2005**	2004
Decrease in group turnover	**(29)**	-
Increase in other income	**71**	-
Decrease in operating costs	**128**	7
Increase in gain on disposal of associates	**271**	-
Increase/(decrease) in share of results of associates	**261**	(308)
Decrease in share of results of jointly controlled entities	**(160)**	(57)
Increase/(decrease) in profit before taxation	**542**	(358)
(Increase)/decrease in taxation	**(23)**	325
Increase/(decrease) in profit attributable to shareholders	**519**	(33)

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

(b) Consolidated balance sheet items

HK$ million	As at 31st December, 2004, as previously stated	Effect of adopting HKAS 17	Effect of adopting HKASs 28 & 31	As at 31st December, 2004, as restated	Effect of adopting HKAS 39	As at 1st January, 2005
Property, plant and equipment	2,247	(383)	-	1,864	-	1,864
Leasehold land	-	383	-	383	-	383
Interests in associates	25,657	-	(396)	25,261	(545)	24,716
Interests in infrastructure project investments						
– non-current assets	1,855	-	-	1,855	(646)	1,209
– current assets	-	-	-	-	158	158
Derivative financial instruments						
– non-current assets	-	-	-	-	369	369
– current assets	-	-	-	-	354	354
Debtors and prepayments	878	-	-	878	(68)	810
Derivative financial instruments						
– non-current liabilities	-	-	-	-	(398)	(398)
– current liabilities	-	-	-	-	(373)	(373)
Creditors and accruals	(839)	-	-	(839)	45	(794)
Total effects on assets and liabilities	**29,798**	**-**	**(396)**	**29,402**	**(1,104)**	**28,298**
Exchange translation reserve	955	-	(101)	854	-	854
Hedging reserve	-	-	-	-	(356)	(356)
Retained profits	18,008	-	(295)	17,713	(748)	16,965
Total effects on equity attributable to shareholders	**18,963**	**-**	**(396)**	**18,567**	**(1,104)**	**17,463**

As 1st January, 2004 (disclosure of impact on equity only)

HK$ million	As previously stated	Effect of adopting HKAS 28	As restated
Exchange translation reserve	814	(85)	729
Retained profits	16,075 *	(262)	15,813
Total effects on equity attributable to shareholders	**16,889**	**(347)**	**16,542**

*Including balance of proposed dividend previously presented as separate item under equity.

3. TURNOVER

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

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

The turnover for the current year is analysed as follows:

HK$ million	**2005**	2004
Sales of infrastructure materials	**992**	1,243
Income from the supply of water	**237**	149
Return from infrastructure project investments	**138**	178
Interest income from loans granted to associates	**856**	863
Distribution from investments in securities	**24**	74
Group turnover	**2,247**	2,507
Share of turnover of jointly controlled entities	**2,503**	1,953
Total	**4,750**	4,460

4. OTHER INCOME

Other income includes the following:

HK$ million	**2005**	2004
Interest income from banks	**259**	132
Interest income from investments in securities	**-**	42
Finance lease income	**2**	3
Gain on disposal of infrastructure project investment	**14**	-
Gain on disposals of subsidiaries	**-**	22
Gain on disposals of listed securities	**1**	85

5. OPERATING COSTS

Operating costs include the following:

HK$ million	**2005**	2004
Depreciation of property, plant & equipment	**134**	160
Amortisation of prepayment for leasehold land	**11**	11
Amortisation of costs of infrastructure project investments	**-**	85
Cost of inventories sold	**928**	1,082

6. GAIN ON DISPOSALS OF ASSOCIATES

HK$ million	**2005**	2004
Disposal of 49% interests in ETSA Utilities, Powercor and CitiPower	**3,699**	-
Disposal of 9.9% interest in Northern Gas Networks Holdings Limited	**64**	-
Total	**3,763**	-

Prior to December 2005, the Group and Hongkong Electric Holdings Limited (an associate of the Group) held 100% interests, on a 50/50 basis, in 3 associate groups of companies, ETSA Utilities, Powercor and CitiPower, which operate and manage various electricity distribution businesses in Australia. In December 2005, the Group sold its 49% interests in these associate groups to Spark Infrastructure Fund, a stapled group listed in the Australian Stock Exchange Limited, at a consideration of approximately A$2.2 billion.

7. IMPAIRMENT LOSSES

During the current year, the Group recognised impairment losses of the following assets:

HK$ million	**2005**	2004
Property, plant and equipment	**769**	230
Leasehold land	**21**	-
Interests in associates	**578**	-
Interests in jointly controlled entities	**214**	-
Interests in infrastructure project investments	**95**	-
Investments in securities	**-**	20
Goodwill	**50**	-
Total	**1,727**	250

8. TAXATION

Hong Kong Profits Tax is provided for at the rate of 17.5 per cent. (2004: 17.5 per cent.) on the estimated assessable profits less available tax losses. Overseas tax is provided for at the applicable tax rate on the estimated assessable profits less available tax losses.

HK$ million	**2005**	2004
Current taxation		
- Hong Kong Profits Tax	**5**	5
- Overseas Tax	**15**	6
Deferred taxation	**47**	(9)
Total	**67**	2

9. SEGMENT INFORMATION

By business segment

for the year ended 31st December

HK$ million	Investment in Hongkong Electric* 2005	Investment in Hongkong Electric* 2004	Infrastructure investments 2005	Infrastructure investments 2004	Infrastructure related business 2005	Infrastructure related business 2004	Unallocated items 2005	Unallocated items 2004	Consolidated 2005	Consolidated 2004
Turnover										
Group turnover	**-**	-	**1,255**	1,264	**992**	1,243	**-**	-	**2,247**	2,507
Share of turnover of jointly controlled entities	**-**	-	**1,996**	1,953	**507**	-	**-**	-	**2,503**	1,953
	-	-	**3,251**	3,217	**1,499**	1,243	**-**	-	**4,750**	4,460
Segment revenue										
Group turnover	**-**	-	**1,255**	1,264	**992**	1,243	**-**	-	**2,247**	2,507
Others	**-**	-	**33**	25	**70**	52	**-**	-	**103**	77
	-	-	**1,288**	1,289	**1,062**	1,295	**-**	-	**2,350**	2,584
Segment result	**-**	-	**1,037**	1,045	**(253)**	(143)	**-**	-	**784**	902
Net gain on disposals of infrastructure project investment, subsidiaries and listed securities	**-**	-	**14**	-	**1**	22	**-**	85	**15**	107
Change in fair values of investment in securities and derivative financial instruments	**-**	-	**75**	-	**(23)**	-	**(10)**	(61)	**42**	(61)
Interest and finance lease income	**-**	-	**1**	1	**102**	77	**158**	99	**261**	177
Exchange gain/(loss)	**-**	-	**-**	-	**-**	-	**168**	(1)	**168**	(1)
Corporate overheads and others	**-**	-	**-**	-	**-**	-	**(160)**	(123)	**(160)**	(123)
Finance costs	**-**	-	**(21)**	(6)	**-**	-	**(711)**	(638)	**(732)**	(644)
Gain on disposals of associates	**-**	-	**3,763**	-	**-**	-	**-**	-	**3,763**	-
Impairment losses	**-**	-	**(937)**	-	**(790)**	(250)	**-**	-	**(1,727)**	(250)
Share of results of associates and jointly controlled entities	**2,492**	2,396	**1,046**	1,024	**(44)**	(5)	**-**	-	**3,494**	3,415
Profit/(loss) before taxation	**2,492**	2,396	**4,978**	2,064	**(1,007)**	(299)	**(555)**	(639)	**5,908**	3,522
Taxation	**-**	-	**(58)**	(14)	**(4)**	17	**(5)**	(5)	**(67)**	(2)
Profit/(loss) for the year	**2,492**	2,396	**4,920**	2,050	**(1,011)**	(282)	**(560)**	(644)	**5,841**	3,520
Attributable to:										
Shareholders of the Company	**2,492**	2,396	**4,920**	2,050	**(845)**	(279)	**(560)**	(644)	**6,007**	3,523
Minority interests	**-**	-	**-**	-	**(166)**	(3)	**-**	-	**(166)**	(3)
	2,492	2,396	**4,920**	2,050	**(1,011)**	(282)	**(560)**	(644)	**5,841**	3,520

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

9. SEGMENT INFORMATION (Cont'd)

By geographic region

for the year ended 31st December

HK$ million	Hong Kong 2005	Hong Kong 2004	Mainland China 2005	Mainland China 2004	Australia 2005	Australia 2004	Others 2005	Others 2004	Unallocated items 2005	Unallocated items 2004	Consolidated 2005	Consolidated 2004
Turnover												
Group turnover	**699**	890	**421**	531	**880**	937	**247**	149	**-**	-	**2,247**	2,507
Share of turnover of jointly controlled entities	**401**	-	**2,102**	1,953	**-**	-	**-**	-	**-**	-	**2,503**	1,953
	1,100	890	**2,523**	2,484	**880**	937	**247**	149	**-**	-	**4,750**	4,460
Segment revenue												
Group turnover	**699**	890	**421**	531	**880**	937	**247**	149	**-**	-	**2,247**	2,507
Others	**40**	51	**32**	17	**-**	-	**31**	9	**-**	-	**103**	77
	739	941	**453**	548	**880**	937	**278**	158	**-**	-	**2,350**	2,584
Segment result	**(133)**	(51)	**(24)**	13	**880**	937	**61**	3	**-**	-	**784**	902
Net gain on disposals of infrastructure project investment, subsidiaries and listed securities	**-**	22	**14**	-	**-**	-	**1**	-	**-**	85	**15**	107
Change in fair values of investment in securities and derivative financial instruments	**-**	-	**-**	-	**75**	-	**(23)**	-	**(10)**	(61)	**42**	(61)
Interest and finance lease income	**102**	77	**-**	-	**-**	-	**1**	1	**158**	99	**261**	177
Exchange gain/(loss)	**-**	-	**-**	-	**-**	-	**-**	-	**168**	(1)	**168**	(1)
Corporate overheads and others	**-**	-	**-**	-	**-**	-	**-**	-	**(160)**	(123)	**(160)**	(123)
Finance costs	**-**	-	**-**	-	**-**	-	**(21)**	(6)	**(711)**	(638)	**(732)**	(644)
Gain on disposals of associates	**-**	-	**-**	-	**3,699**	-	**64**	-	**-**	-	**3,763**	-
Impairment losses	**(308)**	(140)	**(774)**	(90)	**(578)**	-	**(67)**	(20)	**-**	-	**(1,727)**	(250)
Share of results of associates and jointly controlled entities	**2,549**	2,405	**272**	580	**685**	429	**(12)**	1	**-**	-	**3,494**	3,415
Profit/(loss) before taxation	**2,210**	2,313	**(512)**	503	**4,761**	1,366	**4**	(21)	**(555)**	(639)	**5,908**	3,522
Taxation	**(4)**	17	**-**	-	**(23)**	(1)	**(35)**	(13)	**(5)**	(5)	**(67)**	(2)
Profit/(loss) for the year	**2,206**	2,330	**(512)**	503	**4,738**	1,365	**(31)**	(34)	**(560)**	(644)	**5,841**	3,520
Attributable to:												
Shareholders of the Company	**2,206**	2,330	**(346)**	506	**4,738**	1,365	**(31)**	(34)	**(560)**	(644)	**6,007**	3,523
Minority interests	**-**	-	**(166)**	(3)	**-**	-	**-**	-	**-**	-	**(166)**	(3)
	2,206	2,330	**(512)**	503	**4,738**	1,365	**(31)**	(34)	**(560)**	(644)	**5,841**	3,520

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of HK$6,007 million (2004: HK$3,523 million) and on 2,254,209,945 shares (2004: 2,254,209,945 shares) in issue during the year.

11. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors of HK$217 million (HK$301 million as at 31st December, 2004) and their aging analysis is as follows:

HK$ million	**2005**	2004
Current	**85**	114
1 month	**60**	78
2 to 3 months	**24**	28
Over 3 months	**175**	187
Gross total	**344**	407
Allowance	**(127)**	(106)
Total after allowance	**217**	301

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 payments in advance. Invoices are normally payable within 1 month of issuance, except for certain well-established customers, where the terms are extended to 2 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.

12. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors of HK$149 million (HK$160 million as at 31 December, 2004) and their aging analysis is as follows:

HK$ million	**2005**	2004
Current	**83**	66
1 month	**31**	17
2 to 3 months	**15**	19
Over 3 months	**20**	58
Total	**149**	160