



*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1038)**

## **INTERIM RESULTS FOR 2004**

### **Highlights**

#### **Pursuing the Growth Roadmap**

- The Group's net profit reached HK\$1,438 million, representing an increase of 2.5%
- Hongkong Electric registered a steady performance with profit at HK\$2,228 million, up 1.6%
- The Group's net profit, excluding Hongkong Electric, increased by 6% to HK\$590 million
- CKI's investments in Australia showed an impressive performance, with profit contribution surging by 21% to HK\$573 million
- Operations in China performed well with profit contribution reaching HK\$335 million, representing a growth of 10%
- Profit contribution from the Group's infrastructure materials businesses decreased from HK\$50 million last year to HK\$2 million
- CKI has extended its investment portfolio through the:
  - Acquisition of a 49% stake in AquaTower in Australia
  - Acquisition of 100% of Cambridge Water in the United Kingdom
  - Acquisition of a 40% equity stake in the Lane Cove Tunnel in Australia

### **Strong Financial Position**

Cheung Kong Infrastructure Holdings Limited ("CKI" or the "Group") recorded a satisfactory performance for the period under review. Profit attributable to shareholders increased by 2.5 per cent. over the same period last year. The unaudited consolidated profit attributable to shareholders for the six months ended 30th June, 2004 was HK\$1,438 million and earnings per share were HK\$0.64.

The Board of Directors has declared an interim dividend for 2004 of HK\$0.22 per share (2003: HK\$0.215 per share). The interim dividend will be paid on Monday, 4th October, 2004 to shareholders whose names appear on the Register of Members on Thursday, 30th September, 2004.

CKI possesses strong financial resources for future investments and business expansion with cash on hand of HK\$7,550 million and a net debt of HK\$4,788 million. With a net debt to equity ratio of 16 per cent., a credit rating of “A-” from Standard & Poor’s has been maintained during the period under review.

## **Operations Review**

### **1. Hongkong Electric**

Hongkong Electric Holdings Limited (“Hongkong Electric”) continues to be a major revenue generator for CKI and delivered HK\$848 million in profit contribution to the Group. The stronger local economy, coupled with the hot weather which occurred towards the end of June, combined to result in a 3.9 per cent. growth in unit sales for the first half of the year. The substantial rise in coal prices and related freight charges is putting great pressure on Hongkong Electric’s cost control management. A good performance was recorded by its Australian energy investments.

### **2. Australian Investments**

CKI’s energy investments in Australia continued to deliver strong returns, with a profit growth of 21 per cent. over the same period last year. Accounting for approximately 32 per cent. of the Group’s profit contribution, Envestra Limited, ETSA Utilities, Powercor Australia Limited and CitiPower I Pty Ltd. have continued to generate a substantial income for CKI. The Group’s returns on these Australian investments have further benefited from the rise in the Australian dollar exchange rate for the period under review. The construction of the Cross City Tunnel in Sydney is progressing well and its breakthrough was celebrated in June this year.

### **3. Infrastructure Portfolio in Mainland China**

In Mainland China, CKI's power investments performed satisfactorily. Driven by the high demand for power in the Pearl River Delta Region, the Zhuhai Power Plant continued to be a major source of revenue contribution for CKI's HK\$7 billion China infrastructure investment portfolio. The Group's portfolio of other coal-fired power plants and cogen plants continued to make steady contributions.

The Group's transportation project portfolio in Mainland China achieved satisfactory double-digit growth in toll revenue.

### **4. Infrastructure Materials Businesses**

Faced with difficult market conditions, which included increasing transportation costs and a prolonged slump in local construction activity, the Group's infrastructure materials businesses experienced a decline in performance. The merger of the concrete and quarry operations of Anderson Asia (Holdings) Limited with the Hong Kong arm of Hanson PLC has consolidated aggregate and concrete operations in Hong Kong and is poised to maximise the Group's efficiency in the production of infrastructure materials. The merger has been smooth and significant cost savings are being implemented.

## **Pursuing the Growth Roadmap – Through Acquisitions**

CKI has made three acquisitions in the first half of the year. Two major milestones were achieved:

- diversification into the area of water assets
- establishment of a foothold in the United Kingdom

### **1. Water**

- **AquaTower**

In March 2004, CKI acquired a 49 per cent. stake in AquaTower Pty Ltd. ("AquaTower"), the exclusive potable water supplier of four regional towns in Victoria, Australia. This prime water asset is expected to generate an immediate cash return for the Group and represents its first direct investment into Australia's water treatment sector.

- **Cambridge Water**

The Group made its first major foray into the United Kingdom through the acquisition of 100 per cent. of Cambridge Water PLC (“Cambridge Water”) in April this year. The consideration for the acquisition was approximately HK\$718 million. Cambridge Water supplies water to a population of approximately 300,000, and this number is growing fast at a rate of four times the national average. CKI expects the acquisition to represent a platform for future investment and diversification in the United Kingdom market.

## **2. Transportation**

- **Lane Cove Tunnel**

In July this year, the Group became the largest shareholder in the Lane Cove Tunnel Company Pty Ltd. which was awarded the concession to build and operate the Lane Cove Tunnel and the Falcon Street Ramp in Australia. The consideration for the acquisition was HK\$1.3 billion and CKI now holds a 40 per cent. equity stake in the venture. The Lane Cove Tunnel is an integral part of the link that connects the north-western areas of Sydney with the city center and is expected to be completed by mid-2007. Promising good long-term returns for CKI, the project is the Group’s second major transportation infrastructure project in Sydney in addition to the Cross City Tunnel acquired two years ago.

## **Outlook**

In the first half of the year, the Group’s infrastructure investment portfolio has been further strengthened as a result of a number of acquisitions. As AquaTower and Cambridge Water were already in operation at the time of acquisition, they will make profit contribution to the Group in the second half of the year. Our business prospects are bright as the economies in China and Australia remain strong, fuelling continued organic growth for CKI. Meanwhile, Hongkong Electric is expected to continue to deliver a steady performance.

Backed by our strong financial capacity, the Group will continue to pursue aggressively opportunities to enrich our infrastructure portfolio and develop new growth channels. Projects most attractive to the Group are long term assets with strong, steady cash flow generating capacity. Currently, we are working on a number of such investments, including those in the areas of power in Mainland China, gas in the United Kingdom, and transportation in North America. The Group's active pursuit of acquisitions coupled with sustained organic growth will keep CKI on track to a bright future ahead.

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 their support and confidence in the Group.

**Li Tzar Kuoi, Victor**

Chairman

Hong Kong, 12th August, 2004

*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. FOK Kin Ning, Canning (Deputy Chairman), Mr. IP Tak Chuen, Edmond (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. LEE Pui Ling, Angelina (Independent Non-executive Director) and Mr. Barrie COOK.*

## **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, 2004, total borrowings of the Group amounted to HK\$12,338 million, which included Hong Kong dollar syndicated loan of HK\$3.8 billion, foreign currency borrowings of HK\$8,293 million and RMB bank loans of HK\$245 million. Of the total borrowings, 12 per cent. were repayable in 2004, 70 per cent. repayable in 2005 to 2008 and 18 per cent. repayable beyond 2008. 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, 2004, the Group maintained a gearing ratio of 16 per cent. which was based on its net debt of HK\$4,788 million and equity of HK\$29,249 million. This ratio was slightly lower than the gearing ratio of 18 per cent. at the year end of 2003.

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, 2004, the contractual notional amounts of these derivative instruments amounted to HK\$7,608 million.

## **Charge on Group Assets**

As at 30th June, 2004, the Group's interests in an affiliated company with carrying value of HK\$1,702 million were pledged as part of the security to secure bank borrowings totalling HK\$4,014 million granted to the affiliated company.

## **Contingent Liabilities**

As at 30th June, 2004, the Group was subject to the following contingent liabilities:

HK\$ million

Guarantees in respect of bank loans drawn by affiliated companies	1,845
Performance bonds	36
<b>Total</b>	<b>1,881</b>

## **Employees**

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,428 employees. Employees' cost (excluding directors' emoluments) amounted to HK\$160 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

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

## **Purchase, Sale or Redemption of Shares**

The Company has not redeemed any of its shares during the six months ended 30th June, 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during this period.

## **Code of Best Practice**

With the exception that the Non-executive Directors have no set term of office but retire from office on a rotational basis, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim results announcement, in compliance with Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **Audit Committee**

The Group's interim report for the six months ended 30th June, 2004 was reviewed by the Audit Committee (the "Committee"). Regular meetings have been held by the Committee since its establishment and it meets at least twice each year.





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## **NOTICE OF PAYMENT OF INTERIM DIVIDEND, 2004**

The Board of Directors of Cheung Kong Infrastructure Holdings Limited announces that the Group's unaudited consolidated profit attributable to shareholders for the six months ended 30th June, 2004 amounted to HK\$1,438 million which represents earnings of HK\$0.64 per share. The Directors have resolved to pay an interim dividend for 2004 of HK\$0.22 per share to shareholders whose names appear on the Register of Members of the Company on Thursday, 30th September, 2004. The dividend will be paid on Monday, 4th October, 2004.

The Register of Members of the Company will be closed from Thursday, 23rd September, 2004 to Thursday, 30th September, 2004, 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, 22nd September, 2004.

By Order of the Board

**Eirene Yeung**

Company Secretary

Hong Kong, 12th August, 2004

## CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June

HK\$ million	Notes	2004	Unaudited 2003
<b>Turnover</b>			
Group turnover		1,135	1,175
Share of turnover of jointly controlled entities		943	869
	2	2,078	2,044
<b>Group turnover</b>			
Other revenue	2	1,135	1,175
Operating costs	3	166	158
	4	(806)	(763)
<b>Operating profit</b>	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
<b>Profit before taxation</b>		1,798	1,854
Taxation	6	(362)	(456)
<b>Profit after taxation</b>		1,436	1,398
Minority interests		2	5
<b>Profit attributable to shareholders</b>	5	1,438	1,403
<b>Proposed interim dividend</b>		496	485
<b>Earnings per share</b>			
	7	HK\$0.64	HK\$0.62
<b>Proposed interim dividend per share</b>		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
<b>Total non-current assets</b>		<b>34,404</b>	<b>34,396</b>
Inventories		148	164
Retention receivables		14	21
Debtors and prepayments	8	835	649
Bank balances and deposits		7,550	7,243
<b>Total current assets</b>		<b>8,547</b>	<b>8,077</b>
Bank and other loans		1,928	1,258
Creditors and accruals	9	755	642
Taxation		108	109
<b>Total current liabilities</b>		<b>2,791</b>	<b>2,009</b>
<b>Net current assets</b>		<b>5,756</b>	<b>6,068</b>
<b>Total assets less current liabilities</b>		<b>40,160</b>	<b>40,464</b>
Bank and other loans		10,410	11,079
Deferred tax liabilities		257	151
Other non-current liabilities		37	-
<b>Total non-current liabilities</b>		<b>10,704</b>	<b>11,230</b>
<b>Minority interests</b>		<b>207</b>	<b>209</b>
<b>Net assets</b>		<b>29,249</b>	<b>29,025</b>
Representing:			
Share capital		2,254	2,254
Reserves		26,995	26,771
<b>Capital and reserves</b>		<b>29,249</b>	<b>29,025</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The accounting policies adopted in the 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, 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
Dividend from investments in securities	28	24
<b>Group turnover</b>	<b>1,135</b>	<b>1,175</b>
Share of turnover of jointly controlled entities	943	869
<b>Turnover</b>	<b>2,078</b>	<b>2,044</b>

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
<b>Turnover</b>										
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
<b>Segment revenue</b>										
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
<b>Segment result</b>										
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)
<b>Operating profit</b>	-	-	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
<b>Profit attributable to shareholders</b>	<b>848</b>	<b>846</b>	<b>925</b>	<b>785</b>	<b>2</b>	<b>50</b>	<b>(337)</b>	<b>(278)</b>	<b>1,438</b>	<b>1,403</b>

\* 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.

## 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
<b>Turnover</b>												
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
<b>Segment revenue</b>												
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
<b>Segment result</b>	(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)
<b>Operating profit</b>	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
<b>Profit attributable to shareholders</b>	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 per cent. (2003: 17.5 per cent.) 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
<b>Company and subsidiaries</b>		
Current taxation - Hong Kong Profits Tax	3	5
Deferred taxation	(12)	(2)
	<b>(9)</b>	<b>3</b>
<b>Share of taxation attributable to</b>		
Associates	346	433
Jointly controlled entities	25	20
	<b>371</b>	<b>453</b>
<b>Total</b>	<b>362</b>	<b>456</b>

## 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
<b>Gross total</b>	<b>505</b>	567
Provision	(144)	(150)
<b>Total after provision</b>	<b>361</b>	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
<b>Total</b>	<b>126</b>	<b>117</b>