1. Corporate Information

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

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

2. Principal Accounting Policies

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

The financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The term of HKFRS is inclusive of Hong Kong Statements of Standard Accounting Practice ("SSAP"), Hong Kong Accounting Standards ("HKAS") and interpretations issued by the Hong Kong Institute of Certified Public Accountants.

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

The Group's principal accounting policies adopted are set out below:

a) Basis of Consolidation

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

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

2. Principal Accounting Policies (Cont'd)

b) Goodwill

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

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

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

c) Subsidiaries

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

d) Associates

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

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

e) Joint Ventures

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

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

2. Principal Accounting Policies (Cont'd)

f) Infrastructure Project Investments

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

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

g) Property, Plant and Equipment

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

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

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

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

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

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

2. Principal Accounting Policies (Cont'd)

h) Inventories

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

i) Contract Work

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

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

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

j) Investments in Securities

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

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

2. Principal Accounting Policies (Cont'd)

k) Revenue Recognition

(i) Sales of goods

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

(ii) Contract revenue

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

(iii) Income from infrastructure projects and investments in securities

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

(iv) Interest income

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

l) Foreign Currencies

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

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

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

2. Principal Accounting Policies (Cont'd)

m) Deferred Taxation

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

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

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

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

n) Operating Leases

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

2. Principal Accounting Policies (Cont'd)

o) Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases.

The amounts due from the lessees under finance lease contracts are recorded as finance lease debtors. The finance lease debtors comprise the gross investment in leases less unearned finance lease income allocated to future accounting periods. The unearned finance lease income is allocated to future accounting periods so as to reflect constant periodic rates of return on the Group's net investments outstanding in respect of the leases.

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

p) Employee Retirement Benefits

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

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

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

q) Borrowing Costs

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

3. Turnover

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

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

The turnover for the current year is analysed as follows:

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

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

4. Other Revenue

Other revenue includes the following:

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

5. Operating Costs

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

Details of the above impairment losses are as follows:

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

6. Operating Profit

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

7. Finance costs

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

8. Taxation

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

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

8. Taxation (Cont'd)

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

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

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

9. Profit Attributable to Shareholders and Segment Information

Of the Group's profit attributable to shareholders for the year, HK$1,890 million (2003: HK$1,703 million) has been dealt with in the financial statements of the Company.

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

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

By business segment

for the year ended 31st December

HK$ million	Investment in Hongkong Electric* 2004	Investment in Hongkong Electric* 2003	Infrastructure investments 2004	Infrastructure investments 2003	Infrastructure related business 2004	Infrastructure related business 2003	Unallocated items 2004	Unallocated items 2003	Consolidated 2004	Consolidated 2003
Turnover										
Group turnover	–	–	1,264	1,067	1,243	1,401	–	–	2,507	2,468
Share of turnover of jointly controlled entities	–	–	1,953	1,841	–	–	–	–	1,953	1,841
	–	–	3,217	2,908	1,243	1,401	–	–	4,460	4,309
Segment revenue										
Group turnover	–	–	1,264	1,067	1,243	1,401	–	–	2,507	2,468
Others	–	–	25	20	52	81	–	–	77	101
	–	–	1,289	1,087	1,295	1,482	–	–	2,584	2,569
Segment result	–	–	1,045	935	(400)	(49)	–	–	645	886
Net gain/(loss) on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	–	11	22	(19)	85	–	107	(8)
Interest and finance lease income	–	–	1	–	77	81	99	98	177	179
Corporate overheads and others	–	–	–	–	–	–	(185)	(55)	(185)	(55)
Operating profit	–	–	1,046	946	(301)	13	(1)	43	744	1,002
Finance costs	–	–	(6)	–	–	–	(638)	(630)	(644)	(630)
Share of results of associates and jointly controlled entities	2,810	2,942	968	877	2	(6)	–	–	3,780	3,813
Profit before taxation	2,810	2,942	2,008	1,823	(299)	7	(639)	(587)	3,880	4,185
Taxation	(405)	(661)	66	(182)	17	2	(5)	(5)	(327)	(846)
Minority interests	–	–	–	–	3	10	–	–	3	10
Profit attributable to shareholders	2,405	2,281	2,074	1,641	(279)	19	(644)	(592)	3,556	3,349
Other information										
Capital expenditure	–	–	41	–	36	90	–	–	77	90
Depreciation and amortisation	–	–	101	107	154	180	1	2	256	289

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

By business segment (Cont'd)

as at 31st December

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

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

By geographic region

for the year ended 31st December

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

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

By geographic region (Cont'd)
as at 31st December

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

10. Earnings Per Share

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

11. Dividends

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

12. Property, Plant and Equipment

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

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

13. Interests in Subsidiaries

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

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

14. Interests in Associates

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

Included in the amounts due by unlisted associates are subordinated loan of HK$6,589 million (2003: HK$6,310 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates.

Particulars of the principal associates are set out in Appendix 2 on pages 111 to 113.

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

15. Interests in Jointly Controlled Entities

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

The Group's interests in a jointly controlled entity with carrying value of HK$1,896 million as at 31st December, 2004 (2003: HK$1,888 million) have been pledged as part of the security to secure certain bank borrowings granted to the jointly controlled entity.

Particulars of the principal jointly controlled entities are set out in Appendix 3 on page 114.

16. Interests in Infrastructure Project Investments

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

17. Investments In Securities

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

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

18. Other Non-current Assets

HK$ million	Group 2004	2003
Goodwill	**257**	–
Finance lease debtors – non-current portion	**6**	13
Employee retirement benefit assets (note 24(b))	**8**	23
At 31st December	**271**	36

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

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

Changes in the carrying value of goodwill are shown below:

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

Details of finance lease debtors are shown below:

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

19. Inventories

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

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

20. Debtors and Prepayments

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

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

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

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

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

21. Bank and Other Loans

HK$ million	Group 2004	Group 2003
Unsecured bank and other loans repayable:		
Within one year	**357**	1,258
In the second year	**2,414**	514
In the third to fifth year, inclusive	**7,972**	8,396
After five years	**369**	–
	11,112	10,168
Obligations under finance leases repayable:		
Within one year	**14**	–
In the second year	**13**	–
In the third to fifth year, inclusive	**21**	–
After five years	**7**	–
	55	–
Unsecured notes, 3.5%, repayable after five years	**2,244**	2,169
Total	**13,411**	12,337
Portion classified as:		
Current liabilities	**371**	1,258
Non-current liabilities	**13,040**	11,079
Total	**13,411**	12,337

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

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

21. Bank and Other Loans (Cont'd)

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

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

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

22. Creditors and Accruals

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

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

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

23. Deferred Tax Liabilities

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

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

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

Apart from the unused tax losses of which the deferred tax assets have been recognised as presented above, the Group has unused tax losses and other unused tax credits totalling HK$490 million (2003: HK$397 million) at the balance sheet date. No deferred tax asset has been recognised in respect of these tax losses and tax credits due to the unpredictability of future profit streams to utilise the available tax losses and tax credits. An analysis of the expiry dates of the tax losses and tax credits is as follows:

HK$ million	**2004**	2003
Within one year	**45**	14
In the second year	**41**	45
In the third to fifth year, inclusive	**88**	117
No expiry date	**316**	221
Total	**490**	397

24. Retirement Plans

(a) Defined Contribution Retirement Plans

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

Contributions to the defined contribution plans are made by either the employer only at 10 per cent. of the employees' monthly basic salaries or by both the employer and the employees each at 10 or 15 per cent. of the employees' monthly basic salaries. The Company and its Hong Kong subsidiaries also participate in master trust Mandatory Provident Fund ("MPF") schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5 per cent. of the employees' monthly relevant income each capped at HK$20,000.

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

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

(b) Defined Benefit Retirement Plan operating in Hong Kong

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

24. Retirement Plans (Cont'd)

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

Actuarial valuation of the defined benefit plan according to SSAP 34 "Employee Benefits" was carried out at 31st December, 2004, by Mr. Joseph K.L. Yip of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations, the related current service cost and past service cost, if any, were measured using the Projected Unit Credit Method. The principal actuarial assumptions used are as follows:

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

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

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

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

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

24. Retirement Plans (Cont'd)

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

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

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

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

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

Since 1st January, 2002, the Group has adopted SSAP 34 "Employee Benefits". As at that date, the Group determined the transitional liability for its defined benefit plan to be HK$13 million. This amount is being recognised on a straight-line basis over a period of five years from 1st January, 2002. A charge of HK$2 million (2003: HK$2 million) was recognised in the current year. An additional charge of HK$4 million was recognised and included in the above loss on curtailment and settlement cost. As at 31st December, 2004, transitional liability of HK$2 million (2003: HK$8 million) remained unrecognised.

Another actuarial valuation was completed at 1st January, 2005 by Mr. Joseph K.L. Yip, the same actuary as mentioned above, to determine the funding rates to be adopted by the Group in accordance with requirements of Occupational Retirement Schemes Ordinance. The actuarial method adopted was Attained Age Funding Method. The major assumptions used were the long-term average annual rate of investment return on the plan assets at 7 per cent. per annum, and the average annual salary increases at 3 per cent. per annum for the next year and 5 per cent. per annum thereafter. The actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK$60 million at 31st December, 2004 represents 110 per cent. of the present value of the obligations as at that day. Contributions to fund the obligations are based upon the recommendations of actuary to fully fund the retirement plan on an ongoing basis. The funding rates are subject to annual review.

24. Retirement Plans (Cont'd)

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

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

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

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

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

HK$ million	
Current service cost	**7**
Interest cost	**19**
Expected return on plan assets	**(21)**
Net actuarial loss not recognised	**(2)**
Net amount charged to consolidated income statement	**3**

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

24. Retirement Plans (Cont'd)

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

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

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

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

HK$ million	
At acquisition date	**14**
Exchange translation differences	**1**
Employers' contributions	**(3)**
Amount charged to consolidated income statement	**3**
At 31st December	**15**

The above actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK$363 million at 31st December, 2004 represents 93 per cent. of the present value of the obligations as at that day. The Group's future annual contribution is designed to fund the shortfall over a period of time and the employer funding rates have been increased since 1st April, 2004. The funding rates are subject to annual review.

25. Share Capital

HK$ million	2004	2003
Authorised:		
4,000,000,000 shares of HK$1 each	**4,000**	4,000
Issued and fully paid:		
2,254,209,945 shares of HK$1 each	**2,254**	2,254

26. Reserves

Group

HK$ million	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Retained profits	Proposed dividends	Total
At 1st January, 2003	3,836	6,079	(37)	139	13,211	1,048	24,276
Final dividend for the year 2002 paid	–	–	–	–	–	(1,048)	(1,048)
Surplus on revaluation of non-trading securities	–	–	44	–	–	–	44
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(23)	–	–	–	(23)
Exchange translation differences	–	–	–	675	–	–	675
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years	–	(36)	–	–	–	–	(36)
Profit for the year	–	–	–	–	3,349	–	3,349
Goodwill charged to income statement on disposal of a subsidiary	–	19	–	–	–	–	19
Interim dividend paid	–	–	–	–	(485)	–	(485)
Proposed final dividend	–	–	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	6,062	(16)	814	14,948	1,127	26,771
Final dividend for the year 2003 paid	–	–	–	–	–	(1,127)	(1,127)
Surplus on revaluation of non-trading securities	–	–	144	–	–	–	144
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(39)	–	–	–	(39)
Exchange translation differences	–	–	–	141	–	–	141
Profit for the year	–	–	–	–	3,556	–	3,556
Revaluation surplus realised upon disposals of non-trading securities	–	–	(54)	–	–	–	(54)
Impairment loss recognised in respect of non-trading securities	–	–	20	–	–	–	20
Interim dividend paid	–	–	–	–	(496)	–	(496)
Proposed final dividend	–	–	–	–	(1,285)	1,285	–
At 31st December, 2004	**3,836**	**6,062**	**55**	**955**	**16,723**	**1,285**	**28,916**

26. Reserves (cont'd)

The retained profits of the Group include the Group's share of the undistributed retained profits of its associates and jointly controlled entities amounting to HK$8,409 million (2003: HK$6,957 million) and HK$211 million (2003: HK$374 million), respectively.

Company

HK$ million	Share premium	Contributed surplus	Retained profits	Proposed dividends	Total
At 1st January, 2003	3,836	20,810	2,018	1,048	27,712
Final dividend for the year 2002 paid	–	–	–	(1,048)	(1,048)
Profit for the year	–	–	1,703	–	1,703
Interim dividend paid	–	–	(485)	–	(485)
Proposed final dividend	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	20,810	2,109	1,127	27,882
Final dividend for the year 2003 paid	–	–	–	(1,127)	(1,127)
Profit for the year	–	–	1,890	–	1,890
Interim dividend paid	–	–	(496)	–	(496)
Proposed final dividend	–	–	(1,285)	1,285	–
At 31st December, 2004	**3,836**	**20,810**	**2,218**	**1,285**	**28,149**

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

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

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

27. Notes to Consolidated Cash Flow Statement

(a) Cash generated from operations

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

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

(b) Acquisitions of subsidiaries

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

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

Analysis of the net cash flow arising on the acquisitions:

HK$ million	**2004**	2003
Cash consideration	**(716)**	–
Other transaction costs paid	**(8)**	–
Bank balances and deposits acquired	**19**	–
Net cash outflow arising from the acquisitions	**(705)**	–

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

(c) Disposals of subsidiaries

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

Analysis of the net cash flow arising on the disposals:

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

28. Emoluments of Directors and Five Highest Paid Individuals

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

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

Notes:

(1) During the current year, Mr. Li Tzar Kuoi, Victor, Mr. Kam Hing Lam, Mr. Fok Kin Ning, Canning, Mrs. Chow Woo Mo Fong, Susan, Mr. Frank John Sixt and Mr. Tso Kai Sum each received directors' fees of HK$70,000 (2003: HK$50,000), and Mr. George Colin Magnus received director's fees of HK$120,000 (2003: HK$100,000) from Hongkong Electric Holdings Limited, a listed associate of the Group. The directors' fees totalling HK$540,000 (2003: HK$400,000) were then paid back to the Company.

(2) Directors' fees received by these directors from a subsidiary of the Company were paid back to the Company and are not included in the amounts above.

(3) Independent non-executive directors and audit committee members ("INED and ACM") — During the current year, Mr. Henry Cheong has acted as an INED and ACM of the Company. Mrs. Angelina Lee resigned from INED and ACM effective from 23rd September, 2004. Ms. Kwok Eva Lee and Ms. Sng Sow-Mei have been appointed as INED and ACM of the Company since 23rd September, 2004. The total emoluments paid to these INED and ACM during the current year are HK$318,254 (2003: HK$200,000).

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

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

HK$ million	**2004**	2003
Salaries and benefits in kind	**2**	2
Contributions to retirement plan	**1**	1
Bonuses	**2**	2
Total	**5**	5

29. Commitments

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

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

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

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

30. Contingent Liabilities

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

31. Material Related Party Transactions

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

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

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

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

32. Recently Issued Accounting Standards

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

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

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

33. Approval of Financial Statements

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