CKI UK WATER LTD

Financial Statements
For the Period Ended 31 December 2005

LIT8PK7K
LD2 350
COMPANIES HOUSE 03/11/2006

Incorporated in England and Wales with limited liability under the Companies Act 1985
No. 5095089

CKI UK Water Limited

Registered in England and Wales with limited liability under the Companies Act 1985 No.5095089.

Registered office	Kempson House Camomile Street London, EC3A 7AN
Directors	Edmond Tak Chuen Ip Eric Bing Sing Kwan
Company Secretary	Norose Company Secretarial Services Limited
Auditors	Deloitte & Touche LLP Hill House, 1 Little New Street, London, EC4A 3TR
Solicitors	Norton Rose Kempson House, Camomile Street, London, EC3A 7AN
Bankers	HSBC 17 Gerrard Street London, W1V 8HB Barclays Bank PLC Corporate Banking Services P.O. Box 885, Mortlock House Histon, Cambridge, CB4 9DE

The directors are pleased to submit their annual report on the affairs of the Group, together with the financial statements and auditors' report for the year ending 31 December 2005.

Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group, the system of internal controls, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Activities

The principal activity of the Group is the supply of water to a population of 295,000 in an area of Cambridgeshire spanning 1,173 square kilometers, through its subsidiary, Cambridge Water PLC.

During 2005, Cambridge Water PLC continued to operate efficiently and was one of only four companies to be ranked by the regulator, OFWAT, as most efficient for both operating and capital maintenance costs. These four companies are now used by OFWAT as the benchmark against which all other water suppliers are measured.

In common with other water suppliers in the South and East of England we continue to monitor the effect on our water supplies of a second dry winter. Fortunately, previous investment in resources and metering gives us confidence that our reserves should allow our customers to avoid restrictions in 2006 unless extreme conditions prevail.

The service the Company provides continues to be of a high standard and was, once again, perceived as good against all OFWAT performance indicators of Levels of Service.

Financial Results and Dividends

	£'000
Profit for the period after taxation	1,791
Interim dividend paid and proposed	-
Retained profit for the period	1,791
Retained profit at 31 December 2004 (restated)	623
Other recognised gains and losses during the period	21
Retained profit at 31 December 2005	2,435

The Board has decided not to propose a final dividend in respect of the period ended 31 December 2005.

The objectives, risks, policies and exposures relating to financial instruments held by the Group are disclosed in notes 1k and 19.

Directors

The directors listed on page 2 held office throughout the year.

No director had a material interest in any contract entered into by the Company during the period. No director or member of any director's immediate family has, or was granted, any right to subscribe to any stock in the Company.

During the period the Company purchased and maintained Directors' and Officers' Liability Insurance as permitted by the Companies Act 1985.

Ultimate Holding Company

As at 31 December 2005, the Company's immediate parent company is CKI UK Water (BVI) Limited. This company is a wholly owned subsidiary of Cheung Kong Infrastructure Holdings Limited ("CKI"), a company incorporated in Bermuda and whose shares are listed on the Hong Kong Stock Exchange.

The ultimate holding company of CKI, and therefore ultimate controlling party of the Group, is Hutchison Whampoa Limited, a company incorporated in Hong Kong.

The smallest and largest groups of which CKI UK Water Limited is a member and for which group financial statements are drawn up are Cheung Kong Infrastructure Holdings Limited and Hutchison Whampoa Limited respectively.

Auditors

The directors will place a resolution before the Annual General Meeting to re-appoint Deloitte & Touche LLP as auditors for 2006.

Supplier Payment Policy

The Group's normal policy is to pay suppliers at the end of the month following that in which goods or services are invoiced. These terms are made known to suppliers when orders are placed.

Trade creditors of the trading subsidiary, Cambridge Water PLC, at 31 December 2005 were equivalent to 43 (2004: 35) days' purchases, based on the average daily amount invoiced by suppliers during the period.

Donations

During the year the Group donated £9,772 (2004: £4,212) to charitable causes and community projects. No subscriptions or donations were made to political parties.

By order of the Board

AUTHORISED SIGNATORY OF
NOROSE COMPANY
SECRETARIAL SERVICES LTD

Company Secretary

3 November 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CKI UK WATER LIMITED

We have audited the Group and individual Company financial statements (the "financial statements") of CKI UK Water Limited for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated and individual Company balance sheets, the consolidated statement of total recognised gains and losses and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

· the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the individual Company's affairs as at 31 December 2005 and of the Group's profit for the year then ended; and

· the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
3 November 2006

Consolidated Profit and Loss Account

	Notes	Group Year ended 31 December 2005 £'000	Group 8 month period ended 31 December 2004 Restated (note 1) £'000
Turnover	1,3	16,858	10,445
Cost of sales		(7,814)	(5,090)
Gross profit		9,044	5,355
Administrative expenses		(5,106)	(3,026)
Other operating income	4	900	454
Operating profit		4,838	2,783
(Loss) / Profit on sale of tangible fixed assets		(513)	13
Profit on ordinary activities before finance charges		4,325	2,796
Interest receivable and similar income		206	191
Interest payable and similar charges	5	(2,084)	(1,320)
Profit on ordinary activities before taxation	6	2,447	1,667
Tax on profit on ordinary activities	10	(656)	(526)
Profit on ordinary activities after taxation and retained profit *for the year / period*		1,791	1,141

All turnover and operating profit is derived from continuing operations.

The 2004 comparators reflect the period from incorporation, 5 April 2004, to 31 December 2004.

Consolidated and Company Balance Sheets

Annual Report & Financial Statements Year Ended 31 December 2005

	Notes	Group 2005 £'000	Group Restated (note 1) 2004 £'000	Company 2005 £'000	Company Restated (note 1) 2004 £'000
Fixed assets					
Goodwill	2	12,862	13,564	-	-
Tangible fixed assets before contributions	11	59,764	56,632	-	-
Less capital contributions	13	(2,637)	(1,234)	-	-
		57,127	55,398	-	-
Investments	12	-	-	31,409	52,211
		69,989	68,962	31,409	52,211
Current assets					
Stocks	14	60	63	-	-
Debtors	15	1,376	1,712	309	-
Prepayments and accrued income		1,286	795	-	-
Investments	16	2	1	-	-
Cash at bank and in hand		862	1,545	1	-
		3,586	4,116	310	-
Creditors: amounts falling due within one year	17	(11,414)	(11,824)	(4,950)	(6,952)
Net current liabilities		(7,828)	(7,708)	(4,640)	(6,952)
Total assets less current liabilities		62,161	61,254	26,769	45,259
Creditors: amounts falling due after more than one year	18	(33,473)	(33,820)	(6,479)	(6,479)
Provisions for liabilities and charges	22	(7,832)	(8,425)	-	-
Net assets excluding pension liability		20,856	19,009	20,290	38,780
Pension liability	20	(1,260)	(1,225)	-	-
Net assets including pension liability		19,596	17,784	20,290	38,780
Capital and reserves					
Called up share capital	23	17,161	17,161	17,161	17,161
Profit and loss account	25	2,435	623	3,129	21,619
Equity shareholder's funds	24	19,596	17,784	20,290	38,780

Approved by the Board on 3 November 2006
and on their behalf by

Directors
ERIC KWAN

Statement of Total Recognised Gains and Losses

Annual Report & Financial Statements Year Ended 31 December 2005

	Notes	Group 2005 £'000	Group 2004 Restated (note 1) £'000
Profit for the financial year		1,791	1,141
Actuarial gain / (loss) relating to pension scheme	20	30	(740)
UK deferred tax attributable to actuarial (loss) / gain		(9)	222
Total recognised gains and losses relating to the year		1,812	623
Prior year adjustments	1	(258)	
Total gains and losses recognised since the last annual report and financial statements		1,554	

The 2004 comparatives reflect the period from incorporation, 5 April 2004, to 31 December 2004

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the previous year, except for the adoption of FRS 17 Retirement Benefits, FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Measurement and FRS 21 Events After the Balance Sheet Date, is set out below. The 2004 comparators reflect the period from incorporation, 5 April 2004, to 31 December 2004.

a. Basis of accounting

The Group financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and law.

b. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking, Cambridge Water PLC, for the year ended 31 December 2005.

c. Intangible assets

Goodwill, arising on the acquisition of Cambridge Water PLC, is capitalised and written off on a straight-line basis over its useful economic life of 20 years. Provision is made for any impairment.

d. Tangible fixed assets

Tangible fixed assets comprise:

i) Infrastructure assets

Infrastructure assets comprise a network of systems including mains and communication pipes. The Group has adopted the requirements of Financial Reporting Standard 15 'Tangible Fixed Assets' under which all expenditure on infrastructure assets is capitalised at cost, while the planned expenditure incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as depreciation.

ii) Other assets

Other assets are included at cost or valuation less accumulated depreciation and any provision for impairment. Additions are included at cost.
Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are as follows:

Towers, office and depot buildings		60	Years
Pumping stations, reservoirs and houses	Up to	80	Years
Meters, mobile plant and office equipment	Up to	20	Years

e. Stocks

Stocks have been valued at the lower of cost and net realisable value. No value has been placed on the water in reservoirs and mains in accordance with established practice in the water industry.

f. Leased assets

Assets leased under finance leases are capitalised when appropriate in accordance with SSAP 21. The capital payments outstanding on all assets held under the leases are shown within creditors. Depreciation on these assets is in accordance with the policy stated in d. above and charged to the profit and loss account. Interest on finance leases is charged directly to the profit and loss account so as to produce a constant periodic rate of interest on the outstanding liability. Rentals paid under operating leases are charged against income on a straight-line basis over the lease term.

g. Contributions for mains, infrastructure, communication pipes and meters

Contributions received for mains, infrastructure, communication pipes and meters are treated as capital contributions and shown as a deduction from fixed assets on the balance sheet. This policy is not in accordance with the provisions of the Companies Act, but has been adopted in order to show a true and fair view, as certain assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. Contributions are amortised over the same period as the related assets where those assets have a finite life.

h. Defined benefit pension scheme

The amount charged to the profit and loss account in respect of the defined benefit pension scheme is the current service cost and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the balance sheet.

FRS 17 Retirement Benefits has been fully adopted in 2005 for the first time (see note 20).

i. Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

j. Turnover

Turnover represents the amounts receivable, excluding value added tax, in respect of goods sold and services provided to customers during the year / period.

1 Accounting policies (continued)

k. Derivative financial instruments

The use of financial derivatives is governed by the Group's policies approved by the board of directors.

Changes in the fair value of derivative financial instruments are recognised in the profit and loss account as they arise. Hedge accounting is not applied. Derivative financial instruments are included in the balance sheet at their fair value.

Interest rate risk management

The Group's activities expose it primarily to the financial risk of changes in interest rates. The Group uses interest rate swap contracts to hedge this exposure. The Group does not use derivative financial instruments for speculative purposes.

Credit risk management

It is the Group's policy not to trade in financial instruments.

Liquidity risk management

The Group manages liquidity risk using committed bank facilities and short-term deposits.

Trade receivables

Trade receivables are measured at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition.

Trade creditors

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Cash at bank and in hand

Cash at bank and in hand comprises current account deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the profit and loss account as they arise.

2 Goodwill

	£'000
Cost	
At 31 December 2004	14,032
Additions	-
At 31 December 2005	14,032
Amortisation	
At 31 December 2004	468
Charge for the year	702
At 31 December 2005	1,170
Net book value	
At 31 December 2004	13,564
At 31 December 2005	12,862

3 Turnover and segmental analysis

Turnover represents income from the supply of water and other associated rechargeable work within the UK.

4 Other operating income

	Year ended 31 December 2005 £'000	8 month period ended 31 December 2004 £'000
Rents	219	135
Management fee income	-	7
Other	681	312
	900	454

5 Interest payable

	Year ended 31 December 2005 £'000	8 month period ended 31 December 2004 £'000
Finance leases	237	189
Interest on parent company loans	83	1,028
Interest on bank loans and overdraft	1,345	9
Debenture stock	8	94
Movement on fair value of interest rate swap	411	-
	2,084	1,320

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging / (crediting):

		Year ended 31 December 2005 £'000	8 month period ended 31 December 2004 £'000
Depreciation - owned assets		2,601	1,659
- leased assets		60	41
		2,661	1,700
Amortisation of goodwill		702	468
Amortised meter contributions		(2)	(2)
Auditors' remuneration in respect of statutory audit services	- Group	65	38
	- Company	10	7
Auditors' remuneration in respect of non audit services	- Group	21	19
	- Company	-	-
Operating lease rentals - vehicles		63	26

7 Staff costs

	Year ended 31 December 2005 £'000	8 month period ended 31 December 2004 Restated (note 1) £'000
Wages and salaries	3,553	2,076
Social security costs	284	165
Pension costs (note 20)	610	340
Total (including costs allocated to capital)	4,447	2,581

Staff costs capitalised in the year amounted to £573,429 (2004: £335,000)

The average monthly number of employees, including executive directors, was:	number	number
Resources dept.	20	24
Commercial dept.	24	23
Engineering dept.	74	72
	118	119

8 Directors' remuneration

None of the directors received any emoluments in respect of services provided to the Company or Group.

None of the directors were members of the defined benefit pension scheme.

9 Profit on disposal of fixed assets

	Year ended 31 December 2005 £'000	8 month period ended 31 December 2004 £'000
(Loss) / Profit on disposal of tangible fixed assets	(513)	13

10 Tax on profit on ordinary activities

The tax charge comprises:	Year ended 31 December 2005 £'000	8 month period ended 31 December 2004 Restated (note 1) £'000
Current Tax		
UK Corporation Tax at 30%	950	414
Adjustment in respect of prior periods	12	-
Total current tax	962	414
Deferred Tax (note 22)		
Origination and reversal of timing differences	274	112
Adjustment in respect of prior periods	(580)	-
	(306)	112
Total tax on profit on ordinary activities	656	526

Factors affecting tax charge for the year / period

The tax assessed for the year / period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Profit on ordinary activities before tax	2,447	1,667
Corporation tax at 30%	734	500
Effects of:		
Capital allowances in excess of depreciation	(472)	(462)
Loss on disposal of assets that did not qualify for capital allowances	154	-
Expenses not deductible for tax purposes	338	1
Other short term timing differences	196	375
Adjustment in respect of prior period	12	-
Current tax charge for the year / period	962	414

The Group earns its profits solely in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 30%.

11 Group tangible fixed assets before contributions

	Freehold Land, Offices, Depots & Houses	Sources, Reservoirs, Buildings & Works	Mains	Communication Pipes	Meters, Mobile Plant & Office Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 31 December 2004	3,990	12,965	29,790	2,548	9,032	58,325
Additions	1,164	707	1,780	972	1,691	6,314
Disposals	(532)	-	-	-	(226)	(758)
At 31 December 2005	4,622	13,672	31,570	3,520	10,497	63,881
Depreciation						
At 31 December 2004	19	368	612	59	635	1,693
Charge for the year	76	543	1,040	331	671	2,661
Disposals	(23)	-	-	-	(214)	(237)
At 31 December 2005	72	911	1,652	390	1,092	4,117
Net book value						
Owned	4,550	10,983	14,740	2,997	9,395	42,665
Leased	-	1,778	15,178	133	10	17,099
At 31 December 2005	4,550	12,761	29,918	3,130	9,405	59,764
Owned	3,971	10,761	14,000	2,356	8,386	39,474
Leased	-	1,836	15,178	133	11	17,158
At 31 December 2004	3,971	12,597	29,178	2,489	8,397	56,632

Assets financed by leasing amounting to £17,967,000 (2004: £17,967,000) less accumulated depreciation of £868,000 (2004: £808,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £60,000 (2004: £41,000).

The Company held no tangible fixed assets as at the balance sheet date.

12 Fixed asset investments

	Company 2005 £'000	Company 2004 £'000
Investment in Cambridge Water PLC	31,409	52,211

The Company acquired 100% of the share capital of Cambridge Water PLC on 28 April 2004. The reduction in the carrying amount of the investment recorded as a charge to the profit and loss account reflects a reduction in its recoverable amount as a consequence of cumulative dividend income received from Cambridge Water PLC since acquisition, predominantly out of pre-acquisition profits.

13 Capital contributions

	Mains £'000	Infrastructure £'000	Communication Pipes £'000	Meters £'000	Total £'000
At 31 December 2004	368	295	549	22	1,234
Received in the year	131	518	14	742	1,405
Less amortisation	-	-	-	(2)	(2)
At 31 December 2005	499	813	563	762	2,637

14 Stocks

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Raw materials and consumables	60	63	-	-

In the opinion of the directors the replacement cost of stock is not materially different to the carrying value.

15 Debtors

Amounts falling due within one year:	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company Restated (note 1) 2004 £'000
Trade debtors	1,246	1,335	-	-
Amounts receivable from insurance claim	-	220	-	-
Amounts owed by Group undertakings	-	-	309	-
Other debtors	130	157	-	-
	1,376	1,712	309	-

16 Investments

This represents the Group's investment of £1,596 in WRc PLC.

17 Creditors: amounts falling due within one year

	Group	Group	Company	Company
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	2,841	5,345	2,841	5,345
Obligations under finance lease contracts	847	933	-	-
Trade creditors	3,558	2,390	40	-
Amounts due to parent company	2,005	1,607	2,069	1,607
Other taxes and social security	92	86	-	-
Deposits and deferred income	1,660	1,463	-	-
Fair value of interest rate swap	411	-	-	-
	11,414	11,824	4,950	6,952

The £5,345,000 bank loan held at 31 December 2004 was repaid in April 2005. In the same month, a loan of £2,841,000 was taken out, repayable in April 2006. Both loans were arranged with Chartex International, a group company, and are interest free.

18 Creditors: amounts falling due after more than one year

	Group	Group	Company	Company
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Perpetual debenture stock	192	192	-	-
Obligations under finance lease contracts	1,802	2,649	-	-
Group company loan	6,479	6,479	6,479	6,479
Bank loans	25,000	24,500	-	-
	33,473	33,820	6,479	6,479
Made up as follows :				
Due between 1 and 2 years	880	847	-	-
Due between 2 and 5 years	25,680	1,313	-	-
Due after 5 years	6,721	31,468	6,479	6,479
Perpetual	192	192	-	-
	33,473	33,820	6,479	6,479
Including finance leases:				
Due between 1 and 2 years	880	847	-	-
Due between 2 and 5 years	680	1,313	-	-
Due after 5 years	242	489	-	-
	1,802	2,649	-	-
Including debenture stocks, Group loan and revolving credit facility (RCF):				
Due after 5 years				
4% Consolidated Perpetual Debenture Stock (half yearly interest due on 1 January and 1 July)	192	192	-	-
Interest free Group company loan	6,479	6,479	6,479	6,479
Revolving credit facility expiring December 2010	25,000	24,500	-	-
	31,671	31,171	6,479	6,479

The RCF is for a maximum of £30m, subject to compliance with certain covenants and financial ratios. Details of the interest risk terms are provided in note 19.

19 Financial instruments

The Group's financial instruments comprise borrowings in sterling, cash and liquid resources and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of the Group's financial liabilities is to raise finance for the Group's operations. It is, and has been throughout the year and the previous period, the Group's policy that no trading in financial instruments shall be undertaken. The main financial risk faced by the Group is interest rate risk. No financial liabilities are subject to exchange rate risk. The Board approves all financial instruments used by the Group and reviews policies for managing the risks.

Interest Rate Risk

The Group uses an interest rate swap to manage its exposure to interest rate movements on its bank borrowings. The contract has a nominal value of £25,500,000 with fixed interest payments at an average rate of 4.87% for periods up until 30 December 2010 and have floating interest receipts at 0.375% plus LIBOR.

At 31 December 2005, the fair value of the swap is estimated as a liability of £411,000 (2004: nil). This amount is based on the market value of equivalent instruments at the balance sheet date. Movements in the fair value of the swap have been recognised in the profit and loss account.

After taking into account interest rate swaps entered into by the Group, the interest rate profile of the Group's financial liabilities at 31 December 2005 was as follows:

Of the £37.2m (2004: £40.1m) borrowings at 31 December 2005, £1.4m (2004: £2.1m) of finance leases and the £25.0m Revolving Credit Facility (RCF) (2004: £24.5m) were at variable interest rates. This represents 71% (2004: 66%) of borrowings.

All of the £25.0 RCF was covered by the swap and so a one percentage point rise in interest rates in the year would have affected profits before tax by 0.3% (2004: 0.5%). The swap and RCF are with Barclays Bank and the hedge is profiled to ensure we have approximately 95% coverage over the life of the RCF.

The RCF was taken out on 30 December 2004. Since we use the interest rate of the loan as our discount rate, the fair value and book value of the RCF are both £25.0m.

There were no unrecognised gains or losses arising from the hedge at the balance sheet date.

Credit Risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity Risk

The Group manages liquidity risk using committed bank facilities and short-term deposits.

At the balance sheet date, the Group had in a place a committed short-term banking facility of £2,000,000, in addition to available headroom under the RCF.

The maturity of the Group's borrowings is as follows:	2005 £'000	2004 £'000
Within 1 year	3,688	6,278
Between 1 and 2 years	880	847
Between 2 and 5 years	25,680	1,313
Over 5 years	6,721	31,468
Perpetual	192	192
	37,161	40,098

The weighted average interest rate of the fixed rate liabilities was 8.45% (2004: 8.73%). The weighted average period for which the interest rates are fixed, excluding the perpetual debentures, is 4.85 years (2004: 6.15 years). The benchmark rate for determining variable interest payments is LIBOR. The fair value of the £1.6m (2004: £1.7m) fixed interest liabilities, using a discount rate of 5.3% (2004: 5.3%), is £1.8m (2004: £2.1m).

20 Pension fund

FRS 17 Retirement benefits

Cambridge Water PLC, a subsidiary of CKI UK Water Ltd, operates a funded defined benefit pension scheme covered under the Water Companies Pension Scheme of which Cambridge Water PLC is a member.

In prior years, information relating to the defined benefit pension scheme was disclosed only in the notes to the financial statements.

For periods ending on or after 1 January 2005, this information must be reflected in the financial statements and as such 2004 comparatives have been restated.

Adoption of FRS 17 in the current year has required restatement of 2004 comparatives. The impact of the restatement has been to decrease net assets at 31 December 2004 by £258,000.

The most recent actuarial valuation was carried out at 1 April 2005 and has been updated to 31 December 2005 by a qualified independent actuary.

The major assumptions used by the actuary were:	**31 December 2005**	**31 December 2004**
RPI Inflation	2.8%	2.9%
Discount rate	4.8%	5.3%
Pension increases in payment (RPI)	2.8%	2.9%
General salary increases	4.8%	4.9%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rates of return at each balance sheet date were:

	Expected return	2005	Expected return	2004
Equities	7.3%	17,150	7.5%	14,410
Bonds	4.1%	10,880	4.6%	9,900
Cash	4.2%	130	4.5%	(20)
Total market value of assets		28,160		24,290
Present value of scheme liabilities		(29,960)		(26,040)
Gross pension liability		(1,800)		(1,750)
Related deferred tax asset at 30%		540		525
Net pension liability		(1,260)		(1,225)

The total contribution rate for 2005 was 16.5% of pensionable earnings and this level of contribution will continue until 31 March 2006.
The agreed contribution rate for the period 1 April 2006 to 31 March 2009 is 19.0% of pensionable earnings.

Analysis of the amount charged to operating profit:	£'000 2005	£'000 2004
Current service cost	610	340
Total operating charge	610	340
Analysis of the amount credited to other finance income:		
Expected return on pension scheme assets	1,530	1,020
Interest on pension scheme liabilities	(1,380)	(887)
Net return credited to the profit and loss account	150	133
Analysis of the actuarial gain recognised in the statement of total recognised gains and losses (STRGL):		
Actual return less expected return on pension scheme assets	2,690	960
Experience gains arising on pension scheme liabilities	250	(770)
of scheme liabilities	(2,910)	(930)
Actuarial gain recognised in STRGL	30	(740)
Movement in scheme deficit during the year:		
Deficit in scheme at beginning of the year / period	(1,750)	(1,000)
Current service cost	(740)	(426)
Aggregate contributions	510	286
Other finance income	150	130
Actuarial gain recognised in STRGL	30	(740)
Deficit in scheme at end of the financial year / period	(1,800)	(1,750)
History of experience gains and losses:		
Difference between expected and actual return on scheme assets		
Amount - gain	2,690	960
Percentage of scheme assets	10%	4%
Experience gains and losses on scheme liabilities		
Amount - gain / (loss)	250	(770)
Percentage of the present value of the scheme liabilities	1%	-3%
Total amount recognised in STRGL		
Amount - gain / (loss)	30	(740)
Percentage of the present value of the scheme liabilities	0%	-3%

21 Financial commitments

Annual commitments under non-cancellable operating leases for vehicles are as follows:	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Expiring in less than one year	18	-	-	-
Expiring between two and five years	46	38	-	-
	64	38	-	-

Future capital expenditure:
There is outstanding in respect of capital works not completed, and therefore not provided in the balance sheet, an estimated sum of £0.4m (2004: £1.3m).

22 Provisions for liabilities and charges

	Deferred taxation	Directors' pensions	Claims and other	Total
At 31 December 2004	8,079	31	315	8,425
Profit and loss charge / (credit)	(300)	44	-	(256)
Released to the profit and loss account	-	-	-	-
Utilised in the year	-	(22)	(315)	(337)
At 31 December 2005	7,779	53	-	7,832

The provision for directors' pensions is an unfunded provision for pensions payable to former directors. There are no similar arrangements in place for current directors and this provision does not form part of the defined benefit pension scheme described in note 20.

Deferred taxation is provided as follows:

	2005 £'000	2004 £'000
Accelerated capital allowances	7,232	8,025
Short-term timing differences	(583)	(411)
Holdover relief	1,130	465
	7,779	8,079

23 Share capital

	2005 £'000	2004 £'000
Authorised share capital:		
17,161,375 shares of £1 each	17,161	17,161
Called up share capital:		
Allotted and fully paid:		
17,161,375 shares of £1 each	17,161	17,161

24 Reconciliation of movements in equity shareholder's funds

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Profit after taxation for the financial year	1,791	1,141	(18,490)	21,619
Other recognised gains and losses during the year	21	(518)	-	-
Net increase in equity shareholder's funds	1,812	623	(18,490)	21,619
Opening equity shareholder's funds	17,784	17,161	38,780	17,161
Closing equity shareholder's funds	19,596	17,784	20,290	38,780

Prior period adjustments

The adoption of FRS 17 Retirement benefits has meant that the prior year figures have been restated. The effect of this is summarised below and in note 20.

FRS 17 Retirement benefits

In prior years, information relating to the defined benefit pension scheme was disclosed only in the notes to the financial statements.
For periods ending on or after 1 January 2005, this information must be reflected in the financial statements.
Adoption of FRS 17 in the current year has required restatement of 2004 comparatives. The impact of the restatement has been to decrease net assets at 31 December 2004 by £258,000.

FRS 25 Financial Instruments: Disclosure and Presentation and FRS 26 Financial Instruments: Measurement

The adoption of FRS 25 and FRS 26 had no impact on the results, net assets or shareholders funds reported in 2004.

25 Reserves

	Profit and loss £'000
At 31 December 2004 (restated)	623
Retained profit for the year	1,791
Other recognised gains and losses during the year	21
At 31 December 2005	2,435

	2005 £'000	2004 £'000
Profit and loss reserve excluding pension liability	3,695	1,848
Amount relating to defined pension scheme liability, net of deferred tax	(1,260)	(1,225)
Profit and loss reserve	2,435	623

26 Related party transactions

As a wholly owned subsidiary of Hutchison Whampoa Limited, the Group has taken advantage of the exemption, under FRS 8, not to disclose transactions with other group companies.

27 Ultimate holding company

As at 31 December 2005, the Company's immediate parent company is CKI UK Water (BVI) Limited. This company is a wholly owned subsidiary of Cheung Kong Infrastructure Holdings Limited ("CKI"), a company incorporated in Bermuda and whose shares are listed on the Hong Kong Stock Exchange.

The ultimate holding company of CKI, and therefore ultimate controlling party of the Group, is Hutchison Whampoa Limited, a company incorporated in Hong Kong.

The smallest and largest groups of which CKI UK Water Limited is a member and for which Group financial statements are drawn up are Cheung Kong Infrastructure Holdings Limited and Hutchison Whampoa Limited respectively.

28 Cashflow

Under the provisions of Financial Reporting Standard No.1 (Revised), the Company has not prepared a cash flow statement because its ultimate parent undertaking, Hutchison Whampoa, which is registered in Hong Kong, has prepared consolidated financial statements which are publicly available and include the results of the Company and contain a cash flow statement.