

Challenger Infrastructure Fund

**Comprising the stapled securities:
CIF Investment Trust 1 (ARSN 114139703)
CIF Investment trust 2 (ARSN 114139632)**

Interim Financial Report

**For the period from registration
on 19 May 2005 to 31 December 2005**

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Directors' Report

The directors of Challenger Listed Investments Limited ("CLIL") ABN 94 055 293 644, the Responsible Entity of the CIF Investment Trust 1 (ARSN: 114 139 703) (CIF1) & CIF Investment Trust 2 (ARSN: 114 139 632) (CIF2), collectively known as the Challenger Infrastructure Fund ('CIF'), submit their report together with the financial report for CIF, for the period from registration on 19 May 2005 to 31 December 2005

Directors

The following persons held office as directors of CLIL during the period and up to the date of this report:

- Stephen Gerlach Chairman
- Tim Foster (resigned 23 November 2005)
- David Hall
- Russell Hooper
- Ian Martens
- Ian Moore (appointed 18 November 2005)
- Peter Polson
- Paul Rogan (appointed 23 November 2005)
- Robert Woods
- Geoff McWilliam (appointed 20 February 2006)

Scheme Information

Challenger Infrastructure Fund ("CIF") consists of two stapled Australian registered managed investment schemes: CIF1 and CIF2. Each security consists of one unit in CIF1 and one unit in CIF2. Units are stapled together so that one cannot be transferred, or otherwise dealt with, without the other.

Challenger Listed Investments Limited ("CLIL"), the responsible entity of the Scheme, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 41, 88 Phillip St, Sydney, NSW, 2000.

Review and Results of Operations

The consolidated loss after tax for the period from registration on 19 May 2005 to 31 December 2005 attributable to the stapled security holders of CIF was \$15,370,400. CIF derived a profit after tax of \$3,426,045 after adding back the \$18,796,445 of unrealised losses on inflation hedge contracts. The following table provides an analysis of the interim result:

	CIF1 [^] Consolidated 19 May 2005 - 31 Dec 2005 \$'000	CIF2 Consolidated 19 May 2005 - 31 Dec 2005 \$'000
Revenue from continuing activities	36,885	21,407
EBITDA	26,876	12,974
Loss after tax attributable to stapled security holders of CIF	(15,370)	(22,821)
Distribution (cents per security)	6.05	

[^] In accordance with UIG 1002 the "CIF1 Consolidated" reports the consolidated result of the Challenger Infrastructure Fund and should not be interpreted as being the result for the CIF1 Trust

Directors' Report – Cont'd

Significant Changes in the State of Affairs

Initial Public Offering (IPO)

On 15 July 2005, CLIL announced an initial public offering ("IPO") for CIF. The IPO was completed on 19 August 2005, on which date CIF was admitted to the official list of the Australian Stock Exchange Limited ("ASX") and the securities (ASX: CIFCA) commenced trading. The IPO resulted in the issue of 179,982,860 stapled units at an issue price of \$1.75. A second instalment of \$1.75 is payable in respect of these units on 21 August 2006.

Entitlement Offer (EO)

On 19 October 2005, CLIL announced an Entitlement Offer (EO) for CIF. The EO was completed on 24 November 2005. The EO resulted in the issue of 59,994,287 securities at an issue price of \$1.75 with a second instalment of \$1.75 payable on 21 August 2006. The proceeds from the EO were used to repay bridge debt finance transacted to facilitate the acquisition of Inexus Group (Holdings) Limited ("IGHL").

Acquisition of Controlled Entities

- **CWWGL Acquisition**

On 14 July 2005 CIF1 acquired 100% of the issued capital of Challenger Wales & West Gas Limited ("CWWGL"). This acquisition was funded from the proceeds of the IPO. CWWGL holds an 8.6% interest in the Wales and the West Gas Distribution Network.

- **CNGL Acquisition**

On 14 July 2005 CIF1 acquired 100% of the issued capital of Challenger Northern Gas Limited ("CNGL"). This acquisition was funded from the proceeds of the IPO. CNGL holds a 5.8% interest in the North of England Gas Distribution Network.

- **CTL Acquisition**

On 14 July 2005 CIF1 acquired 100% of the issued capital of Challenger Towers Limited ("CTL"). This acquisition was funded from the proceeds of the IPO. CTL holds a 6.3% interest in Arqiva.

- **Inexus Group (Holdings) Limited ("IGHL") Acquisition**

On 1 September 2005 a consortium consisting of CIF, Colonial First State Wholesale Infrastructure Income Fund, Colonial First State Private Capital Limited and IGHL management completed the acquisition of 100% of the issued capital of IGHL.

As part of the acquisition, CIF2 acquired an 80% interest in IGHL. As a result IGHL is a controlled entity which is required to be consolidated into the results of CIF.

Distributions

On 20 December 2005 CIF announced an estimated distribution to the ASX of 6.05 cents per security.

Excluding the unrealised losses of \$18,796,445 in the inflation hedging contracts the CIF result remains in line with the forecast reported in the Product Disclosure Statement ("PDS") dated 19 October 2005.

On 23 February 2006 the directors resolved to pay an interim distribution of 6.05 cents per security. The distribution amount of \$14,518,617 will be paid on 27 February 2006.

Directors' Report – Cont'd

The distribution declared by the directors is in line with the forecasts reported in the Product Disclosure Statement.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 6 and forms part of this report.

Rounding of Amounts in the Directors' Report and the Financial Report

CIF1 and CIF2 are registered schemes that are of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

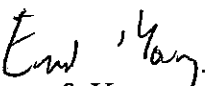
This report is made in accordance with a resolution of directors of Challenger Listed Investments Limited.



Director
Sydney
23 February 2006

Auditor's Independence Declaration to the Directors of Challenger Listed Investments Limited, as the Responsible Entity for the Challenger Infrastructure Fund

In relation to our review of the financial report of Challenger Infrastructure Fund for the period from registration on 19 May 2005 to 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.


Ernst & Young



Graeme McKenzie
Partner
23 February 2006

For the period from registration on 19 May 2005 to 31 December 2005

Condensed Income Statement

		CIF1 [^] Consolidated 19 May 2005	CIF2 Consolidated 19 May 2005
		31 December 2005 \$'000	31 December 2005 \$'000
	Notes		
Investment revenue		15,763	285
Transportation revenue		21,122	21,122
Total revenue from continuing activities	2(i)	36,885	21,407
Cost of sales		(2,263)	(2,263)
Gross profit		34,622	19,144
Operating expenses	2(ii)	(7,746)	(6,170)
Earnings before interest, tax, depreciation, amortisation and unrealised gains/(losses) on financial instruments (EBITDA)		26,876	12,974
Depreciation	2(ii)	(3,364)	(3,364)
Amortisation	2(ii)	(2,475)	(970)
Unrealised gains on foreign currency hedges	2(ii)	4,074	2,947
Unrealised losses on inflation hedge contracts	2(ii)	(18,796)	(18,796)
Earnings before interest and tax (EBIT)		6,315	(7,209)
Interest expense - preference shares	2(ii)	(1,818)	(1,818)
Interest expense - debt	2(ii)	(20,576)	(14,523)
Loss before tax		(16,079)	(23,550)
Tax benefit		709	729
Loss after tax		(15,370)	(22,821)
Attributable to:			
Equity holders of CIF1		7,451	-
Equity holders of CIF2		(22,281)	(22,821)
Minority interests	1(v)	-	-
		(15,370)	(22,821)
Basic earnings per security (cents)		(7.82)	(11.61)
Diluted earnings per security (cents)		(7.82)	(11.61)

The above Income Statement should be read in conjunction with the accompanying notes on pages 11 to 29

[^] In accordance with UIG 1002 the "CIF1 Consolidated" reports the consolidated income statement of the Challenger Infrastructure Fund and should not be interpreted as being the result for the CIF1 Trust.

For the period from registration on 19 May 2005 to 31 December 2005

Condensed Balance Sheet

As at 31 December 2005

		CIF1 [^] Consolidated	CIF2 Consolidated
		31 December 2005	31 December 2005
	Notes	\$'000	\$'000
Assets			
Cash	12	66,843	22,420
Receivables	10	440,479	19,182
Other financial assets		-	-
Infrastructure	11	242,981	242,981
Intangible assets	6	968,517	968,517
Available for sale financial assets	9	291,305	-
Other		5,531	4,503
Total assets		2,015,656	1,257,603
Liabilities			
Payables		69,667	68,096
Distribution payable	3	14,519	-
Interest bearing liabilities	7	1,017,520	1,080,747
Preference shares		72,364	72,364
Other	8	70,974	70,974
Total liabilities		1,245,044	1,292,181
Net assets		770,612	(34,578)
Equity			
Contributed equity	4	821,455	48
Accumulated (losses)		(29,889)	(22,821)
Reserves	13	(20,954)	(11,805)
Total equity		770,612	(34,578)
Comprised of :			
CIF1		805,190	-
CIF2		(34,578)	(34,578)
Minority interests	1(v)	-	-
Total equity		770,612	(34,578)

The above Balance Sheet should be read in conjunction with the accompanying notes on pages 11 to 29.

[^] In accordance with UIG 1002 the "CIF1 Consolidated" reports the consolidated balance sheet of the Challenger Infrastructure Fund and should not be interpreted as being the result for the CIF1 Trust.

Statement of Changes in Equity

		CIF1 [^] Consolidated	CIF2 Consolidated
		19 May 2005 - 31 December 2005 \$'000	19 May 2005 - 31 December 2005 \$'000
	Notes		
Total Equity at 19 May 2005		-	-
Contributions of equity	4	839,920	48
Transaction costs paid	4	(18,465)	-
Distributions provided for security holders	3	(14,519)	-
Cashflow hedge reserve	13	(3,986)	(3,986)
Exchange differences on translation of foreign operations	13	(16,968)	(7,819)
Total income and expense for the period recognised in equity		785,982	(11,757)
(Loss) after tax for the period		(15,370)	(22,821)
Total equity at 31 December 2005		770,612	(34,578)
Total recognised income and expense for the period is attributable to CIF security holders comprised of :			
CIF1		7,451	-
CIF2		(22,821)	(22,821)
Minority interest	1(v)	-	-
		(15,370)	(22,821)

The above Statement of Changes in Equity should be read in conjunction with accompanying notes on pages 11 to 29.

[^] In accordance with UIG 1002 the "CIF1 Consolidated" reports the consolidated changes in equity of the Challenger Infrastructure Fund and should not be interpreted as being the result for the CIF1 Trust.

Cash Flow Statement

		CIF1 [^] Consolidated	CIF2 Consolidated
		19 May 2005 - 31 December 2005 \$'000	19 May 2005 - 31 December 2005 \$'000
	Note		
Cash flows from operating activities			
Receipts from customers		21,201	21,201
Payments to suppliers		(5,987)	(5,814)
Interest received		4,655	285
Dividends received		10,143	-
Interest paid		(8,729)	(2,704)
Tax paid		(531)	(531)
Net cash flow from operating activities	12(i)	20,752	12,437
Cash flows from investing activities			
Acquisition of available for sale investments	14	(300,427)	-
Purchase of controlled entities (net of cash acquired)	14	(1,149,698)	(1,149,698)
Payments for purchase of property, plant and equipment		(4,580)	(4,580)
Net cash flow from investing activities		(1,454,705)	(1,154,278)
Cash flows from financing activities			
Net proceeds from issue of securities		401,495	24
Proceeds from issue of preference shares		73,974	73,974
Proceeds from borrowings		1,193,101	726,987
Repayment of borrowings		(168,279)	-
Loan from related party		-	363,134
Net cash flow from financing activities		1,500,291	1,164,119
Net increase in cash assets held		66,338	22,278
Cash assets at the beginning of the period		-	-
Net foreign exchange differences		505	142
Cash assets at the end of the period	12(ii)	66,843	22,420

The above Cash Flows Statement should be read in conjunction with the accompanying notes on pages 11 to 29.

[^] In accordance with UIG 1002 the "CIF1 Consolidated" reports the consolidated cash flow of the Challenger Infrastructure Fund and should not be interpreted as being the result for the CIF1 Trust.

Notes to the Financial Statements

1 Summary of Accounting Policies

The policies which have been adopted in the preparation of the financial statements are stated to assist in a general understanding of this report.

(i) Basis of Preparation

The interim financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. The first full financial report will be prepared for the period ended 30 June 2006.

The interim financial report should be read in conjunction with the Product Disclosure Statement dated 15 July 2005, Entitlement Offer dated 19 October 2005 and any public announcements made by Challenger Infrastructure Fund ("CIF") and its controlled entities during the period from registration on 19 May 2005 to 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(ii) Basis of Accounting

The financial report has been prepared based on a business combination by the parent entity, and in recognition of the fact that the units issued by CIF1 and CIF2 have been stapled and cannot be traded separately. CIF1 and CIF2 are included as part of equity attributable to equity holders of the stapled group, in accordance with UIG 1002, "Consolidated Financial Reports in relation to Post-Date-of-Transition Stapling Arrangements".

The interim financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The interim financial report has been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

For the purpose of preparing the interim financial report, the half-year has been treated as a discrete reporting period.

(iii) Statement of Compliance

The interim financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the interim financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

(iv) Principles of Consolidation

The Fund has elected to apply AASB 127 Consolidated and Separate Financial Statements and UIG 1002 to the stapling of CIF1 and CIF2. For the purposes of statutory reporting the stapled entity reflects the consolidated entity (Fund). The parent entity in this arrangement is CIF1.

The interim financial statements have been prepared in accordance with ASIC Class Order 05/642 which allows issuers of stapled securities to include their financial statements and the consolidated or combined financial statements of the stapled group in adjacent columns in one financial report.

(v) Basis of Consolidation

The interim consolidated balance sheet and consolidated income statement comprises the financial position and performance of CIF1 and its subsidiaries, and CIF2 and its subsidiaries, collectively known as CIF.

The financial statements of subsidiaries are prepared for the same reporting period as CIF1 and CIF2, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to CIF and cease to be consolidated from the date on which control is transferred out of CIF. Where loss of control of a subsidiary occurs, the consolidated financial statements include the results for the part of the reporting period during which CIF had control.

Minority interests do not have a binding obligation to reimburse CIF for losses and accordingly losses applicable to the minority interest in excess of their interest in the equity of the subsidiary's equity are allocated against the parent interest. Minority interests in the profits of the relevant subsidiary are recognised once the minority's share of losses previously absorbed by CIF has been removed.

(vi) Comparatives

The period ended 31 December 2005 represents CIF's first financial reporting period. Accordingly there are no comparatives for these financial statements.

Notes to the Financial Statements – Cont’d

1 Summary of Accounting Policies – Cont’d

(vii) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiaries listed in note 14 is Great British Pounds (GBP). As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of CIF (AUD) at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

(viii) Investments

Investments of CIF that it does not control or significantly influence are classified as available for sale. Investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments are measured at fair value.

Gains or losses on available for sale investments are recognised as a separate component of equity in the balance sheet until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported on the balance sheet is included in the income statement.

Independent valuations of available for sale assets are obtained annually. The directors of the Responsible Entity makes reference to these independent valuations when making their assessment of the fair value of the available for sale assets at each reporting date.

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

(ix) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to CIF and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Operating revenue

Revenue from the supply of goods and services is recognised in the income statement on an accruals basis.

Interest revenue

Interest revenue is recognised to the extent that it is probable that the economic benefits will flow to CIF and the revenue can be reliably measured. Interest income is brought to account on an effective interest accruals basis.

Dividend and distribution revenue

Dividend and trust distributions are recognised when the security holders' right to receive the payment is established.

(x) Derivatives Financial Instruments

CIF uses derivative financial instruments such as foreign currency contracts, interest rate swaps and inflation swap contracts to hedge its risks associated with inflation, interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of inflation and interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

(xi) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(xii) Infrastructure

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Infrastructure assets are amortised on a straight line basis over their estimated useful lives detailed below. This is done on a project by project basis with amortisation commencing when the company starts receiving transportation income from the project. The estimated useful lives are as follows:

Infrastructure	40 yrs straight line
Meters	20 yrs straight line

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

Depreciation is provided on other tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition, of each asset over its estimated useful life as follows:

Computer software	4 yrs straight line
Plant and machinery	4 yrs straight line
Motor vehicles	4 yrs straight line
Fixtures & fittings	4 yrs straight line
Direct contracting plant & machinery	5 yrs straight line

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(xiii) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

(xiv) Deferred Taxation

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised;
- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xv) Borrowing Costs

Borrowing costs include interest and amortisation of ancillary costs incurred in connection with arrangements of borrowings. Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings. Interest is recognised as an expense as it accrues.

(xvi) Cash Assets

For purposes of the Balance Sheet and the Statement of Cash Flows, cash includes cash on hand and in banks, deposits at call with financial institutions and other highly liquid investments with short periods to maturity of three months or less that are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

(xvii) Receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(xviii) Recoverable Amount of Non-Current Assets

At each reporting date, CIF assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, CIF makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(xix) Leased Non-Current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease.

Finance leases

No assets are held under finance leases.

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

(xx) Acquisition of Assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at the cost of acquisition at the date of acquisition. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Where equity instruments are issued in an acquisition, the fair value of the instruments is the market price as at the acquisition date, except where the notional value at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity, subject to the extent of proceeds received, otherwise expensed.

(xxi) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to CIF prior to the end of the financial period which are unpaid.

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to CIF, and include outstanding settlements on the purchase of investments and distributions payable. The carrying period is dictated by market conditions and is generally less than 30 days.

Amounts payable at balance date that are denominated in foreign currencies have been converted to local currency using the rates of exchange ruling at the end of the financial period.

(xxii) Provisions

Provisions are recognised when CIF has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where CIF expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

(xxiii) Goods and Services Tax and Equivalent Foreign Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xxiv) Employee Entitlements

Superannuation

CIF's subsidiary Inexus Group (Holdings) Limited ("IGHL") operates a defined contribution scheme. Employee contributions are based on various percentages of their gross salaries. Contributions made by IGHL are expensed as incurred.

Share-Based Payment Transactions

Challenger Connections Limited (a subsidiary of the CIF Group) provides benefits to employees of IGHL in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions") within IGHL. There is currently one plan in place to provide these benefits to designated senior executives ("Employee Incentive Equity Scheme").

Under the Employee Incentive Equity Scheme the employees have an option to receive their vested shares paid as cash. As such, the Employee Incentive Equity Scheme is treated as a cash settled share-based scheme.

The liability is measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying an option pricing model, and the extent to which the employees have rendered services to date. Changes in fair value are recognised in profit or loss.

Notes to the Financial Statements – Cont'd

1 Summary of Accounting Policies – Cont'd

(xxv) Interest Bearing Liabilities

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(xxvi) Preference Shares

On the issue of the redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost.

(xxvii) Distributions

A provision is made by CIF for the amount of any distribution payable under the Constitution on or before the end of the financial period but not distributed at the balance date.

(xxviii) Terms and Conditions on Units

Each Class A and Class B Security issued confers upon the unitholder an equal interest in the Scheme, and is of equal value. A unit does not confer any interest in any particular asset or investment of the Scheme. The Class A Securities and Class B Securities rank equally in all respects except that a greater proportion of the Distribution paid on the Class A Securities is expected to be tax deferred. Effective from 1 January 2007, half of the Class B Securities issued to Challenger Life will become Class A Securities. As of 1 July 2008, both the Class A Securities and the remaining Class B Securities will become Ordinary Stapled Securities.

Class A and Class B Security holders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- Receive income distribution;
- Attend and vote at meetings of security holders; and
- Participate in the termination and winding up of the Scheme.

2 Net Loss from Continuing Activities before Income Tax Expense and Finance Costs attributable to security holders

	CIF1 Consolidated	CIF2 Consolidated
	19 May 2005 - 31 December 2005 \$'000	19 May 2005 - 31 December 2005 \$'000
(i) Revenue from continuing activities		
Investment revenue		
- Arqiva	8,620	-
- North DN	3,400	-
- Wales & the West DN	2,549	-
Interest income	1,194	285
Operating revenue	15,763	285
Transportation revenue	21,122	21,122
Total revenue from continuing activities	36,885	21,407
(ii) Expenses from continuing activities		
Operating expenses		
Management fees and expenses	(1,227)	-
Operating expenses	(6,519)	(6,170)
	(7,746)	(6,170)
Depreciation of property, plant and equipment	(3,364)	(3,364)
Amortisation of loan issue costs	(2,026)	(521)
Amortisation of Management Equity Incentive Plan	(449)	(449)
Unrealised gains on foreign currency hedges	4,074	2,947
Unrealised (losses) on inflation hedge contracts	(18,796)	(18,796)
	(20,561)	(20,183)
Borrowing costs expense		
Interest expense		
Preference shares	(1,818)	(1,818)
Interest bearing liabilities – external	(19,123)	(12,569)
Interest bearing liabilities – related entities	(1,453)	(1,954)
	(22,394)	(16,341)

Notes to the Financial Statements – Cont'd

3 Distributions Proposed

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005 \$'000	31 December 2005 \$'000
The distributions payable is as follows:		
Interim stapled distribution proposed for the period ended 31 December 2005 (payable 27 February 2006)	14,519	-
	<u>14,519</u>	<u>-</u>
	Cents per security	
Interim stapled distribution proposed for the period ended 31 December 2005 (payable 27 February 2006)	<u>6.05</u>	

4 Contributed Equity

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005 \$'000	31 December 2005 \$'000
IPO (Class A Securities) - 19 Aug 2005	157,485	9
IPO (Class B Securities) - 19 Aug 2005	157,485	9
IPO (Class A Securities) – 2 nd Instalment due 21 Aug 2006	157,485	9
IPO (Class B Securities) – 2 nd Instalment due 21 Aug 2006	157,485	9
IPO transaction costs - 19 Aug 2005	(12,048)	-
Entitlement Offer (Class A Securities) - 24 Nov 2005	104,990	6
Entitlement Offer transaction costs - 24 Nov 2005	(6,417)	-
Entitlement Offer (Class A Securities) - 2 nd Instalment due 21 Aug 2006	104,990	6
Total at 31 December 2005	821,455	48
	Number of stapled securities '000	
Class A Securities on issue at the beginning of the period	-	
IPO - 19 August 2005	89,992	
Entitlement Offer - 24 November 2005	59,994	
Total Class A Securities on issue at 31 December 2005	<u>149,986</u>	
Class B Securities on issue at the beginning of the period	-	
IPO - 19 August 2005	89,991	
Total Class B Securities on issue at 31 December 2005	<u>89,991</u>	
Total Stapled Securities on issue at 31 December 2005	239,977	

Please refer to note 1 (xxviii) for the terms and conditions attached to Class A and Class B Securities.

Notes to the Financial Statements – Cont'd

5 Segment Information

Geographic segment

The consolidated entity operates predominately in one geographical segment being the United Kingdom. Accordingly, no geographical segment information is presented.

Business segment

The principal activity of CIF is investment in infrastructure assets.

6 Intangible Assets

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005	31 December 2005
	\$'000	\$'000
Goodwill on acquisition of Inexus Group (Holdings) Limited	992,476	992,476
Foreign currency translation gains/(losses)*	(23,959)	(23,959)
Total	968,517	968,517

* These exchange differences arise from the subsequent translation of goodwill arising on the acquisition of Inexus Group (Holdings) Limited (Great Britain Pounds into Australian Dollars). They are taken directly to a separate component of equity (foreign currency translation reserve).

7 Interest Bearing Liabilities

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005	31 December 2005
	\$'000	\$'000
Bridge Debt	299,907	-
Senior Bank Debt	623,486	623,486
Junior Bank Debt	80,345	80,345
Loan Notes to Inexus minority shareholders	13,782	13,782
Related party	-	363,134
Total	1,017,520	1,080,747

8 Other liabilities

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005	31 December 2005
	\$'000	\$'000
Hedge contracts	70,626	70,626
Provisions	348	348
Total	70,974	70,974

Notes to the Financial Statements – Cont'd

9 Available for Sale Financial Assets

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005 \$'000	31 December 2005 \$'000
Carrying value on acquisition:		
▪ Challenger Wales & West Gas Limited	90,935	-
▪ Challenger Northern Gas Limited	86,559	-
▪ Challenger Towers Limited	125,462	-
	302,956	-
Foreign currency translation gains/(losses)*	(11,651)	-
Total	291,305	-

* These exchange differences arise from the subsequent translation of Great Britain Pounds denominated assets into Australian Dollars. They are taken directly to a separate component of equity (foreign currency translation reserve).

10 Receivables

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005 \$'000	31 December 2005 \$'000
Initial Public Offer – 2 nd Instalment due 21 Aug 2006	314,970	18
Entitlement Offer – 2 nd Instalment due 21 Aug 2006	104,990	6
Receivables	20,519	19,158
Total	440,479	19,182

11 Infrastructure

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005 \$'000	31 December 2005 \$'000
Infrastructure	238,519	238,519
Property, plant and equipment	4,089	4,089
Inventory	373	373
Total	242,981	242,981

Notes to the Financial Statements – Cont'd

12 Cash Flow Information

(i) Reconciliation of Loss after tax of stapled entity to Net Cash Flows from Operating Activities

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005	31 December 2005
	\$'000	\$'000
Net loss from continuing activities after income tax expense and finance costs	(15,370)	(22,821)
Depreciation	3,364	3,364
Amortisation	2,475	970
Unrealised loss on financial instruments	14,722	15,849
Change in assets and liabilities		
Increase in receivables	(7,755)	(6,393)
Increase in payables and other liabilities	23,316	21,444
Increase in related entity borrowings	-	24
Net cash flow from operating activities	20,752	12,437

(ii) Reconciliation of Cash Assets

Cash assets at the end of the period as shown in the statement of cashflows is reconciled to the related items in the Balance Sheet as follows:

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005	31 December 2005
	\$'000	\$'000
Cash assets	66,843	22,420

13 Reserves

	CIF1 Consolidated	CIF2 Consolidated
	31 December 2005	31 December 2005
	\$'000	\$'000
Cashflow hedge reserve	(3,986)	(3,986)
Foreign currency translation reserve	(16,968)	(7,819)
Total	(20,954)	(11,805)

Notes to the Financial Statements – Cont'd

14 Investments in Controlled Entities

Name of entity	Year end	Country of incorporation	Class of shares/securities	Equity holding 31 December 2005 %
CIF UK Towers Trust	30 June	Australia	Ordinary	100
CIF North of England Gas Trust	30 June	Australia	Ordinary	100
CIF Wales and the West Gas Trust	30 June	Australia	Ordinary	100
Challenger Towers Limited	30 June	United Kingdom	Ordinary	100
Challenger Northern Gas Limited	30 June	United Kingdom	Ordinary	100
Challenger Wales & West Gas Limited	30 June	United Kingdom	Ordinary	100
CIF Australian Lastmile Holding Company Pty Limited	30 June	Australia	Ordinary	100
CIF Lastmile Trust	30 June	Australia	Ordinary	100
Challenger Connections Top Company Limited	30 June	United Kingdom	Ordinary	80
Challenger Connections Mid Company Limited	30 June	United Kingdom	Ordinary	80
Challenger Connections Limited	30 June	United Kingdom	Ordinary	80
Inexus Group (Holdings) Limited	30 June	United Kingdom	Ordinary	80
Independent Pipelines Limited	30 June	United Kingdom	Ordinary	80
Connect Utilities Limited	30 June	United Kingdom	Ordinary	80
Quadrant Pipelines Limited	30 June	United Kingdom	Ordinary	80
Independent Metering Limited	30 June	United Kingdom	Ordinary	80
Inexus (EST) Limited	30 June	United Kingdom	Ordinary	80
Independent Power Networks Limited	30 June	United Kingdom	Ordinary	80
Inexus Group Limited	30 June	United Kingdom	Ordinary	80
Inexus Limited	30 June	United Kingdom	Ordinary	80
Inexus (Licence) Limited	30 June	United Kingdom	Ordinary	80
Inexus Employee Benefit Trust	30 June	United Kingdom	Ordinary	80
Challenger Employee Share Ownership Plan Trust	30 June	United Kingdom	Ordinary	80
Inexus Gas Infrastructure (Holdings) Limited (formerly Anglian Connections Limited)	30 June	United Kingdom	Ordinary	80
Inexus (Services) Limited	30 June	United Kingdom	Ordinary	80
Envoy Asset Management Limited	30 June	United Kingdom	Ordinary	80

Acquisition of Inexus Group (Holdings) Limited

On 1 September 2005 a consortium comprising of CIF, Colonial First State Wholesale Infrastructure Income Fund, Colonial First State Private Capital Limited and Inexus Group (Holdings) Limited management completed the acquisition of 100% of Inexus Group Holdings Limited (IGHL). As part of the acquisition, CIF2 acquired an 80% interest in IGHL.

Notes to the Financial Statements – Cont’d

14 Investments in Controlled Entities – Cont’d

Net tangible assets and liabilities acquired

	1 September 2005 \$000
Cash and other assets	11,992
Property, plant and equipment	232,060
Receivables	14,339
Work in progress	9,704
Payables and other liabilities	(98,631)
Provisions	(1,175)
Total	168,289
Goodwill recognised on acquisition	992,476

	1 September 2005 \$000
Consideration:	
Consideration before costs	1,116,883
Acquisition costs	43,882
Total	1,160,765

Cash Outflow on acquisition of IGHL

	1 September 2005 \$000
Net cash acquired with subsidiary	11,067
Consideration before costs	(1,116,883)
Transaction costs	(43,882)
Total	(1,149,698)

Funding of CIF’s investment in IGHL

CIF funded the IGHL acquisition by drawing on bridge loan facility’s totalling \$365,060,987.

A component of the bridge loan financing included a \$69,158,908 facility provided by Challenger Treasury Limited (a related entity of CLIL). This facility was entered into at arms length terms and repaid on 30 November 2005 using a portion of the proceeds from CIF’s Entitlement Offer.

From the date of acquisition, IGHL has contributed a loss of \$30.5m to the net profit of CIF1.

Notes to the Financial Statements – Cont'd

14 Investments in Controlled Entities – Cont'd

Acquisition of CWWGL, CNGL and CTL

On 14 July 2005 CIF1 acquired 100% of the issued capital of Challenger Wales & West Gas Limited ("CWWGL"), Challenger Northern Gas Limited ("CNGL") and Challenger Towers Trust ("CTL"). These investments were funded from the proceeds of the Initial Public Offering on 19 August 2005.

Net Assets acquired

	14 July 2005 \$000
Challenger Wales & West Gas Limited	90,935
Challenger Northern Gas Limited	86,559
Challenger Towers Limited	125,462
Total	302,956

Cash Outflow on acquisition of CWWGL, CNGL and CTL

	14 July 2005 \$000
Net cash acquired with subsidiaries	2,529
Cash paid	(302,956)
Total	(300,427)

From the date of acquisition CWWGL, CNGL and CTL has contributed \$15.1m to the net profit of CIF1.

15 Contingent Liabilities

As at balance date there are no material contingent liabilities or contingent assets.

16 Events Occurring After Reporting Date

The directors are not aware of any matter or circumstance not otherwise dealt with in the financial report that has occurred since the period end that has significantly affected the operations of CIF or the state of affairs in periods subsequent to the period ended 31 December 2005.

**Statement by the Directors of the Responsible Entity of CIF
On the Financial Report of the Challenger Infrastructure Fund**

In the opinion of the directors of Challenger Listed Investments Limited as the Responsible Entity of the CIF Investment Trust 1 and CIF Investment Trust 2, collectively known as the Challenger Infrastructure Fund ("CIF"), the financial statements set out on pages 7 to 29 are in accordance with the Corporations Act 2001, including:

- a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- b) giving a true and fair view of the Challenger Infrastructure Fund's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the period from registration on 19 May 2005 to 31 December 2005; and
- c) there are reasonable grounds to believe that the Challenger Infrastructure Fund will be able to pay its debts as and when they become due and payable.

The directors' have been given the declaration by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors of Challenger Listed Investments Limited (as Responsible Entity of the Challenger Infrastructure Fund).

Ian R Moore

Director
Sydney
23 February 2006

Independent review report to the unitholders of Challenger Infrastructure Fund

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the stapled securities CIF Investment Trust 1 and CIF Investment Trust 2, collectively known as Challenger Infrastructure Fund, and the entities they controlled during the period, and the directors' declaration for the period from registration on 19 May 2005 to 31 December 2005.

The directors of the Responsible Entity are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of Challenger Infrastructure Fund, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001 and the provisions of the fund's constitution. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the unitholders of the fund, and in order for the fund to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and the provision of the fund's constitution, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of fund personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

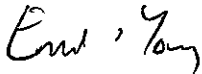
Independence

We are independent of the fund, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.


Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Challenger Infrastructure Fund and the entities it controlled during the period is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the period from registration on 19 May 2005 to 31 December 2005; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001;
- (b) other mandatory financial reporting requirements in Australia; and
- (c) the provision of the fund's constitution.



Ernst & Young



Graeme McKenzie
Partner
Sydney
23 February 2006

Independent review report to the unitholders of Challenger Infrastructure Fund

Matters relating to the Electronic Presentation of the Reviewed Financial Report

This review report relates to the financial report for the stapled securities CIF investment Trust 1 and CIF Investment Trust 2, collectively known as Challenger Infrastructure Fund, from registration on 19 May 2005 to 31 December 2005 included on the fund's web site. The fund's directors are responsible for the integrity of the fund's web site. We have not been engaged to report on the integrity of the fund's web site. The review report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and funding notes to the financial statements for the stapled securities CIF Investment Trust 1 and CIF Investment Trust 2, collectively known as Challenger Infrastructure Fund, and the entities they controlled during the period, and the directors' declaration for the period from registration on 19 May 2005 to 31 December 2005.

The directors of the Responsible Entity are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of Challenger Infrastructure Fund, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001 and the provisions of the fund's constitution. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the unitholders of the fund, and in order for the fund to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and the provision of the fund's constitution, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of fund personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

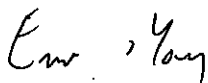
Independence

We are independent of the fund, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Challenger Infrastructure Fund and the entities it controlled during the period is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the period from registration on 19 May 2005 to 31 December 2005; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001;
- (b) other mandatory financial reporting requirements in Australia; and
- (c) the provision of the fund's constitution.



Ernst & Young



Graeme McKenzie
Partner
Sydney
23 February 2006

Challenger Infrastructure Fund

Appendix 4D

This announcement is to be read in conjunction with the attached market announcement and the Interim Financial Report for the period ended 31 December 2005.

Results for Announcement to the Market

The consolidated loss after tax for the period from registration on 19 May 2005 to 31 December 2005 attributable to the stapled security holders of CIF was \$15,370,400. CIF derived a profit after tax of \$3,426,045 after adding back the \$18,796,445 of unrealised losses on inflation hedge contracts.

The following table provides a summary of the main line items reported in the income statement.

	A\$'000
Total revenue from continuing activities	36,885
Earnings before interest, tax, depreciation, amortisation and unrealised gains on financial instruments	26,876
Earnings before interest and tax (EBIT)	6,315
Loss after tax	(15,370)
Net loss attributable to security holders of CIF	(15,370)

Distributions for the period

On 20 December 2005 CIF announced an estimated distribution to the ASX of 6.05 cents per security.

Excluding the unrealised losses of \$18,796,445 in the inflation hedging contracts the CIF result remains in line with the forecast reported in the Product Disclosure Statement ("PDS") dated 19 October 2005.

On 23 February 2006 the directors resolved to pay an interim distribution of 6.05 cents per security as reported in the following table.

	Amount per security
Interim distribution	6.05 cents
- record date 30 December 2005	
- payable 27 February 2006	

The distribution declared by the directors is in line with the forecasts reported in the Product Disclosure Statement.

Net Asset Backing per Security

	31 December 2005 \$ per security
Net tangible asset backing per security*	\$(2.57)
Net asset backing per security*	\$1.46

*Calculations exclude second instalment proceeds due on 21 August 2006 amounting to \$420m.

Explanation of the Results

Refer to Market Announcement dated 24 February 2006.

Acquisition of controlled entities

Seed Assets

On 15 July 2005, Challenger Listed Investments Limited (CLIL) announced an initial public offering ("IPO") for the Challenger infrastructure Fund (CIF). The IPO was completed on 19 August 2005 and resulted in the issue of 179,982,860 stapled units at an issue price of \$1.75. A second instalment of \$1.75 is payable in respect of these units on 21 August 2006.

On 14 July 2005 CIF acquired 100% of the issued capital of the following entities using the proceeds of the IPO:

- Challenger Wales & West Gas Limited ("CWWGL") which holds an 8.6% interest in the Wales and the West Gas Distribution Network;
- Challenger Northern Gas Limited ("CNGL") which holds a 5.8% interest in the North of England Gas Distribution Network; and
- Challenger Towers Limited ("CTL") which holds a 6.3% interest in Arqiva.

Inexus Group (Holdings) Limited ("IGHL")

On 1 September 2005 a consortium consisting of CIF, Colonial First State Wholesale Infrastructure Income Fund, Colonial First State Private Capital Limited and IGHL management completed the acquisition of 100% of the issued capital of IGHL. As part of the acquisition, CIF acquired an 80% interest in IGHL.

Entities acquired as part of the Seed Asset and IGHL acquisitions are reported in the table below:

Name of the Entity	Date control was gained	Percentage Ownership (%)
Seed asset controlled entities		
CIF UK Towers Trust	14 July 2005	100
CIF North of England Gas Trust	14 July 2005	100
CIF Wales and the West Gas Trust	14 July 2005	100
Challenger Towers Limited	14 July 2005	100
Challenger Northern Gas Limited	14 July 2005	100
Challenger Wales & West Gas Limited	14 July 2005	100
IGHL controlled entities		
CIF Australian Lastmile Holding Company Pty Limited	1 September 2005	100
CIF Lastmile Trust	1 September 2005	100
Challenger Connections Top Company Limited	1 September 2005	80
Challenger Connections Mid Company Limited	1 September 2005	80
Challenger Connections Limited	1 September 2005	80
Inexus Group (Holdings) Limited	1 September 2005	80
Independent Pipelines Limited	1 September 2005	80
Connect Utilities Limited	1 September 2005	80
Quadrant Pipelines Limited	1 September 2005	80
Independent Metering Limited	1 September 2005	80
Inexus (EST) Limited	1 September 2005	80
Independent Power Networks Limited	1 September 2005	80
Inexus Group Limited	1 September 2005	80
Inexus Limited	1 September 2005	80
Inexus (Licence) Limited	1 September 2005	80
Inexus Employee Benefit Trust	1 September 2005	80
Challenger Employee Share Ownership Plan Trust	1 September 2005	80
Inexus Gas Infrastructure (Holdings) Limited (formerly Anglian Connections Limited)	1 September 2005	80
Inexus (Services) Limited	1 September 2005	80
Envoy Asset Management Limited	1 September 2005	80

Accounting Standards used by foreign subsidiaries

Foreign subsidiaries apply accounting standards consistent with those of the CIF Group.

Comparative information

The Challenger Infrastructure Fund (CIF) was registered on 19 May 2005. This is the first reporting period for CIF and therefore no comparative figures have been included.