CKI UK WATER LTD

Financial Statements
For the Period Ended 31 December 2006

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

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Directors

Annual Report & Financial Statements Year Ended 31 December 2006

CKI UK Water Limited

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

Registered Office	3 More London Riverside London SE1 2AQ
Directors	Edmond Tak Chuen Ip
	Eric Bing Sing Kwan – Resigned December 2006
	Andrew John Hunter – Appointed December 2006
Company Secretary	Norose Company Secretarial Services Limited

Advisors

Annual Report & Financial Statements Year Ended 31 December 2006

Auditors	Deloitte & Touche LLP Hill House, 1 Little New Street, London, EC4A 3TR
Solicitors	Norton Rose 3 More London Riverside, London, SE1 2AQ
Bankers	HSBC 17 Gerrard Street London, W1V 8HB

Report of the Directors

Annual Report & Financial Statements Year Ended 31 December 2006

The directors are pleased to submit their annual report on the affairs of the Company, together with the financial statements and auditors' report for the 12 months to 31 December 2006

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these 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 UK Accounting Standards have been followed and
* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 Company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Activities

The Company is a Holding Company with one 100% owned subsidiary, Cambridge Water Plc

Financial Results and Dividends

	£'000
Profit after taxation	2 335
Interim dividend paid and proposed (2005 £nil)	0
Retained profit for the year	2,335
Retained profit at 1 January 2006	3,129
Retained profit at 31 December 2006	5,464

The Company has made a group loan repayment in April 2007 to its Parent Company amounting to £2 373 800

Directors

Directors who served through the year are listed on page 2

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

During the year the Group purchased and maintained Directors' and Officers' Liability Insurance as permitted by the Companies Act 1985

Mr Hunter, having been appointed on 1 December 2006, stands for election

Business Review and Principal Activities

The principal activity of the company is to act as the holding company for one 100% owned subsidiary, Cambridge Water PLC The financial results of the company are disclosed on pages 6-9

Income for the company consists of dividends receivable and a management charge levied on Cambridge Water PLC

Business Environment and Strategy

Since the company is a holding company the business environment does not impact the results of the company directly however the strategy of the company is to maximise profits from the regulated income of their 100% subsidiary, whilst exploring other revenue streams from non-regulated sources to provide future growth

As mentioned above, the future outlook for the company is stable The large capital investment barriers to entry inherent in the water industry prohibit new entrants however, the fragmentation of the water industry in Scotland's commercial sector may be replicated in England in the future Cambridge Water PLC is taking steps to ensure that it provides an efficient service to minimise the risk of price-led competition by new entrants in the commercial sector whilst continuing to explore other revenue streams outside of the regulated water sector

Principal Risks and Uncertainties

The company is not subject to interest rate risk or foreign exchange risk nor does it consider itself subject to any competition, consolidation legislation or regulatory risk

The carrying amount of the investment in Cambridge Water PLC was compared with its recoverable amount for impairment review purposes As a result of the review, no impairment of the investment was recorded for the year ended 31 December 2006 (2005 £20 8 million, see note 7)

Key Performance Indicators

The company does not monitor KPI's but management monitors distributable reserves to maximise the return to the parent company

Directors' Interests

No directors or their immediate families held equity in the Company during the year or other UK Group companies

No director had an interest in any of the debenture stocks of the Company or any other group company At no time has the Company operated any stock option schemes for directors or other staff

Financial Risk

The Company's activities do not expose it to financial risk or exchange rate risk The Board approves all financial instruments used by the Company and reviews policies for managing the risks The Company's financial assets and liabilities 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 Company's financial liabilities is to raise finance for the Company's operations It is, and has been throughout the year and the previous year, the Company's policy that no trading in financial instruments shall be undertaken

Ultimate Holding Company

As at 31 December 2006, the Company's immediate parent company is CKI UK Water (BVI) Limited, incorporated in the British Virgin Islands 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

Each of the persons who is a director at the date of approval of this report confirms that

1 so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
2 the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Supplier Payment Policy

The Company'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

Charitable Contributions

No charitable contributions were made in the year by the Company

By order of the Board

Norose Company Secretarial Services Ltd
Company Secretary

31st *October 2007*

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF CKI UK WATER LIMITED

We have audited the financial statements of CKI UK Water Limited for the year ended 31 December 2006 which comprise the profit and loss account the balance sheet and the related notes 1 to 16 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 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 and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors Report is consistent with the financial statements

In addition we report to you if in our opinion 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 consider the implications for our report if we become aware of any apparent misstatements within it

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 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 company s affairs as at 31 December 2006 and of its profit for the year then ended

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

the information given in the Directors Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
31 *October 2007*

Profit and Loss Account
Annual Report & Financial Statements Year Ended 31 December 2006

	Notes	2006	2005
		£'000	£'000
Turnover	2		
Management Fee Income		318	309
Gross profit		318	309
Administrative expenses		(283)	(416)
Operating profit/(loss)	3	35	(107)
Investment Income		2 300	2 504
Interest receivable and similar income			1
Interest payable and similar charges	4	-	(85)
Profit on ordinary activities before taxation		2 335	2 313
Tax on profit on ordinary activities	6	-	-
Profit on ordinary activities after taxation and retained profit for the year / period		2 335	2,313

All turnover and operating profit is derived from continuing operations.

There was no recognised gains or losses in either year other than profit for that year and hence no statement of total recognised gains and losses has been presented

Balance Sheet
Annual Report & Financial Statements Year Ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Fixed assets			
Investments	7	31 409	31 409
		31,409	31,409
Current assets			
Debtors	8	305	309
Cash at bank and in hand		1	1
		306	310
Creditors amounts falling due within one year	9	(2 611)	(4 950)
Net current liabilities		(2 305)	(4 640)
Total assets less current liabilities		29 104	26,769
Creditors amounts falling due after more than one year	10	(6 479)	(6 479)
Net assets		22 625	20 290
Capital and reserves			
Called up share capital	11	17 161	17,161
Profit and loss account	13	5 464	3 129
Shareholder's funds	12	22 625	20,290

Approved by the Board on October 2007
and on their behalf by

Director
ANDREW HUNTER

1 Accounting policies

A summary of the principal accounting policies all of which have been applied consistently throughout the year and the previous year is set out below

a Basis of accounting

The 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 following accounts represent the Company's activities only and not those of the Group as the Company has applied s228A of the Companies Act exempting a parent undertaking from preparing and delivering consolidated accounts on the basis that the Company meets all the conditions of the aforementioned section of the Act and the Parent Company (Cheung Kong Infrastructure Holdings Limited a company incorporated in Bermuda) prepares group accounts

c Investments

The Company holds 100% of the share capital of Cambridge Water Plc The Company carries the value of the Investment at cost less provision for impairments

d 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

e Turnover

Turnover represents a management charge received from Cambridge Water Plc

f 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

Notes to the Financial Statements continued
Annual Report & Financial Statements Year Ended 31 December 2006

2 Turnover and segmental analysis

Turnover represents a management fee received from Cambridge Water Plc

3 Operating Profit	**2006 £'000**	2005 £'000
Operating profit is stated after crediting/(charging)		
Other Income Bottled Water Expenses reimbursed	40	
Administrative expenses		
Bottled Water Expenses		(40)
Legal Fees		(8)
Statutory Audit Fees	(5)	(19)
Audit Fees incurred on CWC audit for acquisition		(40)
Management Fee Expenses	(318)	(309)

4 Interest payable	**2006 £'000**	2005 £'000
Interest on parent company loans		(85)
		(85)

5 Directors remuneration and employees

None of the directors received any emoluments in respect of services provided to the Company in the current or prior year

None of the directors were members of the defined benefit pension scheme in the current or prior year

The company has no employees in the current or prior year

6 Tax on profit on ordinary activities

The tax charge for the period was £nil (2005 £nil)

Factors affecting tax charge for the period
The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	2,335	2,313
Corporation tax at 30% (2005 30%)	700	694
Group relief (surrendered without compensation)	324	32
Income not chargeable to tax	(690)	(751)
Other timing differences	(334)	25
Current tax charge for the period		

7 Fixed asset investments

	2006 £'000	2005 £'000
Cost	52 211	52 211
Impairment	(20,802)	(20,802)
Net Book Value of Investment in Cambridge Water PLC	31,409	31,409

The Company holds 100% of the share capital of Cambridge Water Plc

8 Debtors

Amounts falling due within one year	**2006 £'000**	2005 £'000
Amounts owed by Group undertakings	305	309
	305	309

9 Creditors amounts falling due within one year

	2006 £'000	**2005 £'000**
Intercompany Loans	1 749	2 841
Trade creditors	45	40
Amounts due to parent company	817	2 069
	2,611	4,950

The £2 841 000 intercompany loan held at 31 December 2005 was repaid in April 2006 In the same month a loan of £1 749 000 was taken out repayable in April 2007
Both loans were arranged with Chartex International a group company and are interest free

10 Creditors amounts falling due after more than one year

	2006 £'000	**2005 £'000**
Group company loan due after 5 years	6 479	6 479
	6,479	6,479

The perpetual group company loan is interest free

11 Share capital

	2006 £'000	2005 £'000
Authorised share capital		
17 161 375 ordinary shares of £1 each	17,161	17,161
Called up share capital		
Allotted and fully paid		
17 161 375 ordinary shares of £1 each	17,161	17,161

12 Reconciliation of movements in shareholder s funds

	2006 £ 000	2005 £'000
Profit after taxation for the financial year	2 335	(18 490)
Net increase in shareholder's funds	2 335	(18 490)
Opening shareholder's funds	20 290	38 780
Closing shareholder's funds	22,625	20,290

13 Reserves

	Profit and loss £'000
At 31 December 2005	3 129
Retained profit for the year	2 335
Profit and loss reserve	5,464

14 Related party transactions

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

15 Ultimate holding company

As at 31 December 2006 the Company's immediate parent company is CKI UK Water (BVI) Limited incorporated in the British Virgin Islands 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

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16 Cashflow Statement

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 Limited 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

CHAIRMAN'S LETTER

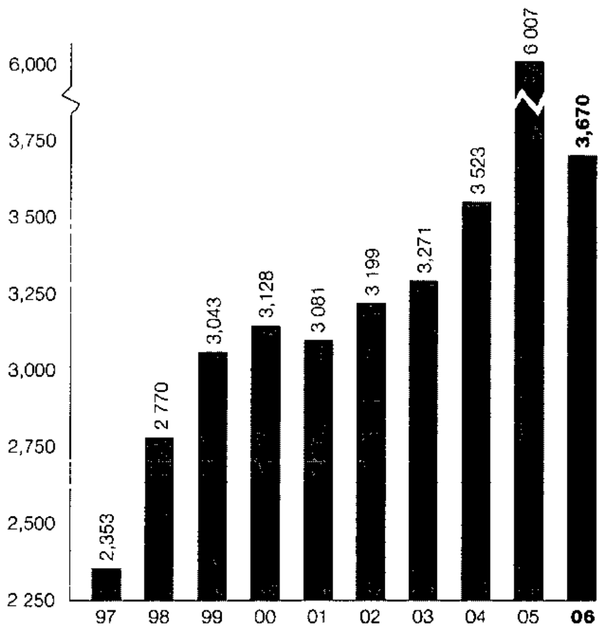
POWERING INTO OUR SECOND DECADE

2006 marked the beginning of the second decade of Cheung Kong Infrastructure Holdings Limited ("CKI" or the "Group") as a listed company. In general terms, our businesses in the key markets of Hong Kong, Mainland China, Australia and the United Kingdom have all performed well during the year. We have laid very solid foundations and have ample resources to fund future expansion.

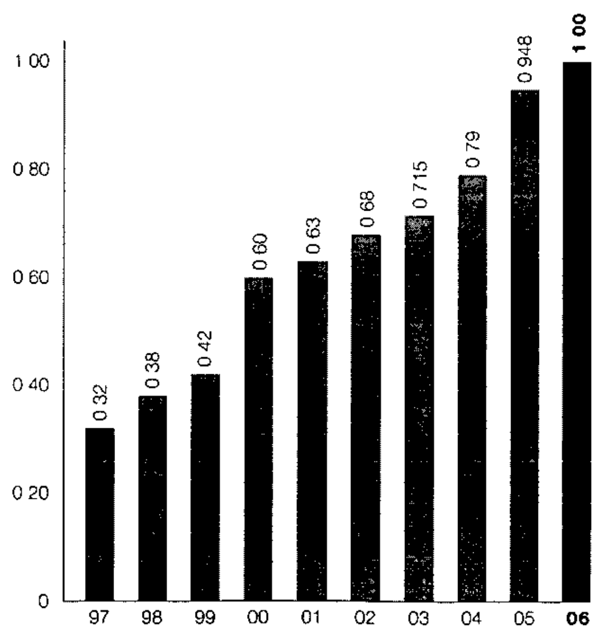
In 2006, profit after tax attributable to shareholders was HK$3,670 million, while earnings per share were HK$1 63 This would have been the best performance since inception, if not for the results of 2005 which benefited from a one-off gain of HK$3 7 billion from the divestment of part of our Australian electricity businesses to Spark Infrastructure Group ("Spark Infrastructure") in December 2005 Even though CKI's Australian asset base has been reduced as a result of the divestment, our overall profit generation capacity has not diminished, as evidenced by the higher than 2004 profit performance in 2006

The Board of Directors of CKI (the "Board") has recommended a final dividend of HK$0 75 per share Together with the interim dividend of HK$0 25 per share, this will bring the total dividend for the year to HK$1 00 per share, a 5 5 per cent increase over last year This is consistent with CKI's stable dividend growth trend since listing The proposed dividend will be paid on 15th May, 2007 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members of the Company on 10th May, 2007

Profit Attributable to Shareholders
(HK$ million)



Dividends Per Share
(HK$)



CHAIRMAN'S LETTER

The Year in Review

Hongkong Electric

Hongkong Electric Holdings Limited ("Hongkong Electric") continues to be an important profit contributor to CKI, generating HK$2,632 million in 2006 During the year under review, Hongkong Electric reported net profit after tax of HK$6,842 million Hongkong Electric has maintained its supply reliability at 99 999 per cent , a distinction that is virtually unrivalled in the world The overseas businesses of Hongkong Electric have also performed very well and continued to contribute to the growth of the business

This will bring the total dividend for the year to HK$1.00 per share, a 5.5 per cent. increase over last year. This is consistent with CKI's stable dividend growth trend since listing.

International Infrastructure Investments

Our businesses in Mainland China delivered commendable performance in 2006, as the nation's GNP continues to grow The profit contribution from CKI's China portfolio increased to HK$869 million Powering our strong performance was yet another record year for the Zhuhai Power Plant The profit contribution from Units 1 and 2 of the Zhuhai Power Plant reached a new high, surpassing even last year's exceptional results The Siping Cogen Power Plants in Jilin also continued to perform well During the year, the divestment of the Qinyang Power Plants in Henan, Mainland China was completed, generating a one-off gain As regards CKI's toll road portfolio in Mainland China, steady returns were delivered in general, and performances were in line with forecasts

In CKI's newest market, the United Kingdom, the performance of our two investments has been pleasing and a profit contribution of HK$316 million was recorded 2006 represented the first full year of profit contribution from Northern Gas Networks Limited ("Northern Gas Networks"), with double-digit cash yields recorded As regards Cambridge Water PLC ("Cambridge Water"), healthy returns were generated, exceeding our original budget

The results from our Australian portfolio were adversely affected by the performance of the Cross City Tunnel and the divestment of our interest in the electricity distribution businesses, with profit contribution reducing to HK$64 million

- Traffic levels for the Cross City Tunnel project, in which CKI has a 50 per cent stake, were significantly lower than expected, leading to an operating loss of HK$262 million being recorded by the Group The project company has been unable to generate sufficient revenue to service its non-recourse project debt, resulting in a receiver being appointed for the project just prior to the year end CKI has accordingly made a further asset impairment of HK$279 million in 2006 The entire book value of the investment has now been fully written down

- As for the electricity businesses, our stake was reduced following the divestment of part of our shareholdings in ETSA Utilities, CitiPower I Pty Ltd and Powercor Australia Limited in 2005 The fundamentals of these power distribution businesses continue to be solid and they have outperformed operating targets for the year

Commencing 2006, the Group has also received income and management fees from Spark Infrastructure by virtue of our 9 9 per cent stake and our interest in the management contract Envestra Limited, one of Australia's largest listed natural gas distribution companies in which CKI has a 16 4 per cent stake, continued to generate double-digit cash yields during the year

Materials Business

Following a number of challenging years in the materials industry, our infrastructure materials division recorded an encouraging profit of HK$110 million in 2006 Market analysts indicate that construction activity in Hong Kong has reached its bottom, and as a result, better prospects for our materials business are anticipated

On the whole, our investments have exceeded expectations, enabling us to deliver continued profit and dividend growth to our shareholders.

A New Decade of Opportunity

Over the last ten years, CKI has grown significantly and recorded a number of major corporate milestones Beginning as a Hong Kong and Mainland China-focused company, we have now evolved into a global infrastructure player with diverse investments in several industries across China, Australia and the United Kingdom On the whole, our investments have exceeded expectations, enabling us to deliver continued profit and dividend growth to our shareholders We have developed an impressive reputation in the infrastructure sector and have ample resources to fund new investments in the future

CHAIRMAN'S LETTER

Sustained Organic Growth

CKI expects to achieve organic growth and deliver solid returns on our existing investments as we continue on our roadmap of business expansion

In Mainland China, commercial operations of the Group's new power project, Units 3 and 4 of the Zhuhai Power Plant, commenced in February 2007 This is a RMB6 billion joint venture project in which CKI has a 45 per cent stake and Guangdong Yudean Group Co Ltd and The Electric Development (Group) Company of Zhuhai Special Economic Zone collectively hold the other 55 per cent stake The commissioning will provide immediate profit contribution and boost the Group's portfolio in Mainland China The addition of Units 3 and 4 greatly enhance the capacity of the Zhuhai Power Plant, increasing total installed capacity from 1,400 MW to 2,600 MW As the demand for power in the Guangdong region continues to grow, we expect the Zhuhai Power Plant to remain one of the star performers in our Mainland portfolio for years to come

CKI expects to achieve organic growth and deliver solid returns on our existing investments as we continue on our roadmap of business expansion.

We expect to see continued organic growth in our energy portfolio in Australia as we expand our regulated asset base Growing demand in Australia's urban areas and rising returns on an increasing asset base will ensure that these regulated businesses generate strong returns for the Group In addition, we will initiate new strategies to enhance the scope and returns of the non-regulated revenue of these businesses

In the United Kingdom, CKI is also committed to organic growth Northern Gas Networks continues to expand and upgrade its gas distribution network to cater for rising demand and new customer connections Cambridge Water is also seeing encouraging potential from the growth in its water servicing area

Acquisitions to Expand Portfolio

CKI will continue to pursue acquisition opportunities around the globe to further enhance our portfolio of infrastructure investments We are currently studying and participating in the bidding process for a number of projects in existing markets, as well as looking for opportunities in new ones Not only will we pursue investments in industries we are already familiar with, such as power and toll roads, but we will also investigate new possibilities, ranging from other regulated businesses to greenfield projects CKI has very sound financials, with cash on hand of more than HK$7 7 billion and a net debt to equity ratio of 4 per cent We are very well placed to acquire new projects, further enriching our portfolio

Divestments to Maximise Shareholder Value

As part of our strategy to achieve the best returns for shareholders, we will review our asset portfolio from time to time and prudently consider divesting certain assets when the timing and price is right On this point, CKI is in the process of divesting 21 per cent of the Lane Cove Tunnel in Australia, with the aim of maximising shareholder value through the generation of cash and a premium, as well as the retention of a share in the future upside through a defined mechanism for revenue sharing Following the divestment exercise, the Group s shareholding will be reduced from 40 per cent to 19 per cent The Lane Cove Tunnel is scheduled to open to traffic this year

CKI has very sound financials, with cash on hand of more than HK$7.7 billion and a net debt to equity ratio of 4 per cent. We are very well placed to acquire new projects, further enriching our portfolio.

Mr Eric Kwan will be retiring as Deputy Managing Director and Executive Director of CKI He was one of the founding members of the Group who witnessed its listing and growth, through a strategy of globalisation and diversification, over the past decade I would like to extend my thanks and appreciation for his contribution to CKI over the years

I would also like to take this opportunity to thank the Board, management and staff for their commitment and hard work, as well as our shareholders for their continued support and confidence in the Group

Li Tzar Kuoi, Victor
Chairman

Hong Kong, 15th March, 2007

GROUP MANAGING DIRECTOR'S REPORT

To understand the business of CKI, it is imperative to comprehend the global infrastructure landscape in which we operate. It is CKI's unique competitive advantages, against this backdrop, that explain our growth to date.

THE ROADMAP OF SUCCESS

The Role of Infrastructure

Over the course of history, the development of infrastructure has been the basis of civilization and fuelled the growth of communities Infrastructure has brought people together and enabled people to conduct their lives with ease and certainty As more and more of the world's population now reside in denser sub-urban areas, the need for effective and reliable infrastructure support has never been greater Without a doubt, infrastructure underpins economic development and is crucial to the advancement of all communities

The Industry of Infrastructure

Around the world, infrastructure development is growing rapidly and becoming a much sought-after industry It has been reported that in just the energy and power sector alone, mergers and acquisitions for 2006 were estimated at over HK$4 7 trillion

There is currently an emergence of new infrastructure investment opportunities as more government organizations around the world are outsourcing projects and the Public Private Partnership (or PPP) model becomes increasingly popular At the same time, the number of investors in this area is also on the rise as more enterprises and funds are drawn to the relatively stable cash returns and inflation-hedge characteristics offered by infrastructure projects

The barriers to market entry in infrastructure are high – infrastructure projects require capital intensive investment, and accordingly complex risk management and assessment In addition to being capable of investing large sums of money, infrastructure companies also need to consider a host of factors in their investment market, including the issues of politics, fiscal policy, legal framework, interest rates, currency and foreign exchange, taxation, GDP, consumer purchasing power, availability of capital, and population growth among others

Achieving Success in Infrastructure

For an infrastructure company to be successful, it should possess very strong financial capabilities to fund investments Good project management ability is also vital to overseeing often huge, complex and capital intensive projects In addition, infrastructure investment companies must have a clear policy on how to assess and mitigate risk

CKI – A Decade of Achievement

In just over ten years of history, CKI has emerged as a major player on the world infrastructure stage CKI was listed on the Hong Kong Stock Exchange in July 1996 and became a constituent stock of the Hang Seng Index within a year, quite a record achievement at that time Shortly after listing, we received an "A-" rating from Standard and Poor's, which we have maintained ever since

Over the last decade, year-on-year growth has been recorded across a number of key performance indicators For the first year after listing, CKI reported profit of HK$854 million In 2006, profit reached HK$3,670 million, representing an increase of over 3 times in the last ten years Total assets have grown by around 3 times to reach HK$47 6 billion The company's market capitalization has doubled to over HK$54 billion as of 31st December, 2006

From being primarily focused on Hong Kong and Mainland China, we have since come of age as an international infrastructure company, with investments also in Australia, the United Kingdom, Canada and the Philippines Our operations now span electricity generation and distribution, gas distribution, toll roads, water treatment and distribution, infrastructure materials and environmental initiatives

Our business began with interests in materials, energy and toll roads in Hong Kong and Mainland China We have invested over HK$10 billion in a diverse range of projects in Mainland China Our energy investments have a total electricity generation capacity of approximately 3,000 MW, while our toll road projects span approximately 450 kilometres in different provinces across the country Our materials business includes cement, asphalt, concrete and aggregates operations Through the operating companies of Green Island Cement Company Limited and Alliance Construction Materials Limited, CKI is the market leader in Hong Kong's infrastructure materials industry

GROUP MANAGING DIRECTOR'S REPORT

In 1997, we acquired a controlling stake in Hongkong Electric Holdings Limited, the sole electricity generator and distributor to Hong Kong Island and Lamma Island, with a history dating back to 1889 Hongkong Electric is one of the most reliable electricity suppliers in the world with an exceptionally outstanding supply reliability in excess of 99 999% This dependable source of electricity has been crucial to the territory's economic development and makes Hong Kong the envy of many major cities in the world that have suffered from power blackouts

After firmly establishing our businesses in Hong Kong and Mainland China, we commenced our story of diversification and globalization by expanding into new markets and new industries

We began our expansion programme with the Australian market in 1999 through the acquisition of a 19 97% stake in Envestra Limited, the largest listed natural gas distributor in the country with a distribution network that serves over 970,000 customers and spans approximately 19,100 kilometres Building on this momentum, we amassed a broad portfolio of electricity assets in Australia, including ETSA Utilities, the primary electricity distributor in the state of South Australia that serves more than 770,000 customers, Powercor Australia Limited, the largest electricity distributor in the state of Victoria that serves over 660,000 customers and CitiPower I Pty Ltd , which distributes electricity to approximately 295,000 customers across the central business district and inner suburban areas of Melbourne

These successful investments have made us the largest power distributor in Australia and culminated in the divestment of part of our stake in the electricity businesses to Spark Infrastructure Group and the listing of Spark Infrastructure on the Australian Stock Exchange at the end of 2005 Spark Infrastructure has a current market capitalization of about HK$12 billion In addition to energy projects, CKI also has a stake in the Lane Cove Tunnel in Sydney and a 49% stake in AquaTower, the exclusive potable water supplier of four regional towns in Victoria

As our Australian investments reached a critical mass, we further diversified our global footprint in 2004 by expanding into the gas sector in the United Kingdom CKI won the tender for Northern Gas Networks Limited, which serves a population of around 6 7 million We also acquired a 100% stake in Cambridge Water PLC, a water distributor that supplies a population of approximately 300,000 in Cambridgeshire

Overall, the total net asset value of CKI's investments are approximately HK$20 billion in Hong Kong, HK$5 billion in Mainland China, HK$9 billion in Australia and HK$4 billion in the United Kingdom

Reasons for Success

CKI has maintained a leading position in the markets that we operate due to five major achievements

1) Diversified Portfolio

We have built up a quality asset portfolio across a number of infrastructure industries around the world This has helped to diversify our risk profile

2) Global Network

CKI's strategy has been to devote our resources and time into building and growing our expertise in each market we operate in, starting with Hong Kong and Mainland China, then Australia and now the United Kingdom By clustering our investments, we have been able to attain more synergies between our businesses and magnify our market leadership position In addition, as part of the Cheung Kong Group, which has businesses in 56 countries across the globe, we are able to leverage on synergies with our sister companies As one of the largest foreign investors, the strong presence and market position of the Cheung Kong Group in CKI's key markets has been highly beneficial in accelerating our development

3) Secure Investments

When it comes to selecting which projects to invest in, we favour those investments that offer regulated cashflow Currently around 90% of earnings come from regulated businesses in developed markets Providing us with stable earnings and calculated risks that we are comfortable with, CKI's preference is to invest in existing projects which can provide immediate cashflow rather than greenfield projects which tend to be riskier in terms of construction risks and time delay Our prudent investment philosophy is well-respected throughout infrastructure and investment circles

4) Expertise

Our management approach to an international business is to think global and act local Our success in the markets in which we operate lie in our commitment to local expertise The CKI team comprises many talented and loyal individuals with an international perspective and transferable expertise In our operating companies, we have nurtured local talent and promoted them within our ranks

5) Strong Balance Sheet

We have acquired a decade of experience in making sound investments, gathering extensive market understanding and establishing important connections with experts in the fields of finance, regulation, construction and operation In the last few years, CKI has been invited to participate in almost all major infrastructure projects available in the market With our strong financial platform, over HK$7 7 billion cash on hand and a net debt to equity ratio of 4% (as at 31st December, 2006), we are in an excellent position to pursue more investment opportunities and participate in more new projects in the future

CKI has achieved more than a decade of continued growth by focusing on delivering long-term, predictable cash flow With a reputation for thorough due diligence and innovative deal structures, we are well placed to sustain our market leading position We are probably one of the few infrastructure companies in the world that is able and willing to participate in some of the mega-infrastructure projects available We have been posting achievements in various areas of business, including acquisitions, organic growth, consolidations and divestments

The Roadmap for the Future

Looking forward the opportunities in the global infrastructure industry are immense As well as generating organic growth in our existing businesses, we will continue to pursue new investments that accord with our prudent investment criteria CKI will also explore new corporate finance initiatives and divestments to further enhance the value of our business

With our strong market position and formidable financial might, we are well placed to generate continued growth and returns in the future We are highly confident of maintaining our growth momentum in the coming ten years and beyond

H L Kam
Group Managing Director

Hong Kong, 15th March, 2007

FINANCIAL REVIEW

Financial Resources, Treasury Activities and Gearing Ratio

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

As at 31st December, 2006, total borrowings of the Group amounted to HK$9,327 million, which included Hong Kong dollar syndicated loan of HK$3 8 billion and foreign currency borrowings of HK$5,527 million Of the total borrowings, 41 per cent were repayable in 2007, 38 per cent were repayable between 2008 and 2011 and 21 per cent repayable beyond 2011 The Group's financing activities continue to be well received and fully supported by its bankers

The Group adopts conservative treasury policies in cash and financial management To achieve better risk control and minimise the cost of funds, the Group's treasury activities are centralised Cash is generally placed in short-term deposits mostly denominated in U S dollars, Hong Kong dollars or Australian dollars The Group's liquidity and financing requirements are reviewed regularly The Group will consider new financing while maintaining an appropriate level of gearing in anticipation of new investments or maturity of bank loans

As at 31st December, 2006, the Group maintained a gearing ratio of 4 per cent which was based on its net debt of HK$1,607 million and shareholders' equity of HK$35,824 million This ratio was slightly higher than the gearing ratio of 3 per cent at the year end of 2005, mainly due to the capital contribution to Lane Cove Tunnel being funded from cash on hand in March 2006

To minimise currency risk exposure in respect of its investments in other countries, the Group generally hedges those investments with the appropriate level of borrowings denominated in the local currencies of those countries The Group also entered into certain interest rate and currency swaps to mitigate interest rate and other currency exposure risks As at 31st December, 2006, the contractual notional amounts of these derivative instruments amounted to HK$8,270 million

Charge on Group Assets

As at 31st December, 2006, the Group's interests in an affiliated company with carrying value of HK$1,773 million were pledged as part of the security to secure bank borrowings totalling HK$2,740 million granted to the affiliated company. Moreover, the Group's obligations under finance leases totalling HK$27 million were secured by charge over the leased assets with carrying value of HK$225 million.

Contingent Liabilities

As at 31st December, 2006, the Group was subject to the following contingent liabilities:

HK$ million	
Guarantee in respect of a bank loan drawn by an affiliated company	586
Performance bonds	141
Total	727

Employees

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,053 employees. Employees' cost (excluding directors' emoluments) amounted to HK$255 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

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

RISK FACTORS

The Group's businesses, financial condition, results of operations or growth prospects may be affected by risks and uncertainties pertaining to the Group's businesses The factors set out below are those that the Group believes could result in the Group's businesses, financial condition, results of operations or growth prospects differing materially from expected or historical results There may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future

Economic Condition and Interest Rates

The industries in which the Group operates are affected by the economic conditions of the various places where the Group's investments or operations are located, the population growth of these places, mark to market value of securities investments, the currency environment and interest rates cycles There can be no assurance that the combination of the above factors the Group experiences in the future will not adversely affect its financial condition or results of operations

In particular, income from finance and treasury operations is dependent upon the interest rate and currency environment and market conditions, and therefore there can be no assurance that changes in these conditions will not adversely affect the Group's financial condition or results of operations

Infrastructure Market

Some of the investments owned by the Group (for example, gas and electricity) are subject to regulatory pricing and strict adherence must be made to the licence requirements, codes and guidelines established by the relevant regulatory authorities from time to time Failure to comply with these licence requirements, codes or guidelines may lead to penalties, or, in extreme circumstances, amendment, suspension or cancellation of the relevant licences by the authorities

The distribution networks of the Group's utilities investments are also exposed to supply interruptions If a severe storm, fire, sabotage, terrorist attack or other unplanned event interrupts service, the loss of cash flow resulting from the interruption and the cost of recovery from network damage could be considerable and potentially cause poor customer perception and may also lead to claims and litigations Moreover, some losses from events such as terrorist attacks may not be recoverable Increases in the number or duration of supply interruptions could result in material increases in the costs associated with the operation of the distribution networks, which could have a material adverse effect on the businesses, financial conditions and results of operation of the Group

RISK FACTORS

Capital Expenditure

A significant amount of capital expenditure is required for the Group to acquire new investments and to maintain the assets of its existing businesses While the relevant asset companies have their own asset management plans, there is a risk that due to unforeseen events, capital expenditure required for the replacement of assets could exceed budgeted amounts and hence affecting the businesses, financial conditions and results of operation of the Group

Currency Fluctuations

The results of the Group is recorded in Hong Kong dollars but its various subsidiaries and associates may receive revenue and incur expenses in other currencies Any currency fluctuations on translation of the accounts of these subsidiaries and associates and also on the repatriation of earnings, equity investments and loans may therefore impact on the Group's performance Although currency exposures had been managed by the Group, a depreciation or fluctuation of the currencies in which the Group conducts operations relative to the Hong Kong dollar could adversely affect the Group's financial condition or results of operations

Strategic Partners

Some of the businesses of the Group are conducted through non wholly-owned subsidiaries and associates in which the Group shares control (in whole or in part) and strategic alliances had been formed by the Group with other strategic or business partners There can be no assurance that any of these strategic or business partners will continue their relationships with the Group in the future or that the Group will be able to pursue its stated strategies with respect to its non wholly-owned subsidiaries and associates and the markets in which they operate Furthermore, the joint venture partners may (a) have economic or business interests or goals that are inconsistent with those of the Group, (b) take actions contrary to the Group's policies or objectives, (c) undergo a change of control, (d) experience financial and other difficulties, or (e) be unable or unwilling to fulfil their obligations under the joint venture, which may affect the Group's financial condition or results of operations

Impact of Local, National and International Regulations

The local business risks in different countries and cities in which the Group operates could have a material impact on the financial condition, results of operations and growth prospects of the businesses in the relevant market The Group has investments in different countries and cities around the world and the Group is, and may increasingly become, exposed to different and changing political, social, legal, regulatory and environmental requirements at the local, national or international level Also, new policies or measures by governments, whether fiscal, regulatory, environmental or other competitive changes, may lead to an increase in additional or unplanned capital expenditure, pose a risk to the overall investment return of the Group's businesses and may delay or prevent the commercial operation of a business with resulting loss of revenues and profit

Impact of New Accounting Standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") had issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") which were generally effective on or after 1st January, 2005 HKICPA may in the future issue new and revised standards and interpretations In addition, interpretations on the application of the HKFRS will continue to develop These factors may require the Group to adopt new accounting policies The adoption of new accounting policies or new HKFRS might or could have a significant impact on the Group's financial position or results of operations

Outbreak of Highly Contagious Disease

In 2003, there was an outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong, the Mainland and other places The SARS outbreak had a significant adverse impact on the economies of the affected areas There can be no assurance that there will not be another significant global outbreak of a severe communicable disease such as avian influenza If such an outbreak were to occur, it may have a material adverse impact on the operations of the Group and its results of operations may suffer

RISK FACTORS

The Group's Financial Condition or Results of Operations are affected by those of the Hongkong Electric Group

The Group owns approximately 38 8 per cent of the Hongkong Electric Group which operates in Hong Kong and has investments in different countries and places Hence the financial condition and results of operations of the Hongkong Electric Group may be affected by the local market conditions and the economy of Hong Kong as well as the places where its investments are located The Group's financial condition and results of operations are materially affected by the financial condition and results of operations of the Hongkong Electric Group In addition, the core businesses of the Hongkong Electric Group are different from those of the Group, and as a result, the Group is indirectly exposed to the risks facing the Hongkong Electric Group

Besides, the operations of the Hongkong Electric Group are subject to a scheme of control agreed with the Hong Kong Government which provides for a permitted level of earnings based principally on a return on their capital investment in electricity generation, transmission and distribution assets The scheme of control was renewed with effect from 1st January, 1994 until 31st December, 2008 There can be no assurance that changes to or abolition of the scheme of control in the future will not adversely affect the Hongkong Electric Group's (and hence the Group's) financial condition and results of operations

Past Performance and Forward Looking Statements

The performance and the results of operations of the Group during the past years as contained in this Annual Report are historical in nature and past performance can be no guarantee of future results of the Group This Annual Report may contain forward-looking statements and opinions that involve risks and uncertainties Actual results may differ materially from expectations discussed in such forward-looking statements and opinions Neither the Group nor the Directors, employees or agents of the Group assume (a) any obligation to correct or update the forward-looking statements or opinions contained in this Annual Report, and (b) any liability in the event that any of the forward-looking statements or opinions does not materialise or turns out to be incorrect

REPORT OF THE DIRECTORS

The Directors are pleased to present shareholders with the annual report together with the audited financial statements of the Group for the year ended 31st December, 2006

Principal Activities

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

Results and Dividends

Results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 104

The Directors recommend the payment of a final dividend of HK$0 75 per share which, together with the interim dividend of HK$0 25 per share paid on 29th September, 2006, makes the total dividend of HK$1 00 per share for the year

Property, Plant and Equipment and Leasehold Land

Movements in the Group's property, plant and equipment and leasehold land during the year are set out in notes 17 and 19 to the financial statements on pages 130 to 132

Reserves

Details of changes in the reserves of the Group are set out in note 34 to the financial statements on page 152

Group Financial Summary

Results, assets and liabilities of the Group for the last ten years are summarised on pages 2 and 3

Properties

Particulars of major properties held by the Group are set out in Appendix 4 on page 164

REPORT OF THE DIRECTORS

Directors

The Directors of the Company in office at the date of this report are listed on page 174 and their biographical information is set out on pages 38 to 43

On 1st December, 2006, Mr Andrew John Hunter was appointed as Executive Director and Chief Operating Officer

Mr Kwan Bing Sing, Eric will retire as Deputy Managing Director and Executive Director of the Company on 31st March, 2007

The Company's Bye-laws provides that any Director appointed by the Board of Directors of the Company (the "Board") shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting Accordingly, Mr Andrew John Hunter being the Director so appointed, shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election

Further, in accordance with the Company's Bye-laws, the Directors of the Company (including Non-executive Directors) shall be subject to retirement by rotation at each annual general meeting Accordingly, Mr Li Tzar Kuoi, Victor, Mr Kam Hing Lam, Mr Ip Tak Chuen, Edmond, Mrs Chow Woo Mo Fong, Susan and Mr Frank John Sixt will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3 13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3 13 of the Listing Rules and are independent in accordance with the terms of the guidelines

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31st December, 2006, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows

(1) Long Positions in Shares

Name of Company	Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
			Number of Ordinary Shares					
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	-	-	-	1 912,109 945 (Note 1)	1,912 109,945	84 82%
	Kam Hing Lam	Beneficial owner	100,000	-	-	-	100 000	0 004%
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	Interest of controlled corporations & beneficiary of trusts	-	-	1,086,770 (Note 3)	2 141,698 773 (Note 2)	2,142 785,543	50 26%
	Kam Hing Lam	Beneficial owner	60,000	-	-	-	60,000	0 001%
	Fok Kin Ning Canning	Interest of controlled corporation	-	-	4,310,875 (Note 5)	-	4,310 875	0 10%
	Chow Woo Mo Fong, Susan	Beneficial owner	150 000	-	-	-	150 000	0 003%
	Frank John Sixt	Beneficial owner	50,000	-	-	-	50,000	0 001%
	Lan Hong Tsung, David	Beneficial owner	20,000	-	-	-	20,000	0 0004%
	Lee Pui Ling, Angelina	Beneficial owner	38 500	-	-	-	38 500	0 0009%
	George Colin Magnus	Beneficial owner interest of child or spouse & founder & beneficiary of a discretionary trust	40 000	9 900	-	950 100 (Note 6)	1,000 000	0 02%
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Interest of child or spouse & beneficiary of trusts	-	151,000	-	829 599,612 (Note 4)	829 750,612	38 88%
	Lee Pui Ling Angelina	Beneficial owner	8,800	-	-	-	8 800	0 0004%

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Cont'd)

(1) Long Positions in Shares (Cont'd)

Name of Company	Name of Director	Capacity	Number of Ordinary Shares: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
Hutchison Harbour Ring Limited	Fok Kin Ning, Canning	Interest of controlled corporation	-	-	5,000,000 (Note 5)	-	5,000,000	0.07%
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	Beneficial owner & interest of controlled corporation	4,100,000	-	1,000,000 (Note 5)	-	5,100,000	0.75%
	Frank John Sixt	Beneficial owner	1,000,000	-	-	-	1,000,000	0.15%

(2) Long Positions in Underlying Shares

Name of Company	Name of Director	Capacity	Number of Underlying Shares: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	-	-	-	31,644,803 (Note 7)	31,644,803
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	-	-	-	18,613,202 (Note 8)	18,613,202
	Lan Hong Tsung, David	Beneficial owner	23,484 (Note 9)	-	-	-	23,484
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	-	-	-	20,990,201 (Note 10)	20,990,201
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	Beneficial owner & interest of controlled corporation	134,000	-	1,340,001 (Note 5)	-	1,474,001 (Note 11)

(3) Short Positions in Underlying Shares

Name of Company	Name of Director	Capacity	Number of Underlying Shares				
			Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	31 644,801 (Note 7(b))	31 644 801
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	18,613,202 (Note 8)	18 613 202
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	20 990,201 (Note 10)	20 990 201

(4) Long Positions in Debentures

Name of Company	Name of Director	Capacity	Amount of Debentures				
			Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Whampoa International (01/11) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$12,000,000 7% Notes due 2011 (Note 3)	–	US$12,000,000 7% Notes due 2011
Hutchison Whampoa International (03/13) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$21,000 000 6 5% Notes due 2013 (Note 3)	–	US$21,000 000 6 5% Notes due 2013
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US$2 500 000 6 5% Notes due 2013 (Note 5)	–	US$2,500 000 6 5% Notes due 2013

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Cont'd)

(4) Long Positions in Debentures (Cont'd)

Name of Company	Name of Director	Capacity	Amount of Debentures: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Whampoa International (03/33) Limited	Li Tzar Kuoi Victor	Interest of controlled corporation	–	–	US$8 000,000 6 25% Notes due 2014 (Note 3)	–	US$8 000 000 6 25% Notes due 2014
		Interest of controlled corporation	–	–	US$15,000,000 7 45% Notes due 2033 (Note 3)	–	US$15,000,000 7 45% Notes due 2033
	Fok Kin Ning Canning	Interest of controlled corporation	–	–	US$2 500,000 5 45% Notes due 2010 (Note 5)	–	US$2 500 000 5 45% Notes due 2010
		Interest of controlled corporation	–	–	US$2,500 000 6 25% Notes due 2014 (Note 5)	–	US$2,500 000 6 25% Notes due 2014
		Interest of controlled corporation	–	–	US$2,000 000 7 45% Notes due 2033 (Note 5)	–	US$2,000 000 7 45% Notes due 2033
Hutchison Whampoa Finance (05) Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	Euro 4,600 000 4 125% Notes due 2015 (Note 5)	–	Euro 4,600,000 4 125% Notes due 2015

Notes

1 The 1,912,109,945 shares in the Company comprise 1,906,681 945 shares held by a subsidiary of Hutchison Whampoa Limited ("HWL") and 5,428,000 shares held by Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1")

The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") are, inter alia, Mr Li Tzar Kuoi, Victor, his wife and children, and Mr Li Tzar Kai, Richard Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in UT1 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust TUT1 as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT1 related companies") hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH") Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of HWL

The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco") Each of Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a director of CKH Mr Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies the shares of HWL held by the subsidiaries of CKH and the shares of the Company held by each of the subsidiary of HWL and TUT1 as trustee of UT1 under the SFO as a Director of the Company Although Mr Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco and is a discretionary beneficiary of each of DT1 and DT2, he is not a director of CKH and has no duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies under the SFO

REPORT OF THE DIRECTORS

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Cont'd)

Notes (Cont'd)

2 The 2,141,698,773 shares in HWL comprise

(a) 2,130,202,773 shares held by certain subsidiaries of CKH By virtue of the interests in shares of CKH in relation to which Mr Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH as described in Note 1 above and as a Director of the Company Mr Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL under the SFO, and

(b) 11,496,000 shares held by Li Ka-Shing Castle Trustee Company Limited ("TUT3") as trustee of The Li Ka-Shing Castle Trust ("UT3") The discretionary beneficiaries of each of the two discretionary trusts ("DT3" and "DT4") are inter alia, Mr Li Tzar Kuoi, Victor, his wife and children, and Mr Li Tzar Kai, Richard Each of the trustees of DT3 and DT4 holds units in UT3 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust

The entire issued share capital of TUT3 and the trustees of DT3 and DT4 are owned by Li Ka-Shing Castle Holdings Limited ("Castle Holdco") Each of Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Castle Holdco TUT3 is only interested in the shares of HWL by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of HWL independently without any reference to Castle Holdco or any of Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard as a holder of the shares of Castle Holdco as aforesaid

By virtue of the above and as a discretionary beneficiary of each of DT3 and DT4 and as a director of HWL Mr Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL held by TUT3 as trustee of UT3 under the SFO as a Director of the Company Although Mr Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Castle Holdco and is a discretionary beneficiary of each of DT3 and DT4, he is not a Director of the Company and has no duty of disclosure in relation to the shares of HWL held by TUT3 as trustee of UT3 under the SFO

3 Such interests are held by certain companies of which Mr Li Tzar Kuoi, Victor is interested in the entire issued share capital

4 By virtue of being a Director of the Company and his deemed interest in those shares of the Company as described in Note 1 above, Mr Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to those shares of Hongkong Electric Holdings Limited ("Hongkong Electric") held through the Company under the SFO

5 These interests are held by a company which is equally owned by Mr Fok Kin Ning, Canning and his wife

6 Such interests are indirectly held by a trust of which Mr George Colin Magnus is the settlor and a discretionary beneficiary

7 Such underlying shares of the Company are held by an indirect wholly-owned subsidiary of CKH comprising

(a) 2 underlying shares by virtue of the HK$300,000,000 capital guaranteed notes due 2009, and

(b) 31,644,801 underlying shares by virtue of the HK Dollar equity-linked notes due 2007 issued under HK$10,000,000,000 retail note issuance programme

By virtue of the interests in the shares of CKH taken to have by Mr Li Tzar Kuoi, Victor under the SFO as described in Note 1 above and as a Director of the Company, Mr Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said interest and short position in the underlying shares of the Company under the SFO

8 Such underlying shares of HWL are held by an indirect wholly-owned subsidiary of CKH comprising

(a) 10,463,201 underlying shares by virtue of the HK Dollar equity-linked notes due 2007 issued under HK$10,000,000,000 retail note issuance programme, and

(b) 8 150,001 underlying shares by virtue of the HK Dollar equity-linked notes due 2008 issued under HK$10,000,000,000 retail note issuance programme

By virtue of the interests in the shares of CKH taken to have by Mr Li Tzar Kuoi, Victor under the SFO as described in Note 1 above and as a Director of the Company, Mr Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said interest and short position in the underlying shares of HWL under the SFO

9 Such underlying shares in HWL are derived from the US$200,000 Quanto Range Accrual Equity Linked Note due 2008 issued by Macquarie Bank Limited

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Cont'd)

Notes (Cont'd)

10 Such underlying shares of Hongkong Electric are held by an indirect wholly-owned subsidiary of CKH by virtue of the HK Dollar equity-linked notes due 2007 issued under HK$10,000,000 000 retail note issuance programme

By virtue of the interests in the shares of CKH taken to have by Mr Li Tzar Kuoi, Victor under the SFO as described in Note 1 above and as a Director of the Company, Mr Li Tzar Kuoi Victor is taken to have a duty of disclosure in relation to the said interest and short position in the underlying shares of Hongkong Electric under the SFO

11 Such underlying shares in Hutchison Telecommunications (Australia) Limited are derived from the listed and physically settled 5 5% unsecured convertible notes due 2007 issued by Hutchison Telecommunications (Australia) Limited

Mr Li Tzar Kuoi, Victor, by virtue of being a Director of the Company and his interests in the share capital of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1 above, is deemed to be interested in those securities of subsidiaries and associated companies of the Company held through the Company and in those securities of the subsidiaries of HWL held through HWL under the SFO

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31st December, 2006, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code

No other contracts of significance to which the Company or a subsidiary was a party and in which a Director of the Company had a material interest subsisted at the balance sheet date or at any time during the year

At no time during the year was the Company or subsidiary a party to any arrangements which enabled any Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate

None of the Directors of the Company has any service contract with the Company or any of its subsidiaries

Interests and Short Positions of Shareholders

So far as is known to any Directors or chief executives of the Company, as at 31st December, 2006, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows

(1) Long Positions of Substantial Shareholders in the Shares and Underlying Shares of the Company

Name	Capacity	Number of Ordinary Shares	Number of Underlying Shares	Total	Approximate % of Shareholding
Hutchison Infrastructure Holdings Limited	Beneficial owner	1,906,681,945 (Note i)	–	1 906,681,945	84 58%
Hutchison International Limited	Interest of controlled corporation	1 906,681,945 (Note ii)	–	1,906 681 945	84 58%
Hutchison Whampoa Limited	Interest of controlled corporations	1 906 681 945 (Note ii)	–	1,906,681,945	84 58%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1 906,681 945 (Note iii)	31,644 803 (Note vi)	1 938 326,748	85 98%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	1,912,109 945 (Note iv)	31,644,803 (Note vi)	1 943 754 748	86 22%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	1,912,109 945 (Note v)	31 644,803 (Note vi)	1 943,754 748	86 22%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	1,912,109,945 (Note v)	31 644 803 (Note vi)	1,943,754 748	86 22%
Li Ka-shing	Founder of discretionary trusts	1,912,109 945 (Note v)	31,644,803 (Note vi)	1,943,754 748	86 22%

Interests and Short Positions of Shareholders (Cont'd)

(2) Short Positions of Substantial Shareholders in the Underlying Shares of the Company

Name	Capacity	Number of Underlying Shares
Cheung Kong (Holdings) Limited	Interest of controlled corporation	31,644,801 (Note vi(b))
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	31,644,801 (Note vi(b))
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	31,644,801 (Note vi(b))
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	31,644,801 (Note vi(b))
Li Ka-shing	Founder of discretionary trusts	31 644 801 (Note vi(b))

Notes

i 1,906,681,945 shares of the Company are held by Hutchison Infrastructure Holdings Limited, a subsidiary of HWL Its interests are duplicated in the interests of HWL in the Company described in Note ii below

ii HWL is deemed to be interested in the 1,906,681 945 shares of the Company referred to in Note i above as it holds more than one-third of the issued share capital of Hutchison International Limited which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited

iii CKH is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note ii above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL

iv TUT1 as trustee of UT1 is deemed to be interested in those shares of the Company described in Note iii above as TUT1 as trustee of UT1 and TUT1 related companies hold more than one-third of the issued share capital of CKH and TUT1 as trustee of UT1 holds 5,428 000 shares of the Company v By virtue of the SFO, each of Mr Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TDT1 as trustee of DT1 and TDT2 as trustee of DT2 is deemed to be interested in the same block of shares TUT1 as trustee of UT1 is deemed to be interested in as referred to in Note iv above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of DT2 More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Unity Holdco Mr Li Ka-shing owns one-third of the issued share capital of Unity Holdco

vi Such underlying shares of the Company are held by an indirect wholly-owned subsidiary of CKH comprising

(a) 2 underlying shares by virtue of the HK$300,000,000 capital guaranteed notes due 2009, and

(b) 31,644,801 underlying shares by virtue of the HK Dollar equity-linked notes due 2007 issued under HK$10,000,000,000 retail note issuance programme

By virtue of the SFO each of Mr Li Ka-shing, TDT1, TDT2 and TUT1 is deemed to be interested in the same block of interest and short position in the 31,644,803 underlying shares and 31,644 801 underlying shares of the Company respectively held by CKH as described in Note v above

Save as disclosed above, as at 31st December, 2006, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO

Continuing Connected Transactions

The following transactions of the Group constituted continuing connected transactions ("Continuing Connected Transactions") under the Listing Rules during the financial year ended 31st December, 2006

(a) A sponsors/shareholders' undertaking has been provided by each of CKH and HWL in relation to the loan facilities in relation to the Zhuhai Power Plant Pursuant to the sponsors/shareholders' undertaking, each of CKH and HWL shall be severally liable for 50 per cent of certain obligations of the foreign party (the "Zhuhai Foreign Party") to the PRC project company undertaking the Zhuhai Power Plant The Zhuhai Foreign Party, which is an indirect wholly-owned subsidiary of the Company, has a 45 per cent interest in the PRC project company Pursuant to a deed of counter-indemnity given by the Company in favour of CKH and HWL, the Company has agreed with each of CKH and HWL to meet all future funding obligations of each of them which may be required under such sponsors/shareholders' undertaking and to counter-indemnify each of CKH and HWL in respect of any sum provided by each of them and generally in respect of each of their liabilities and obligations under such sponsors/shareholders' undertaking

Continuing Connected Transactions (Cont'd)

(b) On 16th December, 2005, the Company had entered into a tenancy agreement with Turbo Top Limited ("Turbo Top"), which is a connected person of the Company within the meaning of the Listing Rules by virtue of its being a wholly-owned subsidiary of HWL, which in turn is a substantial shareholder of the Company, in respect of the lease of Office Unit 1202, 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong with a lettable floor area of approximately 10,079 square feet as the principal business office of the Group in Hong Kong for a term of three years commencing from 1st September, 2005 to 31st August, 2008 at a monthly rental of HK$360,829, exclusive of Government rates and other charges The aggregate rent and service charges payable under the tenancy agreement are subject to an annual cap of HK$5,355,000 taking into account of the possible adjustment on the service charges During the year, HK$4,559,748 has been paid/payable by the Company to Turbo Top pursuant to the aforesaid tenancy agreement

On 12th August, 1996, the Stock Exchange granted conditional waivers to the Company from strict compliance with the disclosure and shareholders' approval requirements under the Listing Rules in respect of the above transaction in paragraph (a) on, inter alia, a condition that brief details of the transaction shall be disclosed in the Company's subsequent annual report for financial years in which the transaction is subsisting An announcement (the "Announcement") in respect of the above transaction in paragraph (b) was published in the newspapers on 19th December, 2005 in accordance with the Listing Rules

The Continuing Connected Transactions have been reviewed by the Independent Non-executive Directors The Independent Non-executive Directors have confirmed that for the year 2006 the Continuing Connected Transactions have been entered into (i) in the ordinary and usual course of business of the Company, (ii) either on normal commercial terms or on terms no less favourable to the Company than terms available to (or from) independent third parties, and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole

Pursuant to Rule 14A 38 of the Listing Rules, the Company has engaged the auditors of the Company to perform certain factual finding procedures in respect of the Continuing Connected Transactions of the Group in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants The auditors have reported their factual findings on these procedures to the Board of Directors and confirmed that for the year 2006 the Continuing Connected Transactions (i) have received the approval of the Board of Directors of the Company, and (ii) have been entered into in accordance with the relevant agreements governing the transactions, and the Continuing Connected Transaction in paragraph (b) above has not exceeded the cap as disclosed in the Announcement

Major Customers and Suppliers

During the year, 35.4 per cent. of the Group's sales were attributable to the Group's five largest customers with the largest customer accounting for 15.3 per cent. of the Group's sales. The Group's purchases attributable to the Group's five largest suppliers were less than 30 per cent. of the Group's purchases.

For the year ended 31st December, 2006, Alliance Construction Materials Limited, of which the Company is interested in 50 per cent. of the issued share capital and Mr. Ip Tak Chuen, Edmond, Director of the Company, acts as a Director, was one of the Group's five largest customers. Save as disclosed above, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5 per cent. of the Company's issued share capital) has any interest in the Group's five largest customers.

Competing Business Interests of Directors

During the year, the interests of Directors in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the "Competing Business") as required to be disclosed pursuant to the Listing Rules were as follows:

(a) Core Business Activities of the Group

(1) Development, investment and operation of energy infrastructure;

(2) Development, investment and operation of transportation infrastructure;

(3) Development, investment and operation of water infrastructure;

(4) Development, investment and operation and commercialisation of infrastructure related business;

(5) Investment holding and project management;

(6) Securities investment; and

(7) Information technology, e-commerce and new technology.

Competing Business Interests of Directors (Cont'd)

(b) Interests in Competing Business

Name of Director	Name of Company	Nature of Interest	Competing Business (Note)
Li Tzar Kuoi, Victor	Cheung Kong (Holdings) Limited	Managing Director and Deputy Chairman	(5), (6) & (7)
	Hutchison Whampoa Limited	Deputy Chairman	(1), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	Chairman	(6) & (7)
Kam Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Executive Director	(1), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	President and Chief Executive Officer	(6) & (7)
	Spark Infrastructure Group	Non-executive Director	(1) & (5)
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Deputy Managing Director	(5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	Senior Vice President and Chief Investment Officer	(6) & (7)
	TOM Group Limited	Non-executive Director	(5), (6) & (7)
	CATIC International Holdings Limited	Non-executive Director	(5) & (6)
	Excel Technology International Holdings Limited	Non-executive Director	(5), (6) & (7)
	Shougang Concord International Enterprises Company Limited	Non-executive Director	(1), (5) & (6)
	The Ming An (Holdings) Company Limited	Non-executive Director	(5) & (6)
Fok Kin Ning, Canning	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Group Managing Director	(1), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Chairman	(1), (5), (6) & (7)
	Hutchison Harbour Ring Limited	Chairman	(7)
	Hutchison Telecommunications International Limited	Chairman	(7)
Kwan Bing Sing, Eric	Spark Infrastructure Group	Non-executive Director *(resigned on 1st December 2006)*	(1) & (5)

Name of Director	Name of Company	Nature of Interest	Competing Business (Note)
Andrew John Hunter	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	Spark Infrastructure Group	Non-executive Director	(1) & (5)
Chow Woo Mo Fong, Susan	Hutchison Whampoa Limited	Deputy Group Managing Director	(1), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	TOM Group Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Harbour Ring Limited	Executive Director	(7)
	Hutchison Telecommunications International Limited	Alternate Director	(7)
	TOM Online Inc	Alternate Director	(7)
Frank John Sixt	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Group Finance Director	(1), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	Hutchison Telecommunications International Limited	Non-executive Director	(7)
	TOM Group Limited	Chairman	(5), (6) & (7)
	TOM Online Inc	Chairman	(7)
Tso Kai Sum	Hongkong Electric Holdings Limited	Group Managing Director	(1), (5), (6) & (7)
Lee Pui Ling, Angelina	TOM Group Limited	Non-executive Director	(5) (6) & (7)
George Colin Magnus	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Non-executive Director	(1), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Non-executive Director	(1), (5), (6) & (7)

Note Such businesses may be made through subsidiaries associated companies or by way of other forms of investments

Save as disclosed above, none of the Directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with businesses of the Group

REPORT OF THE DIRECTORS

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year ended 31st December, 2006 Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year

Public Float

As announced by the Company on 8th January, 1997 and 17th February, 1997, the Stock Exchange granted a waiver from strict compliance with Rule 8 08 of the Listing Rules to the Company on 9th January, 1997 subject to approximately not less than 15 2 per cent of the issued share capital of the Company being held in public hands Based on information available and within the knowledge of the Directors, the obligation has been complied with

Donations

Donations made by the Group during the year amounted to HK$165,000

Disclosure under Chapter 13 of the Listing Rules

The following information is disclosed in accordance with Rules 13 21 and 13 22 of Chapter 13 of the Listing Rules

(1) The Group has entered into a syndicated loan facility agreement of HK$3 8 billion, of which the whole amount was drawn as at 31st December, 2006 The facility will mature in 2007 Under the provision of the loan agreement, it is an event of default if HWL (the Company's controlling shareholder) ceases to own (directly or indirectly) at least 35 per cent of the issued share capital of the Company The obligation has been complied with

(2) A sponsors/shareholders' undertaking referred to under the section headed "Continuing Connected Transactions" has been provided by HWL, the Zhuhai Foreign Party and the other parties in relation to two loan facilities of US$125 5 million and US$670 million granted to the PRC project company undertaking the Zhuhai Power Plant The two loans with the outstanding amounts of US$18 9 million and US$332 4 million as at 31st December, 2006, are repayable by installments with the final repayment due in 2008 and 2012 respectively It is an event of default for both facilities if CKH and HWL collectively own directly or indirectly less than 51 per cent of the shareholding in the Zhuhai Foreign Party The obligation has been complied with

(3) The Group has entered into a long term syndicated facility agreement of A$400 million with the loan balance of A$209 9 million remained outstanding as at 31st December, 2006 The facility will mature in 2008 Under the provision of the loan agreement, it is an event of default if HWL ceases to own (directly or indirectly) at least 30 per cent of the issued share capital of the Company The obligation has been complied with

(4) The Group has entered into a long term syndicated facility agreement of A$300 million, of which the whole amount was drawn as at 31st December, 2006 The facility will mature in 2009 Under the provision of the loan agreement, it is an event of default if HWL ceases to own (directly or indirectly) at least 30 per cent of the issued share capital of the Company The obligation has been complied with

(5) As at 31st December, 2006, the Group's financial assistance to certain affiliated companies and its guarantee given for a facility granted to an affiliated company together in aggregate exceeded the assets ratio of 8 per cent A combined balance sheet of the affiliated companies as at 31st December, 2006 is set out below

HK$ million	
Non-current assets	63 525
Current assets	3 970
Current liabilities	(8 136)
Non-current liabilities	(56 101)
Net assets	3,258
Share capital	1,085
Reserves	2,173
Capital and reserves	3 258

As at 31st December, 2006, the consolidated attributable interest of the Group in these affiliated companies amounted to HK$7,283 million

REPORT OF THE DIRECTORS

Audit Committee

The Group's annual report for the year ended 31st December, 2006 has been reviewed by the Audit Committee Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 90 to 95

Auditors

The financial statements for the year have been audited by Messrs Deloitte Touche Tohmatsu who retire and offer themselves for re-appointment

On behalf of the Board

Kam Hing Lam
Group Managing Director

Hong Kong, 15th March, 2007

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Cheung Kong Infrastructure Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 104 to 163, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose We do not assume responsibility towards or accept liability to any other person for the contents of this report We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15th March, 2007

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December

HK$ million	Notes	2006	2005
Group turnover	6	1,822	2,247
Share of turnover of jointly controlled entities	6	2,977	2,503
		4,799	4,750
Group turnover	6	1,822	2,247
Other income	7	756	592
Operating costs	8	(1,587)	(1,729)
Finance costs	9	(523)	(732)
Gain on disposals of associates	10	-	3,763
Impairment losses	11	(279)	(1,727)
Share of results of associates		2,751	3,183
Share of results of jointly controlled entities		737	311
Profit before taxation	12	3,677	5,908
Taxation	13	(4)	(67)
Profit for the year	14	3,673	5,841
Attributable to			
Shareholders of the Company		3,670	6,007
Minority interests		3	(166)
		3,673	5,841
Earnings per share	15	HK$1 63	HK$2 66
Dividends	16		
Interim dividend paid		564	541
Proposed final dividend		1,690	1,596
		2,254	2,137

CONSOLIDATED BALANCE SHEET

as at 31st December

HK$ million	Notes	2006	2005
Property, plant and equipment	17	**991**	919
Investment properties	18	**130**	59
Leasehold land	19	**301**	326
Interests in associates	20	**29,382**	26,911
Interests in jointly controlled entities	21	**4,238**	4,337
Interests in infrastructure project investments	22	**490**	579
Investments in securities	23	**3,064**	2,092
Derivative financial instruments	24	**38**	447
Goodwill	25	**205**	175
Other non-current assets	32(b)	**13**	9
Total non-current assets		**38,852**	35,854
Inventories	26	**99**	105
Interests in infrastructure project investments	22	**127**	86
Derivative financial instruments	24	**369**	12
Debtors and prepayments	27	**455**	388
Bank balances and deposits	28	**7,720**	8,110
Total current assets		**8,770**	8,701
Bank and other loans	29	**3,813**	11
Derivative financial instruments	24	**485**	-
Creditors and accruals	30	**1,245**	1,105
Taxation		**105**	105
Total current liabilities		**5,648**	1,221
Net current assets		**3,122**	7,480
Total assets less current liabilities		**41,974**	43,334
Bank and other loans	29	**5,514**	9,045
Derivative financial instruments	24	**179**	370
Deferred tax liabilities	31	**401**	362
Other non-current liabilities	32(c)	**15**	21
Total non-current liabilities		**6,109**	9,798
Net assets		**35,865**	33,536
Representing			
Share capital	33	**2,254**	2,254
Reserves	34	**33,570**	31,244
Equity attributable to shareholders of the Company		**35,824**	33,498
Minority interests	34	**41**	38
Total equity		**35,865**	33,536

LI TZAR KUOI, VICTOR
Director

IP TAK CHUEN, EDMOND
Director

15th March, 2007

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31st December

HK$ million	2006	2005
Cumulative impact from adoption of Amendment to HKAS 19 (note 2(a))	(141)	-
Surplus on revaluation of properties upon transfer to investment properties	44	12
Gain/(Loss) from fair value changes of available-for-sale financial assets	42	(36)
(Loss)/Gain from fair value changes of derivatives designated as effective cash flow hedges	(147)	323
Exchange differences on translation of financial statements of foreign operations	828	(360)
Actuarial gains of defined benefit retirement schemes	190	-
Net gain/(loss) recognised directly in equity	816	(61)
Reserves released upon disposal of associates	-	(292)
Profit for the year	3,673	5,841
Total recognised income and expense for the year	4,489	5,488
Attributable to:		
Shareholders of the Company	4,486	5,654
Minority interests	3	(166)
	4,489	5,488

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December

HK$ million	Note	2006	2005
OPERATING ACTIVITIES			
Cash generated from operations	35	1,182	2,010
Income taxes paid		(17)	(17)
Net cash from operating activities		1,165	1,993
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(45)	(77)
Disposals of property, plant and equipment		12	46
Acquisitions of associates		(1,194)	(9,989)
Disposal of associates		-	12,013
Advances to associates		(90)	(81)
Repayments from associates		3	1
Acquisition of a jointly controlled entity		(69)	(581)
Repayments from jointly controlled entities		270	453
Disposal of an infrastructure project investment		115	196
Purchases of securities		(837)	(1,023)
Repayments from finance lease debtors		4	8
Loan note repayments of stapled securities		52	48
Dividends received from associates		2,350	1,604
Interest received		376	282
Finance lease income received		1	2
Net cash from investing activities		948	2,902
Net cash before financing activities		2,113	4,895
FINANCING ACTIVITIES			
New bank and other loans		23	747
Repayments of bank and other loans		(13)	(4,499)
Finance costs paid		(353)	(234)
Dividends paid		(2,160)	(1,826)
Dividend paid to minority shareholders of a non wholly-owned subsidiary		-	(2)
Net cash utilised in financing activities		(2,503)	(5,814)
Net increase in cash and cash equivalents		(390)	(919)
Cash and cash equivalents at 1st January		8,110	9,029
Cash and cash equivalents at 31st December		7,720	8,110
Representing			
Bank balances and deposits at 31st December		7,720	8,110

NOTES TO THE FINANCIAL STATEMENTS

1. General

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") The addresses of its registered office and principal place of business are disclosed in the section headed Corporate information' of the Group's Annual Report The Directors consider that the Company's ultimate holding company is Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on Hong Kong Stock Exchange

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company

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

2. Changes in Accounting Policies

In the current year, the Group has adopted a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards (HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective to the Group for accounting periods beginning on or after 1st January, 2006 Except for the changes in accounting policies and presentation as set out below, the adoption of those new HKFRSs has no material impact on the Group's results and financial position for the current or prior years

(a) Employee Retirement Benefits

In the current year, the Group has adopted Amendment to HKAS 19 "Actuarial Gains and Losses, Group Plans and Disclosures", which provides an option to recognise actuarial gains and losses of defined benefit retirement plans in full in the period in which they occur, outside profit or loss, in equity The Group has elected to take the option to recognise all actuarial gains and losses of its defined benefit retirement plans in equity

Prior to 1st January, 2006, actuarial gains and losses which exceeded 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets were recognised in the income statement over the expected average remaining working lives of the employees participating in the plans

NOTES TO THE FINANCIAL STATEMENTS

2. Changes in Accounting Policies (Cont'd)

(a) Employee Retirement Benefits (Cont'd)

The change in accounting policy has been applied prospectively The main reason for not applying Amendment to HKAS 19 retrospectively is that the management considered the impact is immaterial and is not practical to do so Cumulative effects from the change on the Group's balances at 1st January, 2006 include decreases in interests in associates, other non-current assets and retained profits by HK$138 million, HK$3 million and HK$141 million, respectively.

(b) Financial Instruments – Investments in Securities

On 1st January, 2005, the Group adopted HKAS 39 "Financial Instruments Recognition and Measurement" and re-designated certain non-trading securities as "financial assets at fair value through profit or loss" under the relevant transitional provisions. Changes in fair values of these investments in 2005 were recognised in the income statement

Under the amended transitional provisions included in Amendment to HKAS 39 "The Fair Value Option", which is effective from 1st January, 2006, the Group has re-designated the above "financial assets at fair value through profit or loss" as "available-for-sale financial assets" since 1st January, 2006 Changes in fair values of these investments are now dealt with as movements in investment revaluation reserve

As the management considered the impact from the change is immaterial, except for the above reclassification as disclosed in note 23 to the financial statements, no other adjustments have been recognised

The Group has not early adopted the following new HKFRSs issued by HKICPA that are effective to the Group for accounting periods beginning on or after 1st January, 2007 The Directors anticipate that the adoption of these HKFRSs will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments Disclosures
HK (IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK (IFRIC) – Int 11	HKFRS 2 Group and Treasury Share Transactions

3. Principal Accounting Policies

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by HKICPA In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on Hong Kong Stock Exchange and by the Companies Ordinance

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the principal accounting policies set out below

(a) Basis of Consolidation

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

The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisitions or up to the effective dates of disposals as appropriate

(b) Goodwill

Goodwill represents the excess of costs of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the subsidiaries, associates and jointly controlled entities acquired Goodwill is recognised as an asset or included in interests in associates or jointly controlled entities (as appropriate) at cost less any identified impairment loss

The Group has applied the relevant transitional provisions in HKFRS 3 "Business Combination" Goodwill recognised in reserves prior to 1st January, 2001 continues to be held in the reserves and are transferred to retained profits when the business to which the goodwill relates is disposed of or becomes impaired

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the business acquisition Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit An impairment loss recognised for goodwill is not reversed in subsequent periods

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(b) Goodwill (Cont'd)

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal

(c) Subsidiaries

A subsidiary is an entity that is controlled by the Company Control is achieved where the Company has the power to govern the financial and operating policies of such entity so as to obtain benefits from its activities

The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination The acquiree's identifiable assets, liabilities and contingent liabilities, where appropriate, are recognised at their fair values at the acquisition date

(d) Associates and Jointly Controlled Entities

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

A joint venture is a contractual arrangement whereby the venturers undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control A jointly controlled entity is the joint venture which involves the establishment of a separate entity

The results and assets and liabilities of associates/jointly controlled entities are incorporated in the Group's financial statements using the equity method of accounting Under the equity method, investments in associates/jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates/jointly controlled entities, less impairment in the values of individual investments

Losses of an associate/jointly controlled entity in excess of the Group's interest in that associate/jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's investment in the associate/jointly controlled entity) are not recognised

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(e) Property, Plant and Equipment

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

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

Buildings	1 ¼% to 3 ⅓% or over the unexpired lease terms of the land, whichever is the higher
Mains, pipes, other plant and machinery	3 ⅓% to 33 ⅓%
Others	5% to 33 ⅓%

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

(f) Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement for the period in which they arise

(g) Leasehold Land

Leasehold land is classified as prepaid operating leases and are amortised over the unexpired lease terms using the straight-line method

(h) Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(i) Contract Work

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

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

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

(j) Financial Instruments

Interests in infrastructure project investments

Investments in joint ventures are classified as infrastructure project investments, where the Group s return is predetermined in accordance with the provisions of the relevant agreements and the venturers' share of net assets are not in proportion to their capital contribution ratios but are as defined in the contracts and in respect of which the Group is not entitled to share the assets at the end of the investment periods

The Group's interests in the infrastructure project investments are stated at amortised cost using effective interest method The carrying amount of such interests is reduced to recognise any identified impairment losses of individual investments

Investments in securities

The Group's investments in securities are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets, and are measured at fair value

Where securities classified as financial assets at fair value through profit or loss, gains and losses arising from changes in fair values are dealt with in the income statement

For available-for-sale financial assets, gains and losses arising from changes in fair values are dealt with as movements in investment revaluation reserve, until the assets are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in the reserve is included in the income statement for the period Impairment losses recognised in the income statement for available-for-sale financial assets are not subsequently reversed in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(j) Financial Instruments (Cont'd)

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially measured at fair values on the dates at which the contracts are entered into, and are remeasured to their fair value at subsequent reporting dates

Changes in the fair values of derivative financial instruments that are designated as effective in hedging future cash flows are recognised directly in hedging reserve Any ineffective portion is recognised immediately in the income statement

Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or the hedge no longer qualifies for hedge accounting Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss

Trade debtors

Trade debtors are initially measured at fair value and subsequently measured at amortised cost using the effective interest method Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand 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 and other loans

Interest-bearing bank and other loans are initially measured at fair values, and are subsequently measured at amortised cost, using the effective interest method Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the terms of the borrowings in accordance with the Group's accounting policy for borrowing costs

Trade creditors

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

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(j) Financial Instruments (Cont'd)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument A financial guarantee contract issued by the Group, which is not designed as a fair value through profit or loss, is recognised initially at its fair value less transaction costs directly attributable to the issue of the financial guarantee contract

Fair value

Fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Fair value of financial assets and financial liabilities not traded on active liquid markets are determined with reference to fair value estimated by independent professionals

(k) Revenue Recognition

Sales of goods

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

Return from infrastructure project investments

Return from infrastructure project investments is accrued on a time basis, by reference to the carrying amount and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the infrastructure project to that project's net carrying amount at initial recognition

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(k) Revenue Recognition (Cont'd)

Income from investments in securities

Dividend and interest income from investments in securities are recognised when the Group's right to receive payment is established

Contract revenue

Income from contracts is recognised according to the stage of completion

(l) Foreign Currencies

The individual financial statements of each group entity is presented in the currency of the primary economic environment in which the entity operates ("functional currency") For the purpose of the consolidated financial statements, the result and financial position of each entity are presented in Hong Kong Dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year Exchange differences arising on the retranslation of non-monetary items carried at fair values are included in the income statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity For such non monetary items, any exchange component of that gain or loss is also recognised directly in equity

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Hong Kong Dollars using exchange rates prevailing on the balance sheet date Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve Such translation differences are recognised in the income statement in the year in which the foreign operation is disposed of

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(l) Foreign Currencies (Cont'd)

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate

(m) Taxation

Hong Kong Profits Tax is provided for at the prevailing rate on the estimated assessable profits less available tax relief for losses brought forward of each individual company comprising the Group Overseas tax is provided for at the applicable local rates on the estimated assessable profits of the individual company concerned

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(n) Operating Leases

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

(o) Finance Leases

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

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

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

(p) Employee Retirement Benefits

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

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

The cost of providing retirement benefits under the Group's defined benefit retirement plans is determined using the projected unit credit method, with actuarial valuations being carried out annually Actuarial gains and losses of defined benefit retirement plans are recognised immediately in full in the period in which they occur, outside profit or loss, in equity Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. Any assets resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plans.

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(q) Borrowing Costs

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

4. Key Sources of Estimation Uncertainty

The key assumption concerning the future, and other key sources of estimation uncertainty at 31st December, 2006, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

(a) Impairment of Property, Plant and Equipment

Property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss The recoverable amount is the higher of an asset's fair value less costs to sell and value in use The value in use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value The carrying value of property, plant and equipment as at 31st December, 2006 is HK$991 million

(b) Impairment of Interests in Infrastructure Project Investments

Determining whether interests in infrastructure project investments are impaired requires an estimation of the recoverable amounts of infrastructure project investments, which represent the present values of estimated future cash flows from those investments, discounted at the original effective interest rates The carrying amount of interests in infrastructure project investments as at 31st December, 2006 is HK$617 million

NOTES TO THE FINANCIAL STATEMENTS

4. Key Sources of Estimation Uncertainty (Cont'd)

(c) Impairment of Cash-generating Units/Goodwill

Determining whether a cash-generating unit/goodwill is impaired requires an estimation of the value in use of the relevant cash-generating unit The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and suitable discount rate in order to calculate the present value Impairment losses are recognised by the Group as follows after impairment tests conducted for various cash-generating units

HK$ million	Impairment loss recognised in income statement 2006	2005	Carrying value at 31st December after impairment loss 2006	2005
Interests in associates	279	578	29,382	26,911
Interests in jointly controlled entities	–	214	4,238	4,337
Goodwill	–	50	205	175

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include interests in infrastructure project investments, investments in securities, derivative financial instruments, bank balances and deposits, bank and other loans and debtors and creditors Details of these financial instruments are disclosed in the respective notes The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner

(a) Currency Risk

Several subsidiaries of the Company have foreign investment, dividend income, bank deposits and borrowings determined in foreign currency, which expose the Group to foreign currency risk. The management considers that the foreign currency risk is offset by foreign currency income generated from foreign operations.

(b) Interest Rate Risk

The Group's interest rate risk relates primarily to floating rate bank borrowings In relation to these floating rate borrowings, the Group aims at keeping borrowings at fixed rates at appropriate level by entering into different interest rate swap In order to achieve this result, the Group entered into interest rate swaps to hedge against certain exposures to changes in interest rates of the borrowings The critical terms of these interest rate swaps are similar to those of hedged borrowings These interest rate swaps are designated as effective cash flow hedges of interest rate risk

NOTES TO THE FINANCIAL STATEMENTS

5. Financial Risk Management Objectives and Policies (Cont'd)

(c) Credit Risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet In order to minimise the credit risk, local management teams of subsidiaries are responsible for monitoring the procedures to ensure that follow-up actions are taken to recover overdue debts of the subsidiaries In addition, the teams review the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts In this regard, the Directors consider that the Group's credit risk is significantly reduced

The credit risk on liquid funds is limited because the counterparties are banks or financial institutions with high credit ratings

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

(d) Price Risk

The Group's investment in securities are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk The management manages this exposure by maintaining a portfolio of investments with different risk profiles

6. Group Turnover and Share of Turnover of Jointly Controlled Entities

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

In addition the Group presents its proportionate share of turnover of jointly controlled entities Turnover of associates is not included

The Group turnover and share of turnover of jointly controlled entities for the current year is analysed as follows

HK$ million	2006	2005
Sales of infrastructure materials	1,015	992
Income from the supply of water	250	237
Return from infrastructure project investments	99	138
Interest income from loans granted to associates	392	856
Distribution from investments in listed securities	66	24
Group turnover	1,822	2,247
Share of turnover of jointly controlled entities	2,977	2,503
	4,799	4,750

7. Other Income

Other income includes the following

HK$ million	2006	2005
Interest income from banks	384	259
Finance lease income	1	2
Gain on disposals of infrastructure project investment	115	14
Change in fair values of investment properties	3	3
Change in fair values of investments in securities	(24)	16
Change in fair values of derivative financial instruments	(49)	26
Gain on disposals of listed securities	-	1

8. Operating Costs

HK$ million	2006	2005
Staff costs including directors' emoluments	290	311
Depreciation of property, plant and equipment	52	134
Amortisation of prepayment for leasehold land	10	11
Raw materials and consumables used	438	347
Changes in inventories of finished goods and work-in-progress	(12)	(10)
Other operating expenses	809	936
Total	1,587	1,729

9. Finance Costs

HK$ million	2006	2005
Interest and other finance costs on		
Bank borrowings wholly repayable within 5 years	454	658
Notes repayable after 5 years	69	74
Total	523	732

10. Gain on Disposals of Associates

HK$ million	2006	2005
Disposal of 49% interests in ETSA Utilities, Powercor and CitiPower	-	3,699
Disposal of 9 9% Interest in Northern Gas Networks Holdings Limited	-	64
Total	-	3,763

Prior to December 2005, the Group and Hongkong Electric Holdings Limited (an associate of the Group) held 100 per cent interests, on a 50/50 basis, in 3 associate groups of companies, ETSA Utilities, Powercor and CitiPower which operate and manage various electricity distribution businesses in Australia In December 2005, the Group sold its 49 per cent interests in these associate groups to Spark Infrastructure Group, a stapled group listed in the Australian Stock Exchange Limited, at a consideration of approximately A$2 2 billion

11. Impairment Losses

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

HK$ million	2006	2005
Property, plant and equipment (note 17)	-	769
Leasehold land (note 19)	-	21
Interests in associates (note 20)	279	578
Interests in jointly controlled entities (note 21)	-	214
Interests in infrastructure project investments (note 22)	-	95
Goodwill (note 25)	-	50
Total	279	1,727

12. Profit Before Taxation

HK$ million	2006	2005
Profit before taxation is arrived at after (crediting)/charging:		
Contract revenue	(290)	(172)
Loss/(Gain) on disposals of property, plant and equipment	2	(9)
Net exchange gain	(171)	(168)
Operating lease rental for land and buildings	12	12
Directors' emoluments (note 36)	35	32
Auditors' remuneration	5	5
Share of tax of associates	707	(65)
Share of tax of jointly controlled entities	163	153

13. Taxation

Hong Kong Profits Tax is provided for at the rate of 17 5 per cent (2005 17.5 per cent) on the estimated assessable profits less available tax losses Overseas tax is provided for at the applicable tax rate on the estimated assessable profits less available tax losses

HK$ million	2006	2005
Current taxation		
- Hong Kong Profits Tax	6	5
- Overseas tax	9	15
Deferred taxation (note 31)	(11)	47
Total	4	67

Reconciliation between tax charge and accounting profit at Hong Kong Profits Tax Rate

HK$ million	2006	2005
Profit before taxation	3,677	5,908
Less share of results of associates	(2,751)	(3,183)
share of results of jointly controlled entities	(737)	(311)
Total	189	2,414
Tax at 17 5% (2005 17 5%)	33	422
Tax impact on:		
Different domestic rates of subsidiaries operating in other tax jurisdictions	(188)	230
Income not subject to tax	(42)	(1,148)
Expenses not deductible for tax purpose	199	294
Tax losses and other temporary differences not recognised	29	245
Others	(27)	24
Tax charge	4	67

NOTES TO THE FINANCIAL STATEMENTS

14. Profit for the Year and Segment Information

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

By business segment

for the year ended 31st December

HK$ million	Investment in Hongkong Electric* 2006	Investment in Hongkong Electric* 2005	Infrastructure investments 2006	Infrastructure investments 2005	Infrastructure related business 2006	Infrastructure related business 2005	Unallocated items 2006	Unallocated items 2005	Consolidated 2006	Consolidated 2005
Group turnover	-	-	807	1,255	1,015	992	-	-	1,822	2 247
Share of turnover of jointly controlled entities	-	-	2,371	1,996	606	507	-	-	2,977	2 503
	-	-	3,178	3,251	1,621	1,499	-	-	4,799	4 750
Segment revenue										
Group turnover	-	-	807	1,255	1,015	992	-	-	1,822	2 247
Others	-	-	55	33	75	70	-	-	130	103
	-	-	862	1,288	1,090	1,062	-	-	1,952	2 350
Segment result	-	-	633	1,037	(28)	(253)	-	-	605	784
Net gain on disposals of infrastructure project investment and listed securities	-	-	115	14	-	1	-	-	115	15
Change in fair values of investments in securities and derivative financial instruments	-	-	-	75	(26)	(23)	(47)	(10)	(73)	42
Interest and finance lease income	-	-	2	1	126	102	257	158	385	261
Exchange gain	-	-	-	-	-	-	171	168	171	168
Corporate overheads and others	-	-	-	-	-	-	(212)	(160)	(212)	(160)
Finance costs	-	-	(20)	(21)	-	-	(503)	(711)	(523)	(732)
Gain on disposals of associates	-	-	-	3,763	-	-	-	-	-	3 763
Impairment losses	-	-	(279)	(937)	-	(790)	-	-	(279)	(1 727)
Share of results of associates and jointly controlled entities	2,632	2,492	820	1,046	36	(44)	-	-	3,488	3 494
Profit/(Loss) before taxation	2,632	2,492	1,271	4,978	108	(1,007)	(334)	(555)	3,677	5 908
Taxation	-	-	(3)	(58)	5	(4)	(6)	(5)	(4)	(67)
Profit/(Loss) for the year	2,632	2,492	1,268	4,920	113	(1,011)	(340)	(560)	3,673	5,841
Attributable to:										
Shareholders of the Company	2,632	2 492	1,268	4,920	110	(845)	(340)	(560)	3,670	6,007
Minority interests	-	-	-	-	3	(166)	-	-	3	(166)
	2,632	2,492	1,268	4 920	113	(1,011)	(340)	(560)	3,673	5,841
Other information										
Capital expenditure	-	-	35	41	10	36	-	-	45	77
Depreciation and amortisation	-	-	26	25	36	119	-	1	62	145

14. Profit for the Year and Segment Information (Cont'd)

By business segment (Cont'd)

as at 31st December

HK$ million	Investment in Hongkong Electric* 2006	Investment in Hongkong Electric* 2005	Infrastructure Investments 2006	Infrastructure Investments 2005	Infrastructure related business 2006	Infrastructure related business 2005	Unallocated items 2006	Unallocated items 2005	Consolidated 2006	Consolidated 2005
Assets										
Segment assets	-	-	3,937	3,585	2,547	2,336	-	-	6,484	5 921
Interests in associates and jointly controlled entities	18,313	17,682	15,106	13,352	201	214	-	-	33,620	31,248
Unallocated corporate assets	-	-	-	-	-	-	7,518	7,386	7,518	7 386
Total assets	18,313	17,682	19,043	16,937	2,748	2,550	7,518	7,386	47,622	44 555
Liabilities										
Segment liabilities	-	-	845	819	270	250	-	-	1,115	1,069
Taxation, deferred taxation and unallocated corporate liabilities	-	-	361	319	143	147	10,138	9,484	10,642	9 950
Total liabilities	-	-	1,206	1,138	413	397	10,138	9,484	11,757	11 019

* During the year, the Group has a 38 87 per cent equity interest in Hongkong Electric Holdings Limited ("Hongkong Electric") which is listed on Hong Kong Stock Exchange

NOTES TO THE FINANCIAL STATEMENTS

14. Profit for the Year and Segment Information (Cont'd)

By geographic region

for the year ended 31st December

HK$ million	Hong Kong 2006	Hong Kong 2005	Mainland China 2006	Mainland China 2005	Australia 2006	Australia 2005	UK and Others 2006	UK and Others 2005	Unallocated Items 2006	Unallocated Items 2005	Consolidated 2006	Consolidated 2005
Group turnover	728	699	279	421	458	880	357	247	-	-	1,822	2 247
Share of turnover of jointly controlled entities	475	401	2,502	2 102	-	-	-	-	-	-	2,977	2 503
	1,203	1 100	2,781	2 523	458	880	357	247	-	-	4,799	4 750
Segment revenue												
Group turnover	728	699	279	421	458	880	357	247	-	-	1,822	2,247
Others	46	40	50	32	-	-	34	31	-	-	130	103
	774	739	329	453	458	880	391	278	-	-	1,952	2 350
Segment result	(29)	(133)	87	(24)	465	880	82	61	-	-	605	784
Net gain on disposals of infrastructure project investment and listed securities	-	-	115	14	-	-	-	1	-	-	115	15
Change in fair values of investments in securities and derivative financial instruments	-	-	-	-	-	75	(26)	(23)	(47)	(10)	(73)	42
Interest and finance lease income	126	102	-	-	-	-	2	1	257	158	385	261
Exchange gain	-	-	-	-	-	-	-	-	171	168	171	168
Corporate overheads and others	-	-	-	-	-	-	-	-	(212)	(160)	(212)	(160)
Finance costs	-	-	-	-	-	-	(20)	(21)	(503)	(711)	(523)	(732)
Gain on disposals of associates	-	-	-	-	-	3,699	-	64	-	-	-	3,763
Impairment losses	-	(308)	-	(774)	(279)	(578)	-	(67)	-	-	(279)	(1 727)
Share of results of associates and jointly controlled entities	2,692	2 549	696	272	(122)	685	222	(12)	-	-	3,488	3,494
Profit/(Loss) before taxation	2,789	2,210	898	(512)	64	4,761	260	4	(334)	(555)	3,677	5 908
Taxation	5	(4)	-	-	-	(23)	(3)	(35)	(6)	(5)	(4)	(67)
Profit/(Loss) for the year	2,794	2,206	898	(512)	64	4 738	257	(31)	(340)	(560)	3,673	5,841
Attributable to:												
Shareholders of the Company	2,794	2,206	895	(346)	64	4,738	257	(31)	(340)	(560)	3,670	6,007
Minority interests	-	-	3	(166)	-	-	-	-	-	-	3	(166)
	2,794	2,206	898	(512)	64	4,738	257	(31)	(340)	(560)	3,673	5,841
Other information												
Capital expenditure	7	30	3	6	-	-	35	41	-	-	45	77

NOTES TO THE FINANCIAL STATEMENTS

14. Profit for the Year and Segment Information (Cont'd)

By geographic region (Cont'd)

as at 31st December

HK$ million	Hong Kong 2006	Hong Kong 2005	Mainland China 2006	Mainland China 2005	Australia 2006	Australia 2005	UK and Others 2006	UK and Others 2005	Unallocated items 2006	Unallocated items 2005	Consolidated 2006	Consolidated 2005
Assets												
Segment assets	2,213	1,987	869	911	2,193	1,977	1,209	1,046	-	-	6,484	5,921
Interests in associates and jointly controlled entities	18,668	18,022	4,058	4,154	7,554	5,950	3,340	3,122	-	-	33,620	31,248
Unallocated corporate assets	-	-	-	-	-	-	-	-	7,518	7,386	7,518	7,386
Total assets	20,881	20,009	4,927	5,065	9,747	7,927	4,549	4,168	7,518	7,386	47,622	44,555

15. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of HK$3,670 million (2005: HK$6,007 million) and on 2,254,209,945 shares (2005: 2,254,209,945 shares) in issue during the year.

16. Dividends

HK$ million	2006	2005
Interim dividend paid of HK$0.25 (2005: HK$0.24) per share	564	541
Proposed final dividend of HK$0.75 (2005: HK$0.708) per share	1,690	1,596
Total	2,254	2,137

17. Property, Plant and Equipment

HK$ million	Freehold land outside Hong Kong	Buildings	Mains, pipes, other plant and machinery	Furniture, fixtures and others	Total
Cost					
At 1st January, 2005	5	747	2,914	116	3,782
Additions	–	7	62	1	70
Disposals	–	(4)	(100)	(76)	(180)
Exchange translation differences	–	8	(93)	1	(84)
Transfers *	(2)	(18)	5	(4)	(19)
At 31st December, 2005	3	740	2,788	38	3,569
Additions	–	–	41	4	45
Disposals	–	(9)	(130)	(7)	(146)
Exchange translation differences	–	15	159	1	175
Transfers *	–	(4)	(6)	–	(10)
At 31st December, 2006	3	742	2,852	36	3,633
Accumulated depreciation and impairment loss					
At 1st January, 2005	–	367	1,456	95	1,918
Charge for the year	–	24	104	6	134
Impairment loss	–	275	485	9	769
Disposals	–	(3)	(70)	(69)	(142)
Exchange translation differences	–	3	(25)	1	(21)
Transfers *	–	14	(18)	(4)	(8)
At 31st December, 2005	–	680	1,932	38	2,650
Charge for the year	–	5	46	1	52
Disposals	–	(8)	(117)	(7)	(132)
Exchange translation differences	–	13	60	1	74
Transfers *	–	3	(5)	–	(2)
At 31st December, 2006	–	693	1,916	33	2,642
Carrying value					
At 31st December, 2006	3	49	936	3	991
At 31st December, 2005	3	60	856	–	919

* During the year certain properties of the Group were transferred to investment properties with revaluation gain of HK$44 million (2005: HK$5 million).

NOTES TO THE FINANCIAL STATEMENTS

17. Property, Plant and Equipment (Cont'd)

The carrying value of the Group's mains, pipes, other plant and machinery includes an amount of HK$225 million (2005 HK$199 million) in respect of assets held under finance leases

The Directors reviewed the Group's property, plant and equipment based on value in use calculation The discount rate used was 8 5 per cent (2005 8 5 per cent) No impairment loss has been recognised for the property, plant and equipment during the year (2005 HK$769 million)

18. Investment Properties

HK$ million	
Medium term leases in Hong Kong, at fair value	
Transfer from property, plant and equipment and leasehold land	56
Change in fair values	3
At 31st December, 2005	59
Transfer from property, plant and equipment and leasehold land	68
Change in fair values	3
At 31st December, 2006	**130**

The fair values of the Group's investment properties at 31st December, 2006 are determined based on a valuation carried out by DTZ Debenham Tie Leung, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung is a member of the Institute of Valuers with appropriate qualifications and recent experiences in the valuation of similar locations The valuation, which conforms to International Valuation Standards, was completed by reference to market evidence of transaction prices for similar properties

NOTES TO THE FINANCIAL STATEMENTS

19. Leasehold Land

HK$ million	Medium term leasehold land in Hong Kong	Medium term leasehold land outside Hong Kong	Total
Operating lease prepayment			
At 1st January, 2005	458	45	503
Additions	7	-	7
Transfers *	(35)	-	(35)
Exchange translation differences	-	1	1
At 31st December 2005	430	46	476
Transfers	(27)	-	(27)
Exchange translation differences	-	2	2
At 31st December, 2006	403	48	451
Accumulated amortisation and impairment loss			
At 1st January, 2005	110	10	120
Charge for the year	10	1	11
Impairment loss	-	21	21
Transfers*	(2)	-	(2)
At 31st December, 2005	118	32	150
Charge for the year	9	1	10
Transfers*	(11)	-	(11)
Exchange translation differences	-	1	1
At 31st December, 2006	116	34	150
Carrying value			
At 31st December, 2006	**287**	**14**	**301**
At 31st December, 2005	312	14	326

* During the year, certain leasehold land of the Group was transferred to investment properties with no revaluation gain (2005 HK$7 million)

The Directors reviewed the Group's leasehold land based on value in use calculation The discount rate used was 8 5 per cent (2005 8.5 per cent) No impairment loss has been recognised for the leasehold land during the year (2005: HK$21 million).

20. Interests in Associates

HK$ million	2006	2005
Investment costs		
– Listed in Hong Kong	8,687	8,687
– Unlisted	7,444	6,250
Share of post-acquisition reserves	9,871	8,704
	26,002	23,641
Impairment loss	(857)	(578)
	25,145	23,063
Amounts due by unlisted associates	4,237	3,848
At 31st December	**29,382**	**26,911**
Market value of investment in a listed associate	**31,608**	**31,857**

Included in the amounts due by unlisted associates are subordinated loans of HK$3,644 million (2005 HK$3,369 million) The rights in respect of these loans are subordinated to the rights of any other lenders to the associates

The Directors reviewed certain associates' operations and financial positions as at 31st December, 2006 based on value in use calculation Due to unsatisfactory operating performance, a further impairment loss of HK$279 million (2005: HK$578 million) was made against interests in associates, which operated the Cross City Tunnel in Sydney, Australia

Summarised financial information in respect of the Group's associates is set out below

HK$ million	2006	2005
Total assets	170,012	153,621
Total liabilities	(108,538)	(91,663)
Net assets	61,474	61,958
Total turnover	26,480	25,445
Total profit for the year	7,036	11,033
Shared by the Group:		
Net assets of the associates	26,002	23,641
Profit of the associates for the year	2,751	3,183

Particulars of the principal associates are set out in Appendix 2 on pages 160 to 162

21. Interests in Jointly Controlled Entities

HK$ million	2006	2005
Investment costs	3,456	3,385
Share of post-acquisition reserves	(380)	(458)
	3,076	2,927
Impairment loss	(214)	(214)
	2,862	2,713
Shareholders' loans to jointly controlled entities	1,376	1,624
At 31st December	4,238	4,337

The Group's interests in a jointly controlled entity with carrying value of HK$1,773 million as at 31st December, 2006 (2005 HK$1,736 million) have been pledged as part of the security to secure certain bank borrowings granted to the jointly controlled entity

The Directors reviewed certain jointly controlled entities' operations and financial positions as at 31st December, 2006 based on value in use calculation No further Impairment loss (2005 HK$214 million) against interests in jointly controlled entities was recognised in current year A discount rate of 9 per cent (2005 9 per cent) was applied on projected cash flows for the value in use calculation

Summarised financial information in respect of the Group's jointly controlled entities is set out below

HK$ million	2006	2005
Total assets	19,490	18,687
Total liabilities	(13,295)	(13,019)
Net assets	6,195	5,668
Total turnover	6,738	5,844
Total profit for the year	1,410	1,157
Shared by the Group:		
Net assets of the jointly controlled entities	3,076	2,927
Profit of jointly controlled entities for the year	737	311

Particulars of the principal jointly controlled entities are set out in Appendix 3 on page 163

22. Interests in Infrastructure Project Investments

HK$ million	2006	2005
Investments	617	760
Impairment loss	-	(95)
At 31st December	617	665
Portion classified as:		
Non-current assets	490	579
Current assets	127	86
At 31st December	617	665

Interests in infrastructure project investments carry effective interest rates which range from 13 7 per cent to 16 5 per cent (2005 range from 13 7 per cent to 16.5 per cent)

The Directors reviewed certain infrastructure projects' operations and financial positions as at 31st December, 2006 based on the present values of estimated future cash flows from those investments, discounted at the original effective interest rates No further impairment loss (2005· HK$95 million) against the interests in infrastructure project investments was recognised in current year

23. Investments in Securities

HK$ million	2006	2005
Financial assets at fair value through profit and loss		
Stapled securities, listed overseas	-	867*
Notes, unlisted	777	-
Unlisted equity securities	262	200
Equity investments, listed overseas	19	44
Available-for-sale financial assets		
Stapled securities, listed overseas	2,006	981
Total	3,064	2,092

* On 1st January, 2006, stapled securities of HK$867 million were reclassified as available-for-sale financial assets from financial assets at fair value through profit and loss pursuant to Amendment to HKAS 39 as detailed in note 2(b)

A stapled security comprises various subordinated loan notes and fully paid ordinary shares It is quoted at a single combined price and cannot be traded separately.

24. Derivative Financial Instruments

	2006		2005	
HK$ million	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts	369	(664)	459	(360)
Interest rate swaps	38	-	-	(10)
At 31st December	407	(664)	459	(370)
Portion classified as:				
Non-current	38	(179)	447	(370)
Current	369	(485)	12	-
	407	(664)	459	(370)

Currency Derivatives

During the current year, the Group utilised currency derivatives to hedge significant future transactions and cash flows The Group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures

At 31st December, the total notional amount of outstanding forward foreign exchange contracts committed by the Group are as follows

HK$ million	2006	2005
Forward foreign exchange contracts		
Buy	4,444	5,115
Sell	4,750	4,904

Major terms of these contracts are as follows:

Notional amount	Maturity
Sell AUD179 7 million	23rd March, 2007
Sell GBP26 6 million	30th April, 2007
Sell GBP212 4 million	24th May, 2010

NOTES TO THE FINANCIAL STATEMENTS

24. Derivative Financial Instruments (Cont'd)

Currency Derivatives (Cont'd)

At 31st December, 2006, the total fair value of the Group's currency derivatives is estimated to be approximately HK$295 million (net liabilities to the Group) (2005 HK$99 million (net assets to the Group)) These amounts are based on quoted market prices for equivalent instruments at 31st December, 2006, comprising HK$369 million (2005 HK$459 million) assets and HK$664 million (2005 HK$360 million) liabilities

The fair values of the above currency derivatives that are designated and effective as cash flow hedges totalling HK$255 million (net liabilities to the Group) (2005 HK$77 million (net assets to the Group)) have been deferred in equity at 31st December, 2006

Change in fair values of non-hedging currency derivatives amounting to HK$49 million (2005. fair value gain of HK$26 million) has been debited to the income statement for the current year

Interest Rate Swaps

During the current year, the Group utilised interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The notional principal amounts of the interest rate swap contracts outstanding as at 31st December, 2006, their remaining terms and estimated total fair value are as follows.

HK$ million	Floating interest rate	Weighted average fixed interest rate	Notional principal amount	Estimated fair value
Contracts maturing in 2010	BBSW or LIBOR	5 62%	1,726	37
Fair value deferred in equity at 31st December, 2006				**37**
Contracts maturing in 2010	BBSW or LIBOR*	5 63%	1,560	(10)
Fair value deferred in equity at 31st December, 2005				(10)

* BBSW – Australian Bank Bill Swap Reference Rate
LIBOR – London Interbank Offered Rate

The fair value estimation covering the above interest rate swap contracts is based on quoted market prices for equivalent instruments at 31st December, 2006 All of the above interest rate swaps are designated and effective as cash flow hedges and the fair values (net liabilities to the Group) have been deferred in equity

NOTES TO THE FINANCIAL STATEMENTS

25. Goodwill

HK$ million	2006	2005
At 1st January	175	257
Impairment loss	-	(50)
Exchange difference	30	(32)
At 31st December	205	175

The goodwill was recognised on acquisition of 100 per cent interest in Cambridge Water PLC ("Cambridge Water"), the water supplier in South Cambridgeshire of the United Kingdom

The Group tests goodwill annually for impairment, or more frequently if there are indications that the goodwill might be impaired

The recoverable amount of Cambridge Water, which covers the above goodwill, is determined from a value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rate, growth rates, and expected changes to selling prices and direct costs during the period The Group estimates discount rate using the rate that reflects current market assessments of the time value of money and the risks specific to Cambridge Water The growth rates are based on industry growth forecasts Changes in selling prices and direct costs are based on past practices and expectations of future changes in the relevant markets

The Group prepares cash flow forecasts derived from Cambridge Water's approved budget for 2007 to 2011 and extrapolates cash flows for the subsequent 10 years using the same cashflows as that in 2011 The rate used to discount the forecast cash flows is 8 per cent (2005 8 per cent) per annum.

As Cambridge Water's principal operation is supply of water which is regulated in nature, the Group considers that cash flow projection for 15 years and low growth rates are appropriate for the impairment test review

The results of the reviews undertaken as at 31st December, 2006 indicated that no further impairment charge was necessary for current year (2005 HK$50 million)

NOTES TO THE FINANCIAL STATEMENTS

26. Inventories

HK$ million	2006	2005
Raw materials	42	44
Work-in-progress	20	6
Stores, spare parts and supplies	9	11
Finished goods	28	30
	99	91
Contract work-in-progress	–	14
Total	99	105

Contract work-in-progress		
Costs plus recognised profits less recognised losses	-	140
Progress billing	-	(126)
Net amount	-	14

The cost of inventories charged to the Group's income statement during the year was HK$948 million (2005 HK$928 million)

27. Debtors and Prepayments

HK$ million	2006	2005
Trade debtors	240	217
Prepayments, deposits and other receivables	215	171
Total	455	388

The aging analysis of the Group's trade debtors is as follows

HK$ million	2006	2005
Current	89	85
1 month	69	60
2 to 3 months	28	24
Over 3 months	176	175
Gross total	362	344
Allowance	(122)	(127)
Total after allowance	240	217

NOTES TO THE FINANCIAL STATEMENTS

27. Debtors and Prepayments (Cont'd)

Trade with customers for infrastructure materials is carried out largely on credit, except for new customers and customers with unsatisfactory payment records, where payment in advance is normally required Trade with metered customers for water supply is carried out largely on credit and with unmetered customers largely by payment in advance Invoices are normally payable within 1 month of issuance, except for certain well-established customers, where the terms are extended to 2 months, and certain customers with disputed items, where the terms are negotiated individually Each customer has a maximum credit limit, which was granted and approved by senior management in accordance with the laid-down credit review policy and procedures

28. Bank Balances and Deposits

Bank balances and deposits carry effective interest rate at 4 66 per cent (2005 3 08 per cent)

29. Bank and Other Loans

HK$ million	2006	2005
Unsecured bank loans repayable		
Within 1 year	3,800	-
In the 2nd year	1,285	3,800
In the 3rd to 5th year, inclusive	2,241	3,223
After 5 years	3	3
	7,329	7,026
Obligations under finance leases repayable		
Within 1 year	13	11
In the 2nd year	3	12
In the 3rd to 5th year, inclusive	11	9
After 5 years	–	3
	27	35
Unsecured notes, 3 5%, repayable after 5 years	1,971	1,995
Total	9,327	9,056
Portion classified as:		
Current liabilities	3,813	11
Non-current liabilities	5,514	9,045
Total	9,327	9,056

29. Bank and Other Loans (Cont'd)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	HK$		AU$		GBP		JPY		Total	
HK$ million	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Bank loans	3,800	3 800	3,121	2,886	408	340	-	-	7,329	7,026
Finance leases	-	-	-	-	27	35	-	-	27	35
Notes	-	-	-	-	-	-	1,971	1 995	1,971	1 995
Total	3,800	3,800	3,121	2,886	435	375	1,971	1 995	9,327	9 056

The average effective interest rates of the Group's bank loans and finance leases are 4 93 per cent (2005 4 75 per cent) and 9 19 per cent (2005 9 41 per cent), respectively

The Group's notes of HK$1,971 million (2005 HK$1,995 million) as at 31st December, 2006 were arranged at fixed interest rate and expose the Group to fair value interest rate risk. Other borrowings were arranged at floating rates, thus exposed the Group to cash flow interest rate risk

Bank loans (except for the fixed rate notes) carried interest at floating rate, which determined with reference to Hong Kong Interbank Offered Rate, Australian Bank Bill Swap Reference Rate or London Interbank Offered Rate plus a margin less than one per cent..

Fixed rate notes, other loans and finance leases carried interest at 3 5 per cent to 13 3 per cent

Details of the present value of the minimum finance lease payments are shown below.

HK$ million	2006	2005
Minimum lease payments.		
Within 1 year	15	13
In the 2nd year	4	13
In the 3rd to 5th year, inclusive	13	11
After 5 years	-	4
	32	41
Less future finance charges	(5)	(6)
Present value of lease payments	27	35
Less Amount due for settlement within 12 months	(13)	(11)
Amount due for settlement after 12 months	14	24

At 31st December, 2006, the remaining weighted average lease term was 2.8 years. All leases are denominated in GBP on a fixed repayment basis and no arrangements have been entered into for contingent rental payments The Group's obligations under finance leases are secured by the lessors' charge over the leased assets

NOTES TO THE FINANCIAL STATEMENTS

30. Creditors and Accruals

HK$ million	2006	2005
Trade creditors	150	149
Amount due to an unlisted associate	147	140
Other payables and accruals	948	816
Total	1,245	1,105

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

HK$ million	2006	2005
Current	103	83
1 month	22	31
2 to 3 months	8	15
Over 3 months	17	20
Total	150	149

31. Deferred Tax Liabilities

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

HK$ million	Accelerated tax depreciation	Tax losses	Fair value changes in securities	Others	Total
At 1st January, 2005	274	(56)	129	(3)	344
(Credit)/Debit to profit for the year	(26)	55	22	(4)	47
Exchange translation differences	(24)	–	(6)	1	(29)
At 31st December, 2005	224	(1)	145	(6)	362
(Credit)/Debit to profit for the year	(13)	–	–	2	(11)
Charge to equity for the year	–	–	18	–	18
Exchange translation differences	21	–	12	(1)	32
At 31st December, 2006	232	(1)	175	(5)	401

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

Apart from the unused tax losses of which the deferred tax assets were recognised as presented above, the Group had unused tax losses and other unused tax credits totalling HK$1,618 million (2005 HK$1,504 million) at 31st December, 2006 No deferred tax asset has been recognised in respect of these tax losses and tax credits due to the unpredictability of future profit streams to utilise the available tax losses and tax credits An analysis of the expiry dates of the tax losses and tax credits is as follows

HK$ million	2006	2005
Within 1 year	38	41
In the 2nd year	27	39
In the 3rd to 5th year, inclusive	98	89
No expiry date	1,455	1,335
Total	1,618	1,504

NOTES TO THE FINANCIAL STATEMENTS

32. Retirement Plans

(a) Defined Contribution Retirement Plans

The Group provides defined contribution retirement plans for its eligible employees except for 2 defined benefit plans for the employees of certain subsidiaries as detailed in (b) and (c) below

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

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

The Group's costs in respect of defined contribution plans for the year amounted to HK$10 million (2005 HK$11 million) Forfeited contributions and earnings for the year under the defined contribution plans amounting to HK$1 million (2005 HK$1 million) were used to reduce the existing level of contributions At 31st December, 2006, there was no forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years (2005 nil)

(b) Defined Benefit Retirement Plan operating in Hong Kong

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

32. Retirement Plans (Cont'd)

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

Actuarial valuation of the defined benefit plan according to HKAS 19 "Employee Benefits" was carried out at 31st December, 2006, by Mr Billy Y L Wong of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries The present value of the defined benefit obligations, the related current service cost and past service cost, if any, were measured using the Projected Unit Credit Method The principal actuarial assumptions used are as follows

	2006	2005
Discount rate at 31st December	3 75% per annum	4 25% per annum
Expected rate of salary increase	5% per annum	5% per annum

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

HK$ million	2006	2005
Current service cost	2	2
Interest cost	2	2
Expected return on plan assets	(4)	(4)
Amortisation of transitional liability	1	1
Reduction of net asset due to limit per paragraph 58(b) of HKAS 19	-	1
Net amount charged to consolidated income statement	**1**	**2**

The actual return on plan assets for the year ended 31st December, 2006 was a gain of HK$11 million (2005 HK$5 million)

32. Retirement Plans (Cont'd)

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

The amount included in the consolidated balance sheet at 31st December, 2006 arising from the Group's obligations in respect of its defined benefit plan in Hong Kong is as follows

HK$ million	2006	2005
Present value of defined benefit obligations	62	56
Unrecognised actuarial losses	-	(3)
Fair value of plan assets	(75)	(62)
Unrecognised transitional liability	-	(1)
Reduction of net asset due to limit per paragraph 58(b) of HKAS 19	-	1
Employee retirement benefit assets classified as other non-current assets included in the consolidated balance sheet	(13)	(9)

Changes in the present value of the defined benefit obligations are as follows

HK$ million	2006	2005
At 1st January	56	62
Current service cost	2	2
Interest cost	2	2
Actual benefits paid	(2)	(7)
Actual employee contributions	1	1
Actuarial loss/(gain) on obligation	3	(4)
At 31st December	62	56

Changes in the fair value of the plan assets are as follows

HK$ million	2006	2005
At 1st January	62	60
Expected return	4	4
Actuarial gain on plan assets	7	1
Actual company contributions	3	3
Actual employee contributions	1	1
Actual benefits paid	(2)	(7)
At 31st December	75	62

NOTES TO THE FINANCIAL STATEMENTS

32. Retirement Plans (Cont'd)

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

Major categories of the plan assets at the balance sheet date are analysed as follows

As at 31st December	2006	2005
Equity instruments	52%	51%
Debt instruments	48%	49%
Total	100%	100%

The expected rate of return on assets was 6 5 per cent. per annum (2005 6 5 per cent per annum) This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes invested.

The experience adjustment is as follows

HK$ million	2006	2005
Present value of defined benefit obligations	62	56
Fair value of the plan assets	(75)	(62)
Surplus	(13)	(6)
Experience adjustment on plan assets	7	2

The Group recognised actuarial gains amounting to HK$4 million (2005 nil) for the year ended 31st December, 2006 directly in the statement of recognised income and expense The cumulative amount of actuarial gains recognised directly in statement of recognised income and expense amounted to HK$15 million (2005 nil) as at 31st December, 2006

On 1st January, 2002, the Group adopted Statement of Standard Accounting Practice 34 "Employee Benefits" and determined the transitional liability for its defined benefit plan to be HK$13 million This amount is being recognised on a straight line basis over a period of 5 years from 1st January, 2002 A charge of HK$1 million (2005 HK$1 million) was recognised in the current year As at 31st December, 2006, the transitional liability has been fully recognised (2005 HK$1 million unrecognised)

32. Retirement Plans (Cont'd)

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

Another actuarial valuation was completed at 1st January, 2007 by Mr Billy Y L. Wong, the same actuary as mentioned above, to determine the funding rates to be adopted by the Group in accordance with requirements of Occupational Retirement Schemes Ordinance The actuarial method adopted was Attained Age Funding Method The major assumptions used were the long-term average annual rate of investment return on the plan assets at 6 per cent per annum, and the average annual salary increases at 5 per cent per annum The actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK$75 million at 31st December, 2006 represents 135 per cent. of the present value of the obligations as at that date. Contributions to fund the obligations are based upon the recommendations of actuary to fully fund the retirement plan on an ongoing basis The funding rates are subject to annual review

The Group expects to make a contribution of HK$3 million to the defined benefit plan during the next financial year

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

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

Actuarial valuation of the defined benefit plan was updated to 31st December, 2006, by Mr Paul Metcalf of Lane Clark & Peacock LLP, who is a Fellow of the Institute of Actuaries The principal actuarial assumptions used are as follows

	2006	2005
Discount rate at 31st December	5 0% per annum	4 9% per annum
Expected rate of pension increase	3 1% per annum	2 8% per annum
Expected rate of salary increase	5 1% per annum	4 8% per annum

32. Retirement Plans (Cont'd)

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

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

HK$ million	2006	2005
Current service cost	9	8
Interest cost	20	19
Expected return on plan assets	(23)	(21)
Others	(8)	6
Net amount (credited)/charged to consolidated income statement	(2)	12

The actual return on plan assets for the year ended 31st December, 2006 was a gain of HK$35 million (2005 HK$55 million)

The amount included in the consolidated balance sheet at 31st December, 2006 arising from the Group's obligations in respect of its defined benefit plan in the United Kingdom is as follows:

HK$ million	2006	2005
Present value of defined benefit obligations	478	395
Fair value of plan assets	(463)	(374)
Employee retirement benefit liabilities classified as other non-current liabilities included in the consolidated balance sheet	15	21

NOTES TO THE FINANCIAL STATEMENTS

32. Retirement Plans (Cont'd)

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

Changes in the present value of the defined benefit obligations are as follows

HK$ million	2006	2005
At 1st January	395	389
Current service cost	9	9
Interest cost	20	19
Employee contributions	2	2
Actuarial loss	7	38
Benefits paid	(12)	(12)
Exchange translation differences	57	(50)
At 31st December	478	395

Changes in the fair value of the plan assets are as follows

HK$ million	2006	2005
At 1st January	374	362
Expected return	23	21
Actuarial gain	12	38
Employer contributions	6	5
Employee contributions	2	2
Benefits paid	(12)	(12)
Exchange translation differences	58	(42)
At 31st December	463	374

Major categories of the plan assets at the balance sheet date are analysed as follows

As at 31st December	2006	2005
Equity instruments	63%	61%
Debt instruments	37%	39%
Total	100%	100%

The expected rate of return on assets was 6.0 per cent. per annum (2005 6 3 per cent per annum) This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes invested

32. Retirement Plans (Cont'd)

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

The experience adjustments are as follows

HK$ million	2006	2005
Present value of the defined benefit obligations	478	395
Fair value of the plan assets	(463)	(374)
Deficit	15	21
Experience adjustment on plan liabilities	-	4
Experience adjustment on plan assets	(12)	(38)

The above actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK$463 million at 31st December, 2006 represents 95 per cent of the present value of the obligations as at that day The Group's future annual contribution is designed to fund the shortfall over a period of time and the employer funding rates have been increased since 1st April, 2005 The funding rates are subject to annual review

The Group expects to make a contribution of HK$7 million to the defined benefit plan during the next financial year

33. Share Capital

HK$ million	2006	2005
Authorised:		
4,000,000,000 shares of HK$1 each	4,000	4,000
Issued and fully paid.		
2,254,209,945 shares of HK$1 each	2,254	2,254

NOTES TO THE FINANCIAL STATEMENTS

34. Reserves and Minority Interests

HK$ million	Share Premium	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Hedging reserve	Exchange translation reserve	Retained profits	Sub-total	Minority interests	Total
	Attributable to shareholders of the Company									
At 1st January, 2005	3,836	6,062	-	55	(356)	854	16,965	27,416	206	27,622
Surplus on revaluation of properties upon transfer to investment properties	-	-	12	-	-	-	-	12	-	2
Loss on fair value changes of available-for-sale financial assets	-	-	-	(36)	-	-	-	(36)	-	(36)
Gain on fair value changes of derivatives designated as effective cash flow hedges	-	-	-	-	323	-	-	323	-	323
Exchange translation differences	-	-	-	-	-	(360)	-	(360)	-	(360)
Net gain/(loss) recognised directly in equity	-	-	12	(36)	323	(360)	-	(61)	-	(61)
Revaluation deficit and exchange translation surplus released upon disposal of available-for-sale financial assets	-	-	-	15	-	(15)	-	-	-	-
Disposal of associates	-	-	-	-	34	(326)		(292)	-	(292)
Profit for the year	-	-	-	-	-	-	6,007	6,007	(166)	5,841
Total recognised income and expense for the year	-	-	12	(21)	357	(701)	6,007	5,654	(166)	5,488
Final dividend for the year 2004 paid	-	-	-	-	-	-	(1,285)	(1,285)	-	(1,285)
Interim dividend paid	-	-	-	-	-	-	(541)	(541)	-	(541)
Dividend paid to minority shareholders of a non wholly-owned subsidiary	-	-	-	-	-	-		-	(2)	(2)
At 31st December, 2005	3,836	6,062	12	34	1	153	21,146	31,244	38	31,282
Cumulative impact from adoption of Amendment to HKAS 19 (note 2(a))	-	-	-	-	-	-	(141)	(141)	-	(141)
Surplus on revaluation of properties upon transfer to investment properties	-	-	44	-	-	-	-	44	-	44
Gain on fair value changes of available-for-sale financial assets	-	-	-	42	-	-	-	42	-	42
Loss on fair value changes of derivatives designated as effective cash flow hedges	-	-	-	-	(147)	-	-	(147)	-	(147)
Actuarial gains of defined benefit retirement schemes	-	-	-	-	-	-	190	190	-	190
Exchange translation differences	-	-	-	-	-	828	-	828	-	828
Net gain/(loss) recognised directly in equity	-	-	44	42	(147)	828	49	816	-	816
Profit for the year	-	-	-	-	-	-	3,670	3,670	3	3,673
Total recognised income and expense for the year	-	-	44	42	(147)	828	3,719	4,486	3	4,489
Final dividend for the year 2005 paid	-	-	-	-	-	-	(1,596)	(1,596)	-	(1,596)
Interim dividend paid	-	-	-	-	-	-	(564)	(564)	-	(564)
At 31st December, 2006	3,836	6,062	56	76	(146)	981	22,705	33,570	41	33,611

35. Notes to Consolidated Cash Flow Statement

HK$ million	2006	2005
Profit before taxation	3,677	5,908
Gain on disposals of associates	-	(3,763)
Impairment losses	279	1,727
Share of results of associates	(2,751)	(3,183)
Share of results of jointly controlled entities	(737)	(311)
Interest income from loans granted to associates	(392)	(856)
Interest income from banks	(384)	(259)
Interest income from investment in securities	(63)	(24)
Finance lease income	(1)	(2)
Return from infrastructure project investments	(99)	(138)
Finance costs	523	732
Depreciation of property, plant and equipment	52	134
Amortisation of prepayment for leasehold land	10	11
Change in fair values of investment properties	(3)	(3)
Loss/(Gain) on disposals of property, plant and equipment	2	(9)
Gain on disposal of infrastructure project investment	(115)	(14)
Write back on allowance for investment in a jointly controlled entity	(27)	-
Gain on disposals of listed securities	-	(1)
Change in fair values of investments in securities	24	(16)
Change in fair values of derivative financial instruments	49	-
Dividend from investment in securities	(3)	-
Pension costs of defined benefit retirement plans	(1)	14
Unrealised exchange gain	(24)	(249)
Returns received from jointly controlled entities	660	924
Returns received from infrastructure project investments	147	346
Distribution received from investment in securities	66	-
Interest received from associates	212	443
Contributions to defined benefit retirement plans	(9)	(8)
Net cash received/(paid) at close of derivative financial instruments	12	(43)
Operating cash flows before changes in working capital	1,104	1,360
Decrease in inventories	6	58
(Increase)/Decrease in debtors and prepayments	(60)	506
Increase in creditors and accruals	136	101
Exchange translation differences	(4)	(15)
Cash generated from operations	1,182	2,010

NOTES TO THE FINANCIAL STATEMENTS

36. Emoluments of Directors and Five Highest Paid Individuals

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

HK$ million	Fees	Basic Salaries, Allowances and Other Benefits	Bonuses	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments 2006	Total Emoluments 2005
Li Tzar Kuoi, Victor[1]	0.07	-	8.00	-	-	8.07	8.07
Kam Hing Lam[1]	0.07	4.20	3.87	-	-	8.14	8.14
Ip Tak Chuen, Edmond	0.07	1.80	4.15	-	-	6.02	5.37
Fok Kin Ning, Canning[1]	0.07	-	-	-	-	0.07	0.07
Kwan Bing Sing, Eric	0.07	7.22	1.60	0.72	-	9.61	9.08
Chow Woo Mo Fong, Susan[1]	0.07	-	-	-	-	0.07	0.07
Frank John Sixt[1]	0.07	-	-	-	-	0.07	0.07
Tso Kai Sum[1]	0.07	-	-	-	-	0.07	0.07
Cheong Ying Chew, Henry[3]	0.16	-	-	-	-	0.16	0.16
Lee Pui Ling, Angelina	0.07	-	-	-	-	0.07	0.07
Barrie Cook[3]	0.07	-	-	-	-	0.07	0.39
Kwok Eva Lee[3]	0.14	-	-	-	-	0.14	0.14
Sng Sow-Mei[3]	0.14	-	-	-	-	0.14	0.14
Colin Stevens Russel[3]	0.16	-	-	-	-	0.16	0.16
Lan Hong Tsung, David[3]	0.14	-	-	-	-	0.14	0.12
George Colin Magnus[1]	0.07	-	-	-	-	0.07	0.07
Andrew John Hunter	0.01	0.48	1.44	0.05	-	1.98	-
Total for the year 2006	1.52	13.70	19.06	0.77	-	35.05	
Total for the year 2005	1.49	13.06	16.97	0.67	-		32.19

Notes:

(1) During the current year, Mr Li Tzar Kuoi, Victor, Mr Kam Hing Lam, Mrs Chow Woo Mo Fong, Susan, Mr Frank John Sixt and Mr Tso Kai Sum each received directors' fees of HK$70,000 (2005 HK$70,000), Mr Fok Kin Ning Canning received director's fees of HK$120,000 (2005 HK$78,334) and Mr George Colin Magnus received HK$70,000 (2005 HK$111,667) from Hongkong Electric Except for HK$70,000 (2005 HK$11,667) received by Mr. George Colin Magnus for acting a non-executive director of Hongkong Electric since 1st November, 2005, the directors' fees totalling HK$470,000 (2005 HK$528,334) were then paid back to the Company

(2) Director's fee received by the director from a subsidiary of the Company was paid back to the Company and is not included in the amounts above

(3) Independent non-executive directors ("INED"), audit committee members ("ACM") and remuneration committee members ("RCM") - During the year, Mr Cheong Ying Chew Henry, Ms Kwok Eva Lee, Ms Sng Sow-Mei, Mr Colin Stevens Russel and Mr Lan Hong Tsung, David have acted as INED and ACM of the Company Mr Cheong Ying Chew, Henry and Mr Colin Stevens Russel have acted as RCM of the Company during the year The total emoluments paid to these INED ACM and RCM during the current year are HK$740 000 (2005 HK$720,440)

NOTES TO THE FINANCIAL STATEMENTS

36. Emoluments of Directors and Five Highest Paid Individuals (Cont'd)

Of the 5 individuals with the highest emoluments in the Group, 4 (2005 4) are directors whose emoluments are disclosed above The aggregate of the emoluments in respect of the remaining 1 (2005 1) individual falls within the band of HK$4,500,001 to HK$5,000,000, details of which are set out below

HK$ million	2006	2005
Salaries and benefits in kind	2	2
Contributions to retirement plan	1	1
Bonuses	2	2
Total	5	5

37. Commitments

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

	Contracted but not provided for		Authorised but not contracted for	
HK$ million	2006	2005	2006	2005
Investments in associates and jointly controlled entities	13	1,328	-	-
Plant and machinery	4	8	33	39
Total	17	1,336	33	39

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

HK$ million	2006	2005
Within 1 year	4	5
In the 2nd to 5th year, inclusive	3	7
Total	7	12

38. Contingent Liabilities

HK$ million	2006	2005
Guarantee in respect of bank loans drawn by a jointly controlled entity	586	644
Guarantee in respect of performance bonds	141	20
Total	727	664

39. Material Related Party Transactions

During the year, the Group advanced HK$90 million (2005 HK$81 million) to its unlisted associates The Group received repayments totalling HK$3 million (2005 HK$1 million) from unlisted associates The total outstanding loan balances as at 31st December, 2006 amounted to HK$4,237 million (2005 HK$3,848 million), of which HK$29 million (2005 HK$28 million) bore interest with reference to Australian Bank Bill Swap Reference Rate and HK$3,791 million (2005, HK$3,366 million) at fixed rates ranging from 10 5 per cent to 20 0 per cent , and HK$417 million (2005 HK$454 million) was interest-free The average effective interest rate of the loan granted to associates is 10 8 per cent (2005 15 9 per cent) As stated in note 6, interest from loans granted to associates during the year amounted to HK$392 million (2005 HK$856 million) Except for a loan of HK$94 million (2005 HK$94 million) which was repayable within fifteen years (2005 sixteen years), the loans had no fixed terms of repayment As stated in note 30 the amount due to an unlisted associate bears interest at HIBOR plus 0 75 per cent (2005 HIBOR plus 0 75 per cent) with no fixed terms of repayment

During the current year, the Group received repayments totalling HK$270 million (2005 HK$453 million) from jointly controlled entities The total outstanding loan balances as at 31st December, 2006 amounted to HK$1,376 million (2005 HK$1,624 million), of which HK$251 million (2005 HK$444 million) bore interest with reference to Hong Kong dollar prime rate, and HK$1,125 million (2005 HK$1,180 million) was interest-free The loans had no fixed terms of repayment

Moreover, the Group's sales and purchases of infrastructure materials to/from a jointly controlled entity for the current year amounted to HK$190 million (2005 HK$174 million) and HK$37 million (2005 HK$149 million), respectively

The emoluments of key management have been presented in note 36 above

NOTES TO THE FINANCIAL STATEMENTS

40. Approval of Financial Statements

The financial statements set out on pages 104 to 163 were approved by the Board of Directors on 15th March, 2007

PRINCIPAL SUBSIDIARIES

Appendix 1

The table below shows the subsidiaries as at 31st December, 2006 which, in the opinion of the Directors, principally affected the results or assets of the Group To give details of all the subsidiaries would, in the opinion of the Directors, result in particulars of excessive length

Name	Issued share capital Number	Par value per share	Proportion of nominal value of issued capital held by the Group (per cent.)	Principal activities
INCORPORATED AND OPERATING IN HONG KONG				
Anderson Asia (Holdings) Limited	2 ordinary	HK$0 5	100	Investment holding
	65,780,000 non-voting deferred	HK$0 5	-	
Anderson Asphalt Limited	36,000 ordinary	HK$100	100	Production and laying of asphalt and investment holding
Cheung Kong Infrastructure Finance Company Limited	2 ordinary	HK$1	100	Financing
China Cement Company (International) Limited	1,000,000 ordinary	HK$1	70	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK$2	100	Manufacturing sale and distribution of cement and property investment
Green Island Cement (Holdings) Limited	101,549,457 ordinary	HK$2	100	Investment holding
INCORPORATED IN BRITISH VIRGIN ISLANDS AND OPERATING IN HONG KONG				
Cheung Kong Infrastructure Finance (BVI) Limited	1 ordinary	US$1	100	Financing
Daredon Assets Limited	1 ordinary	US$1	100	Treasury
Green Island International (BVI) Limited	1 ordinary	US$1	100	Investment holding

PRINCIPAL SUBSIDIARIES

Appendix 1 (Cont'd)

Name	Issued share capital Number	Par value per share	Proportion of nominal value of issued capital held by the Group (per cent.)	Principal activities
INCORPORATED IN HONG KONG AND OPERATING IN MAINLAND CHINA				
Cheung Kong China Infrastructure Limited	2 ordinary	HK$1	100	Investment holding and investment in infrastructure projects in Mainland China
INCORPORATED AND OPERATING IN AUSTRALIA				
Cheung Kong Infrastructure Finance (Australia) Pty Ltd	1 ordinary	A$1	100	Financing
INCORPORATED AND OPERATING IN THE UNITED KINGDOM				
Cambridge Water PLC	14,621,152 ordinary	£0.05	100	Water supply

Note: The shares of all the above subsidiaries are indirectly held by the Company.

PRINCIPAL ASSOCIATES

Appendix 2

The table below shows the associates as at 31st December, 2006 which, in the opinion of the Directors, principally affected the results or assets of the Group To give details of all the associates would, in the opinion of the Directors, result in particulars of excessive length

Name	Issued share capital Number	Par value per share	Approximate share of equity shares held by the Group (per cent.)	Principal activities
INCORPORATED AND OPERATING IN HONG KONG				
Hongkong Electric Holdings Limited (note 1)	2,134,261,654 ordinary	HK$1	39	Electricity generation and distribution
Eastern Harbour Crossing Company Limited	35,000,000 ordinary	HK$10	50	Exercise of a franchise to operate the rail section of a tunnel
INCORPORATED AND OPERATING IN AUSTRALIA				
ETSA Utilities Partnership (note 2)	N/A	N/A	23	Electricity distribution
CKI/HEI Electricity Distribution Pty Limited (note 3)	810,000,000 ordinary	A$1	23	Electricity distribution
CKI/HEI Electricity Distribution Two Pty Limited (note 4)	180 000,000 ordinary	A$1	23	Electricity distribution
	37,188 524,600 ordinary	A$0 01		
CrossCity Motorway Holdings Pty Limited (note 5)	3 686,545 ordinary	A$0 01	50	Operation of Cross City Tunnel
CrossCity Motorway Holdings Trust (note 5)	N/A	N/A	50	Operation of Cross City Tunnel
Lane Cove Tunnel Holding Company Pty Limited (note 6)	42,627,999 ordinary	A$1	40	Construction and operation of Lane Cove Tunnel
Lane Cove Tunnel Holding Trust (note 6)	N/A	N/A	40	Construction and operation of Lane Cove Tunnel

PRINCIPAL ASSOCIATES

Appendix 2 (Cont'd)

Name	Issued share capital Number	Par value per share	Approximate share of equity shares held by the Group (per cent.)	Principal activities
INCORPORATED AND OPERATING IN THE UNITED KINGDOM				
Northern Gas Networks Holdings Limited	571,670,979 ordinary	£1	40	Gas Distribution
	1 Special	£1		

Notes

1 The associate is listed on Hong Kong Stock Exchange

2 ETSA Utilities Partnership, an unincorporated body is formed by the following companies

CKI Utilities Development Limited
HEI Utilities Development Limited
CKI Utilities Holdings Limited
CKI/HEI Utilities Distribution Limited
HEI Utilities Holdings Limited

CKI Utilities Development Limited and HEI Utilities Development Limited, both of which are associates of the Group own 51 per cent interests in ETSA Utilities Partnership

The partnership operates and manages the electricity distribution business in the State of South Australia of Australia

3 CKI/HEI Electricity Distribution Pty Limited owns 100 per cent interests in the following companies ("the Powercor Group")

Powercor Proprietary Limited
Powercor Australia Limited Liability Company
Powercor Australia Holdings Pty Limited
Powercor Australia Limited

The Powercor Group operates and manages an electricity distribution business in the State of Victoria of Australia

4 CKI/HEI Electricity Distribution Two Pty Limited owns 100 per cent interests in CitiPower I Pty Ltd, which is one of five electricity distributors in the State of Victoria of Australia

PRINCIPAL ASSOCIATES

Appendix 2 (Cont'd)

Notes (Cont'd)

5 CrossCity Motorway Holdings Pty Limited or CrossCity Motorway Holdings Trust own 100 per cent. interests in the following companies ("the Cross City Tunnel Group")

CrossCity Motorway Pty Limited
CrossCity Motorway Property Trust
CrossCity Motorway Finance Pty Limited

The Cross City Tunnel Group is engaged to operate the Cross City Tunnel in Sydney of Australia

6 Lane Cove Tunnel Holding Company Pty Limited or Lane Cove Tunnel Holding Trust own 100 per cent interests in the following companies ("the Lane Cove Tunnel Group")

Connector Motorways Pty Limited (Formerly Lane Cove Tunnel Company Pty Limited)
Lane Cove Tunnel Trust
Lane Cove Tunnel Finance Company Pty Limited

The Lane Cove Tunnel Group is engaged to construct and operate the Lane Cove Tunnel in Sydney of Australia

PRINCIPAL JOINTLY CONTROLLED ENTITIES

Appendix 3

The table below shows the jointly controlled entities as at 31st December, 2006 which, in the opinion of the Directors, principally affected the results or assets of the Group To give details of all the jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length

Name	Percentage of interest held by the Group	Profit sharing percentage	Principal activities
INCORPORATED AND OPERATING IN MAINLAND CHINA			
Guangdong Shantou Bay Bridge Co Ltd	30	30	Operation of Shantou Bay Bridge
Guangdong Zhuhai Power Station Co , Ltd	45	45	Operation of Zhuhai Power Station
Guangdong Shenzhen-Shantou Highway (East) Co , Ltd	33 5	33 5	Operation of Shenzhen–Shantou Highway (Eastern Section)
Guangzhou E S-W Ring Road Co., Ltd	44 5	45*	Operation of Guangzhou East South West Ring Road
INCORPORATED AND OPERATING IN HONG KONG			
Alliance Construction Materials Limited	50	50	Quarry operation and production and sale of concrete and aggregates

*	Years from 2012 to 2021, inclusive	37 5 per cent
	Thereafter	32 5 per cent

SCHEDULE OF MAJOR PROPERTIES

Appendix 4

Location	Lot Number	Group's Interest (per cent.)	Approximate floor/site area attributable to the Group (sq. m.)	Existing Usage	Lease Term
14-18 Tsing Tim Street, Tsing Yi	TYTL 98	100	3,355	I	Medium
TMTL 201 Tap Shek Kok	TMTL 201	100	152,855	I	Medium
Certain units of Harbour Centre Tower 2, 8 Hok Cheung Street, Hunghom	KML113	100	5,528	C	Medium

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