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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Cheung Kong Infrastructure Holdings Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

**MAJOR TRANSACTION
DISPOSAL OF 50% INTEREST IN A SUBSIDIARY**

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context indicates otherwise:

“Acquisition”	has the meaning ascribed to it in the Announcement
“AdvanCo”	International Infrastructure Services Company Limited, a company incorporated under the laws of the British Virgin Islands and owned by the Company and HEH on a 50/50 basis
“Agreement”	a sale and purchase agreement dated 16th May, 2008 entered into between the Company and HEH in respect of the Transaction
“Announcement”	an announcement dated 28th April, 2008 issued by the Company in relation to the acquisition of the entire issued share capital of VWE Network by WEDN under the Sale and Purchase Agreement
“Board”	the board of Directors of the Company
“Business Day”	any day on which banks are open in Hong Kong for general banking business, other than Saturdays, Sundays and days on which a Tropical Cyclone Warning No. 8 or above or a “Black Rainstorm Warning Signal” is hoisted in Hong Kong at any time between 9 am and 5 pm
“Company”	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
“Completion”	completion of the Transaction in accordance with the terms of the Agreement
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Facility”	the facility in the amount of up to NZ\$400 million (approximately HK\$2,381.5 million) to be provided by certain bank or banks to WEDN
“Group”	the Company and its subsidiaries

DEFINITIONS

“HEH”	Hongkong Electric Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 0006)
“HEH EGM”	the extraordinary general meeting of HEH convened and held on 23rd June, 2008 to approve the acquisition by HEH of the Sale Shares and other transactions and matters as contemplated under the Agreement
“HEH Group”	HEH and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HoldCo”	Wellington Electricity Distribution Network Holdings Limited, a company incorporated under the laws of Bahamas with limited liability and an indirect wholly-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Initial Capital”	NZ\$100 (approximately HK\$595.4) injected as initial capital of HoldCo
“Latest Practicable Date”	25th June, 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“LC Facility Letter”	the facility letter dated 25th April, 2008 executed by Australia and New Zealand Banking Group Limited and the Company in respect of the issue of the Letter of Credit
“Letter of Credit”	has the meaning ascribed to it in the Announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the model code for securities transactions by Directors adopted by the Company
“Network Acquisition Agreement”	a conditional sale and purchase agreement entered into between (among others) VWE Network and Vector in respect of the purchase of the Wellington Network by VWE Network from Vector
“NZ\$”	New Zealand dollar, the lawful currency of New Zealand

DEFINITIONS

“Purchase Price”	NZ\$785 million (approximately HK\$4,673.7 million) (subject to any adjustment provided in the Sale and Purchase Agreement), being the purchase price to be paid for the Acquisition
“Sale and Purchase Agreement”	a conditional sale and purchase agreement dated 28th April, 2008 entered into between the Company, WEDN, Vector and VMDS in respect of the Acquisition
“Sale Shares”	50 ordinary shares of par value of NZ\$1 (approximately HK\$5.9537) each in the capital of HoldCo, representing 50% of the entire issued share capital of HoldCo as at Completion
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the sale and purchase of the Sale Shares and other transactions and matters as contemplated by the Agreement
“Vector”	Vector Limited, a company incorporated under the laws of New Zealand and the ultimate holding company of VMDS
“VMDS”	Vector Metering Data Services Limited, a company incorporated under the laws of New Zealand
“VWE Management”	Vector Wellington Electricity Management Limited, a company incorporated under the laws of New Zealand and a wholly-owned subsidiary of VWE Network
“VWE Network”	Vector Wellington Electricity Network Limited, a company incorporated under the laws of New Zealand and a wholly-owned subsidiary of VMDS as at the date of the Sale and Purchase Agreement
“WEDN”	Wellington Electricity Distribution Network Limited, a company incorporated under the laws of New Zealand and an indirect wholly-owned subsidiary of the Company
“Wellington Network”	has the meaning ascribed to it in the Announcement
“%”	per cent

Note: The figures in NZ\$ are converted into HK\$ at the rate of NZ\$1 : HK\$5.9537 throughout this circular for indication purposes only.

LETTER FROM THE BOARD



CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

Directors

Executive Directors

LI Tzar Kuoi, Victor *(Chairman)*

FOK Kin Ning, Canning

(Deputy Chairman)

CHOW WOO Mo Fong, Susan*

Frank John SIXT

TSO Kai Sum

KAM Hing Lam

(Group Managing Director)

IP Tak Chuen, Edmond

(Deputy Chairman)

Andrew John HUNTER

(Chief Operating Officer)

* also alternate to FOK Kin Ning, Canning and Frank John SIXT

Registered Office

Clarendon House
Church Street
Hamilton HM11
Bermuda

Independent Non-executive Directors

CHEONG Ying Chew, Henry

KWOK Eva Lee

SNG Sow-mei alias POON Sow Mei

Colin Stevens RUSSEL

LAN Hong Tsung, David

Alternate Directors

MAN Ka Keung, Simon

(alternate to IP Tak Chuen, Edmond)

Eirene YEUNG

(alternate to KAM Hing Lam)

Principal Place of Business

12th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

Non-executive Directors

LEE Pui Ling, Angelina

Barrie COOK

George Colin MAGNUS

Company Secretary

Eirene YEUNG

30th June, 2008

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION DISPOSAL OF 50% INTEREST IN A SUBSIDIARY

INTRODUCTION

The Board announced on 28th April, 2008 that WEDN, being an indirect wholly-owned subsidiary of the Company, and the Company entered into the Sale and Purchase Agreement with VMDS and Vector pursuant to which, among other things, (i) WEDN agreed to acquire from VMDS the entire

LETTER FROM THE BOARD

issued share capital of VWE Network, being the owner of the entire issued share capital of VWE Management; (ii) the Company agreed to guarantee the performance of WEDN's obligations under the Sale and Purchase Agreement on the terms thereof; and (iii) Vector, being the ultimate holding company of VMDS, agreed to guarantee the performance of VMDS's obligations under the Sale and Purchase Agreement on the terms thereof. Details of the Acquisition are set out in the Announcement.

The Board further announced on 16th May, 2008 that the Company and HEH entered into the Agreement pursuant to which the Company agreed to procure the sale to HEH or its nominee or wholly-owned subsidiary of, and HEH agreed to purchase or procure its nominee or wholly-owned subsidiary to purchase, the Sale Shares pursuant to the terms of the Agreement.

Completion of the Transaction has taken place on 24th June, 2008 whereupon each of the Company (through its indirect wholly-owned subsidiary) and HEH (through its indirect wholly-owned subsidiary) has become the beneficial owner of 50% of the entire issued share capital of HoldCo. The Company has procured the transfer of the entire issued share capital of WEDN to HoldCo prior to Completion. As mentioned in the Announcement, the Company and WEDN entered into the Sale and Purchase Agreement on 28th April, 2008 with VMDS and Vector in respect of the Acquisition. Subsequently, Vector and VWE Network have entered into the Network Acquisition Agreement.

The Transaction constitutes a major transaction for the Company pursuant to Rule 14.06(3) of the Listing Rules, which is subject to notification, publication and Shareholders' approval requirements. The purpose of this circular is to provide you with further information regarding the Transaction.

THE AGREEMENT

Date

16th May, 2008 (after trading hours)

Parties

- (1) The Company
- (2) HEH

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, HEH is not a connected person of the Company.

Subject of the Transaction

Pursuant to the Agreement, among other things, the Company agreed to procure the sale to HEH or its nominee or wholly-owned subsidiary of, and HEH agreed to purchase or procure its nominee or wholly-owned subsidiary to purchase, the Sale Shares free from all encumbrances and together with all rights attaching thereto on or after Completion. The Sale Shares represent 50% of the entire issued share capital of HoldCo as at Completion.

LETTER FROM THE BOARD

Completion

Completion of the Transaction is conditional upon:

- (a) the shareholders of HEH who are qualified to vote at the HEH EGM approving the purchase by HEH (or its nominee or wholly-owned subsidiary) from the Company of the Sale Shares and the related transactions and matters contemplated under the Agreement as required under the Listing Rules;
- (b) the receipt by the Company of its shareholders' approval in writing approving the sale by the Company to HEH (or its nominee or wholly-owned subsidiary) of the Sale Shares and the related transactions and matters contemplated under the Agreement as required under the Listing Rules; and
- (c) HoldCo becoming the sole registered and beneficial shareholder of WEDN.

All the conditions mentioned above have been fulfilled on or prior to 23rd June, 2008 and Completion has taken place on 24th June, 2008.

Consideration

The consideration for the Sale Shares shall be an amount equivalent to:

- (a) NZ\$50 (approximately HK\$297.7), being 50% of the Initial Capital;

plus

- (b) 50% of the transaction costs and expenses incurred by the Company for the transactions contemplated under the Sale and Purchase Agreement (such transaction costs and expenses being estimated to be approximately NZ\$10.5 million (approximately HK\$62.5 million) as at the Latest Practicable Date), but excluding any costs or expenses as may be paid with the Initial Capital.

Under the Sale and Purchase Agreement, WEDN shall pay the Purchase Price to VMDS at completion of the Acquisition. Subject to Completion, the Company and HEH agreed to fund the Purchase Price on a 50/50 basis to the extent it is not to be met by the Initial Capital and the amount to be drawn under the Facility. Such amount will be contributed by HEH by way of loans and/or equity to WEDN, HoldCo or AdvanCo or if the Company has made the payment of the Purchase Price prior to Completion, HEH will re-imburse 50% of such payment to the Company and the consideration payable by HEH to the Company will be increased accordingly.

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The consideration for the Sale Shares shall be satisfied and paid by HEH or its nominee or wholly-owned subsidiary in cash in the following manner:

- On Completion, HEH shall pay or procure payment by its nominee or wholly-owned subsidiary, as purchaser of the Sale Shares, to the Company (or as the Company may direct) of the amount stated in paragraph (a) above.
- Notwithstanding Completion having taken place, HEH agrees and undertakes to pay or procure payment by its nominee or wholly-owned subsidiary to such parties as the Company may direct, the amount stated in paragraph (b) above upon notice by the Company within a reasonable period after the completion of the Sale and Purchase Agreement.

The consideration for the Sale Shares was determined after arm's length negotiations between the Company and HEH on normal commercial terms.

Undertakings

The Company has undertaken to inject (or procure the injection of) the Initial Capital into HoldCo, and such Initial Capital has been injected into HoldCo, prior to Completion.

With effect from Completion, HEH shall, or shall procure its nominee or wholly-owned subsidiary to, contribute and assume 50% of all the liabilities, indemnities, undertakings and obligations of the Company under and in relation to the Letter of Credit and the LC Facility Letter when the Letter of Credit is presented and settled.

HEH agreed to assume on Completion the guarantee in respect of the Facility to the extent of 50% of the amount to be drawn under the Facility on a several basis in such form and content as required by the relevant lenders for the purpose of facilitating the release by the lenders of 50% of the Company's liability under the Company's guarantee in relation to the Facility or under the Company's agreement or undertaking to provide such guarantee.

INFORMATION ON THE SUBJECT OF THE TRANSACTION

HoldCo was incorporated on 6th May, 2008 pursuant to the laws of Bahamas. HoldCo is currently an indirect wholly-owned subsidiary of the Company and has not commenced any operation or business activities since then.

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WEDN is an indirect wholly-owned subsidiary of the Company and is a dormant company as at the Latest Practicable Date save and except that it has entered into the Sale and Purchase Agreement on 28th April, 2008.

VWE Network and VWE Management were incorporated on 9th September, 2003 and 27th March, 2008 respectively. Since their respective incorporation dates up to the Latest Practicable Date, they have not commenced any operation or business activities save and except the entering into of the Network Acquisition Agreement by VWE Network.

As mentioned in the Announcement, the Company and WEDN entered into the Sale and Purchase Agreement on 28th April, 2008 with VMDS and Vector in respect of the Acquisition. Subsequently, Vector and VWE Network have entered into the Network Acquisition Agreement.

Immediately following Completion, each of the Company (through its indirect wholly-owned subsidiary) and HEH (through its indirect wholly-owned subsidiary) has become the beneficial owner of 50% of the entire issued share capital of HoldCo. Upon Completion, HoldCo and WEDN have ceased to be subsidiaries of the Company. It is intended that the 50% of the issued share capital of HoldCo will be retained by the Company and the Company will equity account for the results of HoldCo and WEDN as “interests in associates” immediately following Completion. Pursuant to the Agreement, each of the Company and HEH has nominated an equal number of representatives to be appointed as directors of HoldCo and WEDN upon Completion.

The Wellington Network comprises electricity network assets which form part of Vector’s electricity lines business in the Wellington, Porirua and Hutt Valley regions in New Zealand, having a system length of over 4,592km. The Wellington Network currently distributes electricity to residential, commercial and industrial customers in the region.

The unaudited net book value of the Wellington Network on the proforma basis as at 30th June, 2007 is approximately NZ\$463.9 million (approximately HK\$2,761.9 million). The unaudited net profits before interest and tax attributable to the Wellington Network on the proforma basis for the year ended 30th June, 2006 and the year ended 30th June, 2007 were approximately NZ\$85.6 million (approximately HK\$509.6 million) and approximately NZ\$86.1 million (approximately HK\$512.6 million) respectively. The unaudited net profits after interest and tax attributable to the Wellington Network on the proforma basis for the year ended 30th June, 2006 and the year ended 30th June, 2007 were approximately NZ\$56.0 million (approximately HK\$333.4 million) and approximately NZ\$55.9 million (approximately HK\$332.8 million) respectively.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

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

INFORMATION ON THE HEH GROUP

The principal activity of the HEH Group is the generation of electricity and its transmission and distribution to Hong Kong and Lamma Islands. HEH is also a joint partner in several power-related businesses in Australia and Canada and a gas distribution network business in the United Kingdom with the Company.

REASONS FOR THE TRANSACTION

The Company is a diversified infrastructure investment company with a focus on the development, investment and operation of infrastructure businesses in Hong Kong, the Mainland, Australia, Canada, Philippines and the United Kingdom.

The Company and HEH have worked together on a number of joint venture projects in the past and their previous experience of working together successfully made HEH the most suitable entity to participate in the investment in the Wellington Network. The Company therefore considers that, subject to Completion and completion of the Sale and Purchase Agreement and the Network Acquisition Agreement, the Transaction will allow the Company to retain a significant attributable interest in the Wellington Network and to benefit from the co-operation with HEH in this project.

It is expected that as a result of the Transaction, the Company's guarantee of the Facility will be reduced to 50% of the amounts owing thereunder. The Company does not expect there will be any significant net proceeds from the Transaction after taking into account the cost of the investment in the Wellington Network.

The estimated consideration for the Sale Shares is equivalent to the net book value of 50% of the assets and liabilities of Holdco as at Completion and 50% of other costs related to the Acquisition committed or payable by the Company, Holdco and WEDN. It is expected that no gain or loss will accrue to the Company as a result of the Transaction.

The Directors (including Independent Non-executive Directors) consider that the terms of the Agreement are on normal commercial terms and the Transaction is in the ordinary and usual course of the Company's business and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

For the year ended 31st December, 2007, the Group's turnover and its share of turnover of jointly controlled entities were HK\$5.9 billion, an increase of 23% over the same period last year. Audited profit attributable to shareholders was HK\$4.8 billion, a significant increase of 30% over 2006. Earnings per share were HK\$2.12.

Profit contribution from HEH recorded growth of 9%, amounting to HK\$2.9 billion in 2007. Profit contribution from the Group's China portfolio in 2007 was HK\$1.6 billion, an increase of 78% over the same period last year. Profit contribution from the Group's Australian businesses increased over three-fold to HK\$289 million. In the United Kingdom, a 45% increase was reported by the Group's water and gas businesses, with a total profit contribution of HK\$458 million. The Group's material business performed well and generated a profit contribution of HK\$143 million, up 30% over 2006.

In 2007, the Company acquired and subsequently privatised TransAlta Power, L.P. ("TransAlta Power") at a total cost of HK\$5 billion (C\$630 million), which was previously listed on the Toronto Stock Exchange. TransAlta Power has stakes in six Canadian power plants with a total generating capacity of 1,362 MW. The Company subsequently divested 50% of its interest to HEH. The acquisition represents a springboard for the Company into the Canadian electricity market.

The Company's portfolio of investments in the United Kingdom was extended with the acquisition of a 4.75% stake in Southern Water Group ("Southern Water") in 2007. Southern Water is a regulated water and sewage company in the United Kingdom, with an enterprise value of approximately HK\$66 billion (GBP4.2 billion).

The Company is in a formidable position to capitalise on development opportunities which are generally expected to arise in the near term. The strong recurring cashflow generated from the regulated businesses underpin the Group's long-term stability, while contributions from the Group's global portfolio continue to grow. The prospects for the Company's infrastructure investments are bright, with the pace of organic growth experienced to date expected to continue.

EFFECT OF THE TRANSACTION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

The Transaction has no significant impact on the assets and liabilities of the Company and is not expected to have any significant impact on the earnings of the Company.

LETTER FROM THE BOARD

GENERAL

The Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, which is subject to the notification, publication and Shareholders' approval requirements. As no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approving the Transaction, and as the Company has obtained a written approval of the Transaction from Hutchison Infrastructure Holdings Limited (which currently holds 1,906,681,945 shares in the Company, representing approximately 84.58% of the issued share capital of the Company), pursuant to Rule 14.44 of the Listing Rules, there is no need for the Company to convene a general meeting for approving the Transaction.

There is no prior transaction between HEH and the Company and its ultimate beneficial owners that requires aggregation under Rule 14.22 of the Listing Rules.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,

By Order of the Board

CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

LI TZAR KUOI, VICTOR

Chairman

(A) EXTRACTS FROM THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2007

The following was extracted from the Company's 2007 annual reports. References to page numbers in the extract reproduced below are to pages contained in the Company's annual report for the year ended 31st December, 2007.

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 117 to 175, which comprise the consolidated balance sheet as at 31st December, 2007, 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 controls 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.

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 controls 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 its internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, 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 gives a true and fair view of the state of affairs of the Group as at 31st December, 2007, and of its 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
Certified Public Accountants
Hong Kong
17th March, 2008

CONSOLIDATED INCOME STATEMENT*for the year ended 31st December*

<i>HK\$ million</i>	<i>Notes</i>	2007	2006
Group turnover	6	1,865	1,822
Share of turnover of jointly controlled entities	6	4,024	2,977
		5,889	4,799
Group turnover	6	1,865	1,822
Other income	7	734	756
Operating costs	8	(1,669)	(1,587)
Finance costs	9	(560)	(523)
Gain on disposal of a jointly controlled entity	10	815	–
Impairment losses	11	(654)	(279)
Share of results of associates		3,554	2,751
Share of results of jointly controlled entities		700	737
Profit before taxation	12	4,785	3,677
Taxation	13	(6)	(4)
Profit for the year	14	4,779	3,673
Attributable to:			
Shareholders of the Company		4,772	3,670
Minority interests		7	3
		4,779	3,673
Earnings per share	15	HK\$2.12	HK\$1.63
Dividends	16		
Interim dividend paid		609	564
Proposed final dividend		1,871	1,690
		2,480	2,254

CONSOLIDATED BALANCE SHEET*as at 31st December*

<i>HK\$ million</i>	<i>Notes</i>	2007	2006
Property, plant and equipment	17	1,121	991
Investment properties	18	160	130
Leasehold land	19	292	301
Interests in associates	20	30,389	29,382
Interests in jointly controlled entities	21	3,176	4,238
Interests in infrastructure project investments	22	377	490
Investments in securities	23	4,187	3,064
Derivative financial instruments	24	55	38
Goodwill	25	209	205
Deferred tax assets	31	5	–
Other non-current assets	32(b)	19	13
Total non-current assets		39,990	38,852
Inventories	26	75	99
Interests in infrastructure project investments	22	125	127
Derivative financial instruments	24	428	369
Debtors and prepayments	27	607	455
Bank balances and deposits	28	8,217	7,720
Total current assets		9,452	8,770
Bank and other loans	29	2,972	3,813
Derivative financial instruments	24	417	485
Creditors and accruals	30	1,292	1,245
Taxation		121	105
Total current liabilities		4,802	5,648
Net current assets		4,650	3,122
Total assets less current liabilities		44,640	41,974
Bank and other loans	29	4,607	5,514
Derivative financial instruments	24	187	179
Deferred tax liabilities	31	373	401
Other non-current liabilities	32(c)	16	15
Total non-current liabilities		5,183	6,109
Net assets		39,457	35,865
Representing:			
Share capital	33	2,254	2,254
Reserves	34	37,155	33,570
Equity attributable to shareholders of the Company		39,409	35,824
Minority interests	34	48	41
Total equity		39,457	35,865

LI TZAR KUOI, VICTOR
Director

IP TAK CHUEN, EDMOND
Director

17th March, 2008

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE*for the year ended 31st December*

<i>HK\$ million</i>	2007	2006
Surplus on revaluation of properties upon transfer to investment properties	3	44
Gain from fair value changes of available-for-sale financial assets	65	42
Gain/(Loss) from fair value changes of derivatives designated as effective cash flow hedges	28	(147)
Actuarial gains of defined benefit retirement schemes	96	190
Exchange differences on translation of financial statements of foreign operations	682	828
Share of reserve movement of an associate	(31)	–
Cumulative impact from adoption of Amendment to HKAS 19	–	(141)
Net gain recognised directly in equity	843	816
Reserves released upon disposal of investment in security	3	–
Reserves released upon disposals of interests in an associate	29	–
Reserve released relating to cash flow hedge	237	–
Profit for the year	4,779	3,673
Total recognised income and expense for the year	5,891	4,489
Attributable to:		
Shareholders of the Company	5,884	4,486
Minority interests	7	3
	5,891	4,489

CONSOLIDATED CASH FLOW STATEMENT*for the year ended 31st December*

<i>HK\$ million</i>	<i>Note</i>	2007	2006
OPERATING ACTIVITIES			
Cash generated from operations	36	1,162	1,182
Income taxes paid		(7)	(17)
Net cash from operating activities		1,155	1,165
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(183)	(45)
Disposals of property, plant and equipment		6	12
Acquisitions of associates		(8)	(1,227)
Return of capital from an associate		122	33
Disposals of interests in an associate		538	–
Disposal of a jointly controlled entity		1,160	–
Advances to associates		(30)	(90)
Advances from an associate		20	–
Repayments from associates		1	3
Acquisition of a jointly controlled entity		–	(69)
Repayments from jointly controlled entities		825	270
Disposal of an infrastructure project investment		–	115
Purchases of securities		(1,159)	(837)
Disposals of securities		200	–
Repayments from finance lease debtors		2	4
Loan note repayments of stapled securities		75	52
Dividends received from associates		2,047	2,350
Interest received		542	376
Finance lease income received		–	1
Net cash from investing activities		4,158	948
Net cash before financing activities		5,313	2,113
FINANCING ACTIVITIES			
New bank and other loans		1,659	23
Repayments of bank and other loans		(3,813)	(13)
Finance costs paid		(363)	(353)
Dividends paid		(2,299)	(2,160)
Net cash utilised in financing activities		(4,816)	(2,503)
Net increase/(decrease) in cash and cash equivalents		497	(390)
Cash and cash equivalents at 1st January		7,720	8,110
Cash and cash equivalents at 31st December		8,217	7,720
Representing:			
Bank balances and deposits at 31st December		8,217	7,720

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, the United Kingdom, and Canada.

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 (“HK(IFRIC)-Int”) (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, 2007. Except for the changes in disclosures 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, and does not result in any significant changes in the accounting policies of the Group.

On 1st January, 2007, the Group adopted HKFRS 7 “Financial Instruments: Disclosures” and HKAS 1 (Amendment) “Capital Disclosures”, and has included various revised and new disclosures in its notes to the financial statements, which relate to the Group’s financial instruments and capital management.

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, 2008. 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 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 13	Customer Loyalty Programmes
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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 Hong Kong 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Associates and Jointly Controlled Entities (cont'd)

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.

(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 ¹ / ₄ % to 3 ¹ / ₃ % or over the unexpired lease terms of the land, whichever is the higher
Mains, pipes, other plant and machinery	3 ¹ / ₃ % to 33 ¹ / ₃ %
Others	5% to 33 ¹ / ₃ %

When an asset is disposed of or retired, any gain or loss, representing the difference between the carrying value and the sales proceeds, if any, is included in the consolidated 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 consolidated 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 (cont'd)

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, classified as loans and receivable in accordance with HKAS 39, 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 available-for-sale financial assets, which are measured at fair value or at cost when the fair value cannot be measured reliably or financial assets at fair value through profit or loss which are measured at fair value.

The Group designates the securities intended to be held for long term strategic purposes as available-for-sale financial assets. Gains and losses arising from changes in fair values of these assets 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 consolidated income statement for the period. Impairment losses recognised in the consolidated income statement for equity securities classified as available-for-sale financial assets are not subsequently reversed in the consolidated income statement.

Securities which are managed and their performances are evaluated based on a fair value basis are designated as financial assets at fair value through profit or loss. The management considers that such designation is appropriate given that the basis of internal risk assessments and performance evaluations on these assets is different from other investments and assets of the Group. Gains and losses arising from changes in fair values of these assets are dealt with in the consolidated income statement. The net gain or loss recognised in the consolidated income statement include dividend or interest accrued on the financial assets.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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 values 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. Amount deferred in the equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. Any ineffective portion is recognised immediately in the consolidated income statement.

Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are recognised in the consolidated 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 hedged risk associated with the hedged item is ultimately recognised in profit or loss. The cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss when a forecast transaction is no longer expected to occur in relation to hedging of a forecast transaction.

Debtors

Debtors are classified as loan and receivables in accordance with HKAS 39, and 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 consolidated income statement when there is objective evidence that the assets are impaired.

Cash and cash equivalents

Cash and cash equivalents are classified as loan and receivables in accordance with HKAS 39, and 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.

Creditors

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

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 designated 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(j) **Financial Instruments** (cont'd)*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 derivative financial instruments and certain available-for-sale financial assets 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 measured at the fair value of the consideration received or receivable and is arrived at after deduction of any sales returns and discounts and 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 from a financial asset excluding financial assets at fair value through profit or loss 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.

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 prepared and 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(l) Foreign Currencies (cont'd)

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 consolidated income statement in the year in which the foreign operation is disposed of.

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 rate of exchange prevailing at the balance sheet date. Exchange difference arising are recognised in the exchange translation reserve.

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(o) Finance Leases

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

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

Assets held under finance leases are recognised as assets at their fair values or, if lower, at the present value of the minimum lease payment at the dates of inception. 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 consolidated 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 consolidated income statement as and when employees have rendered service entitling them to the contributions.

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. The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of plan assets. Any assets resulting from this calculation is limited to past service cost plus the present value of available refunds and reductions in future contributions to the plans.

(q) Borrowing Costs

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future, and other key sources of estimation uncertainty at 31st December, 2007, 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, 2007 is HK\$1,121 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, 2007 is HK\$502 million.

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

The Group is exposed to currency risk primarily arising from foreign investments and borrowings denominated in currencies other than the functional currency of individual subsidiaries, which accounted for 27 per cent of the Group's borrowings (2006: 21 per cent). The Group generally hedges those investments with the appropriate level of borrowings denominated in the local currencies of relevant countries. The Group also entered into currency swaps to hedge most foreign investments financed by internal resources. Given this, the management considers that the net exposure to currency risk is kept to an appropriate level. Details of the currency swaps entered into by the Group at the balance sheet date are set out in note 24.

The Group is also exposed to currency risk arising from bank deposits denominated in foreign currencies, which accounted for 85 per cent of the Group's cash and cash equivalents at the balance sheet date (2006: 76 per cent). Those bank deposits are mainly denominated in United States dollars, Australian dollars and Pounds Sterling. The management maintains the portfolio of bank deposits denominated in different currencies and the exposure to currency risk is kept to an appropriate level.

Sensitivity analysis

The following table indicates the approximate change in the Group's profit for the year and other components of consolidated equity in response to a 10 per cent strengthening in foreign currencies (except for United States dollars) against Hong Kong dollars to which the Group has significant exposure related to monetary items and derivative financial instruments in existence at the balance sheet date:

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Currency Risk (cont'd)

<i>HK\$ million</i>	2007		2006	
	Effect on profit for the year increase/(decrease)	Effect on other components of equity increase/(decrease)	Effect on profit for the year increase/(decrease)	Effect on other components of equity increase/(decrease)
Australian Dollars	210	252	208	137
Pounds Sterling	(6)	(290)	(41)	(315)
Japanese Yen	(209)	-	(200)	-

A 10 per cent weakening in the above foreign currencies against Hong Kong dollars would have had an equal but opposite effect on the Group's profit for the year and other components of consolidated equity.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group's entities exposure to currency risk for both monetary items and derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, the management does not expect any significant movements in the pegged rate of 7.8 between the United States dollars and Hong Kong dollars. It is also assumed that such pegged rate would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. The analysis is performed on the same basis for 2006.

(b) Interest Rate Risk

The Group's interest rate risk relates primarily to floating rate borrowings and deposits. In relation to these floating rate borrowings, the management aims at keeping borrowings at fixed rates at appropriate level by entering into interest rate swaps. 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 management adopts a policy of ensuring that all the material net borrowings of the Group are effectively on a fixed rate basis, either through the contractual terms of the loan facilities agreements or through the use of interest rate swaps. For this purpose the "net borrowings" represent interest-bearing borrowings less cash deposits (if any) financed by the aforesaid borrowings.

Details of the Group's interest rate swaps and borrowings entered into by the Group at the balance sheet date are set out in notes 24 and 29, respectively.

Sensitivity analysis

At 31st December, 2007, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Group's profit for the year by approximately HK\$66 million (2006: HK\$39 million). Other components of consolidated equity would increase by approximately HK\$30 million (2006: HK\$38 million) in response to the general increase in interest rates. A decrease of 100 basis points in interest rate would have had an equal but opposite effect on the Group's profit for the year and other components of consolidated equity.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Interest Rate Risk (cont'd)

Sensitivity analysis (cont'd)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(c) Credit Risk

The Group's credit risk is primarily attributable to interests in infrastructure project investments, debt securities investments, derivative financial instruments entered into for hedging purposes, bank balances and deposits, and trade debtors.

In respect of interests in infrastructure project investments and trade debtors, 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. Normally, the Group does not obtain collateral covering the outstanding balances.

Debt securities investments are normally in liquid securities quoted on a recognised stock exchange or financial institutions with high credit standing, except where entered into for long term strategic purposes. Transactions involving derivative financial instruments and liquid funds are also with banks or financial institutions of high credit standing.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. Except for the guarantees given by the Group as set out in note 39, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these guarantees at the balance sheet date is disclosed in note 39.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade debtors are set out in note 27.

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

(d) Liquidity Risk

The Group's treasury activities are centralised to achieve better risk control and minimise the cost of funds. Cash is generally placed in short-term deposits mostly denominated in United States dollars, Hong Kong dollars, Australian dollars or Pounds Sterling. The management aims to maintain a balance between continuity of adequate funding and the flexibility through the use of bank and other borrowings. The Group's liquidity and financing requirements are reviewed regularly to mitigate the effects of fluctuations in cash flows. The management will consider new financing while maintaining appropriate gearing for new investments and refinancing of existing debts.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) Liquidity Risk (cont'd)

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

HK\$ million	2007						2006					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Unsecured bank loans	5,416	5,900	3,294	2,146	457	3	7,329	8,050	4,158	1,518	2,371	3
Secured bank loan	44	100	5	5	10	80	-	-	-	-	-	-
Obligations under												
finance leases	49	60	10	10	27	13	27	32	16	4	12	-
Unsecured notes	2,070	3,880	72	72	217	3,519	1,971	3,765	69	69	207	3,420
Trade creditors	131	131	131	-	-	-	150	150	150	-	-	-
Amount due to an unlisted associate	175	176	176	-	-	-	147	154	6	148	-	-
Other payables and accruals	359	359	359	-	-	-	422	422	422	-	-	-
	8,244	10,606	4,047	2,233	711	3,615	10,046	12,573	4,821	1,739	2,590	3,423
Derivatives settled gross:												
Forward foreign exchange contracts held as cash flow hedging instruments (note 24):												
- outflow	5,706	5,932	1,586	1,046	3,300	-	3,709	3,776	503	12	3,261	-
- inflow	(5,530)	(5,664)	(1,584)	(1,035)	(3,045)	-	(3,414)	(3,424)	(379)	-	(3,045)	-
	176	268	2	11	255	-	295	352	124	12	216	-

(e) Equity Price Risk

The Group is exposed to equity price risk through its investments in securities as set out in note 23. The management manages this exposure by maintaining a portfolio of investments with different risks. For strategic purposes, the Group holds primarily equity or debt instruments operating in energy or transportation sectors.

Sensitivity analysis

At 31st December, 2007, it is estimated that a 5 per cent decrease in the prices of the respective instruments, with all other variables held constant, would decrease the Group's profit for the year by approximately HK\$52 million (2006: HK\$53 million). Other components of consolidated equity would decrease by approximately HK\$96 million (2006: HK\$86 million) in response to the decrease in the prices. A 5 per cent increase in prices would have had an equal but opposite effect on the Group's profit for the year and other components of consolidated equity.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(e) Equity Price Risk (cont'd)

Sensitivity analysis (cont'd)

The sensitivity analysis above has been determined assuming that the change in prices had occurred at the balance sheet date and had been applied to the exposure to price risk for the Group's investments in securities in existence at that date (as set out in note 23). The 5 per cent decrease in prices represents management's assessment of a reasonably possible change in the prices of those instruments over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(f) Fair Value

Except for certain investments in securities which are stated at cost and long term bank loans, the carrying values of all financial assets and financial liabilities approximate to their fair values.

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.

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:

<i>HK\$ million</i>	2007	2006
Sales of infrastructure materials	896	1,015
Income from the supply of water	292	250
Return from infrastructure project investments	139	99
Interest income from loans granted to associates	432	392
Distribution from investments in listed securities	106	66
Group turnover	1,865	1,822
Share of turnover of jointly controlled entities	4,024	2,977
	5,889	4,799

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

7. OTHER INCOME

Other income includes the following:

<i>HK\$ million</i>	2007	2006
Interest income from banks	538	384
Gain on disposals of interests in an associate	79	–
Change in fair values of investment properties	25	3
Change in fair values of investments in securities	(35)	(24)
Change in fair values of derivative financial instruments	(247)	(49)
Gain on disposals of listed securities	80	–
Gain on disposals of infrastructure project investment	–	115
Finance lease income	–	1

8. OPERATING COSTS

<i>HK\$ million</i>	2007	2006
Staff costs including directors' emoluments	315	290
Depreciation of property, plant and equipment	51	52
Amortisation of prepayment for leasehold land	9	10
Raw materials and consumables used	416	438
Changes in inventories of finished goods and work-in-progress	24	(12)
Other operating expenses	854	809
Total	1,669	1,587

9. FINANCE COSTS

<i>HK\$ million</i>	2007	2006
Interest and other finance costs on		
Bank borrowings wholly repayable within 5 years	488	454
Notes repayable after 5 years	72	69
Total	560	523

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

10. GAIN ON DISPOSAL OF A JOINTLY CONTROLLED ENTITY

<i>HK\$ million</i>	2007	2006
Disposal of 44.4% interests in Guangzhou E-S-W Ring Road Company Limited	815	–

In August 2007, the Group disposed of its entire equity and loan interests in Guangzhou E-S-W Ring Road Company Limited, a jointly controlled entity of the Group, at a consideration of HK\$1,160 million.

11. IMPAIRMENT LOSSES

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

<i>HK\$ million</i>	2007	2006
Interests in associates (note 20)	–	279
Interests in a jointly controlled entity (note 21)	31	–
Investments in securities (note 23)	623	–
Total	654	279

12. PROFIT BEFORE TAXATION

<i>HK\$ million</i>	2007	2006
Profit before taxation is arrived at after (crediting)/charging:		
Contract revenue	(94)	(290)
Loss on disposals of property, plant and equipment	10	2
Net exchange gain	(88)	(171)
Operating lease rental for land and buildings	8	12
Directors' emoluments (note 37)	41	35
Auditors' remuneration	6	5
Share of tax of associates	719	707
Share of tax of jointly controlled entities	181	163

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

13. TAXATION

Hong Kong Profits Tax is provided for at the rate of 17.5 per cent (2006: 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.

<i>HK\$ million</i>	2007	2006
Current taxation		
– Hong Kong Profits Tax	3	6
– Overseas tax	22	9
Deferred taxation (note 31)	(19)	(11)
Total	6	4

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

<i>HK\$ million</i>	2007	2006
Profit before taxation	4,785	3,677
Less: share of results of associates	(3,554)	(2,751)
share of results of jointly controlled entities	(700)	(737)
	531	189
Tax at 17.5% (2006: 17.5%)	93	33
Tax impact on:		
Different domestic rates of subsidiaries operating in other tax jurisdictions	(211)	(188)
Income not subject to tax	(199)	(42)
Expenses not deductible for tax purpose	304	199
Tax losses and other temporary differences not recognised	30	29
Others	(11)	(27)
Tax charge	6	4

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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*		Infrastructure investments		Infrastructure related business		Unallocated items		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Group turnover	-	-	969	807	896	1,015	-	-	1,865	1,822
Share of turnover of jointly controlled entities	-	-	3,447	2,371	577	606	-	-	4,024	2,977
	-	-	4,416	3,178	1,473	1,621	-	-	5,889	4,799
Segment revenue										
Group turnover	-	-	969	807	896	1,015	-	-	1,865	1,822
Others	-	-	69	55	57	75	-	-	126	130
	-	-	1,038	862	953	1,090	-	-	1,991	1,952
Segment result										
Net gain on disposals of infrastructure project investment and listed securities	-	-	13	115	-	-	67	-	80	115
Change in fair values of investments in securities and derivative financial instruments	-	-	-	-	(5)	(26)	(277)	(47)	(282)	(73)
Interest and finance lease income	-	-	55	2	140	126	343	257	538	385
Exchange gain	-	-	-	-	-	-	88	171	88	171
Corporate overheads and others	-	-	-	-	-	-	(294)	(212)	(294)	(212)
Finance costs	-	-	(83)	(20)	-	-	(477)	(503)	(560)	(523)
Gain on disposals of interests in an associate	-	-	79	-	-	-	-	-	79	-
Gain on disposal of a jointly controlled entity	-	-	815	-	-	-	-	-	815	-
Impairment losses	-	-	(654)	(279)	-	-	-	-	(654)	(279)
Share of results of associates and jointly controlled entities	2,864	2,632	1,335	820	55	36	-	-	4,254	3,488
Profit/(Loss) before taxation	2,864	2,632	2,322	1,271	149	108	(550)	(334)	4,785	3,677
Taxation	-	-	(4)	(3)	1	5	(3)	(6)	(6)	(4)
Profit/(Loss) for the year	2,864	2,632	2,318	1,268	150	113	(553)	(340)	4,779	3,673
Attributable to:										
Shareholders of the Company	2,864	2,632	2,318	1,268	143	110	(553)	(340)	4,772	3,670
Minority interests	-	-	-	-	7	3	-	-	7	3
	2,864	2,632	2,318	1,268	150	113	(553)	(340)	4,779	3,673
Other information										
Capital expenditure	-	-	164	35	19	10	-	-	183	45
Depreciation and amortisation	-	-	30	26	30	36	-	-	60	62

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

14. PROFIT FOR THE YEAR AND SEGMENT INFORMATION (cont'd)

By business segment*as at 31st December*

<i>HK\$ million</i>	Investment in Hongkong Electric*		Infrastructure investments		Infrastructure related business		Unallocated items		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Assets										
Segment assets	-	-	6,826	3,937	2,725	2,547	-	-	9,551	6,484
Interests in associates and jointly controlled entities	19,844	18,313	13,553	15,106	168	201	-	-	33,565	33,620
Unallocated corporate assets	-	-	-	-	-	-	6,326	7,518	6,326	7,518
Total assets	19,844	18,313	20,379	19,043	2,893	2,748	6,326	7,518	49,442	47,622
Liabilities										
Segment liabilities	-	-	2,339	845	261	270	-	-	2,600	1,115
Taxation, deferred taxation and unallocated corporate liabilities	-	-	361	361	133	143	6,891	10,138	7,385	10,642
Total liabilities	-	-	2,700	1,206	394	413	6,891	10,138	9,985	11,757

* 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 (cont'd)

14. PROFIT FOR THE YEAR AND SEGMENT INFORMATION (cont'd)

By geographic region

for the year ended 31st December

HK\$ million	Hong Kong		Mainland China		Australia		United Kingdom		Canada and Others		Unallocated Items		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Group turnover	652	728	380	279	538	458	292	250	3	107	-	-	1,865	1,822
Share of turnover of jointly controlled entities	441	475	3,583	2,502	-	-	-	-	-	-	-	-	4,024	2,977
	1,093	1,203	3,963	2,781	538	458	292	250	3	107	-	-	5,889	4,799
Segment revenue														
Group turnover	652	728	380	279	538	458	292	250	3	107	-	-	1,865	1,822
Others	12	46	70	50	-	-	43	36	1	(2)	-	-	126	130
	664	774	450	329	538	458	335	286	4	105	-	-	1,991	1,952
Segment result	(66)	(29)	177	87	538	465	94	97	(22)	(15)	-	-	721	605
Net gain on disposals of infrastructure project investment and listed securities	-	-	-	115	13	-	-	-	-	-	67	-	80	115
Change in fair values of investments in securities and derivative financial instruments	-	-	-	-	-	-	-	-	(5)	(26)	(277)	(47)	(282)	(73)
Interest and finance lease income	140	126	-	-	-	-	55	2	-	-	343	257	538	385
Exchange gain	-	-	-	-	-	-	-	-	-	-	88	171	88	171
Corporate overheads and others	-	-	-	-	-	-	-	-	-	-	(294)	(212)	(294)	(212)
Finance costs	-	-	-	-	-	-	(83)	(20)	-	-	(477)	(503)	(560)	(523)
Gain on disposals of interest in an associate	-	-	-	-	79	-	-	-	-	-	-	-	79	-
Gain on disposal of a jointly controlled entity	-	-	815	-	-	-	-	-	-	-	-	-	815	-
Impairment losses	-	-	(31)	-	(623)	(279)	-	-	-	-	-	-	(654)	(279)
Share of results of associates and jointly controlled entities	2,939	2,692	643	696	282	(122)	392	240	(2)	(18)	-	-	4,254	3,488
Profit/(Loss) before taxation	3,013	2,789	1,604	898	289	64	458	319	(29)	(59)	(550)	(334)	4,785	3,677
Taxation	1	5	(4)	-	-	-	-	(3)	-	-	(3)	(6)	(6)	(4)
Profit/(Loss) for the year	3,014	2,794	1,600	898	289	64	458	316	(29)	(59)	(553)	(340)	4,779	3,673
Attributable to:														
Shareholders of the Company	3,014	2,794	1,593	895	289	64	458	316	(29)	(59)	(553)	(340)	4,772	3,670
Minority interests	-	-	7	3	-	-	-	-	-	-	-	-	7	3
	3,014	2,794	1,600	898	289	64	458	316	(29)	(59)	(553)	(340)	4,779	3,673
Other information														
Capital expenditure	3	7	16	3	-	-	164	35	-	-	-	-	183	45

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

14. PROFIT FOR THE YEAR AND SEGMENT INFORMATION (cont'd)

By geographic region (cont'd)

as at 31st December

HK\$ million	Hong Kong		Mainland China		Australia		United Kingdom		Canada and Others		Unallocated Items		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Assets														
Segment assets	1,441	2,213	736	869	2,451	2,193	3,908	1,160	1,015	49	-	-	9,551	6,484
Interests in associates and jointly controlled entities	20,169	18,668	3,029	4,058	6,932	7,554	3,424	3,340	11	-	-	-	33,565	33,620
Unallocated corporate assets	-	-	-	-	-	-	-	-	-	-	6,326	7,518	6,326	7,518
Total assets	21,610	20,881	3,765	4,927	9,383	9,747	7,332	4,500	1,026	49	6,326	7,518	49,442	47,622

15. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of HK\$4,772 million (2006: HK\$3,670 million) and on 2,254,209,945 shares (2006: 2,254,209,945 shares) in issue during the year.

16. DIVIDENDS

HK\$ million	2007	2006
Interim dividend paid of HK\$0.27 (2006: HK\$0.25) per share	609	564
Proposed final dividend of HK\$0.83 (2006: HK\$0.75) per share	1,871	1,690
Total	2,480	2,254

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

17. PROPERTY, PLANT AND EQUIPMENT

<i>HK\$ million</i>	Freehold land outside Hong Kong	Buildings	Mains, pipes, other plant and machinery	Furniture, fixtures and others	Total
Cost					
At 1st January, 2006	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
Additions	–	4	177	2	183
Disposals	–	(31)	(265)	(2)	(298)
Exchange translation differences	–	22	83	2	107
Transfers *	–	(1)	–	–	(1)
At 31st December, 2007	3	736	2,847	38	3,624
Accumulated depreciation and impairment loss					
At 1st January, 2006	–	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
Charge for the year	–	5	45	1	51
Disposals	–	(29)	(250)	(3)	(282)
Exchange translation differences	–	21	69	2	92
At 31st December, 2007	–	690	1,780	33	2,503
Carrying value					
At 31st December, 2007	3	46	1,067	5	1,121
At 31st December, 2006	3	49	936	3	991

* During the year, certain properties of the Group were transferred to investment properties with revaluation gain of HK\$3 million (2006: HK\$44 million).

The carrying value of the Group's mains, pipes, other plant and machinery includes an amount of HK\$263 million (2006: HK\$225 million) in respect of assets held under finance leases, and another amount of HK\$67 million (2006: nil) in respect of assets pledged as security for certain bank loans of the Group.

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 (2006: 8.5 per cent). No impairment loss has been recognised for the property, plant and equipment during the year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

18. INVESTMENT PROPERTIES

HK\$ million

Medium term leases in Hong Kong, at fair value	
At 1st January, 2006	59
Transfer from property, plant and equipment and leasehold land	68
Change in fair values	3
At 31st December, 2006	130
Transfer from property, plant and equipment and leasehold land	5
Change in fair values	25
At 31st December, 2007	160

The fair values of the Group's investment properties at 31st December, 2007 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.

19. LEASEHOLD LAND

<i>HK\$ million</i>	Medium term leasehold land in Hong Kong	Medium term leasehold land outside Hong Kong	Total
Operating lease prepayment			
At 1st January, 2006	430	46	476
Transfers *	(27)	–	(27)
Exchange translation differences	–	2	2
At 31st December, 2006	403	48	451
Transfers *	(1)	–	(1)
Exchange translation differences	–	3	3
At 31st December, 2007	402	51	453
Accumulated amortisation and impairment loss			
At 1st January, 2006	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
Charge for the year	8	1	9
Exchange translation differences	–	2	2
At 31st December, 2007	124	37	161
Carrying value			
At 31st December, 2007	278	14	292
At 31st December, 2006	287	14	301

* During the year, certain leasehold land of the Group was transferred to investment properties with no revaluation gain (2006: nil).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

19. LEASEHOLD LAND (cont'd)

The Directors reviewed the Group's leasehold land based on value in use calculation. The discount rate used was 8.5 per cent (2006: 8.5 per cent). No impairment loss has been recognised for the leasehold land during the year.

20. INTERESTS IN ASSOCIATES

<i>HK\$ million</i>	2007	2006
Investment costs		
– Listed in Hong Kong	8,687	8,687
– Unlisted	5,960	7,444
Share of post-acquisition reserves	12,049	9,871
	26,696	26,002
Impairment losses	(857)	(857)
	25,839	25,145
Amounts due by unlisted associates	4,550	4,237
At 31st December	30,389	29,382
Market value of investment in a listed associate	37,208	31,608

Included in the amounts due by unlisted associates are subordinated loans of HK\$4,006 million (2006: HK\$3,644 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, 2007 based on value in use calculation. No further impairment loss (2006: HK\$279 million) against interests in associate was recognised in current year.

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

<i>HK\$ million</i>	2007	2006
Total assets	169,655	170,012
Total liabilities	(104,880)	(108,538)
Net assets	64,775	61,474
Total turnover	30,203	26,480
Total profit for the year	8,718	7,036
Shared by the Group:		
Net assets of the associates	26,696	26,002
Profit of the associates for the year	3,554	2,751

Particulars of the principal associates are set out in Appendix 2 on pages 173 and 174.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

<i>HK\$ million</i>	2007	2006
Investment costs	3,079	3,456
Share of post-acquisition reserves	(54)	(380)
	3,025	3,076
Impairment losses	(245)	(214)
	2,780	2,862
Shareholders' loans to jointly controlled entities	396	1,376
At 31st December	3,176	4,238

The Group's interests in a jointly controlled entity with carrying value of HK\$2,082 million as at 31st December, 2007 (2006: HK\$1,773 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, 2007 based on value in use calculation. Due to unsatisfactory operating performance, an impairment loss of HK\$31 million (2006: nil) was made against interest in a jointly controlled entity, which operated Tangshan Tangle Road in Hebei province, China. A discount rate of 9 per cent (2006: 9 per cent) was applied on projected cash flows for value in use calculation.

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

<i>HK\$ million</i>	2007	2006
Total assets	18,567	19,490
Total liabilities	(11,947)	(13,295)
Net assets	6,620	6,195
Total turnover	9,155	6,738
Total profit for the year	1,761	1,410
Shared by the Group:		
Net assets of the jointly controlled entities	3,025	3,076
Profit of jointly controlled entities for the year	700	737

Particulars of the principal jointly controlled entities are set out in Appendix 3 on page 175.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

22. INTERESTS IN INFRASTRUCTURE PROJECT INVESTMENTS

<i>HK\$ million</i>	2007	2006
Classified as:		
Non-current assets	377	490
Current assets	125	127
At 31st December	502	617

Interests in infrastructure project investments carry effective interest rates which range from 13.7 per cent to 16.2 per cent (2006: range from 13.7 per cent to 16.5 per cent). The interests in infrastructure project investments were not past due as at 31st December, 2007 (2006: nil).

The Directors reviewed certain infrastructure projects' operations and financial positions as at 31st December, 2007 based on the present values of estimated future cash flows from those investments, discounted at the original effective interest rates. No impairment loss against the interests in infrastructure project investments was recognised in current year.

23. INVESTMENTS IN SECURITIES

<i>HK\$ million</i>	2007	2006
Financial assets at fair value through profit or loss*		
Notes, unlisted	787	777
Equity securities, unlisted	240	262
Equity securities, listed overseas	14	19
Available-for-sale financial assets		
Stapled securities, listed overseas, at fair value	2,113	2,006
Equity securities, unlisted, at cost	706	–
Debt securities, unlisted, at fair value	265	–
Equity securities, unlisted, at fair value	62	–
Total	4,187	3,064

* designated as at fair value through profit or loss in accordance with HKAS 39

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.

Neither the subordinated loan notes, debt securities nor the unlisted notes are past due or impaired, which are issued by corporate entities with credit ratings ranging from AA to BBB-.

As at 31st December, 2007, the Group's available-for-sale equity securities amounting to HK\$623 million (2006: nil) were individually determined to be fully impaired due to unsatisfactory operating performance which indicated that the cost of the Group's investment in the investee may not be recovered. Impairment loss on such investment was recognised in the consolidated income statement for the current year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

24. DERIVATIVE FINANCIAL INSTRUMENTS

<i>HK\$ million</i>	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts	428	(604)	369	(664)
Interest rate swaps	55	–	38	–
At 31st December	483	(604)	407	(664)
Portion classified as:				
Non-current	55	(187)	38	(179)
Current	428	(417)	369	(485)
	483	(604)	407	(664)

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.

The following contracts are outstanding as at the balance sheet dates and the major terms of these contracts are as follows:

As at 31st December 2007

Notional amount	Maturity
Sell AUD155.5 million*	9th May, 2008
Sell GBP26.6 million	30th April, 2008
Sell GBP62.6 million*	21st December, 2009
Sell GBP212.4 million*	24th May, 2010

As at 31st December 2006

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

* designated as hedging instrument in accordance with HKAS 39

The fair values of the above currency derivatives that are designated and effective as cash flow hedges totalling HK\$128 million (net liabilities to the Group) (2006: HK\$255 million (net liabilities to the Group)) have been deferred in equity at 31st December, 2007.

Change in fair values of currency derivative not designated for hedging amounting to HK\$247 million (2006: HK\$49 million) has been debited to the consolidated income statement for the current year.

The Group utilised currency derivatives to hedge long term foreign investments. No material cash flow is expected to occur in the coming year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

24. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

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, 2007, their remaining terms and estimated total fair value are as follows:

<i>HK\$ million</i>	Floating interest rate	Weighted average fixed interest rate	Notional principal amount	Estimated fair value
Contracts maturing in 2010	BBSW or LIBOR*	5.62%	1,872	55
Fair value deferred in equity at 31st December, 2007				55
Contracts maturing in 2010	BBSW or LIBOR*	5.62%	1,726	38
Fair value deferred in equity at 31st December, 2006				38

* 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 the fair value estimated by independent professionals for equivalent instruments at 31st December, 2007. All of the above interest rate swaps are designated and effective as cash flow hedges and the fair values (net assets to the Group) have been deferred in equity.

25. GOODWILL

<i>HK\$ million</i>	2007	2006
At 1st January	205	175
Exchange difference	4	30
At 31st December	209	205

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 2008 to 2012 and extrapolates cash flows for the subsequent 10 years using the same cashflows as that in 2012. The rate used to discount the forecast cash flows is 8 per cent (2006: 8 per cent) per annum.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

25. GOODWILL (cont'd)

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, 2007 indicated that no further impairment charge was necessary for current year.

26. INVENTORIES

<i>HK\$ million</i>	2007	2006
Raw materials	42	42
Work-in-progress	10	20
Stores, spare parts and supplies	9	9
Finished goods	14	28
Total	75	99

The cost of inventories charged to the consolidated income statement during the year was HK\$896 million (2006: HK\$948 million).

27. DEBTORS AND PREPAYMENTS

<i>HK\$ million</i>	2007	2006
Trade debtors	235	240
Prepayments, deposits and other receivables	372	215
Total	607	455

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

<i>HK\$ million</i>	2007	2006
Current	144	114
Less than 1 month past due	55	55
1 to 3 months past due	24	29
More than 3 months but less than 12 months past due	24	65
More than 12 months past due	71	99
Amount past due	174	248
Allowance for doubtful debts	(83)	(122)
Total after allowance	235	240

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 due 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

27. DEBTORS AND PREPAYMENTS (cont'd)

The movement in the allowance for doubtful debts during the year is as follows:

<i>HK\$ million</i>	2007	2006
At 1st January	122	127
Impairment loss recognised	8	24
Impairment loss written back	(37)	(27)
Uncollective amounts written off	(14)	(7)
Exchange translation differences	4	5
At 31st December	83	122

At 31st December, 2007, gross trade debtors' balances totalling HK\$92 million (2006: HK\$171 million) were individually determined to be impaired, which related to customers that were in financial difficulties. The management assessed that only a portion of the trade debtors' balances is expected to be recovered. Consequently, specific allowance for doubtful debts of HK\$83 million (2006: HK\$122 million) was recognised as at 31st December, 2007. The Group does not hold any collateral over these balances.

The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

<i>HK\$ million</i>	2007	2006
Neither past due nor impaired	138	110
Less than 1 month past due	49	39
1 to 3 months past due	17	13
More than 3 months but less than 12 months past due	20	27
More than 12 months past due	2	2
Amount past due	88	81
Total	226	191

The trade debtors that were neither past due nor impaired related to customers for whom there was no recent history of default.

The trade debtors that were past due but not impaired related to customers that had good track records with the Group. Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

28. BANK BALANCES AND DEPOSITS

Bank balances and deposits carry effective interest rate at 5.85 per cent (2006: 4.66 per cent).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

29. BANK AND OTHER LOANS

<i>HK\$ million</i>	2007	2006
Unsecured bank loans repayable:		
Within 1 year	2,964	3,800
In the 2nd year	2,019	1,285
In the 3rd to 5th year, inclusive	430	2,241
After 5 years	3	3
	5,416	7,329
Obligations under finance leases repayable:		
Within 1 year	8	13
In the 2nd year	8	3
In the 3rd to 5th year, inclusive	23	11
After 5 years	10	–
	49	27
Unsecured notes, 3.5%, repayable after 5 years	2,070	1,971
Secured bank loan, repayable after 5 years (note 17)	44	–
Total	7,579	9,327
Portion classified as:		
Current liabilities	2,972	3,813
Non-current liabilities	4,607	5,514
Total	7,579	9,327

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

<i>HK\$ million</i>	HK\$		AU\$		GBP		JPY		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Bank loans	–	3,800	3,432	3,121	2,028	408	–	–	5,460	7,329
Finance leases	–	–	–	–	49	27	–	–	49	27
Notes	–	–	–	–	–	–	2,070	1,971	2,070	1,971
Total	–	3,800	3,432	3,121	2,077	435	2,070	1,971	7,579	9,327

The average effective interest rates of the Group's bank loans and finance leases are 5.20 per cent (2006: 4.93 per cent) and 7.87 per cent (2006: 9.19 per cent), respectively.

The Group's notes of HK\$2,070 million (2006: HK\$1,971 million) and an unsecured bank loan of HK\$3 million as at 31st December, 2007 were arranged at fixed interest rate and exposed 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

29. BANK AND OTHER LOANS (cont'd)

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 (2006: 3.5 per cent to 13.3 per cent).

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

<i>HK\$ million</i>	2007	2006
Minimum lease payments:		
Within 1 year	10	15
In the 2nd year	11	4
In the 3rd to 5th year, inclusive	27	13
After 5 years	13	–
	61	32
Less: future finance charges	(12)	(5)
Present value of lease payments	49	27
Less: Amount due for settlement within 12 months	(8)	(13)
Amount due for settlement after 12 months	41	14

At 31st December, 2007, the remaining weighted average lease term was 5.8 years (2006: 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 (note 17).

30. CREDITORS AND ACCRUALS

<i>HK\$ million</i>	2007	2006
Trade creditors	131	150
Amount due to an unlisted associate	175	147
Other payables and accruals	986	948
Total	1,292	1,245

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

<i>HK\$ million</i>	2007	2006
Current	98	103
1 month	12	22
2 to 3 months	6	8
Over 3 months	15	17
Total	131	150

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31. DEFERRED TAX ASSETS/LIABILITIES

<i>HK\$ million</i>	2007	2006
Deferred tax assets	5	–
Deferred tax liabilities	(373)	(401)
Total	(368)	(401)

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

<i>HK\$ million</i>	Accelerated tax depreciation	Tax losses	Fair value changes in securities	Others	Total
At 1st January, 2006	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
Credit to profit for the year	(10)	(9)	–	–	(19)
Charge to equity for the year	–	–	(38)	–	(38)
Exchange translation differences	3	–	17	–	20
Others	–	4	–	–	4
At 31st December, 2007	225	(6)	154	(5)	368

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\$1,748 million (2006: HK\$1,618 million) at 31st December, 2007. 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:

<i>HK\$ million</i>	2007	2006
Within 1 year	29	38
In the 2nd year	37	27
In the 3rd to 5th year, inclusive	88	98
No expiry date	1,594	1,455
Total	1,748	1,618

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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\$11 million (2006: HK\$10 million). Forfeited contributions and earnings for the year under the defined contribution plans amounting to HK\$2 million (2006: HK\$1 million) were used to reduce the existing level of contributions. At 31st December, 2007, there was no forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years (2006: 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.

Actuarial valuation of the defined benefit plan according to HKAS 19 "Employee Benefits" was carried out at 31st December, 2007, 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:

	2007	2006
Discount rate at 31st December	3.35% per annum	3.75% per annum
Expected rate of salary increase	5% per annum	5% per annum
Expected return on plan assets	6.25% per annum	6.5% per annum

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

32. RETIREMENT PLANS (cont'd)

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

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

<i>HK\$ million</i>	2007	2006
Current service cost	2	2
Interest cost	2	2
Expected return on plan assets	(4)	(4)
Amortisation of transitional liability	–	1
Net amount charged to consolidated income statement	–	1

The actual return on plan assets for the year ended 31st December, 2007 was a gain of HK\$10 million (2006: HK\$11 million).

The amount included in the consolidated balance sheet at 31st December, 2007 arising from the Group's obligations in respect of its defined benefit plan in Hong Kong is as follows:

<i>HK\$ million</i>	2007	2006
Present value of defined benefit obligations	55	62
Fair value of plan assets	(74)	(75)
Employee retirement benefit assets classified as other non-current assets included in the consolidated balance sheet	(19)	(13)

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

<i>HK\$ million</i>	2007	2006
At 1st January	62	56
Current service cost	2	2
Interest cost	2	2
Actual benefits paid	(13)	(2)
Actual employee contributions	1	1
Actuarial loss on obligation	1	3
At 31st December	55	62

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

32. RETIREMENT PLANS (cont'd)

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

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

<i>HK\$ million</i>	2007	2006
At 1st January	75	62
Expected return	4	4
Actuarial gain on plan assets	6	7
Actual company contributions	1	3
Actual employee contributions	1	1
Actual benefits paid	(13)	(2)
At 31st December	74	75

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

As at 31st December	2007	2006
Equity instruments	49%	52%
Debt instruments	51%	48%
Total	100%	100%

The expected rate of return on assets was 6.25 per cent per annum (2006: 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:

<i>HK\$ million</i>	2007	2006
Present value of defined benefit obligations	55	62
Fair value of the plan assets	(74)	(75)
Surplus	(19)	(13)
Experience adjustment on plan assets	6	7

The Group recognised actuarial gains amounting to HK\$5 million (2006: HK\$4 million) for the year ended 31st December, 2007 directly in the consolidated statement of recognised income and expense. The cumulative amount of actuarial gains recognised directly in the consolidated statement of recognised income and expense amounted to HK\$20 million (2006: HK\$15 million) as at 31st December, 2007.

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. No charge for transitional liability (2006: HK\$1 million) was recognised in the current year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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 will be reviewed no later than 1st January, 2010 as required by Occupational Retirement Schemes Ordinance.

The Group expects to make a contribution of HK\$1 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, 2007, 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:

	2007	2006
Discount rate at 31st December	6.1% per annum	5.0% per annum
Expected rate of pension increase	3.4% per annum	3.1% per annum
Expected rate of salary increase	5.4% per annum	5.1% per annum

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

<i>HK\$ million</i>	2007	2006
Current service cost	9	9
Interest cost	25	20
Expected return on plan assets	(29)	(23)
Others	-	(8)
Net amount charge/(credited) to consolidated income statement	5	(2)

The actual return on plan assets for the year ended 31st December, 2007 was a gain of HK\$32 million (2006: HK\$35 million).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

32. RETIREMENT PLANS (cont'd)

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

The amount included in the consolidated balance sheet at 31st December, 2007 arising from the Group's obligations in respect of its defined benefit plan in the United Kingdom is as follows:

<i>HK\$ million</i>	2007	2006
Present value of defined benefit obligations	513	478
Fair value of plan assets	(497)	(463)
Employee retirement benefit liabilities classified as other non-current liabilities included in the consolidated balance sheet	16	15

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

<i>HK\$ million</i>	2007	2006
At 1st January	478	395
Current service cost	9	9
Interest cost	25	20
Employee contributions	2	2
Actuarial (gain)/loss	(62)	7
Benefits paid	(14)	(12)
Exchange translation differences	75	57
At 31st December	513	478

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

<i>HK\$ million</i>	2007	2006
At 1st January	463	374
Expected return	29	23
Actuarial gain	4	12
Employer contributions	7	6
Employee contributions	2	2
Benefits paid	(14)	(12)
Exchange translation differences	6	58
At 31st December	497	463

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

<i>As at 31st December</i>	2007	2006
Equity instruments	47%	63%
Debt instruments	53%	37%
Total	100%	100%

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

32. RETIREMENT PLANS (cont'd)

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

The expected rate of return on assets was 6.3 per cent per annum (2006: 6.0 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 adjustments are as follows:

<i>HK\$ million</i>	2007	2006
Present value of the defined benefit obligations	513	478
Fair value of the plan assets	(497)	(463)
Deficit	16	15
Experience adjustment on plan liabilities	(1)	–
Experience adjustment on plan assets	(3)	(12)

The above actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK\$497 million (2006: HK\$463 million) at 31st December, 2007 represents 97 per cent (2006: 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\$8 million to the defined benefit plan during the next financial year.

33. SHARE CAPITAL

<i>HK\$ million</i>	2007	2006
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 (cont'd)

34. RESERVES AND MINORITY INTERESTS

HK\$ million	Attributable to shareholders of the Company									Total
	Share premium	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Hedging reserve	Exchange translation reserve	Retained profits	Sub-total	Minority interests	
At 1st January, 2006	3,836	6,062	12	34	1	153	21,146	31,244	38	31,282
Surplus on revaluation of properties upon transfer to investment properties	-	-	44	-	-	-	-	44	-	44
Gain from fair value changes of available-for-sale financial assets	-	-	-	42	-	-	-	42	-	42
Loss from 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 differences on translation of financial statements of foreign operations	-	-	-	-	-	828	-	828	-	828
Cumulative impact from adoption of Amendment to HKAS 19	-	-	-	-	-	-	(141)	(141)	-	(141)
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
Surplus on revaluation of properties upon transfer to investment properties	-	-	3	-	-	-	-	3	-	3
Gain from fair value changes of available-for-sale financial assets	-	-	-	65	-	-	-	65	-	65
Gain from fair value changes of derivatives designated as effective cash flow hedges	-	-	-	-	4	-	24	28	-	28
Actuarial gains of defined benefit retirement schemes	-	-	-	-	-	-	96	96	-	96
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	682	-	682	-	682
Share of other reserve movement of an associate	-	-	-	-	-	-	(31)	(31)	-	(31)
Net gain recognised directly in equity	-	-	3	65	4	682	89	843	-	843
Reserves released upon disposal of investment in security	-	-	-	3	-	-	-	3	-	3
Reserves released upon disposals of interests in an associate	-	-	-	-	96	(67)	-	29	-	29
Reserve released relating to cash flow hedge	-	-	-	-	237	-	-	237	-	237
Profit for the year	-	-	-	-	-	-	4,772	4,772	7	4,779
Total recognised income and expense for the year	-	-	3	68	337	615	4,861	5,884	7	5,891
Final dividend for the year 2006 paid	-	-	-	-	-	-	(1,690)	(1,690)	-	(1,690)
Interim dividend paid	-	-	-	-	-	-	(609)	(609)	-	(609)
At 31st December, 2007	3,836	6,062	59	144	191	1,596	25,267	37,155	48	37,203

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

35. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can expand and generate attractive and predictable returns for shareholders and benefits for other stakeholders, by establishing and maintaining a quality investment portfolio with stable earnings and appropriate level of risks that the management are comfortable with.

The capital structure of the Group consists of debts, which includes bank borrowings, notes and obligations under finance leases as detailed in note 29, bank balances and deposits, and equity attributable to shareholders of the Company, comprising issued share capital and reserves as detailed in note 34.

The management actively and regularly reviews and manages the Group's capital structure to maintain a balance between high shareholders' returns and strong capital position, and makes adjustments to the capital structure in light of changes in the global market conditions.

The Group maintained low net debt to shareholders' equity ratio of less than 5 per cent from late December 2005 and has turned into net cash position as at 31st December, 2007. The management targets to maintain a solid capital position to pursue more new investment opportunities. The Group's overall strategy remains unchanged from 2006.

The net debt to shareholders' equity ratio at 31st December, 2007 and 2006 was as follows:

<i>HK\$ million</i>	2007	2006
Total debt	7,579	9,327
Bank balances and deposits	(8,217)	(7,720)
Net (cash)/debt	(638)	1,607
Shareholders' equity	39,409	35,824
Net debt to shareholders' equity ratio	N/A	4%

During the current year, the Company acted as the guarantor in respect of certain loan facilities granted to its subsidiaries and an associate, and fully complied with the capital requirements under the loan facility agreements.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

<i>HK\$ million</i>	2007	2006
Profit before taxation	4,785	3,677
Impairment losses	654	279
Share of results of associates	(3,554)	(2,751)
Share of results of jointly controlled entities	(700)	(737)
Interest income from loans granted to associates	(432)	(392)
Interest income from banks	(538)	(384)
Interest income from investment in securities	(97)	(63)
Finance lease income	–	(1)
Return from infrastructure project investments	(139)	(99)
Finance costs	560	523
Depreciation of property, plant and equipment	51	52
Amortisation of prepayment for leasehold land	9	10
Change in fair values of investment properties	(25)	(3)
Loss on disposals of property, plant and equipment	10	2
Gain on disposals of infrastructure project investment	–	(115)
Gain on disposals of interests in an associate	(79)	–
Gain on disposal of a jointly controlled entity	(815)	–
Gain on disposal of listed securities	(80)	–
Write back on allowance for investment in a jointly controlled entity	–	(27)
Change in fair values of investments in securities	35	24
Change in fair values of derivative financial instruments	247	49
Dividend from investment in securities	(9)	(3)
Pension costs of defined benefit retirement plans	–	(1)
Unrealised exchange loss/(gain)	99	(24)
Returns received from jointly controlled entities	572	660
Returns received from infrastructure project investments	254	147
Distribution received from investment in securities	106	66
Interest received from associates	334	212
Contributions to defined benefit retirement plans	(1)	(9)
Net cash (paid)/received at close of derivative financial instruments	(238)	12
Operating cash flows before changes in working capital	1,009	1,104
Decrease in inventories	24	6
Decrease/(increase) in debtors and prepayments	75	(60)
Increase in creditors and accruals	56	136
Exchange translation differences	(2)	(4)
Cash generated from operations	1,162	1,182

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

37. 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 independent non-executive directors ("INED") receive an annual director's fee of HK\$75,000 each; and for those acting as the audit committee members ("ACM") and remuneration committee members ("RCM"), additional annual fee of HK\$80,000 each is paid for the former and HK\$25,000 each is paid for the latter. 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	Basic Salaries, Allowances and Other		Bonuses	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments 2007	Total Emoluments 2006
	Fees	Benefits					
Li Tzar Kuoi, Victor ⁽¹⁾	0.075	-	11.000	-	-	11.075	8.070
Kam Hing Lam ⁽¹⁾	0.075	4.200	4.800	-	-	9.075	8.140
Ip Tak Chuen, Edmond	0.075	1.800	5.500	-	-	7.375	6.020
Fok Kin Ning, Canning ⁽¹⁾	0.075	-	-	-	-	0.075	0.070
Andrew John Hunter ⁽¹⁾	0.075	6.025	3.706	0.602	-	10.408	1.980
Chow Woo Mo Fong, Susan ⁽¹⁾	0.075	-	-	-	-	0.075	0.070
Frank John Sixt ⁽¹⁾	0.075	-	-	-	-	0.075	0.070
Tso Kai Sum ⁽¹⁾	0.075	-	-	-	-	0.075	0.070
Cheong Ying Chew, Henry ⁽²⁾	0.180	-	-	-	-	0.180	0.160
Barrie Cook	0.075	-	-	-	-	0.075	0.070
Kwan Bing Sing, Eric	0.018	1.815	-	0.180	-	2.013	9.610
Kwok Eva Lee ⁽²⁾	0.155	-	-	-	-	0.155	0.140
Lan Hong Tsung, David ⁽²⁾	0.155	-	-	-	-	0.155	0.140
Lee Pui Ling, Angelina	0.075	-	-	-	-	0.075	0.070
George Colin Magnus ⁽¹⁾	0.075	-	-	-	-	0.075	0.070
Colin Stevens Russel ⁽²⁾	0.180	-	-	-	-	0.180	0.160
Sng Sow-Mei ⁽²⁾	0.155	-	-	-	-	0.155	0.140
Total for the year 2007	1.668	13.840	25.006	0.782	-	41.296	
Total for the year 2006	1.520	13.700	19.060	0.770	-		35.050

Notes:

- (1) During the current year, Mr. Li Tzar Kuoi, Victor, Mr. Kam Hing Lam, Mr. Andrew John Hunter, Mrs. Chow Woo Mo Fong, Susan, Mr. Frank John Sixt, Mr. Tso Kai Sum and Mr. George Colin Magnus each received directors' fees of HK\$70,000 (2006: HK\$70,000), Mr. Fok Kin Ning, Canning received director's fees of HK\$120,000 (2006: HK\$120,000) from Hongkong Electric. Except for HK\$70,000 (2006: HK\$70,000) received by Mr. George Colin Magnus and HK\$70,000 received by Mr. Andrew John Hunter in 2006, the directors' fees totalling HK\$540,000 (2006: HK\$470,000) were then paid back to the Company.
- (2) INED, ACM and RCM – During the year, Mr. Cheong Ying Chew, Henry, Ms. Kwok Eva Lee, Mr. Lan Hong Tsung, David, Mr. Colin Stevens Russel and Ms. Sng Sow-Mei 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\$825,000 (2006: HK\$740,000).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

37. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (cont'd)

Of the 5 individuals with the highest emoluments in the Group, 4 (2006: 4) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the remaining 1 (2006: 1) individual falls within the band of HK\$4,500,001 to HK\$5,000,000, details of which are set out below:

<i>HK\$ million</i>	2007	2006
Salaries and benefits in kind	3	2
Contributions to retirement plan	–	1
Bonuses	2	2
Total	5	5

38. COMMITMENTS

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

<i>HK\$ million</i>	Contracted but not provided for		Authorised but not contracted for	
	2007	2006	2007	2006
Investments in associates and jointly controlled entities	831	13	–	–
Plant and machinery	12	4	97	33
Total	843	17	97	33

(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:

<i>HK\$ million</i>	2007	2006
Within 1 year	3	4
In the 2nd to 5th year, inclusive	–	3
Total	3	7

39. CONTINGENT LIABILITIES

<i>HK\$ million</i>	2007	2006
Guarantee in respect of bank loan drawn by an associate	2,522	–
Guarantee in respect of bank loans drawn by a jointly controlled entity	–	586
Guarantee in respect of performance bonds	59	141
Total	2,581	727

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

40. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group advanced HK\$30 million (2006: HK\$90 million) to its unlisted associates. The Group received repayments totalling HK\$1 million (2006: HK\$3 million) from unlisted associates. The total outstanding loan balances as at 31st December, 2007 amounted to HK\$4,550 million (2006: HK\$4,237 million), of which HK\$31 million (2006: HK\$29 million) bore interest with reference to Australian Bank Bill Swap Reference Rate and HK\$4,186 million (2006: HK\$3,791 million) at fixed rates ranging from 10.5 per cent to 11.19 per cent (2006: from 10.5 per cent to 20.0 per cent) and HK\$333 million (2006: HK\$417 million) was interest-free. The average effective interest rate of the loan granted to associates is 10.5 per cent (2006: 10.8 per cent). As stated in note 6, interest from loans granted to associates during the year amounted to HK\$432 million (2006: HK\$392 million). Except for a loan of HK\$94 million (2006: HK\$94 million) which was repayable within fourteen years (2006: fifteen years), the loans had no fixed terms of repayment. As stated in note 30, the amount due to an unlisted associate of HK\$175 million (2006: HK\$147 million) include HK\$155 million (2006: HK\$147 million) bore interest at HIBOR plus 0.75 per cent (2006: HIBOR plus 0.75 per cent) and HK\$20 million (2006: nil) with no fixed terms of repayment and interest-free.

During the current year, the Group received repayments totalling HK\$825 million (2006: HK\$270 million) from jointly controlled entities. The total outstanding loan balances as at 31st December, 2007 amounted to HK\$396 million (2006: HK\$1,376 million), of which HK\$251 million (2006: HK\$251 million) bore interest with reference to Hong Kong dollar prime rate, and HK\$145 million (2006: HK\$1,125 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\$186 million (2006: HK\$190 million) and HK\$9 million (2006: HK\$37 million), respectively.

The emoluments of key management have been presented in note 37 above.

41. BALANCE SHEET OF THE COMPANY

as at 31st December

<i>HK\$ million</i>	2007	2006
Total assets	30,729	30,701
Total liabilities	(202)	(182)
Net assets	30,527	30,519
Representing:		
Share capital	2,254	2,254
Reserves	28,273	28,265
Total equity	30,527	30,519

Of the Group's profit attributable to shareholders of the Company for the current year, HK\$2,308 million (2006: HK\$2,177 million) has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)**42. COMPARATIVE FIGURES**

As a result of adopting HKFRS 7 “Financial Instruments: Disclosures” and HKAS 1 (Amendment) “Capital Disclosures”, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details are disclosed in note 3.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 117 to 175 were approved by the Board of Directors on 17th March, 2008.

PRINCIPAL SUBSIDIARIES

APPENDIX 1

The table below shows the subsidiaries as at 31st December, 2007 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	Number	Issued share capital 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 65,780,000 non-voting deferred	HK\$0.5 HK\$0.5	100	Investment holding
Anderson Asphalt Limited	36,000 ordinary	HK\$100	100	Production and laying of asphalt and investment holding
Cheung Kong China Infrastructure Limited	2 ordinary	HK\$1	100	Investment holding and investment in infrastructure projects in Mainland China
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
Incorporated and operating in Australia				
Cheung Kong Infrastructure Finance (Australia) Pty Ltd	1 ordinary	A\$1	100	Financing
Incorporated and operating in 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, 2007 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	Number	Issued share capital 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 37,188,524,600 ordinary	A\$1 A\$0.01	23	Electricity distribution
Incorporated and operating in the United Kingdom				
Northern Gas Networks Holdings Limited	571,670,979 ordinary 1 Special	£1 £1	40	Gas Distribution

APPENDIX 2 (cont'd)

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 JOINTLY CONTROLLED ENTITIES

APPENDIX 3

The table below shows the jointly controlled entities as at 31st December, 2007 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)
Incorporated and operating in Hong Kong			
Alliance Construction Materials Limited	50	50	Quarry operation and production and sale of concrete and aggregates

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

I: Industrial

C: Commercial

(B) INDEBTEDNESS

As at the close of business on 31st May, 2008, for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK\$8,148 million which was comprised of unsecured bank loans and other borrowings of approximately HK\$8,054 million, secured bank loans of approximately HK\$44 million, debentures of approximately HK\$3 million and finance lease obligations of approximately HK\$47 million.

As at the close of business on 31st May, 2008, the Group had contingent liabilities of approximately HK\$2,582 million. The contingent liabilities comprised approximately HK\$2,531 million of guarantees in respect of bank loans drawn by an associate and performance bonds of approximately HK\$51 million.

Save as disclosed above or as otherwise mentioned herein and apart from intra-group liabilities, the Group did not, at the close of business on 31st May, 2008 have any mortgages, charges, debentures, bank overdrafts or loan capital, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, finance lease commitment, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or guarantees or other contingent liabilities.

(C) WORKING CAPITAL

The Directors are of the opinion that after taking into account the Group's internal resources and available borrowing facilities, the Group has sufficient working capital for at least twelve months from the date of this circular.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(1) Directors' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, 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 SFO) which were 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 pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long Positions in Shares

Name of Company	Name of Director	Capacity	Number of Ordinary Shares				Total	Approximate % of Shareholding
			Personal Interests	Family Interests	Corporate Interests	Other Interests		
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%
	Man Ka Keung, Simon	Beneficial owner & interest of child or spouse	2,770 (Note 7)	2,770 (Note 7)	-	-	2,770	0.00006%

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

Name of Company	Name of Director	Capacity	Number of Ordinary Shares				Total	Approximate % of Shareholding
			Personal Interests	Family Interests	Corporate Interests	Other Interests		
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	38.87%
	Lee Pui Ling, Angelina	Beneficial owner	8,800	-	-	-	8,800	0.0004%
Hutchison Harbour Ring Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	-	-	-	6,399,728,952 (Note 8)	6,399,728,952	71.51%
	Fok Kin Ning, Canning	Interest of controlled corporation	-	-	5,000,000 (Note 5)	-	5,000,000	0.05%
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	0.68%
	Frank John Sixt	Beneficial owner	1,000,000	-	-	-	1,000,000	0.13%
Hutchison Telecommunications International Limited	Li Tzar Kuoi, Victor	Interest of controlled corporations & beneficiary of trusts	-	-	2,519,250 (Note 3)	2,889,651,625 (Note 9)	2,892,170,875	60.42%
	Fok Kin Ning, Canning	Interest of controlled corporation	-	-	1,202,380 (Note 5)	-	1,202,380	0.025%
	Chow Woo Mo Fong, Susan	Beneficial owner	250,000	-	-	-	250,000	0.005%
	George Colin Magnus	Beneficial owner & interest of child or spouse	13,201	132	-	-	13,333	0.0003%

(ii) Long Positions in Underlying Shares

Name of Company	Name of Director	Capacity	Number of Underlying Shares				Total
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	-	-	-	2 (Note 10)	2
Hutchison Telecommunications International Limited	Frank John Sixt	Beneficial owner	255,000 (Note 11)	-	-	-	255,000
Partner Communications Company Ltd.	Fok Kin Ning, Canning	Interest of controlled corporation	-	-	225,000 (Note 12)	-	225,000
	George Colin Magnus	Beneficial owner	25,000 (Note 13)	-	-	-	25,000

(iii) Long Positions in Debentures

Name of Company	Name of Director	Capacity	Amount of Debentures				Total
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
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
	Man Ka Keung, Simon	Beneficial owner & interest of child or spouse	US\$100,000 6.5% Notes due 2013 (Note 7)	US\$100,000 6.5% Notes due 2013 (Note 7)	-	-	US\$100,000 6.5% Notes due 2013
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
	Man Ka Keung, Simon	Beneficial owner & interest of child or spouse	US\$200,000 6.25% Notes due 2014 (Note 7)	US\$200,000 6.25% Notes due 2014 (Note 7)	-	-	US\$200,000 6.25% Notes due 2014

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.

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.

Notes (Cont'd):

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 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 interests are jointly held by Mr. Man Ka Keung, Simon and his wife.
8. Such shares of Hutchison Harbour Ring Limited ("HHR") are held by certain wholly-owned subsidiaries of HWL.

By virtue of the interests in the shares of HWL in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of HWL as described in Note 2 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 HHR under the SFO.

9. Such shares of Hutchison Telecommunications International Limited ("HTIL") comprise:
 - (a) 2,889,498,345 ordinary shares of which 52,092,587 ordinary shares and 2,837,405,758 ordinary shares are held by certain wholly-owned subsidiaries of CKH and HWL respectively. By virtue of the interests in the shares of CKH and HWL in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH and HWL as described in Notes 1 and 2 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 HTIL under the SFO; and
 - (b) 153,280 ordinary shares held by TUT3 as trustee of UT3. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, by virtue of being a discretionary beneficiary of each of DT3 and DT4 and his deemed interest in TUT3 as trustee of UT3 as described in Note 2(b) above, is taken to have a duty of disclosure in relation to the said shares of HTIL under the SFO.

Notes (Cont'd):

10. Such underlying shares of the Company are held by an indirect wholly-owned subsidiary of CKH by virtue of the HK\$300,000,000 capital guaranteed notes due 2009.

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 in the underlying shares of the Company under the SFO.

11. Such underlying shares are derived from the 17,000 American Depositary Shares (each representing 15 ordinary shares) in HTIL beneficially owned by Mr. Frank John Sixt.
12. Such underlying shares are derived from the 225,000 American Depositary Shares (each representing one ordinary share) in Partner Communications Company Ltd. ("Partner Communications") held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.
13. Such underlying shares are derived from the 25,000 American Depositary Shares (each representing one ordinary share) in Partner Communications beneficially owned by Mr. George Colin Magnus.

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 the Latest Practicable Date, 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.

(2) Interests and short positions of Shareholders

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, 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:

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)	2 (Note vi)	1,906,681,947	84.58%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	1,912,109,945 (Note iv)	2 (Note vi)	1,912,109,947	84.82%
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)	2 (Note vi)	1,912,109,947	84.82%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	1,912,109,945 (Note v)	2 (Note vi)	1,912,109,947	84.82%
Li Ka-shing	Founder of discretionary trusts	1,912,109,945 (Note v)	2 (Note vi)	1,912,109,947	84.82%

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 be regarded as a founder of each 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 by virtue of the HK\$300,000,000 capital guarantee notes due 2009.

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 in the said underlying shares of the Company held by CKH as described in Note v above.

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following shareholders were interested in 10% or more of the equity interests of the following subsidiaries of the Company:

Name of Subsidiary	Name of Shareholder	No. and Class of Shares Held	% of Shareholding	
			Directly	Indirectly
China Cement Company (International) Limited	Bell Investment Limited	300,000 Ordinary	30%	–
Guangdong GITIC Green Island Cement Co. Limited (廣信青洲水泥有限公司)	Bell Investment Limited	N/A	–	28.5%
Tangshan Tangle Road Co., Ltd.	唐山市交通開發總公司 (Tangshan City Transportation Development Company*)	N/A	49%	–
Zhumadian Gangma Road Development Co., Ltd.	駐馬店市公路工程開發公司 (Zhumadian City Highway Construction Development Company*)	N/A	34%	–
Zhumadian Gangyi Road Development Co., Ltd.	駐馬店市公路工程開發公司 (Zhumadian City Highway Construction Development Company*)	N/A	34%	–

* Name translated for reference purposes only in this circular

Save as disclosed above, as at the Latest Practicable Date, the Company had 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 who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

3. COMPETING BUSINESS

As at the Latest Practicable Date, the interests of Directors or their respective associates (as that term is defined in the Listing Rules) 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.

(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)
	ARA Asset Management Limited	Non-executive Director	(5) & (6)
	Fok Kin Ning, Canning	Cheung Kong (Holdings) Limited	Non-executive Director
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)
Andrew John Hunter		Hongkong Electric Holdings Limited	Executive Director
	Spark Infrastructure Group	Non-executive Director	(1) & (5)

(b) Interests in Competing Business (Cont'd)

Name of Director	Name of Company	Nature of Interest	Competing Business (Note)
Chow Woo Mo Fong, Susan	Hutchison Whampoa Limited	Deputy Group Managing Director	(1), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director and Alternate 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	Non-executive Director and 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)
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, as at the Latest Practicable Date, none of the Directors was interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

4. DIRECTORS' INTERESTS IN CONTRACTS

- (a) As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).
- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31st December, 2007, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to, any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which was significant in relation to the business of the Group.

5. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claim of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

6. MATERIAL CONTRACTS

Within the two years immediately preceding the Latest Practicable Date, the Group has not entered into any contracts, not being contracts entered into in the ordinary course of business, which are or may be material.

7. EXPERT AND CONSENT

- (a) The following is the qualification of the expert who has given opinion or advice which is contained in this circular:-

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

- (b) As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any interest in any shares of the Company or any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for, any shares in any member of the Group.
- (c) As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any direct or indirect interest in any assets which have been since 31st December, 2007, the date to which the latest published audited account of the Company were made up, acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.
- (d) Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter dated 30th June, 2008 and the references to its name included herein in the form and context in which they respectively appear.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours at the principal place of business of the Company in Hong Kong at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong up to and including 14th July, 2008:

- (a) the Memorandum of Association and Bye-laws of the Company;
- (b) the audited consolidated financial statements of the Group for the year ended 31st December, 2006 and the year ended 31st December, 2007, the text of which is set out in Appendix I to this circular;
- (c) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited consolidated accounts of the Group; and
- (d) the written consent from Deloitte Touche Tohmatsu referred to in the section headed "Expert and Consent" of this Appendix.

9. GENERAL

- (a) The company secretary of the Company is Ms. Eirene Yeung. She is a solicitor of the High Court of the Hong Kong Special Administrative Region and of the Supreme Court of Judicature in England and Wales, and she holds a Master of Science degree in Finance, a Master's degree in Business Administration and a Bachelor's degree in Laws.
- (b) The qualified accountant of the Company is Mr. Chan Loi Shun, Dominic. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.
- (c) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

- (d) The principal share registrars and transfer office of the Company is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda. The branch share registrars and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

This circular ("Circular") (in both English and Chinese versions) has been posted on the Company's website at www.cki.com.hk.

Shareholders may at any time choose to change your choice of the language of the Company's corporate communications (including but not limited to annual reports, interim reports, notices of meetings, circulars and proxy forms) by notice in writing to the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Shareholders who have chosen to receive printed copy of the corporate communications in either English or Chinese version will receive both English and Chinese versions of this Circular since both languages are bound together into one booklet.