THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

MAJOR TRANSACTION
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN VECTOR WELLINGTON ELECTRICITY NETWORK LIMITED (NOW KNOWN AS WELLINGTON ELECTRICITY LINES LIMITED)

14th November, 2008

CONTENTS

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

"Acquisition"	the acquisition by the Purchaser from the Vendor of 100 ordinary shares in the share capital of VWE Network, representing the entire issued share capital of VWE Network, and the repayment of the Intercompany Debt on and subject to the terms and conditions of the Sale and Purchase Agreement
"Board"	the board of Directors of the Company
"Business Day"	means Monday to Friday, excluding public holidays in Hong Kong, Auckland and Wellington
"Circular"	a circular of the Company dated 30th June, 2008 issued by the Company in relation to the Disposal
"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 Acquisition in accordance with the terms of the Sale and Purchase Agreement
"connected persons"	has the meaning ascribed to it in the Listing Rules
"Covenantor"	Vector Limited, a company incorporated under the laws of New Zealand, the shares of which are listed on the New Zealand Stock Exchange, and the ultimate holding company of the Vendor
"Director(s)"	the director(s) of the Company
"Disposal"	the sale and purchase of the Sale Shares and other transactions and matters as contemplated by the Disposal Agreement
"Disposal Agreement"	a sale and purchase agreement dated 16th May, 2008 entered into between the Company and HEH in respect of the Disposal
"Enlarged Group"	the Group and the VWE Group
"Group"	the Company and its subsidiaries

"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)
"Holdco"	Wellington Electricity Distribution Network Holdings Limited, a company incorporated under the laws of Bahamas with limited liability
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Intercompany Debt"	the amount owing by VWE Network to the Covenantor as at the date of Completion as described in the Sale and Purchase Agreement
"Latest Practicable Date"	11th November, 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Letter of Credit"	an irrevocable standard letter of credit in favour of the Vendor issued by an acceptable bank for an amount of NZ$39 million (approximately HK$180.2 million) in the form agreed by the Vendor in writing
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the model code on 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 the Covenantor in respect of the purchase of the Wellington Network by VWE Network from the Covenantor
"Purchase Price"	the total consideration for the Acquisition under and in accordance with the terms of the Sale and Purchase Agreement
"Purchaser"	Wellington Electricity Distribution Network Limited, a company incorporated under the laws of New Zealand and an indirect wholly-owned subsidiary of the Company as at the date of the Sale and Purchase Agreement

"Sale and Purchase Agreement"	a conditional sale and purchase agreement dated 28th April, 2008 entered into between the Purchaser, the Company, the Vendor and the Covenantor in respect of the Acquisition
"Sale Shares"	50 ordinary shares of par value of NZ$1 (approximately HK$4.6205) each in the capital of Holdco, representing 50% of the entire issued capital of Holdco as at completion of the Disposal
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
"Shareholder(s)"	shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Vector Metering Data Services Limited, a company incorporated under the laws of New Zealand
"VWE Group"	VWE Network and VWE Management
"VWE Management"	Vector Wellington Electricity Management Limited (now known as Wellington Electricity Lines Management Limited), a company incorporated under the laws of New Zealand and a wholly-owned subsidiary of VWE Network
"VWE Network"	Vector Wellington Electricity Network Limited (now known as Wellington Electricity Lines Limited), a company incorporated under the laws of New Zealand and a wholly-owned subsidiary of the Vendor as at the date of the Sale and Purchase Agreement
"Wellington Network"	has the meaning given to it under the section headed "Information on the interest being acquired" in this circular
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"NZ$"	New Zealand dollar, the lawful currency of New Zealand
"%"	per cent

Note: The figures in NZ$ are converted into HK$ at the rate of NZ$1 : HK$4.6205 throughout this circular for indication purposes only.

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*

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)*

Non-executive Directors

LEE Pui Ling, Angelina
Barrie COOK
George Colin MAGNUS

Company Secretary

Eirene YEUNG

Registered Office

Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal Place of Business

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

14th November, 2008

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN VECTOR WELLINGTON ELECTRICITY NETWORK LIMITED (NOW KNOWN AS WELLINGTON ELECTRICITY LINES LIMITED)

INTRODUCTION

The Board announced on 28th April, 2008 that on the same day, the Purchaser, being an indirect wholly-owned subsidiary of the Company as at the date of the Sale and Purchase Agreement, and the Company entered into the Sale and Purchase Agreement with the Vendor and the Covenantor pursuant to which, among other things, (i) the Purchaser agreed to acquire from the Vendor the entire 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 the Purchaser's obligations under the Sale and Purchase Agreement on the terms thereof; and (iii) the Covenantor, being the ultimate holding company of the Vendor, agreed to guarantee the performance of the Vendor's obligations under the Sale and Purchase Agreement on the terms thereof.

Pursuant to the Sale and Purchase Agreement, the Vendor and the Covenantor warrant to the Purchaser that VWE Network and the Covenantor will execute an agreement for the acquisition of the Wellington Network in an agreed form. Subsequently, VWE Network and the Covenantor have entered into the Network Acquisition Agreement.

The Board further announced on 16th May, 2008 that the Company and HEH entered into the Disposal 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 Disposal Agreement. Completion of the Disposal took place on 24th June, 2008 whereupon each of the Company (through its indirect wholly-owned subsidiary) and HEH (through its indirect wholly-owned subsidiary) had become the beneficial owner of 50% of the entire issued share capital of Holdco. The Company had procured the transfer of the entire issued share capital of the Purchaser to Holdco prior to completion of the Disposal. Further details of the Disposal are set out in the Circular.

The Acquisition 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 Acquisition.

THE SALE AND PURCHASE AGREEMENT

Date

28th April, 2008

Parties

(1) The Purchaser
(2) The Company
(3) The Vendor
(4) The Covenantor

The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, the Vendor and the Covenantor and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. The Directors also confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, there is no prior transaction with the Vendor, the Covenantor or their respective ultimate beneficial owners which requires aggregation under Rule 14.22 of the Listing Rules.

Interest to be acquired

The Purchaser agreed to acquire 100 ordinary shares in VWE Network, representing the entire issued share capital of VWE Network, from the Vendor free from any encumbrance and together with all rights attaching and accruing thereto from the date of Completion.

Consideration

The Purchase Price for the Acquisition is an amount equal to NZ$785 million (approximately HK$3,627.1 million), which amount shall be subject to adjustment pursuant to the terms of the Sale and Purchase Agreement. The Purchase Price shall be paid by the Purchaser to the Vendor on the date of Completion free of any deduction, withholding and counter-claim and in same day cleared funds with an undertaking from the bank transferring the funds that they are cleared funds and will not be reversed. The Company shall satisfy the Purchase Price partly from its internal resources and partly from external bank borrowings.

The Purchase Price was determined after taking into account the Company's internal valuation of VWE Network conducted by reference to various factors, including but not limited to the asset value and the historical financial information regarding the performance of VWE Network, and arm's length negotiations between the Company and the Vendor on normal commercial terms.

On execution of the Sale and Purchase Agreement, the Purchaser has established a Letter of Credit and delivered the same to the Vendor's solicitors. The Letter of Credit provided to the Vendor's solicitors will be held by them and released to the Vendor if the Sale and Purchase Agreement is cancelled due to the Purchaser's default in accordance with the terms of the Sale and Purchase Agreement, or returned to the Purchaser upon payment of the Purchase Price or upon cancellation of the Sale and Purchase Agreement due to default of the Vendor or the Covenantor or due to non-satisfaction of the conditions described in the section headed "Conditions" below (provided that the Purchaser has not defaulted) in accordance with the terms of the Sale and Purchase Agreement. The Letter of Credit has been returned to the Purchaser on Completion.

Conditions

Completion of the Acquisition is conditional upon:

(i) receipt by the Company, in writing, of its Shareholders' approval to implement the Sale and Purchase Agreement in accordance with the Listing Rules;

(ii) receipt by the Purchaser, in writing on terms satisfactory to the Purchaser (acting reasonably), of all consents required under the New Zealand Overseas Investment Regulations 2005 to implement the Sale and Purchase Agreement; and

(iii) receipt in writing that the Vendor and the Covenantor have all consents required from their shareholders to implement the Sale and Purchase Agreement.

All the conditions mentioned above have been fulfilled on or prior to 15th July, 2008 and Completion has taken place on 24th July, 2008.

Guarantee

The Company guarantees to the Vendor (i) payment by the Purchaser to the Vendor of the Purchase Price; (ii) the advance of funds by the Purchaser to VWE Network in an amount equal to the Intercompany Debt and payment of such funds to the Vendor; and (iii) the due and punctual performance of the obligations of the Purchaser contained in the relevant provisions of the Sale and Purchase Agreement.

The Covenantor guarantees to the Purchaser and will procure the due and punctual performance of each obligation of the Vendor contained in the Sale and Purchase Agreement.

INFORMATION ON THE VENDOR AND THE COVENANTOR

The Covenantor is listed on New Zealand Stock Exchange and owns infrastructure assets throughout New Zealand including electricity networks, gas distribution systems and gas transmission businesses.

The Vendor owns all the ordinary shares in VWE Network as at the date of the Sale and Purchase Agreement.

INFORMATION ON THE GROUP

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

INFORMATION ON THE INTEREST BEING ACQUIRED

VWE Network and VWE Management were incorporated on 9th September, 2003 and 27th March, 2008 respectively. Since their respective incorporation dates up to the date of Completion, they have not commenced any operation or business activities save and except the entering into of the agreement by VWE Network as described in the following paragraph.

Pursuant to the Network Acquisition Agreement entered into between VWE Network and the Covenantor, VWE Network purchased from the Covenantor the electricity network assets which form part of the Covenantor's electricity lines business in the Wellington, Porirua and Hutt Valley regions in New Zealand, having a system length of over 4,592 km ("**Wellington Network**"). The Wellington Network currently distributes electricity to residential, commercial and industrial customers in the region.

VWE Management is a wholly-owned subsidiary of VWE Network and is a dormant company as at the date of Completion.

The net book value of the Wellington Network on the pro forma basis as at 30th June, 2008 is approximately NZ$567.4 million (approximately HK$2,621.7 million). The net profits before interest and tax attributable to the Wellington Network on the pro forma basis for the year ended 30th June, 2007 and the year ended 30th June, 2008 were approximately NZ$78.1 million (approximately HK$360.9 million) and approximately NZ$65.0 million (approximately HK$300.3 million) respectively. The net profits after interest and tax attributable to the Wellington Network on the pro forma basis for the year ended 30th June, 2007 and the year ended 30th June, 2008 were approximately NZ$58.8 million (approximately HK$271.7 million) and approximately NZ$44.9 million (approximately HK$207.5 million) respectively.

REASONS FOR THE ACQUISITION

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, New Zealand, the United Kingdom, Canada and the Philippines. The Acquisition reflects the Company's strategy of investing in infrastructure opportunities around the world, leveraging the Group's strong financial position and solid experience in infrastructure.

The Directors (including Independent Non-executive Directors) consider that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

For the six months ended 30th June, 2008, the Group's turnover and its share of turnover of jointly controlled entities was HK$3,180 million, an increase of 16% over the same period last year. Unaudited profit attributable to shareholders amounted to HK$2,329 million, a 15% increase as compared to the first half of 2007. Earnings per share were HK$1.03.

Profit contribution from HEH recorded growth of 21%, amounting to HK$1,238 million. Profit contribution from the Group's China portfolio was HK$487 million, an increase of 5% over the same period last year. Profit contribution from the Group's Australian businesses increased by 3% to HK$448 million. In the United Kingdom, a 59% increase was reported by the Group's water and gas businesses, with a total profit contribution of HK$271 million. The Group's material business generated a profit contribution of HK$116 million, up 66% over the same period last year.

In the first half of 2008, the Company announced its first investment in New Zealand with the acquisition of the Wellington Network. A 50% stake of this investment has since been divested to HEH. The Wellington Network supplies electricity to the city of Wellington, the capital of New Zealand, and extends to the Porirua and Hutt Valley regions of New Zealand, with a system length of over 4,592 km. VWE Network was acquired for a consideration of approximately NZ$785 million (equivalent to about HK$3,627.1 million) and the transaction was completed in July 2008. Generating immediate revenue, the acquisition is expected to further enhance the Company's strong existing portfolio of regulated businesses.

The Company has ample resources to pursue new acquisitions. The Group's balance sheet remains very strong – cash on hand amounted to HK$8,863 million as at 30th June, 2008, while debt was HK$8,105 million, resulting in no net debt at the corporate level. Further to the Company's recent acquisition of power assets in Canada and New Zealand, and its water investment in the United Kingdom, the Company will continue to look for quality infrastructure assets that generate secure and attractive returns.

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

The total consideration for the Acquisition has been funded from external bank borrowings of the Purchaser and from the internal resources of the Group and HEH group on a 50/50 basis.

The Company has equity accounted for the results of the VWE Group as "interest in associates" subsequent to completion of the Disposal and the Acquisition.

Based on the unaudited pro forma financial information of the Enlarged Group as shown in Appendix IV, the Group had audited total assets and total liabilities of approximately HK$49,442 million and HK$9,985 million respectively as at 31st December, 2007. Upon completion of the Acquisition, the Enlarged Group would have unaudited pro forma total assets and total liabilities of approximately HK$49,770 million and HK$10,313 million respectively.

The Acquisition would result in an increase in the Group's profit before taxation and interest due to sharing 50% of the operating results of VWE Group.

Save as the above, the Acquisition has no significant impact on the assets and liabilities of the Company. The Acquisition is not expected to have any significant impact on the earnings of the Company in short term, but is expected to improve the profitability of the Company in the long run.

GENERAL

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, which is subject to the notification, publication and Shareholders' approval requirements. As no Shareholder of the Company is required to abstain from voting if the Company were to convene a general meeting for approving the Acquisition, and as the Company has obtained a written approval of the Acquisition 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 Acquisition.

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) SUMMARY OF CONSOLIDATED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2008 AND FOR THE THREE YEARS ENDED 31ST DECEMBER, 2007

(Expressed in HK$ million)

The following was extracted from the published consolidated results and of the assets and liabilities of the Group prepared for the six months ended 30th June, 2008 and for the three years ended 31st December, 2007.

Results	(Unaudited) As at 30th June, 2008	(Audited) Year ended 31st December, 2007	2006	2005
Group turnover	1,021	1,865	1,822	2,247
Share of turnover of jointly controlled entities	2,159	4,024	2,977	2,503
	3,180	5,889	4,799	4,750
Group turnover	1,021	1,865	1,822	2,247
Other income	443	734	756	592
Operating costs	(896)	(1,669)	(1,587)	(1,729)
Finance costs	(263)	(560)	(523)	(732)
Gain on disposal of a jointly controlled entity	–	815	–	–
Gain on disposal of associates	–	–	–	3,763
Impairment losses	–	(654)	(279)	(1,727)
Share of results of associates	1,656	3,554	2,751	3,183
Share of results of jointly controlled entities	414	700	737	311
Profit before taxation	2,375	4,785	3,677	5,908
Taxation	(42)	(6)	(4)	(67)
Profit for the period/year	2,333	4,779	3,673	5,841
Attributable to:				
Shareholders of the Company	2,329	4,772	3,670	6,007
Minority interests	4	7	3	(166)
	2,333	4,779	3,673	5,841
Earnings per share	HK$1.03	HK$2.12	HK$1.63	HK$2.66

Assets and Liabilities	(Unaudited) As at 30th June, 2008	(Audited) As at 31st December, 2007	2006	2005
Property, plant and equipment	1,134	1,121	991	919
Investment properties	171	160	130	59
Leasehold land	285	292	301	326
Interests in associates	31,055	30,389	29,382	26,911
Interests in jointly controlled entities	3,314	3,176	4,238	4,337
Interests in infrastructure project investments	350	377	490	579
Investments in securities	3,786	4,187	3,064	2,092
Derivative financial instruments	77	55	38	447
Goodwill	207	209	205	175
Deferred tax assets	5	5	–	–
Other non-current assets	19	19	13	9
Current assets	9,912	9,452	8,770	8,701
Total assets	50,315	49,442	47,622	44,555
Current liabilities	(5,036)	(4,802)	(5,648)	(1,221)
Non-current liabilities	(5,464)	(5,183)	(6,109)	(9,798)
Minority interests	(52)	(48)	(41)	(38)
Net assets	39,763	39,409	35,824	33,498

(B) 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

HK$ million	*Notes*	**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

HK$ million	*Notes*	**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

HK$ million	**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

HK$ million	*Note*	**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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Associates and Jointly Controlled Entities

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

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

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

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

(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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(l) Foreign Currencies (cont'd)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(m) Taxation (cont'd)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

(a) Currency Risk (cont'd)

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:

	2007		2006	
HK$ million	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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

(b) Interest Rate Risk (cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

(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.

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:

	2007						2006					
HK$ million	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	–

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

(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.

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 value.

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:

HK$ million	**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:

HK$ million	**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

HK$ million	**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

HK$ million	**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

HK$ million	**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:

HK$ million	**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

HK$ million	**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.

HK$ million	**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:

HK$ million	**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* 2007	Investment in Hongkong Electric* 2006	Infrastructure investments 2007	Infrastructure investments 2006	Infrastructure related business 2007	Infrastructure related business 2006	Unallocated items 2007	Unallocated items 2006	Consolidated 2007	Consolidated 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	–	–	762	633	(41)	(28)	–	–	721	605
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 (cont'd)
as at 31st December

	Investment in Hongkong Electric*		Infrastructure investments		Infrastructure related business		Unallocated items		Consolidated	
HK$ million	**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

	Hong Kong		Mainland China		Australia		United Kingdom		Canada and Others		Unallocated Items		Consolidated	
HK$ million	**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

	Hong Kong		Mainland China		Australia		United Kingdom		Canada and Others		Unallocated Items		Consolidated	
HK$ million	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

HK$ million	**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

HK$ million	**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).

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

20. INTERESTS IN ASSOCIATES

HK$ million	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:

HK$ million	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

HK$ million	**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:

HK$ million	**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

HK$ million	**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

HK$ million	**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

	2007		2006	
HK$ million	**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:

HK$ million	**Floating interest rate**	**Weighted average fixed interest rate**	**Notional principal amount**	**Estimated fair value**
Contracts maturing in 2010	BBSW or LIBOR*	5.62%	1,872	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

HK$ million	**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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

25. GOODWILL (cont'd)

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.

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

HK$ million	**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

HK$ million	**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:

HK$ million	**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:

HK$ million	**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:

HK$ million	**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

HK$ million	**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:

	HK$		**AU$**		**GBP**		**JPY**		**Total**	
HK$ million	**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:

HK$ million	**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

HK$ million	**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:

HK$ million	**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

HK$ million	**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:

HK$ million	**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:

HK$ million	**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	3.3% 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:

HK$ million	**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:

HK$ million	**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:

HK$ million	**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:

HK$ million	**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:

HK$ million	**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:

HK$ million	**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:

HK$ million	**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:

HK$ million	**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:

HK$ million	**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:

As at 31st December	**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:

HK$ million	**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

HK$ million	**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

	Attributable to shareholders of the Company									
HK$ million	Share premium	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Hedging reserve	Exchange translation reserve	Retained profits	Sub-total	Minority interests	Total
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:

HK$ million	**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

HK$ million	**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	Fees	Basic Salaries, Allowances and Other Benefits	Bonuses	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments 2007	Total Emoluments 2006
Li Tzar Kuoi, Victor(1)	0.075	–	11.00	–	–	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:

HK$ million	**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:

	Contracted but not provided for		**Authorised but not contracted for**	
HK$ million	**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:

HK$ million	**2007**	**2006**
Within 1 year	3	4
In the 2nd to 5th year, inclusive	–	3
Total	3	7

39. CONTINGENT LIABILITIES

HK$ million	**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

HK$ million	**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	Issued share capital 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 the United Kingdom				
Cambridge Water PLC	14,621,152 ordinary	£0.05	100	Water supply

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

PRINCIPAL ASSOCIATES

APPENDIX 2

The table below shows the associates as at 31st December, 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	Issued share capital Number	Par value per share	Approximate share of equity shares held by the Group (per cent)	Principal activities
Incorporated and operating in Hong Kong				
Hongkong Electric Holdings Limited (note 1)	2,134,261,654 ordinary	HK$1	39	Electricity generation and distribution
Eastern Harbour Crossing Company Limited	35,000,000 ordinary	HK$10	50	Exercise of a franchise to operate the rail section of a tunnel
Incorporated and operating in Australia				
ETSA Utilities Partnership (note 2)	N/A	N/A	23	Electricity distribution
CKI/HEI Electricity Distribution Pty Limited (note 3)	810,000,000 ordinary	A$1	23	Electricity distribution
CKI/HEI Electricity Distribution Two Pty Limited (note 4)	180,000,000 ordinary	A$1	23	Electricity distribution
	37,188,524,600 ordinary	A$0.01		
Incorporated and operating in the United Kingdom				
Northern Gas Networks Holdings Limited	571,670,979 ordinary	£1	40	Gas Distribution
	1 special	£1		

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

(C) EXTRACTS FROM THE UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2008

The following was extracted from the Company's 2008 interim reports. References to page numbers in the extract reproduced below are to pages contained in the Company's interim report for the six months ended 30th June, 2008.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June

		Unaudited	
HK$ million	*Notes*	**2008**	**2007**
Group turnover	*2*	1,021	870
Share of turnover of jointly controlled entities	*2*	2,159	1,876
		3,180	2,746
Group turnover	*2*	1,021	870
Other income	*3*	443	430
Operating costs	*4*	(896)	(736)
Finance costs		(263)	(277)
Share of results of associates		1,656	1,276
Share of results of jointly controlled entities		414	469
Profit before taxation		2,375	2,032
Taxation	*5*	(42)	(16)
Profit for the period	*6*	2,333	2,016
Attributable to:			
Shareholders of the Company		2,329	2,018
Minority interests		4	(2)
		2,333	2,016
Interim dividend		670	609
Earnings per share	*7*	HK$1.03	HK$0.90
Interim dividend per share		HK$0.297	HK$0.27

CONSOLIDATED BALANCE SHEET

HK$ million	*Notes*	**Unaudited 30/6/2008**	**Audited 31/12/2007**
Property, plant and equipment		1,134	1,121
Investment properties		171	160
Leasehold land		285	292
Interests in associates		31,055	30,389
Interests in jointly controlled entities		3,314	3,176
Interests in infrastructure project investments		350	377
Investments in securities		3,786	4,187
Derivative financial instruments		77	55
Goodwill		207	209
Deferred tax assets		5	5
Other non-current assets		19	19
Total non-current assets		40,403	39,990
Inventories		120	75
Interests in infrastructure project investments		135	125
Derivative financial instruments		369	428
Debtors and prepayments	*8*	425	607
Bank balances and deposits		8,863	8,217
Total current assets		9,912	9,452
Bank and other loans		3,112	2,972
Derivative financial instruments		488	417
Creditors and accruals	*9*	1,324	1,292
Taxation		112	121
Total current liabilities		5,036	4,802
Net current assets		4,876	4,650
Total assets less current liabilities		45,279	44,640
Bank and other loans		4,993	4,607
Derivative financial instruments		124	187
Deferred tax liabilities		332	373
Other non-current liabilities		15	16
Total non-current liabilities		5,464	5,183
Net assets		39,815	39,457
Representing:			
Share capital	*10*	2,254	2,254
Reserves	*11*	37,509	37,155
Equity attributable to shareholders of the Company		39,763	39,409
Minority interests	*11*	52	48
Total equity		39,815	39,457

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30th June

	Unaudited	
HK$ million	**2008**	**2007**
Net cash from operating activities	593	957
Net cash from investing activities	2,034	2,662
Net cash utilised in financing activities	(1,981)	(309)
Net increase in cash and cash equivalents	646	3,310
Cash and cash equivalents at 1st January	8,217	7,720
Cash and cash equivalents at 30th June		
Bank balances and deposits	8,863	11,030

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the six months ended 30th June

	Unaudited	
HK$ million	**2008**	**2007**
(Loss)/Gain from fair value changes of available-for-sale financial assets	(483)	187
Gain/(Loss) from fair value changes of derivatives designated as effective cash flow hedges	71	(66)
Actuarial (losses)/gains of defined benefit retirement schemes	(312)	69
Exchange differences on translation of financial statements of foreign operations	617	634
Surplus on revaluation of properties upon transfer to investment properties	9	–
Net (loss)/gain recognised directly in equity	(98)	824
Reserve released upon disposal of a subsidiary	(6)	–
Reserves released upon disposals of interests in an associate	–	28
Profit for the period	2,333	2,016
Total recognised income and expense for the period	2,229	2,868
Attributable to:		
Shareholders of the Company	2,225	2,870
Minority interests	4	(2)
	2,229	2,868

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim financial statements are prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31st December, 2007, except for the adoption of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Intepretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are effective to the Group for accounting periods beginning on or after 1st January, 2008. The adoption of the new HKFRSs has no material impact on the Group's results and financial position for the current or prior periods.

2. 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 period is analysed as follows:

	Six months ended 30th June	
HK$ million	**2008**	**2007**
Sales of infrastructure materials	521	423
Income from the supply of water	144	142
Return from infrastructure project investments	36	45
Interest income from loans granted to associates	238	206
Distribution from investments in securities	82	54
Group turnover	1,021	870
Share of turnover of jointly controlled entities	2,159	1,876
	3,180	2,746

3. OTHER INCOME

Other income includes the following:

	Six months ended 30th June	
HK$ million	**2008**	**2007**
Interest income from banks and debt securities	226	244
Gain on disposals of infrastructure project investments	112	–
Gain on disposal of a subsidiary	71	–
Gain on disposals of listed securities	2	67
Gain on disposals of interests in an associate	–	79

NOTES TO THE INTERIM FINANCIAL STATEMENTS (cont'd)

4. OPERATING COSTS

Operating costs include the following:

HK$ million	Six months ended 30th June 2008	Six months ended 30th June 2007
Depreciation of property, plant and equipment	29	27
Cost of inventories sold	594	476
Change in fair values of investments in securities	105	7
Change in fair values of derivative financial instruments	24	3

5. TAXATION

Overseas tax is provided for at the applicable tax rate on the estimated assessable profits less available tax losses. Deferred taxation is provided on temporary differences under the liability method using tax rates applicable to the Group's operations in different countries.

HK$ million	Six months ended 30th June 2008	Six months ended 30th June 2007
Current taxation – overseas tax	4	10
Deferred taxation	38	6
Total	42	16

NOTES TO THE INTERIM FINANCIAL STATEMENTS (cont'd)

6. SEGMENT INFORMATION

By business segment
for the six months ended 30th June

HK$ million	Investment in HK Electric* 2008	Investment in HK Electric* 2007	Infrastructure investments 2008	Infrastructure investments 2007	Infrastructure related business 2008	Infrastructure related business 2007	Unallocated items 2008	Unallocated items 2007	Consolidated 2008	Consolidated 2007
Group turnover	–	–	500	447	521	423	–	–	1,021	870
Share of turnover of jointly controlled entities	–	–	1,807	1,588	352	288	–	–	2,159	1,876
	–	–	2,307	2,035	873	711	–	–	3,180	2,746
Segment revenue										
Group turnover	–	–	500	447	521	423	–	–	1,021	870
Others	–	–	14	20	6	7	–	–	20	27
	–	–	514	467	527	430	–	–	1,041	897
Segment result	–	–	378	338	(48)	(33)	–	–	330	305
Net gain on disposals of interests in an associate, infrastructure project investments and listed securities	–	–	112	79	2	–	–	67	114	146
Gain on disposal of a subsidiary	–	–	–	–	71	–	–	–	71	–
Change in fair values of investments in securities and derivative financial instruments	–	–	–	–	10	–	(139)	(10)	(129)	(10)
Interest income	–	–	44	3	58	66	124	175	226	244
Corporate overheads and others	–	–	–	–	–	–	(44)	(121)	(44)	(121)
Finance costs	–	–	(61)	(16)	–	–	(202)	(261)	(263)	(277)
Share of results of associates and jointly controlled entities	1,238	1,021	808	689	24	35	–	–	2,070	1,745
Profit/(Loss) before taxation	1,238	1,021	1,281	1,093	117	68	(261)	(150)	2,375	2,032
Taxation	–	–	(45)	(16)	3	–	–	–	(42)	(16)
Profit/(Loss) for the period	1,238	1,021	1,236	1,077	120	68	(261)	(150)	2,333	2,016
Attributable to:										
Shareholders of the Company	1,238	1,021	1,236	1,077	116	70	(261)	(150)	2,329	2,018
Minority interests	–	–	–	–	4	(2)	–	–	4	(2)
	1,238	1,021	1,236	1,077	120	68	(261)	(150)	2,333	2,016

* During the period, the Group has a 38.87 per cent equity interest in Hongkong Electric Holdings Limited ("HK Electric"), which is listed on The Stock Exchange of Hong Kong Limited.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (cont'd)

6. SEGMENT INFORMATION (cont'd)

By geographic region

for the six months ended 30th June

	Hong Kong		Mainland China		Australia		United Kingdom		Canada and Others		Unallocated items		Consolidated	
HK$ million	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Group turnover	358	332	197	136	320	260	144	142	2	–	–	–	1,021	870
Share of turnover of jointly controlled entities	219	245	1,940	1,631	–	–	–	–	–	–	–	–	2,159	1,876
	577	577	2,137	1,767	320	260	144	142	2	–	–	–	3,180	2,746
Segment revenue														
Group turnover	358	332	197	136	320	260	144	142	2	–	–	–	1,021	870
Others	6	7	3	10	–	–	11	10	–	–	–	–	20	27
	364	339	200	146	320	260	155	152	2	–	–	–	1,041	897
Segment result	(57)	(23)	34	27	288	260	65	45	–	(4)	–	–	330	305
Net gain on disposals of interests in an associate, infrastructure project investments and listed securities	–	–	112	–	–	79	–	–	2	–	–	67	114	146
Gain on disposal of a subsidiary	–	–	71	–	–	–	–	–	–	–	–	–	71	–
Change in fair values of investments in securities and derivative financial instruments	–	–	–	–	–	–	–	–	10	–	(139)	(10)	(129)	(10)
Interest income	58	66	–	–	–	–	44	3	–	–	124	175	226	244
Corporate overheads and others	–	–	–	–	–	–	–	–	–	–	(44)	(121)	(44)	(121)
Finance costs	–	–	–	–	–	–	(61)	(16)	–	–	(202)	(261)	(263)	(277)
Share of results of associates and jointly controlled entities	1,265	1,063	390	435	160	95	231	154	24	(2)	–	–	2,070	1,745
Profit/(Loss) before taxation	1,266	1,106	607	462	448	434	279	186	36	(6)	(261)	(150)	2,375	2,032
Taxation	3	–	(37)	–	–	–	(8)	(16)	–	–	–	–	(42)	(16)
Profit/(Loss) for the period	1,269	1,106	570	462	448	434	271	170	36	(6)	(261)	(150)	2,333	2,016
Attributable to:														
Shareholders of the Company	1,269	1,106	566	464	448	434	271	170	36	(6)	(261)	(150)	2,329	2,018
Minority interests	–	–	4	(2)	–	–	–	–	–	–	–	–	4	(2)
	1,269	1,106	570	462	448	434	271	170	36	(6)	(261)	(150)	2,333	2,016

NOTES TO THE INTERIM FINANCIAL STATEMENTS (cont'd)

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of HK$2,329 million (2007: HK$2,018 million) and on 2,254,209,945 shares (2007: 2,254,209,945 shares) in issue during the interim period.

8. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors of HK$288 million (HK$235 million at 31st December, 2007) and their aging analysis is as follows:

HK$ million	**30/6/2008**	**31/12/2007**
Current	206	144
Less than 1 month past due	36	55
1 to 3 months past due	36	24
More than 3 months but less than 12 months past due	20	24
More than 12 months past due	75	71
Amount past due	167	174
Allowance for doubtful debts	(85)	(83)
Total after allowance	288	235

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

9. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors of HK$103 million (HK$131 million at 31st December, 2007) and their aging analysis is as follows:

HK$ million	**30/6/2008**	**31/12/2007**
Current	62	98
1 month	13	12
2 to 3 months	9	6
Over 3 months	19	15
Total	103	131

NOTES TO THE INTERIM FINANCIAL STATEMENTS (cont'd)

10. SHARE CAPITAL

There were no movements in the share capital of the Company in the six months ended 30th June, 2008 and 2007, respectively.

11. RESERVES AND MINORITY INTERESTS

	Attributable to shareholders of the Company									
HK$ million	Share premium	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Hedging reserve	Exchange translation reserve	Retained profits	Sub-total	Minority interests	Total
At 1st January, 2008	3,836	6,062	59	144	191	1,596	25,267	37,155	48	37,203
Loss from fair value changes of available-for-sale financial assets	–	–	–	(483)	–	–	–	(483)	–	(483)
Gain from fair value changes of derivatives designated as effective cash flow hedges	–	–	–	–	71	–	–	71	–	71
Actuarial losses of defined benefit retirement schemes	–	–	–	–	–	–	(312)	(312)	–	(312)
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	617	–	617	–	617
Surplus on revaluation of properties upon transfer to investment properties	–	–	9	–	–	–	–	9	–	9
Net gain/(loss) recognised directly in equity	–	–	9	(483)	71	617	(312)	(98)	–	(98)
Reserve released upon disposal of a subsidiary	–	–	–	–	–	(6)	–	(6)	–	(6)
Profit for the period	–	–	–	–	–	–	2,329	2,329	4	2,333
Total recognised income and expense for the period	–	–	9	(483)	71	611	2,017	2,225	4	2,229
Dividend paid	–	–	–	–	–	–	(1,871)	(1,871)	–	(1,871)
At 30th June, 2008	**3,836**	**6,062**	**68**	**(339)**	**262**	**2,207**	**25,413**	**37,509**	**52**	**37,561**

NOTES TO THE INTERIM FINANCIAL STATEMENTS (cont'd)

11. RESERVES AND MINORITY INTERESTS (cont'd)

	Attributable to shareholders of the Company									
HK$ million	Share premium	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Hedging reserve	Exchange translation reserve	Retained profits	Sub-total	Minority interests	Total
At 1st January, 2007	3,836	6,062	56	76	(146)	981	22,705	33,570	41	33,611
Gain from fair value changes of available-for-sale financial assets	–	–	–	187	–	–	–	187	–	187
Loss from fair value changes of derivatives designated as effective cash flow hedges	–	–	–	–	(90)	–	24	(66)	–	(66)
Actuarial gains of defined benefit retirement schemes	–	–	–	–	–	–	69	69	–	69
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	634	–	634	–	634
Net gain/(loss) recognised directly in equity	–	–	–	187	(90)	634	93	824	–	824
Reserves released upon disposals of interests in an associate	–	–	–	–	95	(67)	–	28	–	28
Profit for the period	–	–	–	–	–	–	2,018	2,018	(2)	2,016
Total recognised income and expense for the period	–	–	–	187	5	567	2,111	2,870	(2)	2,868
Dividend paid	–	–	–	–	–	–	(1,690)	(1,690)	–	(1,690)
At 30th June, 2007	3,836	6,062	56	263	(141)	1,548	23,126	34,750	39	34,789

NOTES TO THE INTERIM FINANCIAL STATEMENTS (cont'd)

12. COMMITMENTS

The Group's capital commitments outstanding at 30th June, 2008 and not provided for in the financial statements are as follows:

	Contracted but not provided for		**Authorised but not contracted for**	
HK$ million	**30/6/2008**	**31/12/2007**	**30/6/2008**	**31/12/2007**
Investment in an associate and jointly controlled entities	3,188	831	–	–
Plant and machinery	6	12	96	97
Total	**3,194**	**843**	**96**	**97**

13. CONTINGENT LIABILITIES

HK$ million	**30/6/2008**	**31/12/2007**
Guarantee in respect of bank loan drawn by an associate	2,467	2,522
Guarantee in respect of performance bonds	54	59
Total	**2,521**	**2,581**

(D) MANAGEMENT DISCUSSION AND ANALYSIS

The year ended 31st December, 2005

Results

The Group reported a profit attributable to shareholders of HK$6,007 million with earnings per share of HK$2.66.

Business review

Investment in HEH

The Company maintained its stake in HEH at 38.87 per cent in 2005. The Company's investment in HEH accounted for HK$2,492 million of the Company's profit attributable to shareholders in 2005, representing an increase of 4 per cent over the previous year, mainly due to the continued success of its overseas diversification strategy.

Infrastructure investments

The Company's infrastructure investments accounted for HK$4,920 million of the Company's profit attributable to shareholders in 2005, representing an increase of 140 per cent over the previous year. The overall increase included a sizeable one-off gain of HK$3,699 million from the listing of Spark Infrastructure Group on the Australian Stock Exchange Limited, which was offset by one-off impairments of HK$937 million against certain infrastructure assets and investments.

Operations in Mainland China delivered a steady performance for the year. The Zhuhai Power Plant remains the top performer of the Company's China portfolio. Units of electricity sold far exceeded the annual minimum quantity as stipulated in the power off-take contract. The Company's portfolio of toll roads in Mainland China also continued to deliver solid returns. Of particular note, the Guangzhou East-South-West Ring Road registered double-digit growth in traffic volume and toll revenue.

Powercor Australia Limited, CitiPower I Pty Ltd. and ETSA Utilities – three prime assets in the Group's Australian power portfolio – recorded 40 per cent growth in contributions (after including tax adjustments).

Cambridge Water PLC contributed its first full-year of profit in 2005.

Completion of the acquisition of Northern Gas Networks Limited took place during the year, and the profit contribution from this project commenced during the course of 2005. A substantial one-off gain was also booked during the year from the sale of a 9.9 per cent stake in the asset.

Infrastructure materials and infrastructure related businesses

Depressed conditions in the materials market continued to pose challenges for our materials business. A one-off asset impairment of HK$790 million was made, resulting in a loss of HK$845 million being reported.

Financial position

As at 31st December, 2005, the Group had current assets and current liabilities of HK$8,701 million and HK$1,221 million respectively.

As at 31st December, 2005, the Group had total borrowings of HK$9,056 million which included Hong Kong dollar syndicated loan of HK$3,800 million and foreign currency borrowings of HK$5,256 million. Of the total borrowings, 78 per cent were repayable between 2007 and 2010 and 22 per cent repayable beyond 2010.

As at 31st December, 2005, the Group maintained a gearing ratio at 3 per cent which was based on its net debt of HK$946 million and shareholders' equity of HK$33,498 million. This ratio was significantly lower than the gearing ratio of 14 per cent at the end of 2004, mainly due to proceeds from divestment of interests in certain Australian energy projects in December 2005.

To minimise currency risk exposure in respect of its investments in other countries, the Group generally hedges those investments with the appropriate level of borrowings denominated in the local currencies of those countries. The Group also entered into certain interest rate and currency swaps to mitigate interest rate and other currency exposure risks. As at 31st December, 2005, the notional amounts of these derivative instruments amounted to HK$8,123 million.

As at 31st December, 2005, the Group's interests in an affiliated company with carrying value of HK$1,736 million were pledged as part of the security to secure bank borrowings totalling HK$3,249 million granted to the affiliated company. Moreover, the Group's obligations under finance leases totalling HK$35 million were secured by charge over the leased assets with carring value of HK$199 million.

As at 31st December, 2005, the Group was subject to contingent liabilities of HK$664 million.

The year ended 31st December, 2006

Results

The Group reported a profit attributable to shareholders of HK$3,670 million with earnings per share of HK$1.63.

Business review

Investment in HEH

The Company maintained its stake in HEH at 38.87 per cent in 2006. The Company's investment in HEH accounted for HK$2,632 million of the Company's profit attributable to shareholders in 2006, representing an increase of 6 per cent over the previous year. HEH has maintained its supply reliability in Hong Kong at 99.999 per cent, a distinction that is virtually unrivalled in the world. HEH's overseas businesses have also performed very well and continued to contribute to the growth of the business.

Infrastructure investments

The Company's infrastructure investments accounted for HK$1,268 million of the Company's profit attributable to shareholders in 2006, representing a decrease of 74 per cent compared with the previous year. The Company's stake in the electricity business was reduced following the divestment of part of its shareholdings in ETSA Utilities, CitiPower I Pty Ltd. and Powercor Australia Limited in 2005. The fundamentals of these power distribution businesses continue to be solid and they have outperformed operating targets for the year.

The results from the Company's Australian portfolio were adversely affected by the performance of the Cross City Tunnel and the aforesaid divestment of its interest in the electricity distribution businesses, with profit contribution reducing to HK$64 million. Traffic levels for the Cross City Tunnel project, in which the Company has a 50 per cent stake, were significantly lower than expected, leading to an operating loss of HK$262 million being recorded by the Group. The project company has been unable to generate sufficient revenue to service its non-recourse project debt, resulting in a receiver being appointed for the project just prior to the year end. The Company has accordingly made a further asset impairment of HK$279 million in 2006. The entire book value of the investment has now been fully written down.

Commencing 2006, the Group has also received income and management fees from Spark Infrastructure by virtue of its 9.9 per cent stake and its interest in the management contract. Envestra Limited, one of Australia's largest listed natural gas distribution companies in which the Company has a 16.4 per cent stake, continued to generate double-digit cash yields during the year.

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

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

Infrastructure materials and infrastructure related businesses

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

Financial position

As at 31st December, 2006, the Group has current assets and current liabilities of HK$8,770 million and HK$5,648 million respectively.

As at 31st December, 2006, total borrowings of the Group amounted to HK$9,327 million, which included Hong Kong dollar syndicated loan of HK$3.8 billion and foreign currency borrowings of HK$5,527 million. Of the total borrowings, 41 per cent were repayable in 2007, 38 per cent were repayable between 2008 and 2011 and 21 per cent repayable beyond 2011.

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

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

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

As at 31st December, 2006, the Group was subject to contingent liabilities of HK$727 million.

The year ended 31st December, 2007

Results

The Group reported a profit attributable to shareholders of HK$4,772 million with earnings per share of HK$2.12.

Business review

Investment in HEH

The Company maintained its stake in HEH at 38.87 per cent in 2007. The Company's investment in HEH accounted for HK$2,864 million of the Company's profit attributable to shareholders in 2007 representing an increase of 9 per cent over the previous year. The HEH Group entered into a new Scheme of Control Agreement with the Hong Kong Government which provides for a fixed permitted return on average net fixed assets for ten years from January 2009, with a Government option to extend the agreement for a further term of five years. This agreement removes uncertainties surrounding the electricity industry in Hong Kong and under this long-term stable regulatory framework, HEH will continue to make a steady profit contribution to the Company.

Infrastructure investments

The Company's infrastructure investments accounted for HK$2,318 million of the Company's profit attributable to shareholders in 2007 representing an increase of 83 per cent over the previous year. The Group's energy investments reported solid performance on the back of increasing electricity demand in Mainland China. Zhuhai Power Plant continued to be a solid performer in our China portfolio in 2007. The Group's portfolio of toll roads in Mainland China achieved stable performance in 2007. A one-off gain of HK$815 million was recorded arising from the sale of the Company's stake in the Guangzhou East-South-West Ring Road to the joint venture partner.

The electricity distribution businesses in Australia delivered good operating results in 2007. ETSA Utilities, CitiPower I Pty Ltd. and Powercor Australia Limited recorded enhanced returns through both increased regulated revenue and expanded non-regulated business activities. Our strategic investments in two listed energy companies in Australia, namely Envestra Limited and Spark Infrastructure Group, performed well during the year.

In early 2007, the Group divested 21 per cent of its 40 per cent stake in the Lane Cove Tunnel in Sydney, Australia, bringing its shareholding down to 19 per cent. Subsequently, after tunnel opening in March 2007, traffic levels have been significantly lower than expected. As a result, full provision has been made against the remaining carrying value of this investment.

In the United Kingdom, strong growth was achieved by Northern Gas Networks Limited.

In the water business, stable cash and profit returns were generated by Cambridge Water PLC during the year.

The Company's portfolio of investments in the United Kingdom was extended with the acquisition of a stake in Southern Water Group ("Southern Water") in the fourth quarter of 2007. Southern Water is a regulated water and sewage company in the United Kingdom, with an enterprise value of approximately HK$66 billion (GBP 4.2 billion). The Company's 4.75 per cent stake in Southern Water provides immediate earning accretion and good returns.

2007 marked the Company's first electricity generation investment in North America. The Company acquired and subsequently privatised TransAlta Power, L.P. ("TransAlta Power"), 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 total cost of acquisition was HK$5 billion (C$630 million). The Company subsequently divested 50 per cent of its interest to HEH. The acquisition represents a springboard for the Company into the Canadian electricity market and provides an immediate cashflow stream and profit contribution to the Group in 2008.

Infrastructure materials and infrastructure related businesses

The materials business performed well in 2007. With the resurgence of the property and infrastructure markets, the demand for the materials business improved and generated a profit contribution of HK$143 million, up 30 per cent from last year.

Financial position

As at 31st December, 2007, the Group has current assets and current liabilities of HK$9,452 million and HK$4,802 million respectively.

As at 31st December, 2007, total borrowings of the Group amounted to HK$7,579 million, which are all denominated in foreign currencies. Of the total borrowings, 39 per cent were repayable in 2008, 33 per cent were repayable between 2009 and 2012 and 28 per cent repayable beyond 2012.

As at 31st December, 2007, the Group has changed to a net cash position from the 4 per cent gearing of net debt to shareholders' equity at the year end of 2006. Such change was mainly due to proceeds from divestments of interests in certain projects in Mainland China and Australia during the current year.

To minimise currency risk exposure in respect of its investments in other countries, the Group generally hedges those investments with the appropriate level of borrowings denominated in the local currencies of those countries. The Group also entered into certain interest rate and currency swaps to mitigate interest rate and other currency exposure risks. As at 31st December, 2007, the notional amounts of those derivative instruments amounted to HK$9,569 million.

As at 31st December, 2007, the Group's interests in an affiliated company with carrying value of HK$2,082 million were pledged as part of the security to secure bank borrowings totalling HK$2,231 million granted to the affiliated company. The Group's obligations under finance leases totalling HK$49 million were secured by charge over the leased assets with carrying value of HK$263 million. Moreover, certain plant and machinery of the Group with carrying value of HK$67 million were pledged to secure bank borrowings totalling HK$44 million granted to the Group.

As at 31st December, 2007 the Group was subject to contingent liabilities of HK$2,581 million.

Employees

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,020 employees. Employees' cost (excluding directors' emoluments) amounted to HK$274 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

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

(E) INDEBTEDNESS

As at the close of business on 30th September, 2008, for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK$7,463 million which was comprised of unsecured bank loans and other borrowings of approximately HK$7,377 million, secured bank loans of approximately HK$41 million, debentures of approximately HK$3 million and finance lease obligations of approximately HK$42 million.

As at the close of business on 30th September, 2008, the Group had contingent liabilities of approximately HK$3,496 million. The contingent liabilities comprised approximately HK$3,442 million of guarantees in respect of bank loans drawn by associates and performance bonds of approximately HK$54 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 30th September, 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.

(F) 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.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

14th November, 2008

The Board of Directors
Cheung Kong Infrastructure Holdings Limited
12th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Wellington Electricity Lines Limited (the "Company", formerly known as Vector Wellington Electricity Network Limited) and its subsidiary, Wellington Electricity Lines Management Limited ("WELM", formerly known as Vector Wellington Electricity Management Limited) (collectively referred to as the "Group"), which comprises the consolidated balance sheets of the Group and the balance sheets of the Company as at 30th June, 2006, 2007 and 2008, the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for each of the years ended 30th June, 2006, 2007 and 2008 (the "Relevant Period") and the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of Cheung Kong Infrastructure Holdings Limited ("CKI") dated 14th November, 2008 in connection with the acquisition of the entire equity interest in the Company.

The Company is a limited liability company incorporated under the laws of New Zealand on 9th September, 2003, under the name of NGC Australia Metering Data Services Limited. By a resolution passed on 3rd July, 2006, the name of the Company was changed to Vector Metering Data Services (Australia) Limited. By a resolution passed on 27th March, 2008, the name of the Company was changed to Vector Wellington Electricity Network Limited. By a resolution passed on 24th July, 2008, the name of the Company was further changed to Wellington Electricity Lines Limited. During the year ended 30th June, 2008, the Company entered into an agreement for the acquisition of the electricity lines business in the Wellington, Porirua and Hutt Valley regions in New Zealand (the "Wellington Network") from its then ultimate holding company, Vector Limited ("Vector"). WELM was incorporated under the laws of New Zealand on 27th March, 2008 and is principally engaged in providing management services to the Wellington Network.

Prior to the acquisition of the Wellington Network, the Company was engaged in investment holding and held a 100% equity interest in Elect Data Services (Australia) Pty Limited, which was incorporated in Australia and engaged in the operation of a gas metering business. The Company disposed of its entire interest in Elect Data Services (Australia) Pty Limited on 22nd April, 2008 to Vector. The gas metering business was operated independently of the Wellington Network and does not form part of the operating business acquired by CKI as part of its acquisition of the Company. For the purpose of this report, the Financial Information of the Group has been prepared excluding the Company's equity interest in and results of Elect Data Services (Australia) Pty Limited for all periods presented, as disclosed in the basis of preparation set out in note 1 in section B below.

No statutory audited financial statements have been prepared for the Company and WELM since their respective dates of incorporation as such financial statements are not required under the legislation of New Zealand. For the purpose of this report, the directors of CKI (the "Directors") have prepared the Financial Information of the Group based on the financial information of the Wellington Network, now the only underlying operating business of the Group, which has been prepared in accordance with the basis set out in note 1 in section B below for the Relevant Period.

Basis of preparation

The Financial Information has been prepared by the Directors on the basis set out in note 1 in section B below to conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. We consider that no adjustments are necessary for the purpose of this report.

Respective responsibility of Directors and reporting accountants

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information 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.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30th June, 2008.

Opinion

In our opinion, for the purpose of this report, on the basis of preparation set out in note 1 of section B below, the Financial Information gives a true and fair view of the Group's profits and cash flows for the Relevant Period and of the Group's and the Company's financial position as at 30th June, 2006, 2007 and 2008.

Without qualifying our opinion, we draw attention to note 1 of section B below. The Financial Information presents aggregated financial information of the Wellington Network. In preparing the Financial Information, corporate overhead costs and other costs such as income taxes have been allocated to the Wellington Network using the method of allocation described in note 1 of section B below. The Financial Information may not necessarily be indicative of the financial performance that would have been achieved if the Wellington Network had operated as an independent entity.

A FINANCIAL INFORMATION

1. Consolidated income statements

	Section B Note	Year ended 30th June 2006 NZ$'000	2007 NZ$'000	2008 NZ$'000
Turnover	*2*	154,613	158,284	148,190
Direct costs		(48,545)	(48,904)	(52,016)
Gross profit		106,068	109,380	96,174
Other operating expenses		(27,784)	(31,289)	(31,185)
Profit before taxation	*3*	78,284	78,091	64,989
Income tax	*4*	(24,699)	(19,270)	(20,113)
Profit for the year		53,585	58,821	44,876
Earnings per share	*8(a)*	536	588	449
Diluted earnings per share	*8(b)*	N/A	N/A	N/A

The accompanying notes form part of the Financial Information.

A FINANCIAL INFORMATION (cont'd)

2. Consolidated balance sheets

		As at 30th June,		
	Section B	**2006**	**2007**	**2008**
	Note	*NZ$'000*	*NZ$'000*	*NZ$'000*
Non-current assets				
Property, plant and equipment	*9*	481,084	494,499	504,115
Goodwill	*10*	121,306	121,306	121,306
Intangible assets	*11*	75	51	28
		602,465	615,856	625,449
Current assets				
Trade and other receivables	*13*	16,188	14,710	12,943
Current liabilities				
Trade and other payables	*14*	15,118	15,346	10,321
Provisions		58	118	91
		15,176	15,464	10,412
Net current assets/(liabilities)		1,012	(754)	2,531
Total assets less current liabilities		603,477	615,102	627,980
Non-current liabilities				
Deferred tax liabilities	*15*	57,302	55,776	60,565
NET ASSETS		546,175	559,326	567,415
Equity				
Share capital	*16*	–	–	–
Invested capital	*16*	546,175	559,326	567,415
TOTAL EQUITY		546,175	559,326	567,415

The accompanying notes form part of the Financial Information.

A FINANCIAL INFORMATION (cont'd)

3. Company balance sheets

		As at 30th June,		
	Section B	**2006**	**2007**	**2008**
	Note	*NZ$'000*	*NZ$'000*	*NZ$'000*
Non-current assets				
Property, plant and equipment	*9*	481,084	494,499	504,115
Goodwill	*10*	121,306	121,306	121,306
Intangible assets	*11*	75	51	28
Investment in subsidiary	*12*	–	–	–
		602,465	615,856	625,449
Current assets				
Trade and other receivables	*13*	16,188	14,710	12,943
Current liabilities				
Trade and other payables	*14*	15,118	15,346	10,249
Provisions		58	118	88
		15,176	15,464	10,337
Net current assets/(liabilities)		1,012	(754)	2,606
Total assets less current liabilities		603,477	615,102	628,055
Non-current liabilities				
Deferred tax liabilities	*15*	57,302	55,776	60,565
NET ASSETS		546,175	559,326	567,490
Equity				
Share capital	*16*	–	–	–
Invested capital	*16*	546,175	559,326	567,490
TOTAL EQUITY		546,175	559,326	567,490

The accompanying notes form part of the Financial Information.

A FINANCIAL INFORMATION (cont'd)

4. Consolidated statements of changes in equity

	Section B Note	**Year ended 30th June** **2006** *NZ$'000*	**2007** *NZ$'000*	**2008** *NZ$'000*
Total equity at 1st July		543,096	546,175	559,326
Profit for the year	*16*	53,585	58,821	44,876
Repayment of invested capital	*16*	(50,506)	(45,670)	(36,787)
Total equity at 30th June		546,175	559,326	567,415

The accompanying notes form part of the Financial Information.

A FINANCIAL INFORMATION (cont'd)

5. Consolidated cash flow statements

	Section B Note	Year ended 30th June 2006 NZ$'000	2007 NZ$'000	2008 NZ$'000
Operating activities				
Profit before taxation		78,284	78,091	64,989
Adjustments for:				
– Depreciation	*3(b)*	17,322	17,620	18,135
– Amortisation of intangible assets	*3(b)*	23	24	23
– Net loss on disposal of property, plant and equipment	*3(b)*	66	1,023	1,546
Operating profit before changes in working capital		95,695	96,758	84,693
(Increase)/decrease in trade and other receivables		(1,294)	1,478	1,767
(Decrease)/increase in trade and other payables and provisions		(511)	288	(5,052)
Cash generated from operations		93,890	98,524	81,408
Tax paid		(20,023)	(20,796)	(15,324)
Net cash generated from operating activities		73,867	77,728	66,084
Investing activities				
Payment for the purchase of property, plant and equipment		(23,522)	(32,101)	(29,515)
Proceeds from sale of property, plant and equipment		161	43	218
Net cash used in investing activities		(23,361)	(32,058)	(29,297)
Financing activities				
Repayment of invested capital		(50,506)	(45,670)	(36,787)
Net cash used in financing activities		(50,506)	(45,670)	(36,787)
Cash and cash equivalents at 30th June		–	–	–

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING PRINCIPLES

(a) Statement of compliance

The Financial Information has been prepared in accordance with the basis of preparation set out below and all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The accounting policies set out below have been applied consistently in the Financial Information for the Relevant Period.

(b) Basis of preparation of the Financial Information

The Company acquired the Wellington Network in May 2008 from Vector (the "Acquisition"). The Company and the Wellington Network were controlled by Vector and the Acquisition is considered to be a business combination under common control and Accounting Guideline 5, Merger Accounting for Common Control Combinations has been applied. The Financial Information has been prepared using the merger basis of accounting as if the Wellington Network had always been operated by the Company during the Relevant Period. The net assets of the Company and the Wellington Network have been consolidated using their historical book values from the perspective of Vector.

The Company previously held a 100% equity interest in Elect Data Services (Australia) Pty Limited, which was incorporated in Australia and engaged in the operation of a gas metering business. The Company disposed of its entire interest in Elect Data Services (Australia) Pty Limited on 22nd April, 2008 to Vector. The gas metering business was operated independently of the Wellington Network and does not form part of the operating business acquired by CKI as part of its acquisition of the Company. The Financial Information of the Group has been prepared excluding the Company's equity interest in and results of Elect Data Services (Australia) Pty Limited for all periods presented.

The Financial Information relating to the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group as set out in section A includes the results of operations of the companies and businesses now comprising the Group for the Relevant Period (or where the companies were incorporated on a date later than 1st July, 2005, for the period from the date of incorporation to 30th June, 2008). The consolidated balance sheets of the Group as at 30th June, 2006, 2007 and 2008 as set out in section A have been prepared to present the consolidated assets and liabilities of the companies and businesses now comprising the Group as at those dates. The Company balance sheets as at 30th June, 2006, 2007 and 2008 as set out in section A have been prepared to present the aggregated assets and liabilities of the Company and the Wellington Network as at those dates. As at the date of this report, the Company had a wholly-owned subsidiary, WELM, the details of which are disclosed in note 12.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

The Wellington Network is not a legal entity but one of three regional electricity networks that have historically been managed as fully integrated businesses within the Electricity Business Line business segment of Vector and its subsidiaries (the "Vector Group"), the former owner of the Wellington Network. The Vector Group reports its results under five business segments, of which the Wellington Network was included within the Electricity Business Line segment.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(b) Basis of preparation of the Financial Information (cont'd)

The Wellington Network does not have its own separate accounting records but its directly managed income, costs and most assets and liabilities are accounted for as a separate profit centre within the Vector Group's financial records. The Financial Information set out in this Accountants' Report consolidates the income, costs, assets and liabilities directly managed by the Wellington Network together with an allocation of other Vector Group income, costs, assets and liabilities which are attributable to the activities of the Wellington Network. Amounts which are directly managed primarily comprise revenue from customers and direct costs of operating and maintaining the Wellington Network, together with property, plant and equipment balances. Amounts that have been allocated to the Wellington Network include Electricity Business Line shared overhead costs, Vector Group shared service costs, taxation expenses, goodwill and components of working capital directly associated with the Wellington Network's operations.

No audited financial statements for the Wellington Network have been previously prepared on a standalone basis as the Wellington Network only constituted part of the Vector Group and was not reported on as a distinct business. The underlying financial information of the Wellington Network has been extracted from the financial information used to compile the financial statements of the Vector Group and is presented in the Financial Information as if the Wellington Network had been operated on a standalone basis throughout the Relevant Period and that the Company had carried on the Wellington Network business throughout the Relevant Period.

As a result of the above, the Financial Information prepared on the above basis may not be representative of future results, assets or liabilities of the Wellington Network. Certain operating expenses, taxation expenses, assets or liabilities may be significantly different from those presented if the Wellington Network were operated as an independent entity.

The Vector Group shared service costs have been allocated to the Electricity Business Line segment on the basis of the average of the Electricity Business Line's property, plant and equipment values over the Relevant Period relative to the Vector Group business segments. These costs include, but are not limited to, marketing, management information systems, accountancy and financial reporting, treasury, human resources, legal, tax, security, customer support and billing, regulatory and pricing that are not directly attributable to the business segments of the Vector Group. The Electricity Business Line shared overhead costs plus the allocated share of the Vector Group shared service costs have been allocated to the Wellington Network on the basis of an average of the Wellington Network's property, plant and equipment values over the Relevant Period relative to the Vector Group electricity networks. The Electricity Business Line shared overhead costs include, but are not limited to, personnel, consultancy, computer, communication, call centre and travel expenses that are not directly attributable to individual network regions. The Directors believe that the allocation methodology of Electricity Business Line overhead costs and Vector Group shared service costs are reasonable; however, the costs of these services charged to the Wellington Network in the Financial Information are not necessarily indicative of the costs that would have been incurred had the Wellington Network operated as an entity independent of the Vector Group.

Income taxes (current and deferred) have been determined based on the taxable income and costs of the Wellington Network, measured on the same cost allocation basis as used in the Financial Information, calculated as if the Wellington Network had filed a separate tax return. Tax bases and tax depreciation are those applied to the Wellington Network property, plant and equipment balances in the Vector Group asset register.

Cash and borrowings are centrally managed at the Vector Group level and are not specifically attributable to the Wellington Network or the Vector Group's other regional electricity networks. No separate bank accounts have been maintained by the Wellington Network and the funds provided to or withdrawn from the Vector Group were presented as movements in invested capital of the Company as the Company has no cash and cash equivalents.

Goodwill balances from the Vector Group have been allocated to the Wellington Network using the same method by which the Vector Group has allocated goodwill to the Electricity Business Line (which included the Wellington Network cash generating unit), which reflects the expected benefits of synergies in respect of each business segment of the Vector Group based on internal discounted cash flow valuations for each business segment.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(b) Basis of preparation of the Financial Information (cont'd)

Property, plant and equipment consist of assets directly attributable to the Wellington Network, including the associated depreciation charges. Some minor categories of property, plant and equipment were not historically directly attributed to the Wellington Network and have been separately identified and allocated in the Financial Information. These categories include leasehold improvements, land, buildings and other plant and equipment.

Working capital that is directly attributable to the Wellington Network has been included, along with an allocation of working capital that is centrally managed by the Electricity Business Line and the Vector Group to the extent that it relates to the Wellington Network's directly attributable income and costs. Working capital balances attributable to the Vector Group shared service costs and Electricity Business Line shared overhead costs have been allocated to the Wellington Network based on the trading terms of the Vector Group and the Wellington Network's share of allocated income and costs in relation to the Vector Group shared service costs and Electricity Business Line shared overhead costs.

Operating lease commitments in respect of property, plant and equipment are based on properties occupied by the Wellington Network during the Relevant Period. Capital expenditure commitments at the respective year ends are those directly related to the Wellington Network.

The Vector Group has previously prepared financial statements in accordance with generally accepted accounting principles in New Zealand ("NZ GAAP"). Adjustments have been made to present the Financial Information in accordance with HKFRSs with a transition date from NZ GAAP to HKFRSs of 1st July, 2005.

The measurement basis used in the preparation of the Financial Information is the historical cost basis except as set out in the accounting policies hereunder.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 22.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries is included in the Financial Information based on the basis of preparation as set out in note 1(b).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)).

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(h)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit any attributable amount of purchased goodwill is included in the calculation of profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (see note 1(h)).

The initial cost of purchased property, plant and equipment is the value of the consideration given to acquire the property, plant and equipment and the value of other directly attributable costs, which have been incurred in bringing the property, plant and equipment to the location and condition necessary for the intended service.

The initial cost of self-constructed property, plant and equipment includes the cost of all materials used in construction, direct labour on the project, costs of dismantling and removing the items and restoring the site on which they are located (where an obligation exists to do so) and an appropriate proportion of the other directly attributable overheads incurred in bringing the items to the working condition for their intended use.

Distribution systems, distribution land and distribution buildings of the Wellington Network which were acquired on or before 1st July, 2005 were revalued at 31st March, 2006 in accordance with the Vector Group's accounting policies under NZ GAAP. The fair values of such property, plant and equipment as at 31st March, 2006 have been rolled back to 1st July, 2005 by adding back nine months' depreciation at the revalued depreciation rates and subtracting capital expenditure over this period, and these costs have been deemed the historical costs of such assets on transition of the financial information of the Wellington Network from NZ GAAP to HKFRSs on 1st July, 2005. The net revaluation surplus relating to such property, plant and equipment was transferred to invested capital upon initial adoption of HKFRSs on 1st July, 2005.

Uninstalled property, plant and equipment is stated at the lower of cost and estimated recoverable amount. Estimated recoverable amount is the greater of the estimated amount from the future use of the property, plant and equipment and its ultimate disposal, and its net market value.

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure can be measured reliably and either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and that expenditure would have been included in the initial cost of the item had the expenditure been incurred at that time. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(e) Property, plant and equipment (cont'd)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less the residual value, if any, using the straight-line method over their estimated useful lives as follows:

Distribution systems	10 - 70 years
Distribution buildings	20 - 60 years
Leasehold improvements	8 - 20 years
Other plant and equipment	5 - 15 years

Depreciation commences when the item of property, plant and equipment is brought into productive use, or when such items become available for use. No depreciation is provided on freehold land and capital work in progress.

The cost of improvements to leasehold property are capitalised and depreciated over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	10 years

Both the period and method of amortisation are reviewed annually.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(h) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– goodwill;

– intangible assets; and

– investment in subsidiary.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(h) Impairment of assets (cont'd)

(ii) Impairment of other assets (cont'd)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units), and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(h)).

(j) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Employee benefits

Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax paid on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investment in subsidiary to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(l) Income tax (cont'd)

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Provision of electricity services

Income from the provision of electricity services is recognised as the services are delivered or to reflect the percentage of completion of the related services where delivered over time.

(ii) Setup fees

Setup fees received for the establishment of electricity distribution assets for a customer are recognised in profit or loss to reflect the percentage of completion of construction of the related items of property, plant and equipment. Fees received in excess of those recognised in profit or loss are recognised as deferred income in the balance sheet and subsequently recognised in profit or loss to reflect the percentage of completion of construction of the related items of property, plant and equipment.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

1. SIGNIFICANT ACCOUNTING PRINCIPLES (cont'd)

(p) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Company, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

No analysis of the Group's turnover and contribution to profit from operations by geographical segment or business segment has been presented as all of the Group's operating activities are carried out in New Zealand and less than 10 per cent of the turnover and contribution to profit from operations was derived from activities outside the Group's electricity distribution activities. There are no other geographical or business segments with segment assets equal to or greater than 10 per cent of the Group's total assets.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

2. TURNOVER

The principal activity of the Group is the ownership and management of the Wellington Network. The amount of each significant category of revenue recognised is analysed as follows:

	Year ended 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Provision of electricity services	150,842	154,689	143,320
Setup fees	3,771	3,595	4,870
	154,613	158,284	148,190

3. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Year ended 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
(a) Staff costs:			
Salaries, wages and other benefits	4,976	6,654	6,594
(b) Other items:			
Depreciation	17,322	17,620	18,135
Amortisation of intangible assets	23	24	23
Impairment loss on trade and other receivables recognised/(reversed)	–	121	(22)
Operating lease charges	375	571	588
Auditor's remuneration	66	109	123
Net loss on disposal of property, plant and equipment	66	1,023	1,546

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

4. INCOME TAX IN THE INCOME STATEMENT

(a) Taxation in the income statement represents:

	Year ended 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Current tax			
Provision for the year	20,023	20,796	15,324
Deferred tax			
Relating to property, plant and equipment	4,548	4,400	4,203
Relating to other balance sheet items	128	(348)	586
Change in tax rate	–	(5,578)	–
Income tax expense	24,699	19,270	20,113

Current income tax for the years ended 30th June, 2006, 2007 and 2008 is calculated at 33%, 33% and 33% respectively of the estimated assessable profits for the respective year. During the year ended 30th June, 2007, the New Zealand tax authorities announced a reduction in tax rate to 30%, which will be effective for the Group from the year ending 30th June, 2009.

As the Wellington Network was not a separate taxable entity, taxation attributable to the business has been estimated as set out in the basis of preparation in note 1(b).

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	Year ended 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Profit before taxation	78,284	78,091	64,989
Tax at current rate of 33%	25,834	25,770	21,446
Change in tax rate	–	(5,578)	–
Non-taxable income	(1,244)	(1,186)	(1,607)
Others	109	264	274
Actual tax expense	24,699	19,270	20,113

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

5. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

For the year ended 30th June, 2008

	Directors' fees	**Salaries**	**Total**
	NZ$'000	*NZ$'000*	*NZ$'000*
Steven Bielby	–	26	26
Peter Bird	3	–	3
Antony Carter	3	–	3
Shale Chambers	3	–	3
Hugh Fletcher	3	–	3
Kerry Nickels	–	34	34
Alison Paterson	3	–	3
Karen Sherry	3	–	3
Michael Stiassny	6	–	6
Robert Thompson	3	–	3
	27	60	87

For the year ended 30th June, 2007

	Directors' fees	**Salaries**	**Total**
	NZ$'000	*NZ$'000*	*NZ$'000*
Steven Bielby	–	55	55

For the year ended 30th June, 2006

	Directors' fees	**Salaries**	**Total**
	NZ$'000	*NZ$'000*	*NZ$'000*
Steven Bielby	–	39	39

Directors' remuneration disclosed above includes the Vector Group shared service costs which have been allocated to the Wellington Network.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

6. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments for the years ended 30th June, 2006, 2007 and 2008, none of these individuals are directors whose emoluments are disclosed in note 5. The aggregate of the emoluments in respect of the five individuals with the highest emoluments are as follows:

	Year ended 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Salaries and other emoluments	486	594	637
Discretionary bonuses	89	79	109
	575	673	746

The remuneration fell within the following bands:

	Number of individuals Year ended 30th June,		
	2006	**2007**	**2008**
NZ$Nil – NZ$181,000 (equivalent to HK$Nil – HK$1,000,000)	5	4	4
NZ$181,001 – NZ$272,000 (equivalent to HK$1,000,001 – HK$1,500,000)	–	1	1

7. PROFIT FOR THE YEAR

The profit for the years ended 30th June, 2006, 2007 and 2008 includes profit of NZ$53,585,000, NZ$58,821,000 and NZ$44,951,000 respectively in relation to the Company.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit of NZ$53,585,000, NZ$58,821,000 and NZ$44,876,000 respectively for the years ended 30th June, 2006, 2007 and 2008 divided by the 100 ordinary shares in issue during each respective year.

(b) Diluted earnings per share

There were no dilutive potential shares during the three years ended 30th June, 2006, 2007 and 2008 and, therefore, diluted earnings per share is the same as basic earnings per share.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT

The Group and the Company

	Distribution systems	Freehold distribution land	Distribution buildings	Other plant and equipment	Freehold land	Leasehold improvements	Capital work in progress	Total
	NZ$'000	*NZ$'000*	*NZ$'000*	*NZ$'000*	*NZ$'000*	*NZ$'000*	*NZ$'000*	*NZ$'000*
Cost:								
Balance at 1st July, 2005	451,374	10,567	5,320	41	335	21	7,488	475,146
Additions	–	–	–	–	–	–	23,522	23,522
Transfer from capital work in progress	15,009	–	202	–	–	–	(15,211)	–
Disposals	(245)	–	–	–	–	–	–	(245)
Balance at 30th June, 2006	466,138	10,567	5,522	41	335	21	15,799	498,423
Accumulated depreciation:								
Balance at 1st July, 2005	–	–	–	(30)	–	(5)	–	(35)
Depreciation	(16,480)	–	(832)	(8)	–	(2)	–	(17,322)
Disposals	18	–	–	–	–	–	–	18
Balance at 30th June, 2006	(16,462)	–	(832)	(38)	–	(7)	–	(17,339)
Net book value:								
At 30th June, 2006	449,676	10,567	4,690	3	335	14	15,799	481,084

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Distribution systems NZ$'000	Freehold distribution land NZ$'000	Distribution buildings NZ$'000	Other plant and equipment NZ$'000	Freehold land NZ$'000	Leasehold improvements NZ$'000	Capital work in progress NZ$'000	Total NZ$'000
Cost:								
Balance at 1st July, 2006	466,138	10,567	5,522	41	335	21	15,799	498,423
Additions	–	–	–	–	–	–	32,101	32,101
Transfer from capital work in progress	14,176	2,323	2,137	–	51	–	(18,687)	–
Disposals	(1,100)	–	–	–	–	–	–	(1,100)
Balance at 30th June, 2007	479,214	12,890	7,659	41	386	21	29,213	529,424
Accumulated depreciation:								
Balance at 1st July, 2006	(16,462)	–	(832)	(38)	–	(7)	–	(17,339)
Depreciation	(17,331)	–	(286)	(2)	–	(1)	–	(17,620)
Disposals	34	–	–	–	–	–	–	34
Balance at 30th June, 2007	(33,759)	–	(1,118)	(40)	–	(8)	–	(34,925)
Net book value:								
At 30th June, 2007	445,455	12,890	6,541	1	386	13	29,213	494,499

	Distribution systems NZ$'000	Freehold distribution land NZ$'000	Distribution buildings NZ$'000	Other plant and equipment NZ$'000	Freehold land NZ$'000	Leasehold improvements NZ$'000	Capital work in progress NZ$'000	Total NZ$'000
Cost:								
Balance at 1st July, 2007	479,214	12,890	7,659	41	386	21	29,213	529,424
Additions	3,307	–	–	–	–	–	26,208	29,515
Transfer from capital work in progress	38,808	1,064	836	–	–	–	(40,708)	–
Disposals	(2,017)	–	–	–	–	–	–	(2,017)
Balance at 30th June, 2008	519,312	13,954	8,495	41	386	21	14,713	556,922
Accumulated depreciation:								
Balance at 1st July, 2007	(33,759)	–	(1,118)	(40)	–	(8)	–	(34,925)
Depreciation	(17,821)	–	(311)	–	–	(3)	–	(18,135)
Disposals	253	–	–	–	–	–	–	253
Balance at 30th June, 2008	(51,327)	–	(1,429)	(40)	–	(11)	–	(52,807)
Net book value:								
At 30th June, 2008	467,985	13,954	7,066	1	386	10	14,713	504,115

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Distribution systems, distribution land and distribution buildings of the Group and the Company were revalued at 31st March, 2006 to a total of NZ$473,051,000 in accordance with the Vector Group's accounting policies at that time. These fair values have been rolled back to 1st July, 2005 by adding back nine months' depreciation at the revalued depreciation rates and subtracting capital expenditure over this period and these have been deemed the historical costs of those assets on transition of the financial information of the Wellington Network from NZ GAAP to HKFRSs. At 1st July, 2005, the total deemed costs for distribution systems, distribution land and distribution buildings were NZ$451,374,000, NZ$10,567,000 and NZ$5,320,000 respectively. The net revaluation surplus relating to property, plant and equipment was transferred to invested capital upon initial adoption of HKFRSs.

All land and buildings of the Group and the Company are freehold and situated in New Zealand.

10. GOODWILL

	The Group and the Company
	NZ$'000
Balance at 1st July, 2005	100,122
Additions	21,313
Fair value adjustment	(129)
Balance at 30th June, 2006, 2007 and 2008	121,306

Allocation of goodwill to cash-generating units

The Vector Group allocated goodwill to its cash-generating units ("CGUs") on the basis of the lowest level at which the goodwill is monitored for internal management purposes. One of the CGUs monitored by the Vector Group was the Electricity Business Line segment, which includes the Wellington Network and the goodwill associated with this CGU has been included in the Financial Information as set out in the basis preparation in note 1(b).

Impairment testing

The recoverable amount of the Wellington Network CGU was calculated on the basis of value-in-use using a discounted cash flow model. Future cash flows have been projected for ten years, based on actual results and board-approved business plans with key assumptions determining future earnings before interest, depreciation and amortisation and levels of maintenance expenditure for the CGU. Management believes that this forecast period is justified due to the long-term nature of the electricity business. Terminal growth rates of 2% to 3% are applied. Pre-tax discount rates of between 9% to 12% were utilised. Projected cash flows for regulated businesses are sensitive to assumptions made on future regulator outcomes.

The recoverable amount of the CGU exceeds the net assets plus goodwill allocated to the CGU. Therefore, the management has determined that no provision for impairment of goodwill was necessary at 30th June, 2006, 2007 and 2008.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

11. INTANGIBLE ASSETS

	The Group and the Company Software *NZ$'000*
Cost:	
Balance at 1st July, 2005 and 30th June, 2006	233
Accumulated amortisation:	
Balance at 1st July, 2005	(135)
Amortisation for the year	(23)
Balance at 30th June, 2006	(158)
Carrying amount:	
At 30th June, 2006	75

	The Group and the Company Software *NZ$'000*
Cost:	
Balance at 1st July, 2006 and 30th June, 2007	233
Accumulated amortisation:	
Balance at 1st July, 2006	(158)
Amortisation for the year	(24)
Balance at 30th June, 2007	(182)
Carrying amount:	
At 30th June, 2007	51

	The Group and the Company Software *NZ$'000*
Cost:	
Balance at 1st July, 2007 and 30th June, 2008	233
Accumulated amortisation:	
Balance at 1st July, 2007	(182)
Amortisation for the year	(23)
Balance at 30th June, 2008	(205)
Carrying amount:	
At 30th June, 2008	28

The amortisation charge for software is included in "other operating expenses" in the consolidated income statement. Software intangibles are amortised on a straight line basis over their estimated useful lives.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

12. INVESTMENT IN SUBSIDIARY

	The Company As at 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Unlisted shares, at cost	–	–	–

Investment in subsidiary represents a 100% equity interest in WELM which was incorporated in New Zealand on 27th March, 2008 and has fully paid up capital of 100 ordinary shares of NZ$1 each. The subsidiary is principally engaged in providing management services to the Wellington Network.

13. TRADE AND OTHER RECEIVABLES

	The Group and the Company As at 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Trade receivables	15,328	13,856	11,661
Other receivables	875	990	1,396
Less: allowance for doubtful debts *(note 13(b))*	(15)	(136)	(114)
	16,188	14,710	12,943

All of the current trade and other receivables are expected to be recovered within one year. All of the allowance for doubtful debts relates to the other receivables balance.

(a) Ageing analysis of trade receivables

	The Group and the Company As at 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Not past due	15,328	13,856	11,661

The Group's credit policy is set out in note 17(a). Trade receivables are neither past due nor impaired.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

13. TRADE AND OTHER RECEIVABLES (cont'd)

(b) Impairment of other receivables

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other receivables directly (see note 1(h)).

The movement in allowance for doubtful debts during the respective year, including both the specific and collective loss components is as follows:

	The Group and the Company As at 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Opening balance at 1st July	15	15	136
Impairment loss recognised/(reversed)	–	121	(22)
Closing balance at 30th June	15	136	114

At 30th June, 2006, 2007 and 2008, amounts included in the Group's and the Company's other receivables of NZ$875,000, NZ$990,000 and NZ$848,000 respectively were determined to be impaired. The individually impaired receivables related to debtors that have a historical profile of not being fully recoverable. Consequently, allowances for doubtful debts of NZ$15,000, NZ$136,000 and NZ$114,000 respectively were recognised. The Group does not hold any collateral over these balances.

14. TRADE AND OTHER PAYABLES

	The Group As at 30th June			The Company As at 30th June		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*	*NZ$'000*	*NZ$'000*	*NZ$'000*
Trade payables	564	98	–	564	98	–
Other payables	1,712	1,713	624	1,712	1,713	624
Accruals	12,842	13,535	9,697	12,842	13,535	9,625
	15,118	15,346	10,321	15,118	15,346	10,249

All trade and other payables are measured at amortised cost and expected to be settled within one year.

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	The Group As at 30th June			The Company As at 30th June		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*	*NZ$'000*	*NZ$'000*	*NZ$'000*
Due within one month or on demand	564	98	–	564	98	–

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

15. DEFERRED TAX LIABILITIES

The components of deferred tax (assets)/liabilities recognised in the balance sheets and the movements during the Relevant Period are as follows:

The Group and the Company

	Property, plant and equipment *NZ$'000*	Provisions and accruals *NZ$'000*	Total *NZ$'000*
Balance at 1st July, 2005	52,776	(150)	52,626
Charged to profit or loss	4,548	128	4,676
Balance at 30th June, 2006	57,324	(22)	57,302

	Property, plant and equipment *NZ$'000*	Provisions and accruals *NZ$'000*	Total *NZ$'000*
Balance at 1st July, 2006	57,324	(22)	57,302
Charged/(credited) to profit or loss	4,400	(348)	4,052
Change in tax rate	(5,612)	34	(5,578)
Balance at 30th June, 2007	56,112	(336)	55,776

	Property, plant and equipment *NZ$'000*	Provisions and accruals *NZ$'000*	Total *NZ$'000*
Balance at 1st July, 2007	56,112	(336)	55,776
Charged to profit or loss	4,203	586	4,789
Balance at 30th June, 2008	60,315	250	60,565

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

16. SHARE CAPITAL AND RESERVES

The Group

	Share capital *NZ$'000*	Invested capital *NZ$'000*	Total *NZ$'000*
At 1st July, 2005	–	543,096	543,096
Profit for the year	–	53,585	53,585
Repayment of invested capital	–	(50,506)	(50,506)
At 30th June, 2006	–	546,175	546,175
At 1st July, 2006	–	546,175	546,175
Profit for the year	–	58,821	58,821
Repayment of invested capital	–	(45,670)	(45,670)
At 30th June, 2007	–	559,326	559,326
At 1st July, 2007	–	559,326	559,326
Profit for the year	–	44,876	44,876
Repayment of invested capital	–	(36,787)	(36,787)
At 30th June, 2008	–	567,415	567,415

The Company

	Share capital *NZ$'000*	Invested capital *NZ$'000*	Total *NZ$'000*
At 1st July, 2005	–	543,096	543,096
Profit for the year	–	53,585	53,585
Repayment of invested capital	–	(50,506)	(50,506)
At 30th June, 2006	–	546,175	546,175
At 1st July, 2006	–	546,175	546,175
Profit for the year	–	58,821	58,821
Repayment of invested capital	–	(45,670)	(45,670)
At 30th June, 2007	–	559,326	559,326
At 1st July, 2007	–	559,326	559,326
Profit for the year	–	44,951	44,951
Repayment of invested capital	–	(36,787)	(36,787)
At 30th June, 2008	–	567,490	567,490

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

16. SHARE CAPITAL AND RESERVES (cont'd)

(a) Share capital

The Company was incorporated on 9th September, 2003 and at the date of incorporation, 100 ordinary shares of NZ$1 each were issued as initial share capital. All issued shares are fully paid and carry equal voting rights and equal rights to a surplus on unwinding.

(b) Repayment of invested capital

As disclosed in note 1(b), no separate bank accounts have been maintained by the Wellington Network and the net funds remitted to the Vector Group have been presented as a reduction in invested capital.

(c) Distributability of reserves

There are no restrictions on the distributability of reserves in New Zealand other than the statutory solvency test. At 30th June, 2006, 2007 and 2008, reserves distributable to the Company's shareholders amounted to NZ$546,175,000, NZ$559,326,000 and NZ$567,415,000 respectively.

(d) 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 continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain sufficient capital (which comprises all components of equity) such that it has the financial resources to repay its liabilities when they fall due.

Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

17. FINANCIAL INSTRUMENTS

Exposure to credit and liquidity risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below. The Group's exposure to currency and interest rate risk is not significant.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has some concentration of credit exposure to a few large energy retailers and large energy customers. To minimise this risk, the Group performs credit evaluations on all energy retailers and large energy customers and requires a bond or other form of security where deemed necessary. Trade receivables are due within 20 days of billing.

The maximum exposure to credit risk is represented by the carrying value of each financial instrument, after deducting any impairment allowance.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 30th June, 2008 the Group has a certain concentration of credit risk as 56.2% (2007: 60.8%; 2006: 61.5%) and 99.7% (2007: 99.9%; 2006: 99.9%) of the total trade and other receivables was due from the largest customer and five largest customers respectively.

The Group does not provide any guarantees which would expose it to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 13.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

17. FINANCIAL INSTRUMENTS (cont'd)

(b) Liquidity risk

No cash was maintained by the Group during the Relevant Period and surplus funds were remitted to the Vector Group. The Group withdraws funds from the Vector Group to meet its liquidity requirements.

The following table details the remaining contractual maturities at the balance sheet date of the Group's 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:

The Group

	30th June, 2006		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	NZ$'000	*NZ$'000*	*NZ$'000*
Trade and other payables	15,118	15,118	15,118
Provisions	58	58	58
	15,176	15,176	15,176

	30th June, 2007		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	NZ$'000	*NZ$'000*	*NZ$'000*
Trade and other payables	15,346	15,346	15,346
Provisions	118	118	118
	15,464	15,464	15,464

	30th June, 2008		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	NZ$'000	*NZ$'000*	*NZ$'000*
Trade and other payables	10,321	10,321	10,321
Provisions	91	91	91
	10,412	10,412	10,412

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

17. FINANCIAL INSTRUMENTS (cont'd)

(b) Liquidity risk (cont'd)

The Company

	30th June, 2006		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	NZ$'000	*NZ$'000*	*NZ$'000*
Trade and other payables	15,118	15,118	15,118
Provisions	58	58	58
	15,176	15,176	15,176

	30th June, 2007		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	NZ$'000	*NZ$'000*	*NZ$'000*
Trade and other payables	15,346	15,346	15,346
Provisions	118	118	118
	15,464	15,464	15,464

	30th June, 2008		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	NZ$'000	*NZ$'000*	*NZ$'000*
Trade and other payables	10,249	10,249	10,249
Provisions	88	88	88
	10,337	10,337	10,337

(c) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30th June, 2006, 2007 and 2008.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

18. COMMITMENTS

(a) Capital commitments outstanding at 30th June, 2006, 2007 and 2008 not provided for in the Financial Information were as follows:

The Group and the Company

	As at 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Contracted for	12,036	12,384	6,802
Authorised but not contracted for	1,881	2,006	1,063
	13,917	14,390	7,865

(b) As at 30th June, 2006, 2007 and 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

The Group and the Company

	As at 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Within one year	154	121	170
One to five years	341	420	124
Beyond five years	1,060	3,145	3,193
Total	1,555	3,686	3,487

The consolidated income statement includes operating lease charges allocated from the Electricity Business Line and Vector Group shared services. The Group is also directly the lessee in respect of a number of properties held under operating leases. None of the leases include contingent rentals.

19. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 5 and part of the amounts paid to the individuals with highest emoluments as disclosed in note 6, is as follows:

	Year ended 30th June		
	2006	**2007**	**2008**
	NZ$'000	*NZ$'000*	*NZ$'000*
Short-term employee benefits	149	122	146

(b) During the year ended 30th June, 2008, the Company and Vector entered into the Network Acquisition Agreement under which the Company acquired the Wellington Network for a consideration of NZ$559,900,000, which represents the then carrying value of the net assets of Wellington Network.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

20. CONTINGENT LIABILITIES

The Directors are aware of no claims that have been made against the Group and accordingly there have been no associated provisions recorded in the Financial Information. No other material contingencies requiring disclosure have been identified.

21. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 30th June, 2008, the Directors consider the immediate parent and ultimate controlling party of the Company to be Vector, which is incorporated in New Zealand. Vector produces financial statements available for public use.

Wellington Electricity Distribution Network Limited ("WEDN"), which is incorporated in New Zealand, acquired the entire equity interest in the Company on 24th July, 2008 and became the immediate controlling party of the Company. WEDN is a wholly-owned subsidiary of Wellington Electricity Distribution Network Holdings Limited ("WEDNH"), which is incorporated in Bahamas. Neither WEDN nor WEDNH produces financial statements available for public use. WEDHN is indirectly 50% held by each of CKI and Hongkong Electric Holdings Limited, both of which are listed on The Stock Exchange of Hong Kong Limited.

22. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the Directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews annually the useful lives and residual values of assets, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment of assets

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion as to whether an indication of impairment exists and revised estimates of recoverable amount, which would affect profit or loss in future years.

(c) Revenue recognition

The timing of customer payments for services does not always coincide with the timing of the delivery of these services. For example customers may pay for services some time after the services are delivered. Billing of customers may be based on estimated usage with differences washed up in subsequent periods. Customers may also prepay for services. Judgement is therefore required in estimating when revenue is to be recognised. Where the relationship between the payments and multiple services delivered under the contract is not immediately clear, management must apply judgement in unbundling elements of the contract and allocating payments to the respective services before applying the revenue recognition accounting policy.

B NOTES TO THE FINANCIAL INFORMATION (cont'd)

23. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30TH JUNE, 2008

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30th June, 2008 and which have not been adopted in the Financial Information.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 8, Operating segments, which is effective for annual periods beginning on or after 1st January, 2009, may result in new or amended disclosures in the Financial Information.

24. TRANSITION FROM NZ GAAP TO HKFRSs

The Vector Group has previously prepared financial statements in accordance with NZ GAAP. For the purpose of the Financial Information, the financial information of the Vector Group attributable to the activities of the Wellington Network has been prepared in accordance with HKFRSs, effectively adopting a transition date from NZ GAAP to HKFRSs of 1st July, 2005. The effects of transition from NZ GAAP to HKFRSs are as follows:

(a) Goodwill was previously amortised under NZ GAAP. Under HKFRSs, goodwill is no longer amortised but subject to annual impairment assessments under the accounting policy as set out in note 1(h).

(b) Software assets were previously classified as property, plant and equipment under NZ GAAP but re-classified as intangible assets under HKFRSs.

(c) Deferred taxes were previously determined using the tax effect income approach under NZ GAAP. Under HKFRSs, deferred taxes are determined using the balance sheet approach under the accounting policy as set out in note 1(l).

Neither the Company nor the Wellington Network has previously prepared financial statements on a standalone basis. As a result, no reconciliation from previously reported equity and profit or loss to amounts under HKFRSs is presented.

C SUBSEQUENT FINANCIAL STATEMENTS

No financial statements of the Company or the Group have been audited in respect of any period subsequent to 30th June, 2008.

Yours faithfully,

KPMG
Certified Public Accountants

Hong Kong, 14th November, 2008

The following discussion and analysis is based on the Financial Information from the Accountants' Report on the VWE Group contained in Appendix II to this circular.

TURNOVER

For each of the three years ended 30th June, 2006, 2007 and 2008, turnover of the VWE Group was NZ$154,613,000 (approximately HK$714.4 million), NZ$158,284,000 (approximately HK$731.4 million), and NZ$148,190,000 (approximately HK$684.7 million) respectively. Turnover of the VWE Group represents the revenue from the ownership and management of the Wellington electricity distribution network and other related revenue. The increase in turnover from 2006 to 2007 was primarily due to the addition of new customer connections, as well as higher per-customer electricity consumption. The decrease in turnover from 2007 to 2008 was primarily due to a voluntary rebalancing programme which addressed historical differences in pricing regimes across the Vector Group's electricity networks.

NET PROFIT

For the three years ended 30th June, 2006, 2007 and 2008, the VWE Group recorded a net profit of NZ$53,585,000 (approximately HK$247.6 million), NZ$58,821,000 (approximately HK$271.8 million), and NZ$44,876,000 (approximately HK$207.3 million) respectively. The increase in net profit from 2006 to 2007 was primarily a result of the impact of the change in the corporate tax rate, reducing the VWE Group's deferred tax liability and hence income tax for 2007. The decrease in net profit from 2007 to 2008 was primarily due to the reduction in turnover as discussed above.

CAPITAL STRUCTURE

As the Wellington Network was not a separate legal entity until 30th May, 2008, it did not have its own separate capital and reserves until that date. Therefore the Financial Information of the VWE Group at Appendix II treats the Vector Group's net funds invested in the Wellington Network as invested capital. The VWE Group has issued initial share capital of 100 shares of NZ$1 each.

For the three years ended 30th June, 2006, 2007 and 2008, the Vector Group centrally managed all banking and borrowings and as a result of this there has been no cash or debt included in the Financial Information of the VWE Group at Appendix II.

FINANCIAL POSITION

The total assets of the VWE Group increased from NZ$618,653,000 (approximately HK$2,858.5 million) as at 30th June, 2006 to NZ$630,566,000 (approximately HK$2,913.5 million) as at 30th June, 2007 and to NZ$638,392,000 (approximately HK$2,949.7 million) as at 30th June, 2008. The increase across both years was largely attributable to increases in property, plant and equipment balances.

The total liabilities of the VWE Group decreased from NZ$72,478,000 (approximately HK$334.9 million) as at 30th June, 2006 to NZ$71,240,000 (approximately HK$329.2 million) as at 30th June, 2007 primarily due to a decrease in the deferred tax liability as a result of the decrease in the corporate tax rate. Total liabilities of the VWE Group decreased from NZ$71,240,000 (approximately HK$329.2 million) at 30th June, 2007 to NZ$70,977,000 (approximately HK$327.9 million) at 30th June, 2008 due to a reduction in trade and other payables, partly offset by an increase in the deferred tax liability.

SEGMENT REPORTING

No analysis of the VWE Group's turnover and contribution to profit from operations by geographical segment or business segment has been presented as all of the VWE Group's operating activities are carried out in New Zealand and less than 10 per cent of the turnover and contribution to profit from operations were derived outside the VWE Group's revenue from the ownership and management of the Wellington electricity distribution network. There is no other geographical or business with segment assets equal to or greater than 10 per cent of VWE Group's total assets.

FOREIGN EXCHANGE RISK MANAGEMENT

The VWE Group is not exposed to any significant foreign exchange exposure and carries out no hedging activities.

CAPITAL COMMITMENTS, CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 30th June, 2006, 2007 and 2008, the VWE Group had capital commitments amounting to NZ$13,917,000 (approximately HK$64.3 million), NZ$14,390,000 (approximately HK$66.5 million) and NZ$7,865,000 (approximately HK$36.3 million) respectively.

As at 30th June, 2006, 2007 and 2008 none of the assets of the VWE Group had been charged or pledged for securing any financing.

As at 30th June, 2006, 2007 and 2008, the VWE Group did not have any contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

Total staff costs for each of the three years ended 30th June, 2006, 2007 and 2008 were NZ$4,976,000 (approximately HK$23.0 million), NZ$6,654,000 (approximately HK$30.7 million) and NZ$6,594,000 (approximately HK$30.5 million) respectively. The VWE Group's remuneration policy is in line with prevailing market practice on performance of individual staff.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Cheung Kong Infrastructure Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the major transaction relating to the acquisition of the entire issued share capital in Wellington Electricity Lines Limited (formerly known as Vector Wellington Electricity Network Limited) might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 14th November, 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 127 to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31st December, 2007 or any future date.

OPINION

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
14th November, 2008

UNAUDITED PRO FORMA NET ASSET STATEMENT OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma net asset statement of the Enlarged Group, assuming that the Acquisition had been completed as at 31st December, 2007 for the purpose of illustrating how the Acquisition might have affected the financial position of the Group. At the date of the Sale and Purchase Agreement, the Group was committed to a plan to sell 50% effective interest in VWE Group to HEH prior to completion of the Acquisition.

The following unaudited pro forma net asset statement of the Enlarged Group has been prepared based on the audited balance sheet of the Group as at 31st December, 2007, incorporated with pro forma adjustment based on the amounts payable by the Group had the completion of the Acquisition taken place on 31st December, 2007. The Purchase Price is assumed to have been paid fully on 31st December, 2007 (translated at the rate of NZ$1.00: HK$4.6205) by the Group without taking into consideration of the effect of the completion of the Disposal.

The unaudited pro forma net asset statement is prepared to provide financial information on the Group as if the Acquisition had been completed as at 31st December, 2007. As it is prepared for illustrative purpose only, it may not purport to represent what the financial position of the Group shall be on the actual completion of the Acquisition.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

HK$ Million	**The Group**	**Pro forma adjustment**	**The Enlarged Group**
	(Note 1)	*(Notes 2(a) & (b))*	
Property, plant and equipment	1,121		1,121
Investment properties	160		160
Leasehold land	292		292
Interests in associates	30,389		30,389
Interests in jointly controlled entities	3,176		3,176
Interests in infrastructure project investments	377		377
Interests in securities	4,187		4,187
Derivative financial instruments	55		55
Goodwill	209		209
Deferred tax assets	5		5
Other non-current assets	19		19
Total non-current assets	**39,990**		**39,990**
Inventories	75		75
Interests in infrastructure project investments	125		125
Derivative financial instruments	428		428
Debtors and prepayments	607		607
Bank balances and deposits	8,217	(3,627)	4,590
Total current assets	**9,452**	**(3,627)**	**5,825**
Non-current assets held for sale	**–**	**3,955**	**3,955**
	9,452	**328**	**9,780**
Bank and other loans	2,972		2,972
Derivative financial instruments	417		417
Creditors and accruals	1,292		1,292
Taxation	121		121
Total current liabilities	**4,802**		**4,802**
Liabilities associated with non-current assets held for sale	**–**	**328**	**328**
	4,802	**328**	**5,130**
Bank and other loans	4,607		4,607
Derivative financial instruments	187		187
Deferred tax liabilities	373		373
Other non-current liabilities	16		16
Total non-current liabilities	**5,183**		**5,183**
Net assets	**39,457**		**39,457**

NOTES TO THE UNAUDITED PRO FORMA NET ASSET STATEMENT

1. The net asset statement of the Group are extracted from the audited consolidated balance sheet of the Group as at 31st December, 2007 as included in the published annual report of the Group for the year ended 31st December, 2007.

2. The pro forma adjustment represents the followings:

   (a) acquisition of 100% interest in the VWE Group based on the circumstances that ultimately 50% effective interest in VWE Group will be disposed of to HEH and the Group's interest in the VWE Group will be changed from subsidiary to associate after the Disposal. Accordingly, the attributable assets of VWE Group arising on the acquisition are classified as non-current assets held for sale, while the liabilities of VWE Group assumed are classified as liabilities associated with non-current assets held for sale; and

   (b) payment of NZ$785 million (approximately HK$3,627 million) representing the Purchase Price of the Acquisition.

Apart from those mentioned in note 2 above, no adjustment has been made to reflect any operating results or other transactions of the Group and of the VWE Group entered into subsequent to 31st December, 2007.

The information set out in items 3 and 4 below is to set out the additional information related to the Acquisition and does not constitute pro forma adjustments.

3. To facilitate the Acquisition, the Company set up Holdco as its wholly-owned subsidiary as at the date of the Sale and Purchase Agreement with capital injection of NZ$100 (approximately HK$462). Holdco subsequently became the holding company of and owns the entire issued share capital of the Purchaser. The Company was committed to a plan to on-sell 50% interest in the VWE Group to HEH by disposal of 50% interest in Holdco to HEH. Upon entering into the Disposal Agreement with HEH to dispose of 50% interest in Holdco to HEH on 16th May, 2008, the entire interest in Holdco was treated as "non-current assets held for sale". Upon the completion of the disposal of 50% of investment in Holdco on 24th June, 2008, the remaining 50% of investment in Holdco and its subsidiaries was classified as investment in an associate.

4. The Acquisition was completed on 24th July, 2008. The Purchaser paid the consideration of NZ$785 million (approximately HK$3,627 million) which was funded by capital injection and shareholder's loan from the Group totalling NZ$203.25 million (approximately HK$939 million), capital injection and shareholder's loan from HEH totalling NZ$203.25 million (approximately HK$939 million), and external borrowing.

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

			Number of Ordinary Shares					
Name of Company	Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
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: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
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	71.50%
	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)	2,958,068,120 (Note 9)	2,960,587,370	61.54%
	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: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
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: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Whampoa International (01/11) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$12,000,000 7% Notes due 2011 (Note 3)	–	US$12,000,000 7% Notes due 2011
Hutchison Whampoa International (03/13) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$21,000,000 6.5% Notes due 2013 (Note 3)	–	US$21,000,000 6.5% Notes due 2013
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US$2,500,000 6.5% Notes due 2013 (Note 5)	–	US$2,500,000 6.5% Notes due 2013
	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.

       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.

Notes (Cont'd):

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) 2,957,914,840 ordinary shares of which 52,092,587 ordinary shares and 2,905,822,253 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 interests 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.

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 being 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	% of Shareholding 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	(5), (6) & (7)
	Hutchison Whampoa Limited	Group Managing Director	(1), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Chairman	(1), (5), (6) & (7)
	Hutchison Harbour Ring Limited	Chairman	(7)
	Hutchison Telecommunications International Limited	Chairman	(7)
Andrew John Hunter	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	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 contract 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. MATERIAL ADVERSE CHANGE

CKI is a diversified infrastructure investment company with businesses in Hong Kong, the Mainland, Australia, New Zealand, the United Kingdom, Canada and the Philippines, and is exposed to potential currency fluctuations in these countries and places in which the Group operate. The results of the Group are recorded in Hong Kong dollars but its various subsidiaries, associates and joint ventures may receive revenue and incur expenses in other currencies. Any currency fluctuations on translation of the accounts of these subsidiaries, associates and joint ventures and also on the repatriation of earnings, equity investments and loans may therefore impact on the Group's financial position or potential income, asset value and liabilities, but the Group confirms that it has not entered into any speculative derivative transaction and generally hedging arrangements are in place for overseas investments as appropriate.

Save as aforesaid, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.

8. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:–

NAME	QUALIFICATION
Deloitte Touche Tohmatsu	Certified Public Accountants
KPMG	Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and KPMG 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.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and KPMG 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 accounts 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.

Deloitte Touche Tohmatsu and KPMG have given and have not withdrawn their written consents to the issue of this circular with inclusion of their letters, reports and/or summaries of their opinions (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

9. 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 28th November, 2008:

(a) the Memorandum of Association and Bye-laws of the Company;

(b) the audited financial statements of the Group for the years ended 31st December, 2006 and 31st December, 2007, the text of which is set out in Appendix I to this circular;

(c) the accountants' report from KPMG on the VWE Group as set out in Appendix II to this circular;

(d) the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group following the Acquisition as set out in Appendix IV to this circular;

(e) a copy of each circular published 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

(f) the written consents of Deloitte Touche Tohmatsu and KPMG referred to in the section headed "Expert and Consent" of this Appendix.

10. 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 Fulcrum Group (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 (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.