CKI is the major shareholder of Hongkong Electric, a utility business responsible for the generation, transmission and distribution of power to Hong Kong Island and Lamma Island. Hongkong Electric has a total installed capacity of 3,755 MW, serving more than 550,000 customers and with a supply reliability rating of 99.999%, a record maintained continually since 1997.
In 2006, Hongkong Electric saw continued challenges for its electricity business in Hong Kong, while international operations continued to perform well. Audited consolidated net profit after tax for the year ended 31st December, 2006 was HK$6,842 million.

**Hong Kong Operations**

Unit sales of electricity grew by only 0.2% in 2006, as compared with 1.5% in 2005, negatively impacted by a cooler summer and the effect of various energy savings initiatives. In addition, higher fuel costs continued to apply pressure on tariffs during the year. Coupled with the fact that Hongkong Electric continued to charge lower electricity tariffs than it is entitled to under the scheme of control, earnings were less than the permitted return specified in the scheme of control for the fourth consecutive year.

However, reliability was not compromised in 2006 and Hongkong Electric’s customers continued to enjoy reliability in electricity supply of over 99.999%. This is a world-class reliability level that is often taken for granted in Hong Kong. As was seen during the summer of 2006, it is a level of reliability not enjoyed elsewhere, particularly in parts of North America and Europe.

The first gas fired combined cycle unit, Unit 9, was commissioned in October 2006, increasing the generating capacity of Lamma Power Station from 3,420 MW to 3,755 MW, as well as helping to reduce emissions through the use of natural gas. Further emission reduction activity continued during the year at the Lamma Power Station with the award of contracts for the installation of two flue gas desulphurization units. On completion of the installation work, more than 90% of the electricity from Lamma Power Station will be generated by gas and by coal fired units fitted with flue gas desulphurizers and low nitrogen oxide burners.

From its official commissioning in February 2006 to the end of 2006, Lamma Winds, the wind turbine on Lamma Island, has generated approximately 700,000 kWh of electricity and represents Hongkong Electric’s first venture.
into renewable energy. The project provides valuable information and experience for Hongkong Electric’s proposed 100 MW wind farm, which is currently in the preliminary environmental impact assessment stage.

**International Operations**

Hongkong Electric’s international operations continued to perform well during the year. Excluding extraordinary items and non-cash tax adjustments recorded in 2005 and the lower attributable interest in the Australian electricity distribution business in 2006 arising from Hongkong Electric’s partial divestment in 2005, the performance for the year under review compared favourably with 2005.

The Australian electricity distribution businesses in South Australia and Victoria achieved good financial and operational performance in 2006, exceeding financial targets. Both revenue and demand in the businesses increased during the year.

In the United Kingdom, Hongkong Electric holds a 19.9% stake in Northern Gas Networks Limited. The performance of this business was in line with forecasts and increased dividends were paid in 2006.

In Thailand, construction of the 1,400 MW gas fired power station in Ratchaburi province, in which Hongkong Electric has a 25% interest, is well underway and the commissioning of the power station is scheduled for 2008.

Unit 9, commissioned in October 2006, increases the generating capacity of Lamma Power Station from 3,420 MW to 3,755 MW, as well as helps to reduce emissions through the use of natural gas.
CKI holds a strong portfolio of energy investments in Mainland China, Australia and the United Kingdom. Delivering steady cashflow and attractive returns, energy assets continue to be a major profit generator for CKI.
ETSA Utilities

ETSA Utilities is the primary electricity distribution business for the state of South Australia. The prime role of ETSA Utilities is the safe and reliable delivery of electricity to more than 770,000 customers across the state. ETSA Utilities employs more than 1,500 people and supports a network comprising 377 zone substations and 84,406 kilometres of power lines.

During 2006, ETSA Utilities surpassed its key financial targets and enhanced its reliability levels.

Together with Hongkong Electric, CKI owns a 51% stake in this power distribution business that has continued to generate stable revenues.

CHEDHA Holdings Pty Ltd.

CHEDHA is the holding company of Powercor and CitiPower, in which CKI holds a 51% stake together with Hongkong Electric. In 2006, both companies commenced a new five-year regulatory cycle, which will ensure price predictability and stable returns through to 2010.

Powercor Australia Limited

Powercor operates the largest electricity distribution network in Victoria, with more than 80,000 kilometres of power lines, servicing over 660,000 customers in central and western Victoria, as well as Melbourne’s outer western suburbs.
CitiPower I Pty Ltd.

The CitiPower electricity distribution network supplies approximately 295,000 customers in the Melbourne central business district and inner suburbs. The network covers 157 square kilometres and has long enjoyed the reputation of Australia’s most reliable electricity network.

Spark Infrastructure Group

Spark Infrastructure is a leading Australian utility infrastructure investment group that is listed on the Australian Stock Exchange. It has a market capitalization of approximately HK$12 billion currently. CKI holds a 9.9% stake in Spark Infrastructure.

The assets of Spark Infrastructure comprise investments in high quality Australian electricity distribution businesses with predictable and stable cash flows and prospects for future organic growth: namely 49% stakes in ETSA Utilities, Powercor and CitiPower.

Over time, Spark Infrastructure intends to accumulate a portfolio of utility infrastructure assets globally. Spark Infrastructure is jointly managed by CKI and RREEF Infrastructure.

Envestra Limited

Envestra Limited is Australia’s largest listed natural gas distribution company. It owns approximately 19,100 kilometres of natural gas distribution pipelines and 1,000 kilometres of transmission pipelines, serving over 970,000 consumers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory. Envestra generates revenue by charging retailers for the transportation of natural gas through these networks.

CKI holds a 16.4% stake in Envestra that has been generating double-digit cash yields consistently since 1999.
CKI’s portfolio of power assets generally performed well in 2006, providing secure and encouraging returns.

The Zhuhai Power Plant recorded another strong performance this year, with profit contribution from the operation of Units 1 and 2 reaching a record high and marking a 23.4% increase over last year. The Zhuhai Power Plant, in which CKI holds a 45% stake, continues to be one of the most efficient, reliable and safe plants in the country. Total electricity generation for the year was approximately 8.4 billion kWh, representing some 1.6 billion kWh excess generation over the Annual Minimum Quantity. Construction work for the extension to the Zhuhai Power Plant has been successfully completed and Units 3 and 4 were commissioned in February 2007. Consisting of two 600 MW power generation units, the new extension is poised to further enhance returns from the Zhuhai Power Plant in the future. The new units have been equipped with state-of-the-art...
environmental protection features to meet the increasingly stringent environmental regulations and standards set by the PRC government.

CKI also holds a 45% stake in the Siping Cogen Power Plants in Jilin, which comprise three generator sets of 200 MW in total capacity. In 2006, the plant generated over 1.2 billion kW of electricity and 2.45 million GJ of heat, breaking the previous records set in 2005. With the completion of the third boiler in December 2006, it is expected that even more reliable power and heat will be supplied to the Jilin power grid and Siping City. In spite of the increasing price pressure on coal, overall operating costs were reduced and pleasing returns were achieved for CKI.

**UK Gas**

Northern Gas Networks Limited is responsible for distributing gas to homes and businesses across the north of England, an area covering West, East and North Yorkshire, the North East and Northern Cumbria. Its network comprises 36,000 kilometres of gas pipes, covers around 6.7 million inhabitants and has approximately 2.5 million customers.

The period under review represents the first full year of profit contribution for this business in which CKI holds a 40% stake. Despite warm weather during the latter part of the year, Northern Gas Networks delivered a very satisfactory performance and achieved double-digit cash yields for CKI.

The Zhuhai Power Plant continues to be one of the most efficient, reliable and safe plants in Mainland China.
CKI has interests in major transportation projects in Hong Kong, Mainland China and Australia. Overall, this diverse portfolio generates steady cashflow and solid returns to the Group.
CKI has a diverse portfolio of transportation projects in Hong Kong, Mainland China and Australia.

**China Transportation**

Strong returns were delivered by CKI’s transportation investments in general, and good performances in line with forecasts were reported. The Guangzhou East-South-West Ring Road achieved a satisfactory performance, with traffic flow and toll revenue increasing by 11.7% and 6.9% respectively over last year. The Shenzhen-Shantou Highway (Eastern Section) in Guangdong Province generally enjoyed continued growth during the year. Following the completion of road rehabilitation works in 2006, traffic volume has been restored. Traffic volume and toll revenue have increased 8.2% and 9.4% respectively over last year, delivering steady income to the Group. The Shantou Bay Bridge also achieved double-digit growth in toll revenue.

**Hongkong Eastern Harbour Crossing Tunnel**

CKI holds a 50% stake in the Eastern Harbour Crossing Company Limited, the owner and operator of the rail tunnel that connects eastern Hong Kong Island with Kowloon. Stable cash returns were generated during the year.
Australian Toll Road Projects

The Cross City Tunnel

CKI holds a 50% stake in the Cross City Tunnel in Sydney, which reported significantly lower than expected traffic levels and was unable to generate sufficient revenue to service its non-recourse project debt. As a consequence, a receiver was appointed for the project just prior to the year end. Accordingly, CKI has made an impairment on this project this year. Including the impairment made in 2005, the entire book value of the investment has been fully written down.

The Lane Cove Tunnel

CKI holds a 40% stake in the consortium selected to build and operate the Lane Cove Tunnel for 33 years. The Group is now in the process of divesting 21% of its interest in the Lane Cove Tunnel, with the aim of maximizing shareholder value through the extraction of a premium and the retention of an upside share in the divested shareholding through a defined mechanism for revenue sharing. The Tunnel has opened in March 2007.

The Guangzhou East-South-West Ring Road achieved a satisfactory performance, with increases in traffic flow and toll revenue.

The Shantou Bay Bridge achieved double-digit growth in toll revenue during the year under review.
CKI has water businesses in Australia and the United Kingdom. These assets have proven to be successful investments for the Group, with stable profit contribution generated.
Cambridge Water has generated healthy returns for CKI.

**Cambridge Water PLC**

Wholly owned by CKI, Cambridge Water supplies fresh water to customers in an area of 730 square kilometres in South Cambridgeshire in the United Kingdom. Each day, an average of nearly 75 million litres of high quality drinking water is delivered to a population of approximately 300,000.

Healthy returns have been generated by this business for CKI.
**AquaTower Pty Limited**

AquaTower, in which CKI holds a 49% stake, is the exclusive potable water supplier of four regional towns in Victoria, Australia.

AquaTower has a 25-year contract for the supply of water via four treatment plants. Three of the plants use Dissolved Air Flotation and Filtration (DAFF) as the primary method of water treatment whilst the other uses a process known as Microfiltration. Both processes are recognized as superior methods of improving water supplies.

The total volume of water delivered by the AquaTower business during 2006 was 2,795 million litres. Providing an essential resource for about 25,000 people, this asset continues to provide stable contributions to CKI.
INFRASTRUCTURE RELATED BUSINESS

CKI is the leading infrastructure materials company in the Hong Kong market. Following some very challenging years for the industry, the Group’s materials businesses have been consolidated and achieved an encouraging performance in 2006.
Cement

According to market analysts, the cement market in Hong Kong has reached the bottom. With a number of civil works and government projects in the pipeline, as well as pent-up demand for domestic construction activities, the prospects for the concrete industry appear to be improving. Although construction activity remained low in 2006, margins for the Green Island Cement Company Limited were slightly improved and a modest profit was generated for CKI.

In China, the Group’s cement operations in Yunfu implemented a number of cost savings measures during the year to maximize its competitiveness in the fast developing Guangdong region.

Concrete and Aggregates

Alliance Construction Materials Limited, the 50/50 joint venture between CKI and Hanson PLC, made a positive contribution to profit in 2006. Although there was still a downtrend in Hong Kong’s concrete consumption during the year, the bottom line was enhanced by firmer concrete selling prices and continued success in cost savings initiatives and product quality improvement. Alliance’s specialized high-grade concrete products for high-rise commercial and residential property development projects also helped to attain good margins in the Hong Kong market, where high-rise buildings are commonplace.
Alliance has extended the Lam Tei quarry contract under a joint venture agreement until 2015 and will strengthen its leading position in the domestic aggregates business.

**Waste Treatment Initiatives**

Green Island International has continued to study the feasibility of commercializing its “co-combustion” technology, an innovative thermal treatment for waste that has been developed in Hong Kong in partnership with the Hong Kong University of Science and Technology.

Alliance’s Lam Tei quarry contract was extended until 2015, strengthening its position in the domestic aggregates business.

Green Island Cement achieved a smooth operational performance during the year.