CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 1038)

POWERING INTO OUR SECOND DECADE

ANNUAL REPORT 2006

ANNUAL REPORT 2006

CKI is the largest publicly listed infrastructure company in Hong Kong with diversified investments in Energy Infrastructure, Transportation Infrastructure, Water Infrastructure and Infrastructure Related Business.

Operating in Hong Kong, Mainland China, Australia, the United Kingdom, Canada and the Philippines, it is a leading player in the global infrastructure arena.

THE YEAR AT A GLANCE

Profit attributable to shareholders (HK$ million)	3,670
Earnings per share (HK$)	1.63
Dividends per share (HK$)	1.00

CONTENTS

TEN-YEAR FINANCIAL SUMMARY

Consolidated Income Statement Summary

for the year ended 31st December

HK$ million	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Group turnover	**1,822**	2,247	2,507	2,468	2,533	2,900	3,160	3,085	3,291	3,314
Share of turnover of jointly controlled entities	**2,977**	2,503	1,953	1,841	1,723	1,522	778	124	81	63
Profit attributable to shareholders	**3,670**	6,007	3,523	3,271	3,199	3,081	3,128	3,043	2,770	2,353
Dividends										
Interim dividend paid	**564**	541	496	485	485	473	451	293	271	225
Proposed final dividend	**1,690**	1,596	1,285	1,127	1,048	947	902	654	586	496
	2,254	2,137	1,781	1,612	1,533	1,420	1,353	947	857	721

Consolidated Balance Sheet Summary

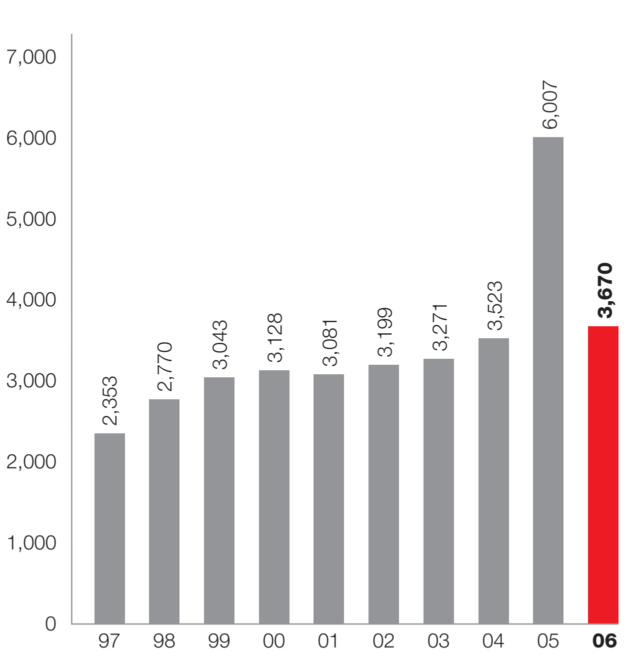
as at 31st December

HK$ million	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Property, plant and equipment	**991**	919	1,864	1,410	1,587	1,721	1,840	1,890	1,887	1,279
Investment properties	**130**	59	–	–	–	–	–	–	–	–
Leasehold land	**301**	326	383	394	405	416	427	438	449	421
Interests in associates	**29,382**	26,911	25,261	23,334	22,012	17,863	18,466	10,881	8,888	8,188
Interests in jointly controlled entities	**4,238**	4,337	4,801	4,836	4,538	4,606	4,791	2,591	2,276	1,629
Interests in infrastructure project investments	**490**	579	1,855	1,948	2,465	3,469	4,294	6,280	7,056	5,989
Investments in securities	**3,064**	2,092	1,188	2,091	803	759	754	676	–	–
Derivative financial instruments	**38**	447	–	–	–	–	–	–	–	–
Goodwill	**205**	175	257	–	–	–	–	–	–	–
Other non–current assets	**13**	9	14	36	43	43	39	11	6	4
Current assets	**8,770**	8,701	10,070	8,077	8,121	5,193	4,034	3,171	2,838	3,689
Total assets	**47,622**	44,555	45,693	42,126	39,974	34,070	34,645	25,938	23,400	21,199
Current liabilities	**(5,648)**	(1,221)	(1,314)	(2,009)	(2,939)	(4,726)	(4,526)	(609)	(686)	(727)
Non–current liabilities	**(6,109)**	(9,798)	(13,399)	(11,230)	(10,487)	(4,591)	(7,087)	(4,055)	(3,203)	(3,210)
Total liabilities	**(11,757)**	(11,019)	(14,713)	(13,239)	(13,426)	(9,317)	(11,613)	(4,664)	(3,889)	(3,937)
Minority interests	**(41)**	(38)	(206)	(209)	(219)	(224)	(256)	(253)	(256)	(10)
Equity attributable to shareholders	**35,824**	33,498	30,774	28,678	26,329	24,529	22,776	21,021	19,255	17,252

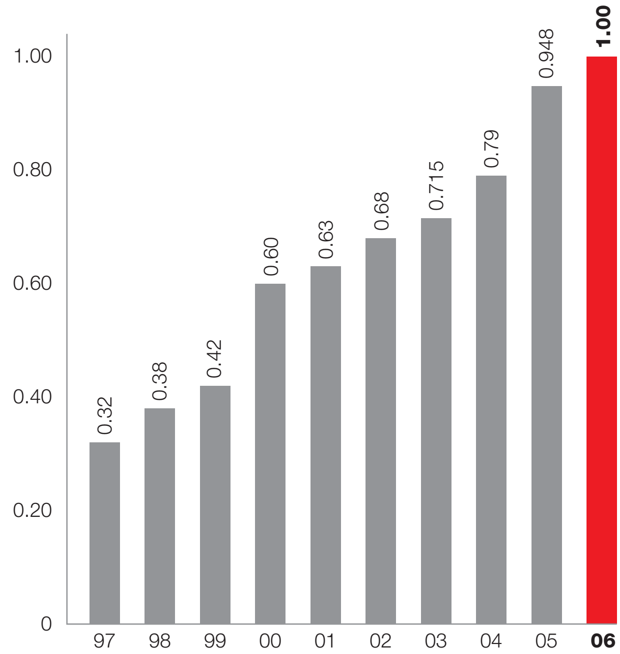
Per Share Data

HK$	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Earnings per share	**1.63**	2.66	1.56	1.45	1.42	1.37	1.39	1.35	1.23	1.13
Dividends per share	**1.00**	0.948	0.79	0.715	0.68	0.63	0.60	0.42	0.38	0.32
Shareholders' equity – net book value per share	**15.89**	14.86	13.65	12.72	11.68	10.88	10.10	9.33	8.54	7.65

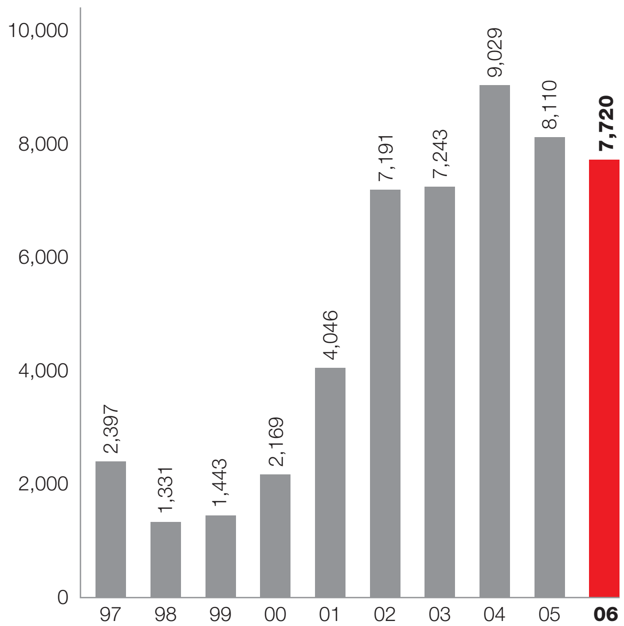
Profit Attributable to Shareholders
(HK$ million)



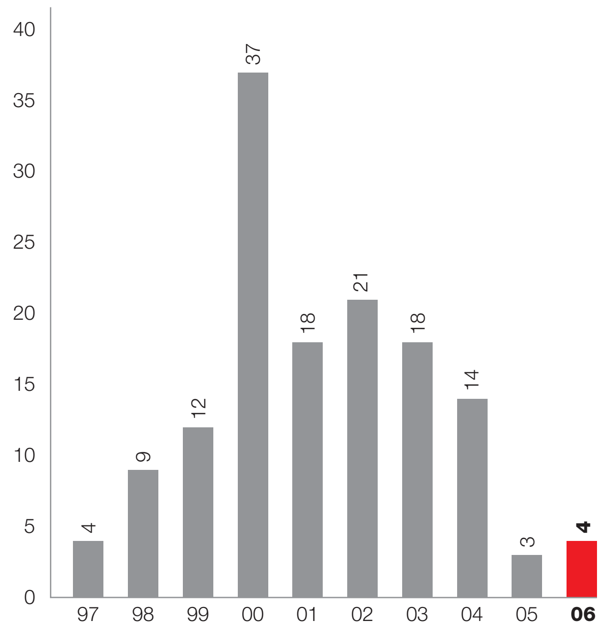
Dividends Per Share
(HK$)



Cash on Hand
(HK$ million)



Net Debt to Equity Ratio
(%)



CHAIRMAN'S LETTER

POWERING INTO OUR SECOND DECADE

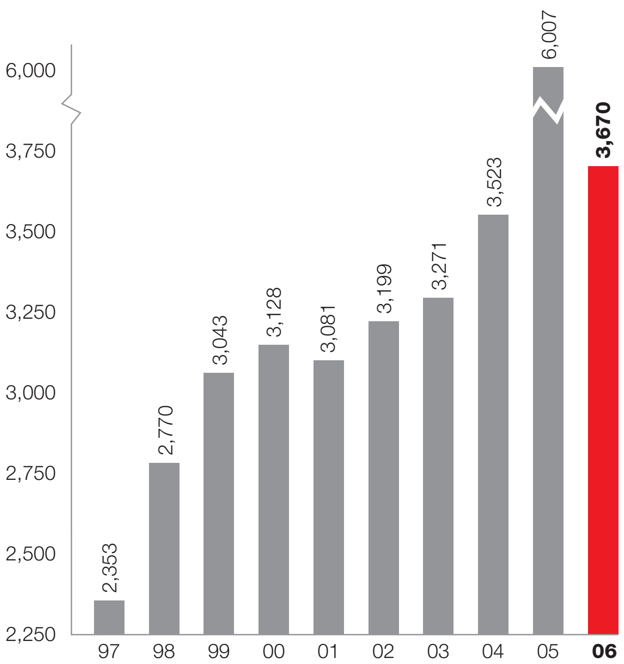
2006 marked the beginning of the second decade of Cheung Kong Infrastructure Holdings Limited ("CKI" or the "Group") as a listed company. In general terms, our businesses in the key markets of Hong Kong, Mainland China, Australia and the United Kingdom have all performed well during the year. We have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

In 2006, profit after tax attributable to shareholders was HK$3,670 million, while earnings per share were HK$1.63. This would have been the best performance since inception, if not for the results of 2005 which benefited from a one-off gain of HK$3.7 billion from the divestment of part of our Australian electricity businesses to Spark Infrastructure Group ("Spark Infrastructure") in December 2005. Even though CKI's Australian asset base has been reduced as a result of the divestment, our overall profit generation capacity has not diminished, as evidenced by the higher than 2004 profit performance in 2006.

The Board of Directors of CKI (the "Board") has recommended a final dividend of HK$0.75 per share. Together with the interim dividend of HK$0.25 per share, this will bring the total dividend for the year to HK$1.00 per share, a 5.5 per cent. increase over last year. This is consistent with CKI's stable dividend growth trend since listing. The proposed dividend will be paid on 15th May, 2007 following approval at the Annual General Meeting, to shareholders whose names appear on the Register of Members of the Company on 10th May, 2007.

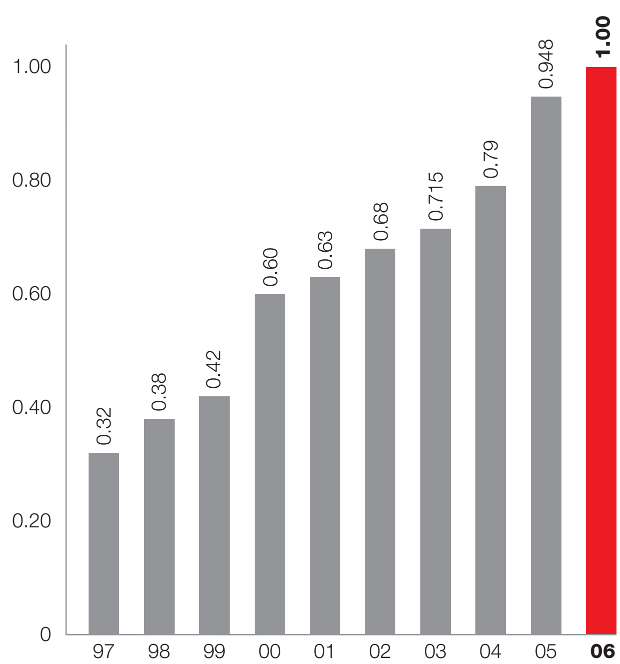
Profit Attributable to Shareholders

(HK$ million)



Dividends Per Share

(HK$)



CHAIRMAN'S LETTER

The Year in Review

Hongkong Electric

Hongkong Electric Holdings Limited ("Hongkong Electric") continues to be an important profit contributor to CKI, generating HK$2,632 million in 2006. During the year under review, Hongkong Electric reported net profit after tax of HK$6,842 million. Hongkong Electric has maintained its supply reliability at 99.999 per cent., a distinction that is virtually unrivalled in the world. The overseas businesses of Hongkong Electric have also performed very well and continued to contribute to the growth of the business.

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

International Infrastructure Investments

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

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

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

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

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

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

Materials Business

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

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

A New Decade of Opportunity

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

CHAIRMAN'S LETTER

Sustained Organic Growth

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

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

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

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

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

Acquisitions to Expand Portfolio

CKI will continue to pursue acquisition opportunities around the globe to further enhance our portfolio of infrastructure investments. We are currently studying and participating in the bidding process for a number of projects in existing markets, as well as looking for opportunities in new ones. Not only will we pursue investments in industries we are already familiar with, such as power and toll roads, but we will also investigate new possibilities, ranging from other regulated businesses to greenfield projects. CKI has very sound financials, with cash on hand of more than HK$7.7 billion and a net debt to equity ratio of 4 per cent. We are very well placed to acquire new projects, further enriching our portfolio.

Divestments to Maximise Shareholder Value

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

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

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

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

Li Tzar Kuoi, Victor
Chairman

Hong Kong, 15th March, 2007

GROUP MANAGING DIRECTOR'S REPORT

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

THE ROADMAP OF SUCCESS

The Role of Infrastructure

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

The Industry of Infrastructure

Around the world, infrastructure development is growing rapidly and becoming a much sought-after industry. It has been reported that in just the energy and power sector alone, mergers and acquisitions for 2006 were estimated at over HK$4.7 trillion.

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

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

Achieving Success in Infrastructure

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

CKI – A Decade of Achievement

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

Over the last decade, year-on-year growth has been recorded across a number of key performance indicators. For the first year after listing, CKI reported profit of HK$854 million. In 2006, profit reached HK$3,670 million, representing an increase of over 3 times in the last ten years. Total assets have grown by around 3 times to reach HK$47.6 billion. The company's market capitalization has doubled to over HK$54 billion as of 31st December, 2006.

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

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

GROUP MANAGING DIRECTOR'S REPORT

In 1997, we acquired a controlling stake in Hongkong Electric Holdings Limited, the sole electricity generator and distributor to Hong Kong Island and Lamma Island, with a history dating back to 1889. Hongkong Electric is one of the most reliable electricity suppliers in the world with an exceptionally outstanding supply reliability in excess of 99.999%. This dependable source of electricity has been crucial to the territory's economic development and makes Hong Kong the envy of many major cities in the world that have suffered from power blackouts.

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

We began our expansion programme with the Australian market in 1999 through the acquisition of a 19.97% stake in Envestra Limited, the largest listed natural gas distributor in the country with a distribution network that serves over 970,000 customers and spans approximately 19,100 kilometres. Building on this momentum, we amassed a broad portfolio of electricity assets in Australia, including: ETSA Utilities, the primary electricity distributor in the state of South Australia that serves more than 770,000 customers; Powercor Australia Limited, the largest electricity distributor in the state of Victoria that serves over 660,000 customers and CitiPower I Pty Ltd., which distributes electricity to approximately 295,000 customers across the central business district and inner suburban areas of Melbourne.

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

As our Australian investments reached a critical mass, we further diversified our global footprint in 2004 by expanding into the gas sector in the United Kingdom. CKI won the tender for Northern Gas Networks Limited, which serves a population of around 6.7 million. We also acquired a 100% stake in Cambridge Water PLC, a water distributor that supplies a population of approximately 300,000 in Cambridgeshire.

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

Reasons for Success

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

1) Diversified Portfolio

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

2) Global Network

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

3) **Secure Investments**

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

4) **Expertise**

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

5) **Strong Balance Sheet**

We have acquired a decade of experience in making sound investments, gathering extensive market understanding and establishing important connections with experts in the fields of finance, regulation, construction and operation. In the last few years, CKI has been invited to participate in almost all major infrastructure projects available in the market. With our strong financial platform, over HK$7.7 billion cash on hand and a net debt to equity ratio of 4% (as at 31st December, 2006), we are in an excellent position to pursue more investment opportunities and participate in more new projects in the future.

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

The Roadmap for the Future

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

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

H L Kam
Group Managing Director

Hong Kong, 15th March, 2007

INVESTMENT IN HONGKONG ELECTRIC

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.

INVESTMENT IN HONGKONG ELECTRIC

Hongkong Electric's customers continue to enjoy reliability in electricity supply of over 99.999%, a distinction that is virtually unrivalled in the world.

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.

The Smart Power Campaign promotes energy efficiency and conservation.

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.

INFRASTRUCTURE INVESTMENTS ENERGY

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.

INFRASTRUCTURE INVESTMENTS
ENERGY

Powercor services over 660,000 customers in central and western Victoria, as well as Melbourne's outer western suburbs.

Australian Energy

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.

ETSA Utilities is the primary electricity distribution business for the state of South Australia.

CitiPower's network covers 157 square kilometres, encompassing Melbourne's central business district and inner suburbs.

INFRASTRUCTURE INVESTMENTS
ENERGY

Units 3 and 4 of the Zhuhai Power Plant were commissioned in February 2007. Consisting of two 600 MW power generation units, they nearly double the total installed capacity of the Zhuhai Power Plant.

China Power

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.

Northern Gas Networks reported its first full year of profit contribution to CKI in 2006.

INFRASTRUCTURE INVESTMENTS TRANSPORTATION

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.


James
White Pky
Downtown

INFRASTRUCTURE INVESTMENTS
TRANSPORTATION

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.

INFRASTRUCTURE INVESTMENTS WATER

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.

INFRASTRUCTURE INVESTMENTS
WATER

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.

Cambridge Water supplies fresh water to customers in South Cambridgeshire, the United Kingdom.

AquaTower is the exclusive potable water supplier of four regional towns in Victoria, Australia.

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.

INFRASTRUCTURE RELATED BUSINESS

Alliance is the market leader in the territory's concrete and aggregates industries.

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.

FINANCIAL REVIEW

Financial Resources, Treasury Activities and Gearing Ratio

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

As at 31st December, 2006, total borrowings of the Group amounted to HK$9,327 million, which included Hong Kong dollar syndicated loan of HK$3.8 billion and foreign currency borrowings of HK$5,527 million. Of the total borrowings, 41 per cent. were repayable in 2007, 38 per cent. were repayable between 2008 and 2011 and 21 per cent. repayable beyond 2011. The Group's financing activities continue to be well received and fully supported by its bankers.

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

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

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

Charge on Group Assets

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

Contingent Liabilities

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

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

Employees

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

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

BOARD AND SENIOR MANAGEMENT

Executive Committee
Front *(from left to right)*
Andrew Hunter, H L Kam, Victor Li, Edmond Ip

Back *(from left to right)*
Pak Lam Lun, Lambert Leung, Dominic Chan, Ivan Chan, Joanna Chen

Directors' Biographical Information

LI Tzar Kuoi, Victor, aged 42, has been the Chairman of the Company since its incorporation in May 1996. He is the Chairman of the Remuneration Committee of the Company. He is also the Chairman of CK Life Sciences Int'l., (Holdings) Inc., the Managing Director and Deputy Chairman of Cheung Kong (Holdings) Limited, Deputy Chairman of Hutchison Whampoa Limited, an Executive Director of Hongkong Electric Holdings Limited, the Co-Chairman of Husky Energy Inc. and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Victor Li serves as a member of the Standing Committee of the 10th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is also a member of the Executive Committee of the Commission on Strategic Development of the Hong Kong Special Administrative Region. He acts as a director of the substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), namely Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and Hutchison International Limited. He holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural Engineering. Mr. Victor Li is son of Mr. Li Ka-shing, a substantial shareholder of the Company within the meaning of Part XV of the SFO, and nephew of Mr. Kam Hing Lam, the Group Managing Director of the Company.

KAM Hing Lam, aged 60, has been the Group Managing Director of the Company since its incorporation in May 1996. He has also been the Deputy Managing Director of Cheung Kong (Holdings) Limited since February 1993. He is also the President and Chief Executive Officer of CK Life Sciences Int'l., (Holdings) Inc., an Executive Director of Hutchison Whampoa Limited and Hongkong Electric Holdings Limited, and a Non-executive Director of Spark Infrastructure Group. He acts as a director of the substantial shareholders of the Company within the meaning of Part XV of the SFO, namely Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and Hutchison International Limited. Mr. Kam is a member of the Beijing Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration. Mr. Kam is uncle of Mr. Li Tzar Kuoi, Victor, the Chairman of the Company.

IP Tak Chuen, Edmond, aged 54, has been an Executive Director of the Company since its incorporation in May 1996 and Deputy Chairman of the Company since February 2003. He is also Deputy Managing Director of Cheung Kong (Holdings) Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. In addition, he is the Senior Vice President and Chief Investment Officer of CK Life Sciences Int'l., (Holdings) Inc., a Non-executive Director of TOM Group Limited, and a Director of ARA Asset Management (Singapore) Limited and ARA Trust Management (Suntec) Limited. He holds a Bachelor of Arts degree in Economics and a Master of Science degree in Business Administration.

FOK Kin Ning, Canning, aged 55, has been an Executive Director and Deputy Chairman of the Company since March 1997. He is currently the Group Managing Director of Hutchison Whampoa Limited and a Director of Cheung Kong (Holdings) Limited, both being substantial shareholders of the Company within the meaning of Part XV of the SFO. In addition, Mr. Fok is the Chairman of Hutchison Harbour Ring Limited, Hutchison Telecommunications (Australia) Limited, Hutchison Telecommunications International Limited, Hongkong Electric Holdings Limited and Partner Communications Company Ltd. and the Co-Chairman of Husky Energy Inc. He also acts as a director of Hutchison International Limited, which is also a substantial shareholder of the Company within the meaning of Part XV of the SFO. He holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants.

KWAN Bing Sing, Eric, aged 62, has been an Executive Director of the Company since January 2000 and the Deputy Managing Director of the Company since November 2002, and he will retire from these offices on 31st March, 2007. He joined the Company in 1996 and has been with the Cheung Kong Group since February 1994. He holds a Master's degree in Business Administration and is a Chartered Engineer. He is also a member of the Institution of Electrical Engineers of UK, Chartered Management Institute of UK, and the Institution of Engineers of Australia.

BOARD AND SENIOR MANAGEMENT

Directors' Biographical Information (Cont'd)

Andrew John HUNTER, aged 48, has been an Executive Director and Chief Operating Officer of the Company since December 2006. Mr. Hunter is currently the Chief Financial Officer of Cheung Kong (Holdings) Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Hunter is also an Executive Director of Hongkong Electric Holdings Limited and a Non-executive Director of Spark Infrastructure Group. Prior to the appointment to the board of Hongkong Electric Holdings Limited in 1999, Mr. Hunter was the Finance Director of the Hutchison Property Group. He holds a Master of Arts degree and a Master's degree in Business Administration. He is a member of the Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. He has over 24 years of experience in accounting and financial management.

CHOW WOO Mo Fong, Susan, aged 53, has been an Executive Director of the Company since March 1997. She is the Deputy Group Managing Director of Hutchison Whampoa Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. She is also an Executive Director of Hutchison Harbour Ring Limited and Hongkong Electric Holdings Limited, a Director of Hutchison Telecommunications (Australia) Limited and Partner Communications Company Ltd. and a Non-executive Director of TOM Group Limited. She also acts as a director of Hutchison Infrastructure Holdings Limited, and Hutchison International Limited, which are also substantial shareholders of the Company within the meaning of Part XV of the SFO. She is a solicitor and holds a Bachelor's degree in Business Administration.

Frank John SIXT, aged 55, has been an Executive Director of the Company since its incorporation in May 1996. He is a Director of Cheung Kong (Holdings) Limited and the Group Finance Director of Hutchison Whampoa Limited, both being substantial shareholders of the Company within the meaning of Part XV of the SFO. He is also the Chairman of TOM Group Limited and TOM Online Inc., an Executive Director of Hongkong Electric Holdings Limited, a Director of Hutchison Telecommunications (Australia) Limited, Hutchison Telecommunications International Limited, Husky Energy Inc. and Partner Communications Company Ltd. He also acts as a director of Hutchison Infrastructure Holdings Limited, Hutchison International Limited, Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust, Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust, all being substantial shareholders of the Company within the meaning of Part XV of the SFO. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada.

TSO Kai Sum, aged 75, has been an Executive Director of the Company since March 1997. He is also the Group Managing Director of Hongkong Electric Holdings Limited. He has broad experience in power business and property development. He holds a Bachelor of Science degree in Engineering and is also a Chartered Engineer.

CHEONG Ying Chew, Henry, aged 59, has been an Independent Non-executive Director of the Company since its incorporation in May 1996. He has been a member of the Audit Committee of the Company since December 1998 and acted as the Chairman of the Audit Committee of the Company from December 1998 to December 2006. Mr. Cheong is also a member of the Remuneration Committee of the Company. He holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Operational Research and Management. He is also an Independent Non-executive Director of Cheung Kong (Holdings) Limited, which is a substantial shareholder of the Company within the meaning of Part XV of the SFO. In addition, he is an Independent Non-executive Director of Excel Technology International Holdings Limited, Forefront International Holdings Limited, SPG Land (Holdings) Limited and TOM Group Limited, all being listed companies in Hong Kong, and Jade Asia Pacific Fund Inc., a listed company in Ireland.

KWOK Eva Lee, aged 64, has been an Independent Non-executive Director of the Company since September 2004. She is also an Independent Non-executive Director of CK Life Sciences Int'l., (Holdings) Inc. and a Director of Li Ka Shing (Canada) Foundation. She currently serves as Chair and Chief Executive Officer of Amara International Investment Corporation. Mrs. Kwok also acts as an Independent Director for Husky Energy Inc. and Bank of Montreal. Mrs. Kwok currently sits on the Audit Committee and Conduct Review Committee of the Bank of Montreal, the Compensation Committee and Corporate Governance Committee of Husky Energy Inc., and the Audit Committee and the Remuneration Committee of CK Life Sciences Int'l., (Holdings) Inc. and the Audit Committee of the Company. She is also a member of the Conference Board of Canada's Advisory Board for the National Awards in Governance. In addition, she previously sat on the Nominating and Governance Committee of Shoppers Drug Mart Corporation, the Independent Committee of Directors and Human Resources Committee of Telesystems International Wireless (TIW) Inc., the Independent Committee of Directors and the Corporate Governance Committee of Fletcher Challenge Canada Ltd., the Audit and Corporate Governance Committees of Clarica Life Insurance Company and the Corporate Governance Committee of Air Canada.

SNG Sow-mei alias POON Sow Mei, aged 65, has been an Independent Non-executive Director and a member of the Audit Committee of the Company since September 2004. She has been an Independent Director of ARA Asset Management (Singapore) Limited since 23rd June, 2003, an Independent Director of ARA Trust Management (Suntec) Limited since 28th October, 2004 and an Independent Non-executive Director of ARA Asset Management (Prosperity) Limited since 2nd October, 2005. Since 2001, Mrs. Sng has been the Senior Consultant (International Business) of Singapore Technologies Electronics Ltd. Concurrently, she is an Advisor of InfoWave Pte Ltd. Prior to her appointment with Singapore Technologies Pte Ltd. where Mrs. Sng was the Director, Special Projects (North East Asia) in 2000 and a Consultant in 2001, Mrs. Sng was the Managing Director of CapitaLand Hong Kong Ltd. for investments in Hong Kong and the region including Japan and Taiwan. In Hong Kong from 1983 to 1997, Mrs. Sng was the Centre Director and then as Regional Director of the Singapore Economic Development Board and Trade Development Board respectively. Mrs. Sng was Singapore's Trade Commissioner in Hong Kong from 1990 to 1997. Mrs. Sng holds a Bachelor of Arts degree from the Nanyang University in Singapore and has wide experience in various fields of industrial investment, business development, strategic and financial management, especially in property investment and management. In 1996, Mrs. Sng was conferred the title of PPA(P) - Pingat Pentadbiran Awam (Perak), the Singapore Public Administration Medal (Silver) by the Republic of Singapore.

BOARD AND SENIOR MANAGEMENT

Directors' Biographical Information (Cont'd)

Colin Stevens RUSSEL, aged 66, has been an Independent Non-executive Director and a member of the Remuneration Committee of the Company since January 2005. He has been a member of the Audit Committee of the Company since January 2005 and the Chairman of the Audit Committee of the Company since January 2007. He is also an Independent Non-executive Director of CK Life Sciences Int'l., (Holdings) Inc. He is the founder and Managing Director of Emerging Markets Advisory Services Ltd., a company which provides advisory services to organisations on business strategy and planning, market development, competitive positioning and risk management. He was the Canadian Ambassador to Venezuela, Consul General for Canada in Hong Kong, Director for China of the Department of Foreign Affairs, Ottawa, Director for East Asia Trade in Ottawa, Senior Trade Commissioner for Canada in Hong Kong, Director for Japan Trade in Ottawa, and was in the Trade Commissioner Service for Canada in Spain, Hong Kong, Morocco, the Philippines, London and India. He was Project Manager for RCA Ltd in Liberia, Nigeria, Mexico and India and electronic equipment development engineer in Canada with RCA Ltd and in Britain with Associated Electrical Industries. Mr. Russel is a Professional Engineer and Qualified Commercial Mediator. He received his Master's degree in Business Administration and a degree in electronics engineering from McGill University, Canada.

LAN Hong Tsung, David, aged 66, has been an Independent Non-executive Director and a member of the Audit Committee of the Company since February 2005. He is also an Independent Non-executive Director of Hutchison Harbour Ring Limited and ARA Asset Management (Prosperity) Limited. He is currently the Chairman of David H T Lan Consultants Ltd. and holds directorship at Nanyang Commercial Bank Ltd. as well as Senior Advisor of Mitsui & Co. (H.K.) Ltd. Mr. Lan was the Secretary for Home Affairs of the Hong Kong Special Administrative Region Government until his retirement in July 2000. He had served as civil servant in various capacities for 39 years. He was awarded the Gold Bauhinia Star Medal (GBS) on 1st July, 2000. In January 2003, he was appointed National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China. Mr. Lan is a Chartered Secretary and a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He received his Bachelor of Arts degree in Economics and Law from the University of London and completed the Advanced Management Program (AMP) of the Harvard Business School, Boston.

LEE Pui Ling, Angelina, aged 58, acted as an Independent Non-executive Director of the Company from May 1996 to September 2004 and has been a Non-executive Director of the Company since September 2004. She is a practising solicitor, has a Bachelor of Laws degree and is a Fellow of the Institute of Chartered Accountants in England and Wales. She is active in public service and currently serves on a number of statutory, advisory and appeal committees. She is also an Independent Non-executive Director of Great Eagle Holdings Limited and a Non-executive Director of Henderson Land Development Company Limited and TOM Group Limited, all being listed companies in Hong Kong.

Barrie COOK, aged 64, acted as an Executive Director of the Company from 2000 to September 2003 and has been a Non-executive Director of the Company since October 2003. He is the Honorary Chairman of the Hong Kong Construction Materials Association and a member of the Hong Kong Government's Council on Sustainable Development. Mr. Cook is a past Chairman of the East Asian Cement Forum, the Hong Kong Cement Association, the Hong Kong Government's Waste Reduction Committee. He was previously a member of the Hong Kong Government's Advisory Council on the Environment and was the Convenor of the Hong Kong Business Coalition on the Environment. Mr. Cook was very active in community affairs through his work with the Hong Kong General Chamber of Commerce. Mr. Cook holds a bachelor of Science Degree in Civil Engineering, and he is a Member of the Institution of Civil Engineers of the United Kingdom and a Fellow of the Chartered Management Institute of the United Kingdom.

George Colin MAGNUS, aged 71, acted as an Executive Director and Deputy Chairman of the Company from May 1996 to October 2005 and has been a Non-executive Director of the Company since November 2005. He is also a Non-executive Director of Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO. In addition, he is a Non-executive Director of Hongkong Electric Holdings Limited. He holds a Master's degree in Economics.

BOARD AND SENIOR MANAGEMENT

Senior Management's Biographical Information

CHAN Kee Ham, Ivan, aged 44, Chief Planning and Investment Officer, has been with the Cheung Kong Group since September 1999. He has over 20 years of experience in investment, banking and finance. He holds a Bachelor's degree in Science, a Bachelor's degree in Chinese Law and a Master's degree in Business Administration.

YEUNG, Eirene, aged 46, the Company Secretary, has been with the Cheung Kong Group since August 1994. She is also Director, Corporate Strategy Unit and Company Secretary of Cheung Kong (Holdings) Limited and the Company Secretary of CK Life Sciences Int'l., (Holdings) Inc. Ms. Yeung is a solicitor of the High Court of the Hong Kong Special Administrative Region ("HKSAR") and of the Supreme Court of Judicature in England and Wales. She holds a Bachelor's degree in Laws, a Master's degree in Business Administration and a Master of Science degree in Finance. Ms. Yeung is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She is a Part-time Member of the Central Policy Unit of the HKSAR Government (for 2005, 2006 and 2007), and a member of the Companies Ordinance Rewrite Advisory Group 3.

CHAN Loi Shun, Dominic, aged 44, Chief Financial Officer, joined Hutchison Whampoa Limited in January 1992 and has been with the Cheung Kong Group since May 1994. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

TONG BARNES Wai Che, Wendy, aged 46, Chief Corporate Affairs Officer, joined the Cheung Kong Group in March 1999. She is also the Chief Corporate Affairs Officer of Cheung Kong (Holdings) Limited and CK Life Sciences Int'l., (Holdings) Inc. She has over 22 years of experience in public relations, marketing communications and corporate affairs. She holds a Bachelor's degree in Business Administration.

LUN Pak Lam, aged 49, Head of China Infrastructure, joined Hutchison Whampoa Limited and Cheung Kong (Holdings) Limited in May 1993 and June 1994 respectively and has been with the Company since July 1996. He holds a Bachelor's and a Master's degree in Engineering.

CHEN Tsien Hua, Joanna, aged 44, Head of Business Development, joined Hutchison Whampoa Limited in August 1992, and has been with the Company since July 1996. She holds a Bachelor's degree in Social Sciences and a Master's Degree in Business Administration.

LEUNG Ying Wah, Lambert, aged 60, Chief Executive Officer of Cheung Kong Infrastructure Materials. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Quarrying (UK) and the past chairman of the Institute of Quarrying, Hong Kong Branch.

Donald William JOHNSTON, aged 64, Executive Director of Anderson Asia (Holdings) Limited, Green Island Cement (Holdings) Limited and Green Island International Limited, has been with the Cheung Kong Group since 1988. He holds a Master's degree in Business Administration and a Bachelor's degree in Civil Engineering and is a Chartered Professional Engineer. He is a member of the Institute of Engineers (Australia) and a fellow of the Institute of Quarrying.

TSANG Pak Chung, Eddy, aged 49, Executive Director of Green Island Cement (Holdings) Limited, Green Island International Limited and Anderson Asia (Holdings) Limited, joined the Cheung Kong Group in January 2005. Prior to this appointment, he was Vice Chairman of two listed companies. He is a member of each of the Institute of Chartered Accountants in Australia, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators. He holds a Master's degree in Commerce and a Bachelor's degree in Economics.

RISK FACTORS

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

Economic Condition and Interest Rates

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

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

Infrastructure Market

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

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

RISK FACTORS

Capital Expenditure

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

Currency Fluctuations

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

Strategic Partners

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

Impact of Local, National and International Regulations

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

Impact of New Accounting Standards

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

Outbreak of Highly Contagious Disease

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

RISK FACTORS

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

The Group owns approximately 38.8 per cent. of the Hongkong Electric Group which operates in Hong Kong and has investments in different countries and places. Hence the financial condition and results of operations of the Hongkong Electric Group may be affected by the local market conditions and the economy of Hong Kong as well as the places where its investments are located. The Group's financial condition and results of operations are materially affected by the financial condition and results of operations of the Hongkong Electric Group. In addition, the core businesses of the Hongkong Electric Group are different from those of the Group, and as a result, the Group is indirectly exposed to the risks facing the Hongkong Electric Group.

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

Past Performance and Forward Looking Statements

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

REPORT OF THE DIRECTORS

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

Principal Activities

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

Results and Dividends

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

The Directors recommend the payment of a final dividend of HK$0.75 per share which, together with the interim dividend of HK$0.25 per share paid on 29th September, 2006, makes the total dividend of HK$1.00 per share for the year.

Property, Plant and Equipment and Leasehold Land

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

Reserves

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

Group Financial Summary

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

Properties

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

REPORT OF THE DIRECTORS

Directors

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

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

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

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

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

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

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

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

(1) Long Positions in Shares

			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%
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Interest of child or spouse & beneficiary of trusts	–	151,000	–	829,599,612 (Note 4)	829,750,612	38.88%
	Lee Pui Ling, Angelina	Beneficial owner	8,800	–	–	–	8,800	0.0004%

REPORT OF THE DIRECTORS

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

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

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

(2) Long Positions in Underlying Shares

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

(3) Short Positions in Underlying Shares

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

(4) Long Positions in Debentures

Name of Company	Name of Director	Capacity	Amount of Debentures: Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Whampoa International (01/11) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$12,000,000 7% Notes due 2011 (Note 3)	–	US$12,000,000 7% Notes due 2011
Hutchison Whampoa International (03/13) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$21,000,000 6.5% Notes due 2013 (Note 3)	–	US$21,000,000 6.5% Notes due 2013
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US$2,500,000 6.5% Notes due 2013 (Note 5)	–	US$2,500,000 6.5% Notes due 2013

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

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

			Amount of Debentures				
Name of Company	Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Whampoa International (03/33) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$8,000,000 6.25% Notes due 2014 (Note 3)	–	US$8,000,000 6.25% Notes due 2014
		Interest of controlled corporation	–	–	US$15,000,000 7.45% Notes due 2033 (Note 3)	–	US$15,000,000 7.45% Notes due 2033
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US$2,500,000 5.45% Notes due 2010 (Note 5)	–	US$2,500,000 5.45% Notes due 2010
		Interest of controlled corporation	–	–	US$2,500,000 6.25% Notes due 2014 (Note 5)	–	US$2,500,000 6.25% Notes due 2014
		Interest of controlled corporation	–	–	US$2,000,000 7.45% Notes due 2033 (Note 5)	–	US$2,000,000 7.45% Notes due 2033
Hutchison Whampoa Finance (05) Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	Euro 4,600,000 4.125% Notes due 2015 (Note 5)	–	Euro 4,600,000 4.125% Notes due 2015

Notes:

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

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

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

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

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

Notes (Cont'd):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes (Cont'd):

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

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

11. Such underlying shares in Hutchison Telecommunications (Australia) Limited are derived from the listed and physically settled 5.5% unsecured convertible notes due 2007 issued by Hutchison Telecommunications (Australia) Limited.

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

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

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

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

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

Interests and Short Positions of Shareholders

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

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

Name	Capacity	Number of Ordinary Shares	Number of Underlying Shares	Total	Approximate % of Shareholding
Hutchison Infrastructure Holdings Limited	Beneficial owner	1,906,681,945 (Note i)	–	1,906,681,945	84.58%
Hutchison International Limited	Interest of controlled corporation	1,906,681,945 (Note ii)	–	1,906,681,945	84.58%
Hutchison Whampoa Limited	Interest of controlled corporations	1,906,681,945 (Note ii)	–	1,906,681,945	84.58%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,906,681,945 (Note iii)	31,644,803 (Note vi)	1,938,326,748	85.98%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	1,912,109,945 (Note iv)	31,644,803 (Note vi)	1,943,754,748	86.22%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	1,912,109,945 (Note v)	31,644,803 (Note vi)	1,943,754,748	86.22%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	1,912,109,945 (Note v)	31,644,803 (Note vi)	1,943,754,748	86.22%
Li Ka-shing	Founder of discretionary trusts	1,912,109,945 (Note v)	31,644,803 (Note vi)	1,943,754,748	86.22%

Interests and Short Positions of Shareholders (Cont'd)

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

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

Notes:

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

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

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

iv. TUT1 as trustee of UT1 is deemed to be interested in those shares of the Company described in Note iii above as TUT1 as trustee of UT1 and TUT1 related companies hold more than one-third of the issued share capital of CKH and TUT1 as trustee of UT1 holds 5,428,000 shares of the Company.

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

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

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

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

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

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

Continuing Connected Transactions

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

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

Continuing Connected Transactions (Cont'd)

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

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

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

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

Major Customers and Suppliers

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

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

Competing Business Interests of Directors

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

(a) Core Business Activities of the Group

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

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

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

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

(5) Investment holding and project management;

(6) Securities investment; and

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

REPORT OF THE DIRECTORS

Competing Business Interests of Directors (Cont'd)

(b) Interests in Competing Business

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

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

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

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

Pre-emptive Rights

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

Purchase, Sale or Redemption of Shares

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

Public Float

As announced by the Company on 8th January, 1997 and 17th February, 1997, the Stock Exchange granted a waiver from strict compliance with Rule 8.08 of the Listing Rules to the Company on 9th January, 1997 subject to approximately not less than 15.2 per cent. of the issued share capital of the Company being held in public hands. Based on information available and within the knowledge of the Directors, the obligation has been complied with.

Donations

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

Disclosure under Chapter 13 of the Listing Rules

The following information is disclosed in accordance with Rules 13.21 and 13.22 of Chapter 13 of the Listing Rules:

(1) The Group has entered into a syndicated loan facility agreement of HK$3.8 billion, of which the whole amount was drawn as at 31st December, 2006. The facility will mature in 2007. Under the provision of the loan agreement, it is an event of default if HWL (the Company's controlling shareholder) ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.

(2) A sponsors/shareholders' undertaking referred to under the section headed "Continuing Connected Transactions" has been provided by HWL, the Zhuhai Foreign Party and the other parties in relation to two loan facilities of US$125.5 million and US$670 million granted to the PRC project company undertaking the Zhuhai Power Plant. The two loans with the outstanding amounts of US$18.9 million and US$332.4 million as at 31st December, 2006, are repayable by installments with the final repayment due in 2008 and 2012 respectively. It is an event of default for both facilities if CKH and HWL collectively own directly or indirectly less than 51 per cent. of the shareholding in the Zhuhai Foreign Party. The obligation has been complied with.

(3) The Group has entered into a long term syndicated facility agreement of A$400 million with the loan balance of A$209.9 million remained outstanding as at 31st December, 2006. The facility will mature in 2008. Under the provision of the loan agreement, it is an event of default if HWL ceases to own (directly or indirectly) at least 30 per cent. of the issued share capital of the Company. The obligation has been complied with.

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

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

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

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

Audit Committee

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

Auditors

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

On behalf of the Board

Kam Hing Lam
Group Managing Director

Hong Kong, 15th March, 2007

CORPORATE GOVERNANCE REPORT

The Board of Directors ("Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("Code on CG Practices") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") throughout the year ended 31st December, 2006.

Key corporate governance principles and corporate governance practices of the Company are summarised below:

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.	**Directors**		
A.1	**The Board**		
	Corporate Governance Principle *The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.*		
A.1.1	Regular board meetings at least four times a year involving active participation, either in person or through other electronic means of communication, of majority of directors	√	• The Board meets regularly and held meetings in March, May, August and November 2006. • Details of Directors' attendance records in 2006:

Members of the Board	Attendance
Executive Directors	
LI Tzar Kuoi, Victor (Chairman)	3/4
KAM Hing Lam (Group Managing Director)	4/4
IP Tak Chuen, Edmond	4/4
FOK Kin Ning, Canning	2/4
KWAN Bing Sing, Eric*	3/4
Andrew John HUNTER**	N/A
CHOW WOO Mo Fong, Susan	3/4
Frank John SIXT	3/4
TSO Kai Sum	4/4

CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.1 (Cont'd)			**Members of the Board** / **Attendance** Independent Non-executive Directors CHEONG Ying Chew, Henry 4/4 KWOK Eva Lee 4/4 SNG Sow-mei alias POON Sow Mei 4/4 Colin Stevens RUSSEL 4/4 LAN Hong Tsung, David 4/4 Non-executive Directors LEE Pui Ling, Angelina 3/4 Barrie COOK 4/4 George Colin MAGNUS 4/4 Note: * Will retire as Deputy Managing Director and Executive Director on 31st March, 2007. ** Appointed as an Executive Director effective on 1st December, 2006. • The Directors can attend meetings in person, by phone or through other means of electronic communication or by their alternate directors (if applicable) in accordance with the Company's Bye-laws.
A.1.2	All directors are given an opportunity to include matters in the agenda for regular board meetings.	√	• All Directors are consulted as to whether they may want to include any matter in the agenda before the agenda for each regular Board meeting is issued.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.3	- At least 14 days notice for regular board meetings - Reasonable notice for other board meetings	√ √	• Regular Board meetings of a particular year are usually scheduled towards the end of the preceding year to give all Directors adequate time to plan their schedules to attend. • At least 14 days formal notice would be given before each regular meeting.
A.1.4	All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	√	• Directors have access to the Company Secretary and key officers of the Company Secretarial Department who are responsible to the Board for ensuring that Board procedures are followed. • Memos are issued to Directors, from time to time on updating of legal and regulatory changes and matters of relevance to Directors in the discharge of their duties.
A.1.5	- Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting. - Such minutes should be open for inspection at any reasonable time on reasonable notice by any director.	√ √	• The Company Secretary prepares written resolutions or minutes and keeps records of matters discussed and decisions resolved at all Board and Board Committee meetings. • Board minutes/resolutions are sent to all Directors within a reasonable time (generally within 14 days) after each Board and Board Committee meeting. • Board minutes/resolutions are available for inspection by Directors/Board Committee members.

CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.6	- Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached. - Draft and final versions of board minutes for all directors to comment and to keep records within a reasonable time after the board meeting.	√ √	• Minutes record in sufficient detail the matters considered by the Board/Board Committees and decisions reached. • Directors are given an opportunity to comment on draft Board minutes. • Final version of Board minutes is placed on record within a reasonable time after the Board meeting.
A.1.7	- A procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the company's expense - The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the company.	√ √	• Directors have been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.8	- If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee but a board meeting should be held.	√	• Important matters are usually dealt with by way of written resolutions so that all Directors (including Independent Non-executive Directors) can note and comment, as appropriate, the matters before approval is granted. • Director must declare his/her interest in the matters to be passed in the resolution, if applicable.
	- Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	√	• If a substantial shareholder or a Director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.

A.2 Chairman and Chief Executive Officer

Corporate Governance Principle

There should be a clear division of responsibilities between the Chairman and the Group Managing Director of the Company to ensure a balance of power and authority.

A.2.1	- Separate roles of chairman and chief executive officer not to be performed by the same individual	√	• The positions of the Chairman of the Board and the Group Managing Director are currently held by separate individuals.
	- Division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	√	• The Chairman determines the broad strategic direction of the Group in consultation with the full Board and is responsible for macro high-level oversight of management. • The Group Managing Director, with the support of the Executive Directors, is responsible for strategic planning of different business functions and day-to-day management and operation of the Group.

<table>
<tr><th>Code Ref.</th><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr><td>A.2.2</td><td>The chairman should ensure that all directors are properly briefed on issues arising at board meetings.</td><td>√</td><td>

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis.
In addition to regular Board meetings, the Chairman had meetings with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of Executive Directors in May and November 2006. Details of the attendance records of the meetings are as follows:

<table>
<tr><th></th><th>Attendance</th></tr>
<tr><td>Chairman</td><td></td></tr>
<tr><td>LI Tzar Kuoi, Victor</td><td>2/2</td></tr>
<tr><td>Independent Non-executive Directors</td><td></td></tr>
<tr><td>CHEONG Ying Chew, Henry</td><td>2/2</td></tr>
<tr><td>KWOK Eva Lee</td><td>2/2</td></tr>
<tr><td>SNG Sow-mei alias POON Sow Mei</td><td>2/2</td></tr>
<tr><td>Colin Stevens RUSSEL</td><td>2/2</td></tr>
<tr><td>LAN Hong Tsung, David</td><td>2/2</td></tr>
<tr><td>Non-executive Directors</td><td></td></tr>
<tr><td>LEE Pui Ling, Angelina</td><td>2/2</td></tr>
<tr><td>Barrie COOK</td><td>2/2</td></tr>
<tr><td>George Colin MAGNUS</td><td>2/2</td></tr>
</table>
Note: The Chairman and the Non-executive Directors (including the Independent Non-executive Directors) can attend meetings in person, by phone or through other means of electronic communication or by their alternate directors (if applicable) in accordance with the Company's Bye-laws.
</td></tr>
</table>

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.2.3	The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.	√	• The Board papers including supporting analysis and related background information are normally sent to the Directors at least three days before Board meetings. • Communications between Non-executive Directors (including Independent Non-executive Directors) on the one hand, and the Company Secretary as co-ordinator for the other business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and further supporting information and/or documentation is provided if appropriate.

A.3 Board composition

Corporate Governance Principle
The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company and should include a balanced composition of Executive and Non-executive Directors so that independent judgement can effectively be exercised.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.3.1	Independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the company.	√	• The composition of the Board, by category and position of Directors including names of Chairman, Executive Directors, Non-executive Directors and Independent Non-executive Directors, is disclosed in all corporate communications. • The Board consists of a total of seventeen Directors, comprising nine Executive Directors, three Non-executive Directors and five Independent Non-executive Directors. More than one Independent Non-executive Directors have appropriate professional qualifications, or accounting or related financial management expertise.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.3.1 (Cont'd)			• Details of the composition of the Board are set out on page 174. • The Directors' biographical information and the relationships among the Directors are set out on pages 38 to 43. • Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

A.4 Appointments, re-election and removal

Corporate Governance Principle
There should be a formal, considered and transparent procedure for the appointment of new Directors and plans in place for orderly succession for appointments to the Board. All Directors should be subject to re-election at regular intervals.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	√	• All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Bye-laws and the Code on CG Practices.
A.4.2	- All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. - Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	√ √	• In accordance with the Company's Bye-laws, newly appointed Directors are required to offer themselves for re-election at the first annual general meeting following their appointment. • On the basis that the proposed amendment to the Company's Bye-laws is approved at the forthcoming 2007 annual general meeting, Directors appointed to fill a casual vacancy will be subject to election by shareholders at the first general meeting after their appointment.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.4.2 (Cont'd)			• The Board as a whole is responsible for the appointment of new Directors and Directors' nomination for re-election by shareholders at the annual general meeting of the Company. Under the Company's Bye-laws, the Board may from time to time appoint a Director either to fill a vacancy or as an addition to the Board. Any such new Director shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at the same annual general meeting. • All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Bye-laws and the Code on CG Practices. • The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company. The independence of the Independent Non-executive Directors is assessed according to the relevant rules and requirements under the Listing Rules. • Each of the Independent Non-executive Directors makes an annual confirmation of independence pursuant to the requirements of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in the relevant requirements of the Listing Rules and are independent in accordance with the terms of the guidelines.

CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices

A.5 Responsibilities of directors

Corporate Governance Principle
Every Director is required to keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5.1	- Every newly appointed director of the company should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary. - To ensure that he has a proper understanding of the operations and business of the company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the company.	√ √	• The Company Secretary and key officers of the Company Secretarial Department liaise closely with newly appointed Directors both immediately before and after his/her appointment to acquaint the newly appointed Director with the duties and responsibilities as a Director of the Company and the business operation of the Company. • A package compiled and reviewed by the Company's legal advisers setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related ordinances and relevant regulatory requirements of Hong Kong is provided to each newly appointed Director. A revised information package comprising the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors was forwarded to each Director during the year for his/her information and ready reference. • Memos are issued from time to time to the Directors on updating of legal and regulatory changes and matters of relevance to the Directors in the discharge of their duties. • During the year, seminars were organised at which distinguished professionals were invited to present to the Directors on subjects such as duties and responsibilities of directors and its trends, corporate governance practices and its development and the way forward, etc. The attendance rate was more than 80 per cent.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5.2	The functions of non-executive directors include: - independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings - take the lead on potential conflicts of interests - serve on the audit, remuneration, nomination and other governance committees, if invited - scrutinise the company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance	 √ √ √ √	• Non-executive Directors exercise their independent judgment and advise on the future business direction and strategic plans of the Company. • Non-executive Directors review the financial information and operational performance of the Company on a regular basis. • Independent Non-executive Directors are invited to serve on the Audit and Remuneration Committees of the Company.
A.5.3	Every director should ensure that he can give sufficient time and attention to the affairs of the company and should not accept the appointment if he cannot do so.	√	• There is satisfactory attendance at Board meetings during the year. Please refer to A.1.1 for details of attendance records. • Every Executive Director has hands-on knowledge and expertise in the areas and operation in which he/she is charged with. Appropriate attention to the affairs of the Company is measured in terms of time as well as the quality of such attention and the ability of the Directors to contribute with reference to his/her necessary knowledge and expertise.

CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5.4	- Directors must comply with the Model Code. - Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees.	√ √	• The Company has adopted the model code for securities transactions by directors of listed issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions, effective 31st March, 2004. • Confirmation has been sought from all Directors that they have complied with the required standards set out in the Model Code for the year ended 31st December, 2006. • Written guidelines of no less exacting terms than the Model Code relating to securities transactions for employees are set out in the Employee Handbook of the Company.

A.6 Supply of and access to information

Corporate Governance Principle
Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.6.1	- Send agenda and full board papers to all directors at least 3 days before regular board or board committee meeting - So far as practicable for other board or board committee meetings	√ √	• Board papers are circulated not less than three days before the regular Board/Board Committee meetings to enable the Directors to make informed decisions on matters to be raised at the Board/Board Committee meetings.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.6.2	- Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. - The board and each director should have separate and independent access to the company's senior management for making further enquiries where necessary.	√ √	• The Company Secretary and the Qualified Accountant attend all regular Board meetings to advise on corporate governance, statutory compliance, and accounting and financial matters. • Communications between Directors on the one hand, and the Company Secretary, who acts as co-ordinator for the other business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.
A.6.3	- All directors are entitled to have access to board papers and related materials. - Steps must be taken to respond as promptly and fully as possible to queries raised by directors.	√ √	• Please see A.6.2 above.

B. Remuneration of Directors and Senior Management

B.1 The level and make-up of remuneration and disclosure

Corporate Governance Principle

There should be a formal and transparent procedure for setting policy on Executive Directors' remuneration and for fixing the remuneration packages for all Directors.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.1.1	Establish a remuneration committee with specific written terms of reference comprising a majority of independent non-executive directors.	√	• In accordance with the Code on CG Practices, the Company has set up a remuneration committee ("Remuneration Committee") with a majority of the members being Independent Non-executive Directors. • The Company established its Remuneration Committee on 1st January, 2005.

CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.1.1 (Cont'd)			• The existing Remuneration Committee comprises the Chairman of the Board, Mr. Li Tzar Kuoi, Victor (Chairman of the Remuneration Committee), and two Independent Non-executive Directors, namely, Mr. Colin Stevens Russel and Mr. Cheong Ying Chew, Henry. • Since the publication of the Company's 2005 annual report, meetings of the Remuneration Committee were held in November 2006 and January 2007. Details of the attendance records of the members of the Remuneration Committee are as follows:

Members of the Remuneration Committee	Attendance
LI Tzar Kuoi, Victor (Chairman of the Remuneration Committee)	2/2
Colin Stevens RUSSEL	2/2
CHEONG Ying Chew, Henry	2/2

Note: The members of the Remuneration Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternates (if applicable) in accordance with the Company's Bye-laws.

• The following is a summary of the work for the Remuneration Committee during the said meetings:

(1) Review of the remuneration policy for 2006/2007;

(2) Review of the remuneration of Non-executive Directors; and

(3) Review of the annual performance bonus policy.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.1.2	The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	√	• The Remuneration Committee has consulted the Chairman and/or the Group Managing Director about proposals relating to the remuneration packages and other human resources issues of the Directors and senior management, including, without limitation, succession plan and key personnel movements as well as policies for recruiting and retaining qualified personnel. • The emoluments of Directors are based on the skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the Company, remuneration benchmarks in the industry, and prevailing market conditions. • To enable them to better advise on the Group's future remuneration policy and related strategies, the Remuneration Committee has been advised of the Group's existing remuneration policy and succession plan, such as guidelines on designing employees' remuneration packages and related market trends and information.
B.1.3	Terms of reference of the remuneration committee include: - determine specific remuneration packages of all executive directors and senior management - review and approve performance-based remuneration and the compensation payable on loss or termination of office or appointment - ensure that no director or any of his associates is involved in deciding his own remuneration	√	• The terms of reference of the Remuneration Committee, which follow closely the requirements of the Code Provisions and have been adopted by the Board, are posted on the Company's website.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.1.4	The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	√	• The terms of reference of the Remuneration Committee are posted on the Company's website. • The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management, and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.
B.1.5	The remuneration committee should be provided with sufficient resources to discharge its duties.	√	• The Human Resources Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

C. Accountability and Audit

C.1 Financial reporting

Corporate Governance Principle
The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.1.1	Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	√	• Directors are provided with a review of the Group's major business activities and detailed financial information on a quarterly basis.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.1.2	- The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. - There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements. - Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. - When the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, such uncertainties should be clearly and prominently set out and discussed at length in the Corporate Governance Report.	√ √ √ N/A	• The Directors annually acknowledge in writing their responsibility for preparing the financial statements of the Group. • Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in C.1.2 of the Code on CG Practices. • With the assistance of the Finance and Accounting Department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. • The Directors also ensure the publication of the financial statements of the Group is in a timely manner. • The statement by the auditors of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 102.
C.1.3	The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	√	• The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all shareholder communications. • The Board is aware of the requirements under the applicable rules and regulations about timely disclosure of price-sensitive information or matters regarding the Company and will authorise the publication of such announcements as and when the occasion arises. The Company Secretary and key officers of the Company Secretarial Department work closely and in consultation with legal advisers to review the materiality and sensitivity of transactions and proposed transactions and advise the Board accordingly.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.2	**Internal controls**		
	Corporate Governance Principle *The Board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.*		
C.2.1	- Directors to review effectiveness of system of internal control of the company and its subsidiaries at least annually and to report that they have done so in the Corporate Governance Report - The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	√ √	• The Board is ultimately responsible for the Group's internal control system and for review of its effectiveness. • The internal control system is designed to help the achievement of business objectives in the following categories: (1) Effectiveness and efficiency of operations which include safeguarding assets against unauthorised use or disposition; (2) Reliability of financial and operational reporting; and (3) Compliance with applicable laws, regulations, and internal policies and procedures. • The system is formulated to manage risk that may impede the achievement of the Group's business objectives rather than to eliminate that risk, and can only provide reasonable, not absolute, assurance against material errors, losses or fraud. The concept of reasonable assurance recognises that the cost of control procedure should not exceed the expected benefits. *Internal Control System* • The Board has overall responsibility for monitoring the operations of the businesses within the Group. Executive Directors are appointed to the boards of all significant operating subsidiaries and associates to attend the board meetings and to oversee the operations. Monitoring activities include the review and approval of business strategies, budgets and plans, and setting of key performance indicators.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.2.1 (Cont'd)			• There are defined organisational structures and authority to operate various business units is delegated to respective managements within limits set by the Executive Directors. • The Head Office management has established operating and management reporting standards for use by all business units. Each business unit also has its own operating policies and procedures that are tailor-made to specific operational environment. • Individual business unit needs to prepare five-year plans which form the foundation of annual budgets and plans. All these plans/budgets have to be approved by the Executive Directors. Monitoring the actual results against the budgets are done monthly via the Executives' and management meetings at the Group and business unit levels, and appropriate actions are taken, if necessary. • Each business unit has to perform risk assessment half-yearly where the risks associated with achieving the business objectives are identified and analysed. It also includes a review of the control mechanism for each risk and action plan is put in place to address the areas for improvement. • The Chief Executive Officer and Chief Financial Officer of each business unit need to provide a formal half-yearly confirmation to acknowledge review of their control systems and highlight any weaknesses.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.2.1 (Cont'd)			• The Group Internal Audit, reporting directly to the Audit Committee and the Group Managing Director, performs independent assessment of the internal control systems. Using a risk based methodology, Internal Audit prepares its audit plan in consultation with, but independent of, management, and it is reviewed by the Audit Committee. The audit work focuses on those areas of the Group's activities with greatest perceived risks. Ad hoc review will also be performed on areas of concern identified by the Audit Committee and management. Management of individual business unit will be informed of the areas for improvement, and Internal Audit is responsible for monitoring the corrective actions. • Reports from the external auditors, Deloitte Touche Tohmatsu ("Deloitte"), on internal controls and relevant financial reporting matters, are presented to the Audit Committee and management. *Effectiveness of Internal Control System* • The Board, through the Audit Committee of the Company, has conducted an annual review of the effectiveness of internal control system operating in the Group and considers it is adequate and effective. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. The Board is not aware of any significant areas of concern which may affect the shareholders. The Board is satisfied that the Group has fully complied with the code provisions on internal controls as set forth in the Code on CG Practices.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.2.1 (Cont'd)			*Controls on Price-sensitive Information* • Regarding the procedures and internal controls for handling and dissemination of price-sensitive information, the Group: (1) is well aware of its obligations under the Listing Rules to announce any information that is considered to be price-sensitive; (2) makes reference to the "Guide on Disclosure of Price-sensitive Information" issued by the Stock Exchange in 2002; (3) has implemented policy and procedure which strictly prohibit unauthorised use of confidential and sensitive information, and has communicated to all staff; and (4) requires that only Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs.

CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices

C.3 Audit Committee

Corporate Governance Principle

The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.1	- Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. - Draft and final versions of minutes for all members of the audit committee to comment and to keep records within a reasonable time after the meeting.	√ √	• Minutes drafted by the Company Secretary are circulated to members of the Audit Committee within a reasonable time after each meeting. • Audit Committee meetings were held in March and August 2006. Details of the attendance record of the members of the Audit Committee are as follows:

Members of the Audit Committee	Attendance
CHEONG Ying Chew, Henry (Chairman of the Audit Committee)	2/2
KWOK Eva Lee	2/2
SNG Sow-mei alias POON Sow Mei	2/2
Colin Stevens RUSSEL*	2/2
LAN Hong Tsung, David	2/2

Note: * Appointed as Chairman of the Audit Committee effective on 1st January, 2007.

• The members of the Audit Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternates (if applicable) in accordance with the Company's Bye-laws.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.1 (Cont'd)			• The following is a summary of the work of the Audit Committee during 2006: (1) Review of the financial reports for 2005 annual results and 2006 interim results; (2) Review of the findings and recommendations of the Group Internal Audit on the work of various divisions/departments and related companies; (3) Review of the effectiveness of the internal control system; (4) Review of the external auditors' audit findings; (5) Review of the auditors' remuneration. (6) Review of risks of different business units and analysis thereof provided by the relevant business units; and (7) Review of the control mechanisms for such risks and advising on action plans for improvement of the situations. • After due and careful consideration of reports from management and the internal and external auditors, the Audit Committee was of the view that no suspected fraud or irregularities, significant internal control deficiencies, or suspected infringement of laws, rules, or regulations had been found, and concluded at the meeting held on 13th March, 2007 that the system of internal controls was adequate and effective.

CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.1 (Cont'd)			• On 13th March, 2007, the Audit Committee met to review the Group's 2006 consolidated financial statements, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors. After review and discussions with the management, internal auditors and external auditors, the Audit Committee endorsed the accounting treatment adopted by the Company, and the Audit Committee had to the best of its ability assured itself that the disclosure of the financial information in the 2006 Annual Report complies with the applicable accounting standards and Appendix 16 of the Listing Rules. The Audit Committee therefore recommended the Board's approval of the consolidated financial statements for the year ended 31st December, 2006. • The Audit Committee also recommended to the Board the re-appointment of Deloitte as the Company's external auditors for 2007 and that the related resolution shall be put forth for shareholders' consideration and approval at the 2007 annual general meeting. • The Group's Annual Report for the year ended 31st December, 2006 has been reviewed by the Audit Committee.
C.3.2	A former partner of existing auditing firm shall not act as a member of the committee for 1 year after he ceases to be a partner of or to have any financial interest in, the firm, whichever is the later.	√	• No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.3	Terms of reference of the audit committee include: - recommendation to the board on the appointment and removal of external auditors and approval of their terms of engagement - review and monitor external auditors' independence and effectiveness of audit process - review of financial information of the company - oversight of the company's financial reporting system and internal control procedures	√	• Terms of reference of the Audit Committee, which follow closely the requirements of the Code Provisions and have been adopted by the Board, are posted on the Company's website.
C.3.4	The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	√	• The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established the Audit Committee in December 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants).

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.4 (Cont'd)			• In accordance with the requirements of the Code on CG Practices, the terms of reference of the Audit Committee were revised on 1st January, 2005 in terms substantially the same as the provisions set out in the Code on CG Practices. The revised terms of reference of the Audit Committee are available on the Company's website. • The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. • The existing Audit Committee comprises five Independent Non-executive Directors, namely, Mr. Colin Stevens Russel (Chairman of the Audit Committee), Mr. Cheong Ying Chew, Henry, Mrs. Kwok Eva Lee, Mrs. Sng Sow-mei alias Poon Sow Mei and Mr. Lan Hong Tsung, David. The Audit Committee also comprising five Independent Non-executive Directors, namely, Mr. Cheong Ying Chew, Henry (Chairman of the Audit Committee), Mrs. Kwok Eva Lee, Mrs. Sng Sow-mei alias Poon Sow Mei, Mr. Colin Stevens Russel and Mr. Lan Hong Tsung, David, during 2006, held two meetings during the year.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.5	Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the company should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	N/A	• The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte be re-appointed as the Company's external auditors for 2007. • For the year ended 31st December, 2006, the external auditors of the Company received approximately HK$4.3 million for annual audit service, approximately HK$0.5 million for audit-related services rendered in connection with acquisitions and disposals of certain investments of the Group, and approximately HK$4.4 million for tax and other non-audit services.
C.3.6	The audit committee should be provided with sufficient resources to discharge its duties.	√	• The Audit Committee has been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should the seeking of such advice be considered necessary by such Directors.

CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D.	**Delegation by the Board**		
D.1	**Management functions**		
	Corporate Governance Principle *The Company should have a formal schedule of matters specifically reserved to the Board and those delegated to management.*		
D.1.1	When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the company.	√	• Executive Directors are in charge of different businesses and functional divisions in accordance with their respective areas of expertise. • Please refer to the Management Structure Chart as set out on page 101. • For matters or transactions of a material nature, the same will be referred to the Board for approval. • For matters or transactions of a magnitude requiring disclosure under the Listing Rules or other applicable rules or regulations, appropriate disclosure will be made and where necessary, circular will be prepared and shareholders' approval will be obtained in accordance with the requirements of the applicable rules and regulations.
D.1.2	Formalise functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the company.	√	• The Board, led by the Chairman, is responsible for the Group's future development directions; overall strategies and policies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. • Under the leadership of the Group Managing Director, management is responsible for the day-to-day operations of the Group.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D.2	**Board Committees**		
	Corporate Governance Principle *Board Committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.*		
D.2.1	Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	√	• Three Board Committees, i.e. Audit Committee, Remuneration Committee and Executive Committee have been established with specific terms of reference.
D.2.2	The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	√	• Board Committees report to the Board of their decisions and recommendations at Board meetings.
E.	**Communication with Shareholders**		
E.1	**Effective communication**		
	Corporate Governance Principle *The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.*		
E.1.1	In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	√	• Separate resolutions are proposed at the general meeting on each substantially separate issue, including the election of individual directors.

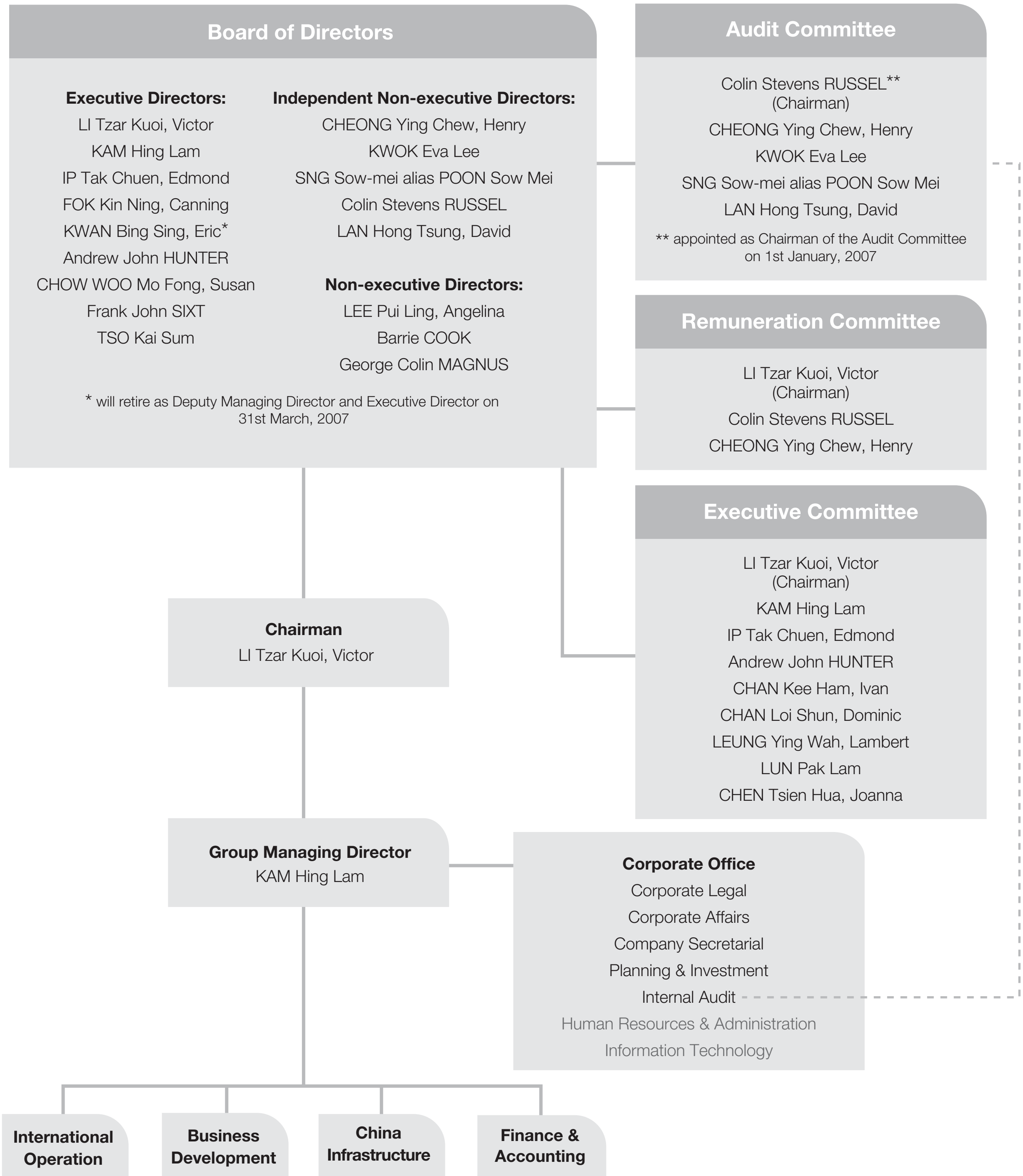
CORPORATE GOVERNANCE REPORT

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.1.2	- The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting. - The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	√ √	• In 2006, the Chairman of the Board, Chairman of the Audit Committee and Chairman of the Remuneration Committee attended the annual general meeting and were available to answer questions. • The Company establishes different communication channels with shareholders and investors including: (i) regular despatch of printed copies of corporate communication (including but not limited to annual report, interim report, notice of meeting, circular and proxy form) required under the Listing Rules to the shareholders of the Company; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board; (iii) updated and key information on the Group is available on the website of the Company; (iv) the Company's website offers a communication channel between the Company and its shareholders and investors; (v) regular press conferences and briefing meetings with analysts from the investment sectors are set up from time to time on updated performance information of the Group; (vi) the Company's Branch Share Registrars deal with shareholders for share registration and related matters; and (vii) Corporate Affairs Department of the Company handles enquiries from shareholders, and investors generally.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.2	**Voting by Poll**		
	Corporate Governance Principle *The Company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.*		
E.2.1	- The chairman of a meeting should ensure disclosure in the circulars of the procedures for and the rights of shareholders to demand a poll.	√	• In 2006, the right to demand a poll was set out in the circular containing the notice of annual general meeting.
	- The chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies.	√	• In 2006, the Chairman of the general meeting exercised his power under the Bye-laws of the Company to put each resolution set out in the notice to be voted by way of a poll.
	- If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.	√	

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.2.2	- The company should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. - The company should ensure that votes cast are properly counted and recorded.	√ √	• Representatives of the Branch Share Registrars of the Company were appointed as scrutineers to monitor and count the poll votes casted at the annual general meeting. • Poll results were announced at the adjourned meeting, posted on the websites of the Company and the Stock Exchange, and also published in Hong Kong newspapers on the business day following the annual general meeting of the Company.
E.2.3	The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of: - the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and - the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.	√ √	• At the 2006 annual general meeting, the Chairman of the meeting explained the detailed procedures for conducting a poll, which had also been set out in the circular containing the notice of annual general meeting, and then answered any questions from shareholders. • At the 2006 annual general meeting, the Chairman of the meeting exercised his power under the Bye-laws of the Company to put each resolution set out in the notice to be voted by way of a poll.

Management Structure Chart



INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

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

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15th March, 2007

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December

HK$ million	Notes	**2006**	2005
Group turnover	6	**1,822**	2,247
Share of turnover of jointly controlled entities	6	**2,977**	2,503
		4,799	4,750
Group turnover	6	**1,822**	2,247
Other income	7	**756**	592
Operating costs	8	**(1,587)**	(1,729)
Finance costs	9	**(523)**	(732)
Gain on disposals of associates	10	**–**	3,763
Impairment losses	11	**(279)**	(1,727)
Share of results of associates		**2,751**	3,183
Share of results of jointly controlled entities		**737**	311
Profit before taxation	12	**3,677**	5,908
Taxation	13	**(4)**	(67)
Profit for the year	14	**3,673**	5,841
Attributable to:			
Shareholders of the Company		**3,670**	6,007
Minority interests		**3**	(166)
		3,673	5,841
Earnings per share	15	**HK$1.63**	HK$2.66
Dividends	16		
Interim dividend paid		**564**	541
Proposed final dividend		**1,690**	1,596
		2,254	2,137

CONSOLIDATED BALANCE SHEET

as at 31st December

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

LI TZAR KUOI, VICTOR
Director

IP TAK CHUEN, EDMOND
Director

15th March, 2007

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31st December

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December

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

NOTES TO THE FINANCIAL STATEMENTS

1. General

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

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

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

2. Changes in Accounting Policies

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

(a) Employee Retirement Benefits

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

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

2. Changes in Accounting Policies (Cont'd)

(a) Employee Retirement Benefits (Cont'd)

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

(b) Financial Instruments – Investments in Securities

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies

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

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

(a) Basis of Consolidation

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

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

(b) Goodwill

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

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

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

3. Principal Accounting Policies (Cont'd)

(b) Goodwill (Cont'd)

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

(c) Subsidiaries

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

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

(d) Associates and Jointly Controlled Entities

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

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

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

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

3. Principal Accounting Policies (Cont'd)

(e) Property, Plant and Equipment

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

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

Buildings	1 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 income statement.

(f) Investment Property

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

(g) Leasehold Land

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

(h) Inventories

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

3. Principal Accounting Policies (Cont'd)

(i) Contract Work

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

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

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

(j) Financial Instruments

Interests in infrastructure project investments

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

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

Investments in securities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(j) Financial Instruments (Cont'd)

Derivative financial instruments and hedge accounting

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

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

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

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

Trade debtors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank and other loans

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

Trade creditors

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

3. Principal Accounting Policies (Cont'd)

(j) Financial Instruments (Cont'd)

Equity instruments

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

Financial guarantee contracts

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

Fair value

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

(k) Revenue Recognition

Sales of goods

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

Return from infrastructure project investments

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

Interest income

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

3. Principal Accounting Policies (Cont'd)

(k) Revenue Recognition (Cont'd)

Income from investments in securities

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

Contract revenue

Income from contracts is recognised according to the stage of completion.

(l) Foreign Currencies

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

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

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

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

3. Principal Accounting Policies (Cont'd)

(l) Foreign Currencies (Cont'd)

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

(m) Taxation

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

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

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

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

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

3. Principal Accounting Policies (Cont'd)

(n) Operating Leases

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

(o) Finance Leases

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

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

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

(p) Employee Retirement Benefits

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies (Cont'd)

(q) Borrowing Costs

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

4. Key Sources of Estimation Uncertainty

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

(a) Impairment of Property, Plant and Equipment

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

(b) Impairment of Interests in Infrastructure Project Investments

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

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

(c) Impairment of Cash-generating Units/Goodwill

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

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

5. Financial Risk Management Objectives and Policies

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

(a) Currency Risk

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

(b) Interest Rate Risk

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

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

(c) Credit Risk

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

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

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

(d) Price Risk

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

7. Other Income

Other income includes the following:

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

NOTES TO THE FINANCIAL STATEMENTS

8. Operating Costs

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

9. Finance Costs

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

10. Gain on Disposals of Associates

HK$ million	2006	2005
Disposal of 49% interests in ETSA Utilities, Powercor and CitiPower	**–**	3,699
Disposal of 9.9% interest in Northern Gas Networks Holdings Limited	**–**	64
Total	**–**	3,763

Prior to December 2005, the Group and Hongkong Electric Holdings Limited (an associate of the Group) held 100 per cent. interests, on a 50/50 basis, in 3 associate groups of companies, ETSA Utilities, Powercor and CitiPower, which operate and manage various electricity distribution businesses in Australia. In December 2005, the Group sold its 49 per cent. interests in these associate groups to Spark Infrastructure Group, a stapled group listed in the Australian Stock Exchange Limited, at a consideration of approximately A$2.2 billion.

NOTES TO THE FINANCIAL STATEMENTS

11. Impairment Losses

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

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

12. Profit Before Taxation

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

13. Taxation

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

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

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

HK$ million	**2006**	2005
Profit before taxation	**3,677**	5,908
Less: share of results of associates	**(2,751)**	(3,183)
share of results of jointly controlled entities	**(737)**	(311)
Total	**189**	2,414
Tax at 17.5% (2005: 17.5%)	**33**	422
Tax impact on:		
Different domestic rates of subsidiaries operating in other tax jurisdictions	**(188)**	230
Income not subject to tax	**(42)**	(1,148)
Expenses not deductible for tax purpose	**199**	294
Tax losses and other temporary differences not recognised	**29**	245
Others	**(27)**	24
Tax charge	**4**	67

NOTES TO THE FINANCIAL STATEMENTS

14. Profit for the Year and Segment Information

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

By business segment

for the year ended 31st December

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

NOTES TO THE FINANCIAL STATEMENTS

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

By business segment (Cont'd)

as at 31st December

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

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

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

By geographic region

for the year ended 31st December

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

NOTES TO THE FINANCIAL STATEMENTS

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

By geographic region (Cont'd)

as at 31st December

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

15. Earnings Per Share

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

16. Dividends

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

NOTES TO THE FINANCIAL STATEMENTS

17. Property, Plant and Equipment

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

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

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

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

The Directors reviewed the Group's property, plant and equipment based on value in use calculation. The discount rate used was 8.5 per cent. (2005: 8.5 per cent.). No impairment loss has been recognised for the property, plant and equipment during the year (2005: HK$769 million).

18. Investment Properties

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

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

NOTES TO THE FINANCIAL STATEMENTS

19. Leasehold Land

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

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

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

20. Interests in Associates

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

21. Interests in Jointly Controlled Entities

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. Interests in Infrastructure Project Investments

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

Interests in infrastructure project investments carry effective interest rates which range from 13.7 per cent. to 16.5 per cent. (2005: range from 13.7 per cent. to 16.5 per cent.).

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

23. Investments in Securities

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

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

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

24. Derivative Financial Instruments

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

Currency Derivatives

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

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

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

Major terms of these contracts are as follows:

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

24. Derivative Financial Instruments (Cont'd)

Currency Derivatives (Cont'd)

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

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

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

Interest Rate Swaps

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

HK$ million	Floating interest rate	Weighted average fixed interest rate	Notional principal amount	Estimated fair value
Contracts maturing in 2010	BBSW or LIBOR*	5.62%	1,726	37
Fair value deferred in equity at 31st December, 2006				**37**
Contracts maturing in 2010	BBSW or LIBOR*	5.63%	1,560	(10)
Fair value deferred in equity at 31st December, 2005				(10)

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

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

25. Goodwill

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

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

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

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

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

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

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

26. Inventories

HK$ million	2006	2005
Raw materials	**42**	44
Work-in-progress	**20**	6
Stores, spare parts and supplies	**9**	11
Finished goods	**28**	30
	99	91
Contract work-in-progress	**–**	14
Total	**99**	105
Contract work-in-progress		
Costs plus recognised profits less recognised losses	**–**	140
Progress billing	**–**	(126)
Net amount	**–**	14

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

27. Debtors and Prepayments

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

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

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

27. Debtors and Prepayments (Cont'd)

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

28. Bank Balances and Deposits

Bank balances and deposits carry effective interest rate at 4.66 per cent. (2005: 3.08 per cent.).

29. Bank and Other Loans

HK$ million	**2006**	2005
Unsecured bank loans repayable:		
Within 1 year	**3,800**	–
In the 2nd year	**1,285**	3,800
In the 3rd to 5th year, inclusive	**2,241**	3,223
After 5 years	**3**	3
	7,329	7,026
Obligations under finance leases repayable:		
Within 1 year	**13**	11
In the 2nd year	**3**	12
In the 3rd to 5th year, inclusive	**11**	9
After 5 years	**–**	3
	27	35
Unsecured notes, 3.5%, repayable after 5 years	**1,971**	1,995
Total	**9,327**	9,056
Portion classified as:		
Current liabilities	**3,813**	11
Non-current liabilities	**5,514**	9,045
Total	**9,327**	9,056

29. Bank and Other Loans (Cont'd)

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

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

The average effective interest rates of the Group's bank loans and finance leases are 4.93 per cent. (2005: 4.75 per cent.) and 9.19 per cent. (2005: 9.41 per cent.), respectively.

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

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

Fixed rate notes, other loans and finance leases carried interest at 3.5 per cent. to 13.3 per cent..

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

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

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

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30. Creditors and Accruals

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

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

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

31. Deferred Tax Liabilities

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

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

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

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

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

32. Retirement Plans

(a) Defined Contribution Retirement Plans

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

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

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

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

(b) Defined Benefit Retirement Plan operating in Hong Kong

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

32. Retirement Plans (Cont'd)

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

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

	2006	2005
Discount rate at 31st December	**3.75% per annum**	4.25% per annum
Expected rate of salary increase	**5% per annum**	5% per annum

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

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

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

32. Retirement Plans (Cont'd)

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

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

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

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

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

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

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

32. Retirement Plans (Cont'd)

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

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

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

The expected rate of return on assets was 6.5 per cent. per annum (2005: 6.5 per cent. per annum). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes invested.

The experience adjustment is as follows:

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

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

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

32. Retirement Plans (Cont'd)

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

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

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

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

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

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

	2006	2005
Discount rate at 31st December	**5.0% per annum**	4.9% per annum
Expected rate of pension increase	**3.1% per annum**	2.8% per annum
Expected rate of salary increase	**5.1% per annum**	4.8% per annum

32. Retirement Plans (Cont'd)

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

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

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

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

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

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

32. Retirement Plans (Cont'd)

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

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

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

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

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

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

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

The expected rate of return on assets was 6.0 per cent. per annum (2005: 6.3 per cent. per annum). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes invested.

32. Retirement Plans (Cont'd)

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

The experience adjustments are as follows:

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

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

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

33. Share Capital

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

34. Reserves and Minority Interests

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

35. Notes to Consolidated Cash Flow Statement

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

NOTES TO THE FINANCIAL STATEMENTS

36. Emoluments of Directors and Five Highest Paid Individuals

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

HK$ million	Fees	Basic Salaries, Allowances and Other Benefits	Bonuses	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments 2006	Total Emoluments 2005
Li Tzar Kuoi, Victor[1]	0.07	–	8.00	–	–	**8.07**	8.07
Kam Hing Lam[1]	0.07	4.20	3.87	–	–	**8.14**	8.14
Ip Tak Chuen, Edmond	0.07	1.80	4.15	–	–	**6.02**	5.37
Fok Kin Ning, Canning[1]	0.07	–	–	–	–	**0.07**	0.07
Kwan Bing Sing, Eric	0.07	7.22	1.60	0.72	–	**9.61**	9.08
Chow Woo Mo Fong, Susan[1]	0.07	–	–	–	–	**0.07**	0.07
Frank John Sixt[1]	0.07	–	–	–	–	**0.07**	0.07
Tso Kai Sum[1]	0.07	–	–	–	–	**0.07**	0.07
Cheong Ying Chew, Henry[3]	0.16	–	–	–	–	**0.16**	0.16
Lee Pui Ling, Angelina	0.07	–	–	–	–	**0.07**	0.07
Barrie Cook[2]	0.07	–	–	–	–	**0.07**	0.39
Kwok Eva Lee[3]	0.14	–	–	–	–	**0.14**	0.14
Sng Sow-Mei[3]	0.14	–	–	–	–	**0.14**	0.14
Colin Stevens Russel[3]	0.16	–	–	–	–	**0.16**	0.16
Lan Hong Tsung, David[3]	0.14	–	–	–	–	**0.14**	0.12
George Colin Magnus[1]	0.07	–	–	–	–	**0.07**	0.07
Andrew John Hunter	0.01	0.48	1.44	0.05	–	**1.98**	–
Total for the year 2006	**1.52**	**13.70**	**19.06**	**0.77**	–	**35.05**	
Total for the year 2005	1.49	13.06	16.97	0.67	–		32.19

Notes:

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

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

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

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

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

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

37. Commitments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

38. Contingent Liabilities

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

39. Material Related Party Transactions

During the year, the Group advanced HK$90 million (2005: HK$81 million) to its unlisted associates. The Group received repayments totalling HK$3 million (2005: HK$1 million) from unlisted associates. The total outstanding loan balances as at 31st December, 2006 amounted to HK$4,237 million (2005: HK$3,848 million), of which HK$29 million (2005: HK$28 million) bore interest with reference to Australian Bank Bill Swap Reference Rate and HK$3,791 million (2005: HK$3,366 million) at fixed rates ranging from 10.5 per cent. to 20.0 per cent., and HK$417 million (2005: HK$454 million) was interest-free. The average effective interest rate of the loan granted to associates is 10.8 per cent. (2005: 15.9 per cent). As stated in note 6, interest from loans granted to associates during the year amounted to HK$392 million (2005: HK$856 million). Except for a loan of HK$94 million (2005: HK$94 million) which was repayable within fifteen years (2005: sixteen years), the loans had no fixed terms of repayment. As stated in note 30, the amount due to an unlisted associate bears interest at HIBOR plus 0.75 per cent. (2005: HIBOR plus 0.75 per cent.) with no fixed terms of repayment.

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

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

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

40. Approval of Financial Statements

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

PRINCIPAL SUBSIDIARIES

Appendix 1

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

Name	Issued share capital: Number	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	HK$0.5	100	Investment holding
	65,780,000 non-voting deferred	HK$0.5	–	
Anderson Asphalt Limited	36,000 ordinary	HK$100	100	Production and laying of asphalt and investment holding
Cheung Kong Infrastructure Finance Company Limited	2 ordinary	HK$1	100	Financing
China Cement Company (International) Limited	1,000,000 ordinary	HK$1	70	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK$2	100	Manufacturing, sale and distribution of cement and property investment
Green Island Cement (Holdings) Limited	101,549,457 ordinary	HK$2	100	Investment holding
INCORPORATED IN BRITISH VIRGIN ISLANDS AND OPERATING IN HONG KONG				
Cheung Kong Infrastructure Finance (BVI) Limited	1 ordinary	US$1	100	Financing
Daredon Assets Limited	1 ordinary	US$1	100	Treasury
Green Island International (BVI) Limited	1 ordinary	US$1	100	Investment holding

PRINCIPAL SUBSIDIARIES

Appendix 1 (Cont'd)

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

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

PRINCIPAL ASSOCIATES

Appendix 2

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

Name	Issued share capital Number	Issued share capital Par value per share	Approximate share of equity shares held by the Group (per cent.)	Principal activities
INCORPORATED AND OPERATING IN HONG KONG				
Hongkong Electric Holdings Limited (note 1)	2,134,261,654 ordinary	HK$1	39	Electricity generation and distribution
Eastern Harbour Crossing Company Limited	35,000,000 ordinary	HK$10	50	Exercise of a franchise to operate the rail section of a tunnel
INCORPORATED AND OPERATING IN AUSTRALIA				
ETSA Utilities Partnership (note 2)	N/A	N/A	23	Electricity distribution
CKI/HEI Electricity Distribution Pty Limited (note 3)	810,000,000 ordinary	A$1	23	Electricity distribution
CKI/HEI Electricity Distribution Two Pty Limited (note 4)	180,000,000 ordinary	A$1	23	Electricity distribution
	37,188,524,600 ordinary	A$0.01		
CrossCity Motorway Holdings Pty Limited (note 5)	3,686,545 ordinary	A$0.01	50	Operation of Cross City Tunnel
CrossCity Motorway Holdings Trust (note 5)	N/A	N/A	50	Operation of Cross City Tunnel
Lane Cove Tunnel Holding Company Pty Limited (note 6)	42,827,999 ordinary	A$1	40	Construction and operation of Lane Cove Tunnel
Lane Cove Tunnel Holding Trust (note 6)	N/A	N/A	40	Construction and operation of Lane Cove Tunnel

PRINCIPAL ASSOCIATES

Appendix 2 (Cont'd)

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

Notes:

1. The associate is listed on Hong Kong Stock Exchange.

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

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

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

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

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

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

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

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

PRINCIPAL ASSOCIATES

Appendix 2 (Cont'd)

Notes (Cont'd):

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

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

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

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

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

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

PRINCIPAL JOINTLY CONTROLLED ENTITIES

Appendix 3

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

Name	Percentage of interest held by the Group	Profit sharing percentage	Principal activities
INCORPORATED AND OPERATING IN MAINLAND CHINA			
Guangdong Shantou Bay Bridge Co. Ltd.	30	30	Operation of Shantou Bay Bridge
Guangdong Zhuhai Power Station Co., Ltd.	45	45	Operation of Zhuhai Power Station
Guangdong Shenzhen-Shantou Highway (East) Co., Ltd.	33.5	33.5	Operation of Shenzhen–Shantou Highway (Eastern Section)
Guangzhou E-S-W Ring Road Co., Ltd.	44.5	45*	Operation of Guangzhou East South West Ring Road
INCORPORATED AND OPERATING IN HONG KONG			
Alliance Construction Materials Limited	50	50	Quarry operation and production and sale of concrete and aggregates

*	Years from 2012 to 2021, inclusive	:	37.5 per cent.
	Thereafter	:	32.5 per cent.

SCHEDULE OF MAJOR PROPERTIES

Appendix 4

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

I : Industrial C : Commercial

PROJECT PROFILES 2006

PROJECT PROFILES

INVESTMENT IN HONGKONG ELECTRIC

HONGKONG ELECTRIC HOLDINGS LIMITED
HONG KONG

Business	Exclusive generator and distributor of electricity to Hong Kong Island and Lamma Island
Installed capacity	3,755 MW
Consumer coverage	550,000 customers
CKI shareholding	38.87%

INFRASTRUCTURE INVESTMENTS ENERGY

CITIPOWER I PTY LTD.
VICTORIA, AUSTRALIA

Business	Operates the electricity distribution network in the central business district and inner suburban areas of Melbourne, Victoria
Electricity distribution network	4,013 km
Consumer coverage	295,000 customers
CKI shareholding	23.07% (another 27.93% held by Hongkong Electric)

ENVESTRA LIMITED
AUSTRALIA

Business	Australia's largest distributor of natural gas
Natural gas distribution network	19,100 km
Consumer coverage	970,000 customers
CKI shareholding	16.4%

ETSA UTILITIES
SOUTH AUSTRALIA, AUSTRALIA

Business	Primary electricity distribution business for the state of South Australia
Electricity distribution network	84,406 km
Consumer coverage	770,000 customers
CKI shareholding	23.07% (another 27.93% held by Hongkong Electric)

INFRASTRUCTURE INVESTMENTS
ENERGY

NORTHERN GAS NETWORKS LIMITED
THE UNITED KINGDOM

Business	One of the eight major gas distribution networks in the United Kingdom
Natural gas distribution network	36,000 km
Consumer coverage	2.5 million consumers
CKI shareholding	40% (another 19.9% held by Hongkong Electric)

POWERCOR AUSTRALIA LIMITED
VICTORIA, AUSTRALIA

Business	Operates a major electricity distribution network, covering an area of over 150,000 sq km in the state of Victoria
Electricity distribution network	80,000 km
Consumer coverage	660,000 customers
CKI shareholding	23.07% (another 27.93% held by Hongkong Electric)

SparkInfrastructure

SPARK INFRASTRUCTURE GROUP
AUSTRALIA

Business	An infrastructure fund listed in Australia with seed assets being a 49% stake in each of CitiPower, ETSA Utilities and Powercor
Manager	CKI owns 50% interest in the management company
CKI's investment	A$180 million
CKI shareholding	9.9%

FUSHUN COGEN POWER PLANTS
LIAONING, CHINA

Location	Fushun, Liaoning Province
Total capacity	150 MW
Joint venture contract date	1997
Joint venture expiry date	2017
Operational status	Operational
Total project cost	HK$690 million
CKI's interest	HK$414 million
CKI's interest in JV	60%

PROJECT PROFILES

INFRASTRUCTURE INVESTMENTS
ENERGY

SIPING COGEN POWER PLANTS
JILIN, CHINA

Location	Siping, Jilin Province
Total capacity	200 MW
Joint venture contract date	1997
Joint venture expiry date	2019
Operational status	Operational
Total project cost	HK$1,610 million
CKI's interest	HK$725 million
CKI's interest in JV	45%

ZHUHAI POWER PLANT (UNITS 1 & 2)
GUANGDONG, CHINA

Location	Zhuhai, Guangdong Province
Total capacity	1,400 MW
Joint venture contract date	1995
Joint venture expiry date	2019
Operational status	Operational
Total project cost	HK$9,493 million
CKI's interest	HK$1,284 million
CKI's interest in JV	45%

ZHUHAI POWER PLANT (UNITS 3 & 4)
GUANGDONG, CHINA

Location	Zhuhai, Guangdong Province
Total capacity	1,200 MW
Joint venture contract date	2005
Joint venture expiry date	2035
Operational status	Operational
Total project cost	HK$5,741 million
CKI's interest	HK$650 million
CKI's interest in JV	45%

INFRASTRUCTURE INVESTMENTS
TRANSPORTATION

EASTERN HARBOUR CROSSING RAIL TUNNEL
HONG KONG

Road type	Rail tunnel
Length	2.2 km
Rail franchise period	1986-2008
CKI shareholding	50%

INFRASTRUCTURE INVESTMENTS
TRANSPORTATION

LANE COVE TUNNEL
SYDNEY, NEW SOUTH WALES, AUSTRALIA

Road type	Tunnel
Length	3.7 km
No. of lanes	Dual two/three-lane
Operational status	Construction commenced June 2004
Completion	March 2007
Total project cost	A$1.7 billion
CKI shareholding	40%

CHANGSHA WUJIALING AND WUYILU BRIDGES
HUNAN, CHINA

Location	Changsha, Hunan Province
Road type	Bridge
Length	5 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiry date	2022
Operational status	Operational
Total project cost	HK$465 million
CKI's interest	HK$206 million
CKI's interest in JV	44.2%

GUANGZHOU EAST-SOUTH-WEST RING ROAD
GUANGDONG, CHINA

Location	Guangzhou, Guangdong Province
Road type	Expressway
Length	39 km
No. of lanes	Dual three-lane
Joint venture contract date	1997
Joint venture expiry date	2032
Operational status	Operational
Total project cost	HK$4,220 million
CKI's interest	HK$1,169 million
CKI's interest in JV	44.4%

JIANGMEN CHAOLIAN BRIDGE
GUANGDONG, CHINA

Location	Jiangmen, Guangdong Province
Road type	Bridge
Length	2 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiry date	2027
Operational status	Operational
Total project cost	HK$130 million
CKI's interest	HK$65 million
CKI's interest in JV	50%

PROJECT PROFILES

INFRASTRUCTURE INVESTMENTS
TRANSPORTATION

JIANGMEN JIANGSHA HIGHWAY GUANGDONG, CHINA

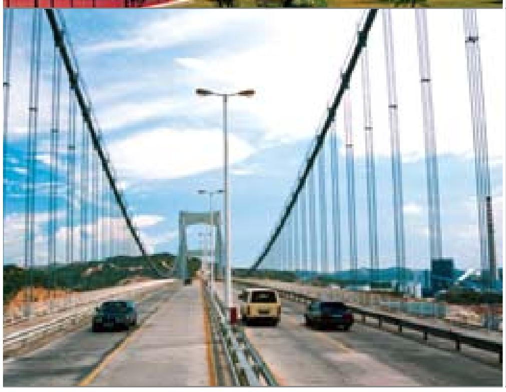
Location	Jiangmen, Guangdong Province
Road type	Class 1 highway
Length	21 km
No. of lanes	Dual two-lane
Joint venture contract date	1996
Joint venture expiry date	2026
Operational status	Operational
Total project cost	HK$207 million
CKI’s interest	HK$103 million
CKI’s interest in JV	50%

NATIONAL HIGHWAY 107 (ZHUMADIAN SECTIONS) HENAN, CHINA

Location	Zhumadian, Henan Province
Road type	Class 2 highway
Length	114 km
No. of lanes	Dual two-lane
Joint venture contract date	1997
Joint venture expiry date	2024
Operational status	Operational
Total project cost	HK$461 million
CKI’s interest	HK$304 million
CKI’s interest in JV	66%

PANYU BEIDOU BRIDGE GUANGDONG, CHINA

Location	Panyu, Guangdong Province
Road type	Bridge
Length	3 km
No. of lanes	Dual three-lane
Joint venture contract date	1999
Joint venture expiry date	2024
Operational status	Operational
Total project cost	HK$164 million
CKI’s interest	HK$66 million
CKI’s interest in JV	40%



SHANTOU BAY BRIDGE GUANGDONG, CHINA

Location	Shantou, Guangdong Province
Road type	Bridge
Length	6 km
No. of lanes	Dual three-lane
Joint venture contract date	1993
Joint venture expiry date	2028
Operational status	Operational
Total project cost	HK$665 million
CKI’s interest	HK$200 million
CKI’s interest in JV	30%

INFRASTRUCTURE INVESTMENTS
TRANSPORTATION

SHEN-SHAN HIGHWAY (EASTERN SECTION) GUANGDONG, CHINA

Location	Lufeng/Shantou, Guangdong Province
Road type	Expressway
Length	140 km
No. of lanes	Dual two-lane
Joint venture contract date	1993
Joint venture expiry date	2028
Operational status	Operational
Total project cost	HK$2,619 million
CKI's interest	HK$877 million
CKI's interest in JV	33.5%

TANGSHAN TANGLE ROAD HEBEI, CHINA

Location	Tangshan, Hebei Province
Road type	Class 2 highway
Length	100 km
No. of lanes	Dual one-lane
Joint venture contract date	1997
Joint venture expiry date	2019
Operational status	Operational
Total project cost	HK$187 million
CKI's interest	HK$95 million
CKI's interest in JV	51%

INFRASTRUCTURE INVESTMENTS
WATER

AQUATOWER PTY LIMITED VICTORIA, AUSTRALIA

Business	AquaTower has the exclusive rights until 2027 to provide potable water to four towns in Victoria
Consumer coverage	Serves a total population of 25,000
CKI shareholding	49%

CAMBRIDGE WATER PLC CAMBRIDGESHIRE, THE UNITED KINGDOM

Business	Supplies fresh water to an area of 730 sq km in South Cambridgeshire
Water distribution system	7 service reservoirs, 10 water towers and 2,200 km of water mains
Consumer coverage	Serves a total population of 300,000
CKI shareholding	100%

PROJECT PROFILES

INFRASTRUCTURE RELATED BUSINESS

ALLIANCE CONSTRUCTION MATERIALS LIMITED
HONG KONG

Concrete Division

Business	Hong Kong's largest concrete producer
Total capacity	4 million cubic meters per annum
CKI's interest	50%

Quarry Division

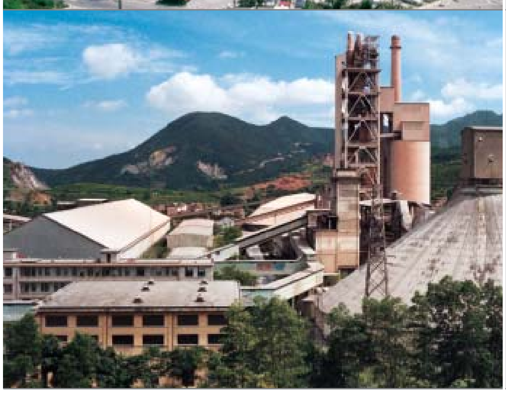
Business	5 quarries in total – 3 in Hong Kong and 2 in Mainland China
Total capacity (aggregates)	7 million tonnes per annum
CKI's interest	50%

ANDERSON ASPHALT
HONG KONG

Business	One of Hong Kong's largest asphalt producers, pavement contractors and recyclers
Total capacity	Asphalt – 1.5 million tonnes per annum Recycling – 0.5 million tonnes per annum Sub-base – 1.0 million tonnes per annum
CKI's interest	100%

GREEN ISLAND CEMENT
HONG KONG

Business	Only integrated cement producer in Hong Kong with about one-third market share
Total capacity	Clinker – 1.5 million tonnes per annum Cement grinding – 2.5 million tonnes per annum
CKI's interest	100%



GUANGDONG CITIC GREEN ISLAND CEMENT CO. LTD.
GUANGDONG, CHINA

Location	Yunfu, Guangdong Province
Business	Cement production
Total capacity	800,000 tonnes per annum
CKI's interest	67%

INFRASTRUCTURE RELATED BUSINESS

SIQUIJOR LIMESTONE QUARRY PHILIPPINES

Location	Siquijor, Philippines
Business	Limestone quarry
Total capacity	2 million tonnes per annum
CKI's interest	40%

CORPORATE INFORMATION AND KEY DATES

DIRECTORS

Executive Directors

LI Tzar Kuoi, Victor (Chairman)

FOK Kin Ning, Canning (Deputy Chairman)
CHOW WOO Mo Fong, Susan
(also alternate to FOK Kin Ning, Canning and Frank John SIXT)
Frank John SIXT
TSO Kai Sum
KAM Hing Lam (Group Managing Director)
IP Tak Chuen, Edmond (Deputy Chairman)
KWAN Bing Sing, Eric* (Deputy Managing Director)
Andrew John HUNTER (Chief Operating Officer)

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

Non-executive Directors

LEE Pui Ling, Angelina
Barrie COOK
George Colin MAGNUS

* will retire as Deputy Managing Director and Executive Director on 31st March, 2007

AUDIT COMMITTEE

Colin Stevens RUSSEL (Chairman)
CHEONG Ying Chew, Henry
KWOK Eva Lee
SNG Sow-mei alias POON Sow Mei
LAN Hong Tsung, David

REMUNERATION COMMITTEE

LI Tzar Kuoi, Victor (Chairman)
Colin Stevens RUSSEL
CHEONG Ying Chew, Henry

COMPANY SECRETARY

Eirene YEUNG

QUALIFIED ACCOUNTANT

CHAN Loi Shun, Dominic

AUTHORISED REPRESENTATIVES

IP Tak Chuen, Edmond
Eirene YEUNG

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Nova Scotia
Barclays Bank PLC
Bayerische Landesbank
BNP Paribas
Commonwealth Bank of Australia
Deutsche Bank AG
The Hongkong and Shanghai Banking Corporation Limited
National Australia Bank Limited

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Woo, Kwan, Lee & Lo

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

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited,
Rosebank Centre,
11 Bermudiana Road,
Pembroke HM08,
Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited,
Rooms 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

STOCK CODES

Stock Exchange of Hong Kong: 1038
Bloomberg: 1038 HK
Reuters: 1038.HK

WEBSITE

www.cki.com.hk

INVESTOR RELATIONS

For further information about Cheung Kong Infrastructure Holdings Limited, please contact:

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2 Queen's Road Central, Hong Kong
Telephone: (852) 2122 3986
Facsimile: (852) 2501 4550
Email: contact@cki.com.hk

KEY DATES

Annual Results Announcement	15th March, 2007
Closure of Register of Members	3rd to 10th May, 2007 *(both days inclusive)*
Annual General Meeting	10th May, 2007
Record Date for Final Dividend	10th May, 2007
Payment of Final Dividend	15th May, 2007

This annual report 2006 ("Annual Report") is available in both English and Chinese. Shareholders who have received either the English or the Chinese version of the Annual Report may request a copy in the language different from that has been received by writing to the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Annual Report (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 communication (including but not limited to annual report, interim report, notice of meeting, circular and proxy form) by notice in writing to the Company's Branch Share Registrars.

CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

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