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

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.

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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

14. Profit for the Year and Segment Information

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

By business segment

for the year ended 31st December

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

By geographic region

for the year ended 31st December

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

NOTES TO THE FINANCIAL STATEMENTS

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

By geographic region (Cont'd)

as at 31st December

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

15. Earnings Per Share

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

16. Dividends

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

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).

NOTES TO THE FINANCIAL STATEMENTS

20. Interests in Associates

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

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

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

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

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

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

21. Interests in Jointly Controlled Entities

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

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

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

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

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

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

22. Interests in Infrastructure Project Investments

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

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

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

23. Investments in Securities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

24. Derivative Financial Instruments

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

Currency Derivatives

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

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

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

Major terms of these contracts are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

24. Derivative Financial Instruments (Cont'd)

Currency Derivatives (Cont'd)

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

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

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

Interest Rate Swaps

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

30. Creditors and Accruals

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

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

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

31. Deferred Tax Liabilities

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

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

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

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

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

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).

NOTES TO THE FINANCIAL STATEMENTS

32. Retirement Plans (Cont'd)

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

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

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

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

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

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

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

32. Retirement Plans (Cont'd)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

32. Retirement Plans (Cont'd)

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

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

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

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

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

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

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

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

32. Retirement Plans (Cont'd)

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

The experience adjustments are as follows:

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

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

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

33. Share Capital

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

NOTES TO THE FINANCIAL STATEMENTS

34. Reserves and Minority Interests

	Attributable to shareholders of the Company									
HK$ million	Share Premium	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Hedging reserve	Exchange translation reserve	Retained profits	Sub-total	Minority interests	Total
At 1st January, 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.