Interim Report

for the period ended 30 September 2006

HSBC Infrastructure Company Limited

HSBC

Highlights

The Directors of HSBC Infrastructure Company Limited announce the results for the period ended 30 September 2006.

	Consolidated IFRS basis	Investment basis
• Profit before tax and valuation movements	£6.3m	£5.5m
• Valuation movements	£17.8m	£14.5m
• Profit before tax	£24.0m	£20.0m
• Earnings per share	8.55p	8.01p
• Net Asset Value (NAV) per share (compared to 98.4p at listing)	107.1p	106.5p
• Interim dividend per share	2.875p	2.875p
• NAV per share after deducting the interim dividend	104.2p	103.6p

- Directors' valuation of the portfolio as at 30 September 2006 of £264.0m before deducting loanstock commitments of £60.6m.
- Additional interests acquired in four projects in the Initial Portfolio for £4.6m and conditional contract signed to acquire a new investment.

Information on HSBC Infrastructure Company Limited

HSBC Infrastructure Company Limited ("HICL" or the "Company" or, together with its subsidiaries, the "Group") was the first investment company listed on the London Stock Exchange set up to invest in infrastructure projects in the UK and Europe. It was successfully launched in March 2006 and raised £250m with which it purchased an initial portfolio (the "Initial Portfolio") of interests in 15, mostly operational PFI/PPP projects.

As stated at the time of the listing, the Company has an initial annualised target dividend payment of 5.75p per share and the Company will target a progressive distribution policy and growth of annual distributions to 7.00p per share within 7 to 10 years. The long term target Internal Rate of Return ("IRR") is 7-8% (based on the issue price of 100p).

The Investment Adviser to the Company is HSBC Specialist Fund Management Limited which is a subsidiary of HSBC Specialist Investments Limited, HSBC's infrastructure and real estate investment arm. The HSBC equity infrastructure team comprises 13 members with over 125 years experience of investing in infrastructure. The Company's investment policy is set out in the Prospectus and includes investing in PFI/PPP type projects, utilities, transportation assets such as toll roads, bridges and railways, and renewable energy and power assets.

Chairman's Statement

Results

I am pleased to report that since the listing of the Company on 29 March 2006 and the successful acquisition of the Initial Portfolio, the performance of the business has been in line with expectations.

The Directors have approved an interim dividend of 2.875p per share which will be paid on 28 December 2006 to shareholders on the register on 1 December 2006.

On a consolidated basis, profit before tax was £24.0m and the consolidated earnings per share was 8.55p (compared to £20.0m and 8.01p respectively on an investment basis). As outlined in the Prospectus, it was envisaged that in the first two financial years, dividends may be paid from the Group's gross income (i.e. in excess of distributable cash flows). Gross income in the period to 30 September 2006 was £7.5m on an investment basis, equating to 3p per share.

Valuation

The Investment Adviser has produced fair market valuations of the Group's investments as at 30 September 2006 based on a discounted cash flow analysis. The Directors have satisfied themselves on the valuation methodology and the discount rates used.

The Directors have approved the valuation of £264.0m before deducting loanstock commitments of £60.6m as at 30 September 2006, giving a net asset value per share of 107.1p on a consolidated IFRS basis (106.5p on an investment basis), an increase of 8.8% to the net asset value per share of 98.4p at the time of the listing (8.2% on an investment basis).

Portfolio development

The Initial Portfolio comprised interests in four accommodation projects, four education facilities, six hospitals and a Dutch high speed rail link. These 15 projects are all "availability" based (i.e. the revenues are not dependent on the usage of the asset) and their revenues are all long term, partially inflation protected and backed by public sector covenants. All investments were sourced and developed by the HSBC equity infrastructure team, who continue to manage them on our behalf.

Each project is performing satisfactorily, with no material operational or financial issues to report.

Since March, additional equity and loanstock interests have been acquired from existing shareholders in four projects in the Initial Portfolio. These additional interests were acquired for a total consideration of £4.6m.

Since the period end, the Company has signed a conditional contract to buy a 40% equity interest, 40% loan note interest, and 100% junior loan interest in the Pinnacle Schools project (a PFI project to build three schools for Fife Council). The schools were built by Sir Robert McAlpine and are being operated by Sodexho. Completion of this acquisition is conditional on receiving third party consents, which are expected shortly. The consideration payable on completion is £5.5m and, as the sale will be completed after the period end, this investment is not reflected in the valuation.

Accounting

At the period end, the Company had four investments which we were deemed to control by virtue of having the power, directly or indirectly, to govern the financial and operating policies of those entities. Under International Financial Reporting Standards ("IFRS"), the results of these companies are required to be fully consolidated into the Group's financial statements on a line by line basis.

In order to provide shareholders with a more meaningful representation of the Group's net asset value, coupled with greater transparency in our capacity for investment and ability to make distributions, our results have been restated in proforma tables. By deconsolidating the subsidiary investments, the performance of the business under IFRS accounting may be compared with the results under the investment basis.

Communications

We are currently developing a web site (www.hicl.hsbc.com) which will provide investors, and other site visitors, with summary information on the Company, our portfolio of assets and the financial performance of the business.

A financial PR company (M:Communications) has also been appointed to assist in informing shareholders, and other interested parties, of the Company's objectives and performance.

Outlook

The period since the Company's listing has been characterised by keen interest in an attractive and rapidly developing sector, with strong investor appetite for infrastructure assets.

Looking ahead, interest in the sector is unlikely to abate. We are targeting both single asset acquisitions and portfolios of assets but, whilst keen to grow through acquisitions, we will only pursue opportunities which meet our stated investment criteria.

I am pleased with the Company's progress to date and we are on track to achieve a satisfactory result for the year which is in line with expectations. We aim to provide our investors with a robust and quality platform from which to participate in the infrastructure investment sector globally.

Graham Picken
Chairman
20 November 2006

Investment Adviser's Summary Report

Portfolio

Since the acquisition of the Initial Portfolio, three of the five projects which were still in construction at the date of acquisition have successfully completed their construction phase and have become operational and the two others have achieved significant development milestones. Over 80% of the portfolio (by value) is now operational and income producing. The five projects referred to above are:

- Central Middlesex Hospital – completed in March 2006
- Blackburn Hospital– completed in June 2006
- Stoke Mandeville Hospital– completed in August 2006
- Colchester Garrison – Phase 1 completed in August 2006 ahead of schedule
- Dutch High Speed Rail Link – the southern section achieved Certification of Availability in July and the northern section of the project is currently expected to obtain its Certificate of Availability in December.

In general, all other projects have performed in line with expectations. The Investment Adviser is working with project company management and fellow shareholders to seek ways to improve the performance of the projects and to ensure the contracted services are delivered to the required standards.

Acquisitions

As announced in August, four additional stakes were acquired in existing projects in the portfolio for a total consideration of £4.6m. These acquisitions were as follows:

- Barnet Hospital: an additional 11% interest in the equity and subordinated debt in the project was acquired, taking the Group's interest from 30% to 41%
- Conwy Schools, Exeter Courts and Stoke Mandeville Hospital projects: an additional 10% equity and loanstock interests in each of these projects was acquired, taking the Company's interests from 80% to 90% in each project.

Valuation

The Investment Adviser, on the Company's behalf, carries out fair market valuations of the Company's investments on a six monthly basis as at 31 March and 30 September. The valuation is prepared in accordance with the European Venture Capital Association's Valuation Guidelines, using the Discounted Cash Flows (DCF) methodology, which it considers to be the most appropriate valuation method. The same valuation methodology was used to value the Initial Portfolio in March 2006.

The Group's portfolio was valued as at 30 September 2006 at £264.0m, a 5.6% increase over the valuation at acquisition. (A reconciliation between this valuation and that shown in the interim financial statements is given in Note 5 to the statements, the principal difference relating to undrawn loanstock commitments.)

Fair value for an investment is derived from the present value of an investment's expected future cash flows, using reasonable assumptions and estimations, and the appropriate discount rate.

Cash flows: the Investment Adviser exercises its judgement in assessing the expected future cash flows. Each of the project companies produces detailed, concession life financial models and the Investment Adviser will, inter alia, typically take the following into account in its review of those models:

- due diligence findings where current (e.g. a recent acquisition)
- outstanding subscription obligations or other cash flows which are contractually required or assumed in order to generate the returns
- project performance against milestones
- opportunities for financial restructuring
- changes to the economic, legal, taxation, or regulatory environment
- claims or other disputes or contractual uncertainties.

Discount rates used for valuing each investment are based on the appropriate risk free rate (derived from the relevant government bond) and a risk premium. The risk premium takes into account risks associated with a project such as project risks (e.g. liquidity, currency risks, market appetite) and revenue risks (e.g. predictability and covenant of the concession income) and are differentiated by project phase, as illustrated below:

Calculation of appropriate project discount rate			
		Risk premium range	*Project phase*
Risk free rate	+	3% - 15%	Construction
		2% - 12%	Ramp-up*
		2% - 10%	Operational

**Ramp-up: period where a new asset is coming on-stream prior to the usage and/or performance of the asset becoming established.*

The discount rates used for valuing the projects in the portfolio as at 30 September 2006 range from 7.4% to 8.6% and the weighted average is 7.9%. As stated before, the Investment Adviser uses its judgement in arriving at the appropriate discount rate based on its knowledge of the market, taking into account intelligence gained from its bidding activities, discussions with financial advisers in the appropriate market and publicly available information on transactions.

HSBC Specialist Fund Management Limited
20 November 2006

Presentation on investment basis

At the period end, the Company had four investments which it was deemed to control by virtue of having the power, directly or indirectly, to govern the financial and operating policies of those entities. Under International Financial Reporting Standards ("IFRS"), the results of these companies are required to be fully consolidated into the Group financial statements on a line by line basis. However, these investments form part of a portfolio of similar investments which are held for investment purposes and managed as a whole and there is no distinction made between those investments classified as subsidiaries and those which are not. Further, all debt owed by the Group's investments is non-recourse and the Group does not participate in their day to day management. Accordingly, in order to provide shareholders with a more meaningful representation of the Group's net asset value, its capacity for investment and its ability to make distributions, the Group results have been restated in the proforma tables below. Investments are presented on a consistent fair value basis with movements in fair value recognised in the income statement. The table reconciles the results under the investment basis of accounting with those under the IFRS basis by consolidating the subsidiary investments. The effect is to disclose the subsidiaries' results on a line by line basis in the income statement, balance sheet and cash flow.

Unaudited consolidated proforma income statements

for the period from 11 January to 30 September 2006

	Investment basis			Consolidation adjustments	Consolidated IFRS basis
	Revenue	**Capital**	**Total**		
	£000	£000	£000	£000	£000
Operating revenue	–	–	–	15,398	15,398
Interest and dividend income	6,597	–	6,597	2,575	9,172
Fees and other operating income	908	–	908	(30)	878
Gains on investments	–	14,501	14,501	(1,549)	12,952
Gains on finance receivables	–	–	–	3,281	3,281
Total income	7,505	14,501	22,006	19,675	41,681
Operating expenses	–	–	–	(11,340)	(11,340)
Administrative expenses	(1,746)	–	(1,746)	–	(1,746)
Profit before finance costs and tax	5,759	14,501	20,260	8,335	28,595
Finance costs	(219)	–	(219)	(4,327)	(4,546)
Profit before tax	5,540	14,501	20,041	4,008	24,049
Income tax expense	(26)	–	(26)	(1,678)	(1,704)
Profit for the period	5,514	14,501	20,015	2,330	22,345
Attributable to:					
Equity holders of the parent	5,514	14,501	20,015	1,349	21,364
Minority interests	–	–	–	981	981
	5,514	14,501	20,015	2,330	22,345
Earnings per share *(pence)*	2.21	5.80	8.01	0.54	8.55

See note 1 of interim consolidated financial statements for the definition of revenue and capital items.

Unaudited consolidated proforma balance sheets

as at 30 September 2006

	Investment basis £000	Consolidation adjustments £000	Consolidated IFRS basis £000
Non-current assets			
Property, plant and equipment	–	76,504	76,504
Intangible assets	–	13,197	13,197
Investments at fair value through profit or loss	203,416	(22,381)	181,035
Finance receivables at fair value through profit or loss	–	109,898	109,898
Deferred tax assets	–	6,055	6,055
Total non-current assets	203,416	183,273	386,689
Current assets			
Trade and other receivables	2,967	2,586	5,553
Other current assets	145	1,530	1,675
Cash and cash equivalents	96,847	10,080	106,927
Total current assets	99,959	14,196	114,155
Total assets	303,375	197,469	500,844
Current liabilities			
Trade and other payables	(2,209)	(17,826)	(20,035)
Short-term borrowings and overdrafts	(35,000)	(7,424)	(42,424)
Liabilities for current taxation	(26)	(70)	(96)
Total current liabilities	(37,235)	(25,320)	(62,555)
Non-current liabilities			
Long-term borrowings	–	(152,890)	(152,890)
Other financial liabilities	–	(9,489)	(9,489)
Deferred tax liabilities	–	(6,243)	(6,243)
Total non-current liabilities	–	(168,622)	(168,622)
Total liabilities	(37,235)	(193,942)	(231,177)
Net assets	266,140	3,527	269,667
Equity			
Shareholders' equity	266,140	1,649	267,789
Minority interests	–	1,878	1,878
Total equity	266,140	3,527	269,667
Net assets per share *(pence)*	106.5	0.6	107.1

Unaudited consolidated proforma cash flow statements

for the period from 11 January to 30 September 2006

	Investment basis £000	Consolidation adjustments £000	Consolidated IFRS basis £000
Cash flows from operating activities			
Cash generated from operations (see below)	801	5,481	6,282
Interest received	2,859	3,086	5,945
Interest paid	(218)	(6,328)	(6,546)
Tax paid	–	(151)	(151)
Dividends received	367	(141)	226
Net cash from operating activities	3,809	1,947	5,756
Cash flows from investing activities			
Purchases of investments	(195,013)	21,048	(173,965)
Acquisition of subsidiaries net of cash acquired	–	(7,189)	(7,189)
Purchase of fixed assets	–	(580)	(580)
Purchase of minority interests	–	(2,061)	(2,061)
Loanstock and equity repayments received	6,926	(434)	6,492
Net cash used in investing activities	(188,087)	10,784	(177,303)
Cash flows from financing activities			
Proceeds from issue of share capital	246,125	–	246,125
Proceeds from long-term borrowings	–	1,806	1,806
Repayment of long-term borrowings	–	(4,000)	(4,000)
Dividends paid to minorities	–	(457)	(457)
Net cash from financing activities	246,125	(2,651)	243,474
Cash and cash equivalents at 30 September 2006 (net)	61,847	10,080	71,927
Cash generated from operations			
Profit before tax	20,041	4,008	24,049
Adjustments for:			
Interest and dividend income	(6,597)	(2,575)	(9,172)
Gains on investments	(14,501)	1,549	(12,952)
Gains on finance receivables	–	(3,281)	(3,281)
Interest payable and similar charges	219	5,876	6,095
Movements on financial derivatives	–	(1,549)	(1,549)
Depreciation of fixed assets	–	3,425	3,425
Amortisation of intangible assets	–	235	235
Changes in working capital:			
Increase in receivables	(186)	(3,474)	(3,660)
Increase in payables	1,825	1,267	3,092
Cash generated from operations	801	5,481	6,282

Unaudited consolidated income statement

for the period from 11 January to 30 September 2006

	Note	**Revenue** £000	**Capital** £000	**Total** £000
Operating revenue		15,398	–	15,398
Interest and dividend income		9,172	–	9,172
Fees and other operating income		878	–	878
Gains on investments		–	12,952	12,952
Gains on finance receivables		–	3,281	3,281
Total income		25,448	16,233	41,681
Operating expenses		(11,340)	–	(11,340)
Administrative expenses		(1,746)	–	(1,746)
Profit before finance costs and tax		12,362	16,233	28,595
Finance costs		(6,095)	1,549	(4,546)
Profit before tax		6,267	17,782	24,049
Income tax expense		(255)	(1,449)	(1,704)
Profit for the period		6,012	16,333	22,345
Attributable to:				
Equity holders of the parent		6,089	15,275	21,364
Minority interests		(77)	1,058	981
		6,012	16,333	22,345
Earnings per share *(pence)*	*3*	2.44	6.11	8.55
Proposed dividend per share *(pence)*	*4*			2.875

Note – As this is the first period in which the Group has operated, no comparatives are presented.

See note 1 of the interim consolidated financial statements for the definition of revenue and capital items.

Unaudited consolidated balance sheet

as at 30 September 2006

	Note	£000
Non-current assets		
Property, plant and equipment		76,504
Intangible assets		13,197
Investments at fair value through profit or loss	*5*	181,035
Finance receivables at fair value through profit or loss		109,898
Deferred tax assets		6,055
Total non-current assets		386,689
Current assets		
Trade and other receivables		5,553
Other current assets		1,675
Cash and cash equivalents		106,927
Total current assets		114,155
Total assets		500,844
Current liabilities		
Trade and other payables		(20,035)
Short-term borrowings and overdrafts		(42,424)
Liabilities for current taxation		(96)
Total current liabilities		(62,555)
Non-current liabilities		
Long-term borrowings		(152,890)
Other financial liabilities (fair value of derivatives)		(9,489)
Deferred tax liabilities		(6,243)
Total non-current liabilities		(168,622)
Total liabilities		(231,177)
Net assets		269,667
Equity		
Ordinary share capital		25,000
Revaluation reserve		149
Distributable reserve		221,125
Retained earnings		21,515
Total shareholders' equity		267,789
Minority interests		1,878
Total equity		269,667
Net assets per share *(pence)*	*6*	107.1p

Note – As this is the first period in which the Group has operated, no comparatives are presented.

Unaudited consolidated statement of changes in shareholders' equity

for the period from 11 January 2006 to 30 September 2006

	Attributable to equity holders of the parent					Minority interests	Total equity
	Share capital	Share premium*	Re-valuation reserve	Retained earnings	Total		
	£000	£000	£000	£000	£000	£000	£000
Profit for the period	–	–	–	21,364	21,364	981	22,345
Minority share of acquired businesses	–	–	–	–	–	1,287	1,287
Surplus arising on revaluation of fixed assets (net of tax)	–	–	149	–	149	516	665
Surplus arising on purchase of minority interests	–	–	–	151	151	(449)	(298)
Dividends paid	–	–	–	–	–	(457)	(457)
Ordinary shares issued	25,000	225,000	–	–	250,000	–	250,000
Costs of share issue	–	(3,875)	–	–	(3,875)	–	(3,875)
Transfer*	–	(221,125)	–	221,125	–	–	–
Shareholders' equity at 30 September 2006	25,000	–	149	242,640	267,789	1,878	269,667

*The share premium account was cancelled by Court order on 21 July 2006 and the balance of £221,125,000 transferred to a new, distributable reserve which has been combined with retained earnings in the above table.

As shown in note 4, an interim dividend for the year to 31 March 2007 of £7.2m will be paid out of retained earnings on 28 December 2006.

Unaudited consolidated cash flow statement

for the period from 11 January 2006 to 30 September 2006

	£000
Cash flows from operating activities	
Cash generated from operations	6,282
Interest received	5,945
Interest paid	(6,546)
Tax paid	(151)
Dividends received	226
Net cash from operating activities	5,756
Cash flows from investing activities	
Purchases of investments	(173,965)
Acquisition of subsidiaries net of cash acquired	(7,189)
Purchase of fixed assets	(580)
Purchase of minority interests	(2,061)
Loanstock and equity repayments received	6,492
Net cash used in investing activities	(177,303)
Cash flows from financing activities	
Proceeds from issue of share capital	246,125
Proceeds from long-term borrowings	1,806
Repayment of long-term borrowings	(4,000)
Dividends paid to minorities	(457)
Net cash from financing activities	243,474
Cash and cash equivalents at 30 September 2006	71,927

Cash generated from operations	
Profit before tax	24,049
Adjustments for:	
Interest and dividend income	(9,172)
Gains on investments	(12,952)
Gains on finance receivables	(3,281)
Interest payable and similar charges	6,095
Movements on financial derivatives	(1,549)
Depreciation of fixed assets	3,425
Amortisation of intangible assets	235
Changes in working capital:	
Increase in receivables	(3,660)
Increase in payables	3,092
Cash generated from operations	6,282

Notes to the accounts

for the period from 11 January 2006 to 30 September 2006

1. Basis of preparation

HSBC Infrastructure Company Limited ("HICL" or the "Company") is a company domiciled in Guernsey, Channel Islands, whose shares are publicly traded on the London Stock Exchange. The interim consolidated financial statements of the Company (the "interim statements") as at and for the period ended 30 September 2006 comprise the Company and its subsidiaries (together referred to as "the Group"). The interim statements have been prepared in accordance with the accounting policy and presentation requirements of International Financial Reporting Standards as adopted by the European Union (the "EU" and "adopted IFRS" respectively) and applying the key accounting policies set out in Note 8. The interim statements do not constitute complete financial statements in accordance with IAS 1 "Presentation of financial statements", are presented in sterling, rounded to the nearest thousand sterling, and are unaudited. The interim statements were approved by the Board of Directors on 20 November 2006.

The preparation of interim consolidated financial statements in conformity with the accounting policy and presentation requirements of adopted IFRS requires directors and management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The accounting policies will be applied consistently in future periods.

In determining its accounting policies under adopted IFRS, the Company has considered the current status of the project undertaken by the International Financial Reporting Interpretations Committee ("IFRIC") on accounting for service concession arrangements. IFRIC has recently published a near final draft interpretation on the subject, however the final form of the interpretation, and the timetable for its finalisation and subsequent adoption by the EU remain uncertain. In light of this uncertainty, the Company considers that, until such time as final guidance is issued by IFRIC and adopted by the EU, it remains appropriate to apply elements of the approach set out in UK Financial Reporting Standard 5 "Reporting the substance of transactions" in accounting for Public Finance Initiative ("PFI") and similar projects. This involves applying a "risks and rewards" test to determine whether a non-current asset or finance debtor accounting model should be followed. Once the model has been determined, the recognised assets and liabilities are measured in accordance with adopted IFRS.

1. Basis of preparation *(continued)*

The interim statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair values: derivative financial instruments, financial instruments classified at fair value through profit or loss and property, plant and equipment.

In order to better reflect the Company's activities as an investment company, supplementary information has been provided analysing the income statement between those items of a revenue nature and those of a capital nature. Movements in fair values, including those on derivative financial instruments, are shown in the "Capital" column of the income statement with all other items being included in the "Revenue" column.

2. Acquisition of the Initial Portfolio

As envisaged in the Prospectus issued by the Company on 8 February 2006, the Group acquired a portfolio of 15 infrastructure investments from the HSBC Infrastructure Fund and HSBC Infrastructure Limited on 29 March 2006 for a consideration of £189.7m. In addition, the Group assumed firm commitments to invest a further £61m in certain of the loanstock investments acquired. The acquisitions of 11 of the 15 investments (total consideration – £170.6m) have been accounted for as purchases of investments. The four remaining investments (total consideration – £17.8m) are deemed under IFRS to have become subsidiaries of the Group and so their acquisitions have been accounted for using business combination accounting. The accounting for these combinations is set out in Note 7. As part of the warranty arrangements with the vendors, £55m of the consideration has been placed in escrow.

3. Earnings per share

The calculation of earnings per share is based on a profit for the period attributable to equity shareholders of £21,364,000 and a weighted average number of ordinary shares in issue of 250,000,000.

4. Dividends

No dividends were paid during the period. The Board has proposed an interim dividend for the period ended 31 March 2007 of 2.875p which will result in a total distribution of £7,187,500.

5. Investments

	Investments £000
Acquisition of Initial Portfolio	170,615
Investment in the period	2,434
Accrued interest	2,626
Repayments in the period	(7,822)
Gain on valuation	14,249
Other movements	(1,067)
Carrying amount at 30 September	**181,035**

Gain on valuation as above	14,249
Less: transaction costs incurred	(1,297)
Gain on valuation per income statement	12,952

The valuation of the Group's portfolio at 30 September 2006 reconciles to the unaudited consolidated balance sheet as follows:

	£000
Portfolio valuation	264,010
Less: Undrawn loanstock commitments	(60,594)
Portfolio valuation on an investment basis	203,416
Less: Equity and loanstock investments in operating subsidiaries eliminated on consolidation	(22,381)
Investments per IFRS balance sheet as above	181,035

6. Net assets

The calculation of net assets per share is based on shareholders' equity of £267,789,000 at 30 September and 250,000,000 ordinary shares in issue at that date.

7. Subsidiaries acquired

The following table shows the aggregate fair value of the four operating subsidiaries acquired within the Initial Portfolio.

	Book value at acquisition £000	Fair value adjustments £000	Fair value acquired £000
Property, plant and equipment	85,303	(6,904)	78,399
Intangible assets	–	13,432	13,432
Investments at fair value through profit or loss	100,732	1,845	102,577
Deferred tax assets	4,756	2,071	6,827
Cash and cash equivalents	10,635	–	10,635
Other current assets	4,799	(121)	4,678
Current liabilities	(26,646)	982	(25,664)
Deferred tax liabilities	(1,625)	(3,516)	(5,141)
Other non-current liabilities	(176,120)	(4,808)	(180,928)
Minority interests	(691)	(596)	(1,287)
Net assets acquired	1,143	2,385	3,528
Goodwill			–
Fair value of consideration for equity			3,528
Fair value of consideration for loanstock			14,296
Total consideration			17,824

Fair values as at the date of acquisition have been determined provisionally.

8. Key accounting policies

(a) Basis of consolidation

The interim consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries up to 30 September 2006. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement. Associates are those entities over which the Company has significant influence. By virtue of the Company's status as an investment fund and as permitted by the relevant IFRSs, investments in such entities are designated upon initial recognition to be accounted for at fair value through profit or loss. See (b) below.

8. Key accounting policies *(continued)*

(a) Basis of consolidation (continued)

Certain of the policies apply only to those investments of the Group which are classified for accounting purposes as subsidiaries ("the operating subsidiaries"). Where applicable, this is noted in the relevant policy note.

(b) Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IAS 39 "Financial instruments: Recognition and measurement".

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value, with directly attributable transaction costs taken to the income statement. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprises cash balances, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Investments at fair value through profit or loss

1. Investments in the equity and loanstock of entities engaged in infrastructure activities which are not classified as subsidiaries of the Group ("entity investments"): after initial recognition, investments at fair value through profit or loss are measured at fair value with changes recognised in the income statement. These investments have been designated as at fair value through profit or loss as they form part of a group of financial assets which is managed, and its performance evaluated, on a fair value basis. Fair values are determined using the income approach which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values. In determining the discount rate, regard is had to risk free rates, the specific risks of each investment and the evidence of recent transactions.

8. Key accounting policies *(continued)*

(b) Financial instruments (continued)

2. Finance receivables of the operating subsidiaries arising under contracts with public sector bodies ("finance receivables") have also been designated as at fair value through profit or loss as they too form part of a group of financial assets which is managed, and its performance evaluated, on a fair value basis. Income is allocated between interest receivable, repayment of the finance receivable and service income using a project specific interest rate. Service income is included within revenue in accordance with the service contracts accounting policy below. The fair values of the finance receivables are determined in a similar manner to that described in the above paragraph.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses.

(ii) Derivative financial instruments

The Group's operating subsidiaries hold derivative financial instruments to hedge their interest rate risk exposures. All derivatives are recognised initially at fair value with attributable transaction costs recognised in profit or loss as incurred. Thereafter, derivatives are measured at fair value with changes recognised in profit or loss as part of finance costs. Fair value is based on quotations from financial institutions active in the relevant market.

(c) Property, plant and equipment

Certain items of property, plant and equipment held by the Group's operating subsidiaries are measured at cost less accumulated depreciation and impairment losses but subject to regular revaluation. Cost includes expenditures that are directly attributable to the acquisition of the asset concerned.

Depreciation is recognised in profit or loss on a straight-line basis so as to amortise the cost of the assets concerned over the shorter of their useful economic lives or the period to the date at which the principal customer can terminate the existing arrangements to use the assets without significant penalty, being a period of 12 years from the date of acquisition.

The assets concerned are revalued at each reporting date by management using similar techniques to those described under investments at fair value through profit or loss above and the resulting adjustments taken directly to equity. Future depreciation is then based on the revalued amounts.

(d) Intangible assets

The Group has recognised intangible assets acquired as part of a business combination, being the fair value of service concessions acquired as at the date of acquisition in the operating subsidiaries. These assets are being amortised over the life of the concessions concerned on a straight-line basis.

8. Key accounting policies *(continued)*

(e) Impairment

The carrying amounts of the Group's non-financial assets, being those assets not designated as at fair value through profit or loss, are reviewed at each reporting date to determine whether there is any evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and its value in use. The value in use is determined as the net present value of the future cash flows expected to be derived from the asset, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the amount that would, have been determined, net of applicable depreciation, if no impairment loss had been recognised.

(f) Share capital and share premium

Ordinary shares are classed as equity. External costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The costs are set against the balance on the share premium account.

(g) Minority interests

Increases in the Group's interests in subsidiaries arising from the acquisition of minority interests are recognised directly in equity.

(h) Revenue

Revenue comprises dividends, interest, fees, rentals, service income and other operating income receivable by the Group and excludes Value Added Tax. Operating revenue as shown in the income statement comprises rentals and service income which relate to the operating subsidiaries.

Dividends are recognised when the Group's rights to receive payment have been established. That part of the dividend which has already been recognised in the fair value of investments is deducted from the carrying amount of the relevant investment.

Fees and other operating income are recognised when the Group's rights to receive payment have been established.

8. Key accounting policies *(continued)*

(h) Revenue (continued)

Interest income, including that arising on investments at fair value through profit or loss, is recognised in the income statement as it accrues, using the original effective interest rate of the instrument concerned as calculated at the acquisition or origination date. The effective interest rate is that rate that exactly discounts estimated cash payments or receipts through the expected life of the financial instrument to the relevant asset's carrying amount. Interest income on debt instruments classified as at fair value through profit or loss is accrued using the original effective interest rate.

Rentals receivable arise under an operating lease.

Service income is determined according to the principles set out in the next section.

(i) Services contracts

The amount of profit attributable to the stage of completion of a services contract entered into by an operating subsidiary is recognised when the outcome of the contract can be measured reliably. Revenue for such contracts is stated at the cost appropriate to the stage of completion plus attributable profits less amounts recognised in previous periods. The stage of completion of the contract is measured by the proportion of total costs incurred at the balance sheet date to the estimated total costs of the contract.

(j) Income tax

Under the current system of taxation in Guernsey, the Company itself is exempt from paying taxes on income, profits or capital gains. Dividend and interest income received by the Group may be subject to withholding tax imposed in the country of origin of such income, but all such tax is currently deemed recoverable.

Income tax on the profit for the year of the operating subsidiaries comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year. Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

(k) Foreign exchange gains and losses

Foreign exchange gains and losses on financial assets and liabilities at fair value through profit or loss are recognised together with other changes in fair value.

Independent review report to HSBC Infrastructure Company Limited

We have been instructed by the Company to review the financial information for the period ended 30 September 2006 set out on pages 11 to 22 and which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Cash Flow Statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those which will be applied in preparing the annual accounts.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the period ended 30 September 2006.

KPMG Channel Islands Limited
20 New Street, St Peter Port
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20 November 2006

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Further copies of this statement are available from the UK transfer agent or by visiting the Company's website.

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