Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

1. General information

Hongkong Electric Holdings Limited (the "Company") is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 44 Kennedy Road, Hong Kong.

2. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Hongkong Electric Holdings Limited and all its subsidiaries made up to 31st December each year, together with the Group's share of the results for the year and the net assets at the balance sheet date of its associates and jointly controlled entities.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)).

(e) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and 2(l)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in an associate or a jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 2(l)).

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

On disposal of a cash-generating unit, an associate or a jointly controlled entity during the year, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 2(l)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(l)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(i)).

(i) Hedging

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(j) Fixed assets, depreciation and amortisation

(i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 2(j)(vi)), amortisation (see note 2(k)) and impairment losses (see note 2(l)).

(ii) The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 2(w)).

(iii) Where parts of a fixed asset have different useful lives, the cost of the fixed asset is allocated on a reasonable basis between the parts and each part is depreciated separately. Subsequent expenditure to replace a component of a fixed asset that is accounted for separately, or to improve its operational performance is included in the asset's carrying amount or recognised as a separate asset as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(v) Leasehold land held for own use under operating leases is stated in the balance sheet at cost less accumulated amortisation (see note 2(k)) and impairment losses (see note 2(l)).

(vi) Depreciation is calculated to write off the cost of fixed assets less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Years
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk radio system	15
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles and marine craft	5 to 6
Workshop tools and office equipment	5

Immovable assets are amortised on a straight-line basis over the unexpired lease terms of the land on which the immovable assets are situated if the unexpired lease terms of the land are shorter than the estimated useful lives of the immovable assets.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(k) Leased assets and operating lease charges

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

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries: see note 2(l)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

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

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and jointly controlled entities recognised using the equity method (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(ii).

- For unquoted equity securities and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

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

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

Impairment losses are written off against the corresponding assets directly.

(ii) Impairment of other assets

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

- fixed assets;

- pre-paid interests in leasehold land classified as being held under an operating lease;

- investments in subsidiaries; and

- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 2(l)(i) and 2(l)(ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(m) Inventories

Coal, stores, fuel oil and liquefied natural gas are valued at cost on a weighted average basis.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories recognised as an expense includes the write-off and all losses of inventories.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 2(i)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

For interest-bearing borrowings that are designated as hedged items in fair value hedges, fair value changes that are attributable to the hedged risk are recognised in profit or loss (see note 2(i)(i)).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

(i) Short term employee benefits

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

(ii) Defined benefit retirement scheme obligations

The Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method".

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the total of any cumulative unrecognised past service costs and the present value of any future refunds from or reductions in future contributions to the defined benefit retirement schemes.

Any cumulative unrecognised actuarial gains or losses in respect of the defined benefit retirement schemes are recognised in full in the period in which they occur, outside profit or loss, in other comprehensive income and accumulated in equity.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(r) Employee benefits (continued)

(iii) Contributions to defined contribution retirement schemes

Obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

(s) Income tax

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

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

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

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

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

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(u) Revenue recognition

(i) Regulation of earnings under the Scheme of Control

The earnings of a subsidiary, The Hongkong Electric Company, Limited ("HEC") are regulated by the Hong Kong SAR Government ("the Government") under a Scheme of Control ("SOC") which provides for a permitted level of earnings based principally on a return on HEC's capital investment in electricity generation, transmission and distribution assets (the "Permitted Return"). The SOC also provides for performance based incentives and penalties which encourage emission reduction, customer service quality, energy efficiency and the use of renewable energy. The Net Return of HEC under the SOC is determined by deducting from the Permitted Return interest and excess capacity adjustments, if any, and adjusting for the abovementioned incentives and penalties. HEC is required to submit detailed Development Plans for approval by the Government which project the key determinants of the Net Return to which HEC will be entitled over the Development Plan period.

The Government has approved the Development Plan covering the period from 2009 to 2013. No further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SOC.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(u) Revenue recognition (continued)

(ii) Fuel Clause Recovery Account

Under the SOC, any difference between the standard cost of fuel, as agreed with the Government, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account ("Fuel Cost Account Adjustment").

Fuel Clause Charges (or Rebates) are charged (or given) to customers by adding to (or deducting from) the Basic Tariff to produce a Net Tariff payable by customers and are credited (or debited) to the Fuel Clause Recovery Account.

The balance on the Fuel Clause Recovery Account at the end of a financial year represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustment during the year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates. Any debit balance is carried forward as a deferred receivable to be recovered from Fuel Clause Charges and/or Fuel Cost Account Adjustment and any credit balance is carried forward as a deferred payable to be cleared by Fuel Clause Rebates and/or Fuel Cost Account Adjustment.

Fuel Clause Charges or Rebates are utilised to smooth increases in Net Tariffs paid by customers. The impact of tariff smoothing is to reduce the Net Tariffs payable by customers in certain years and increase the Net Tariffs in other years. However, the tariff smoothing has no impact on HEC's total earnings and the related balance on the Fuel Clause Recovery Account is expected to be recovered by Fuel Clause Charges and/or Fuel Cost Account Adjustment.

(iii) Income recognition

Electricity income is recognised based on units of electricity consumed by customers during the year at the Basic Tariff, which is the unit charge agreed with the Government during the Annual Tariff Review for each financial year.

Electricity-related income and technical service fees are recognised when the related services are rendered.

Dividend income from unlisted investments is recognised when the shareholders' right to receive payment is established.

Interest income is recognised on a time apportioned basis using the effective interest method.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates, or at contract rates if foreign currencies are hedged by forward foreign exchange contracts. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date.

Exchange gains and losses in respect of fixed assets under construction are, up to the date of commissioning, incorporated in the cost of the assets. All other exchange differences are dealt with in profit or loss.

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

The results of operations outside Hong Kong are translated into Hong Kong dollars at the average exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 8, *Operating segments*

– HKAS 1 (revised 2007), *Presentation of financial statements*

– Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*

– Improvements to HKFRSs (2008)

– Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*

– HKAS 23 (revised 2007), *Borrowing costs*

The "Improvements to HKFRSs (2008)" comprise a number of minor amendments to a range of HKFRSs. These, together with the amendments to HKAS 23 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

– HKFRS 8 requires segment disclosure to be based on the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's chief operating decision maker. Corresponding amounts have been provided on a basis consistent with the revised segment information.

– As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the year arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

– As a result of the adoption of the amendments to HKFRS 7, the Group's financial statements include expanded disclosures in note 28(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

– The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1st January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4. Turnover

The principal activities of the Group are the generation and supply of electricity.

Group turnover represents the sales of electricity, other electricity-related income and engineering and consulting services fees. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2009 $ million	2008 $ million
Sales of electricity	**10,331**	12,704
Concessionary discount on sales of electricity	**(6)**	(6)
Electricity-related income	**42**	33
Technical service fees	**28**	42
	10,395	12,773

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

5. Other revenue and other net income

	2009 $ million	2008 $ million
Interest income from financial assets not at fair value through profit or loss	**756**	959
Dividend income from unlisted available-for-sale equity securities	**22**	7
Curtailment loss on defined benefit retirement scheme (see note 25)	**–**	(24)
Foreign exchange gain on loans and receivables	**3**	35
Net profit on sale of fixed assets	**2**	1
Sundry income	**32**	42
	815	1,020

6. Segment information

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has aggregated operating segments with similar characteristics to present the following reportable segments.

– Sales of electricity: this segment supplies electricity in Hong Kong.

– Infrastructure investments: this segment invests in electricity and other infrastructure projects.

– All other activities: this segment represents other activities carried out by the Group.

The basis of accounting for the Group's segment information is the same as that for the Group's financial statements. The financial information about the Group's segments is set out in Appendix 1 on pages 109 to 110.

7. Finance costs

	2009 $ million	2008 $ million
Interest on overdrafts, bank loans and other borrowings repayable within 5 years	**319**	482
Interest on other borrowings repayable over 5 years	**71**	82
Less: Interest capitalised to fixed assets	**(43)**	(89)
Interest transferred to fuel cost	**(13)**	(12)
Total interest expense on financial liabilities not at fair value through profit or loss	**334**	463

Interest expenses have been capitalised at an average rate of approximately 1.7% per annum (2008: 3.1% per annum) for assets under construction.

8. Profit before taxation

	2009 $ million	2008 $ million
Profit before taxation is arrived at after charging/(crediting):		
Depreciation	1,564	1,456
Amortisation of leasehold land	58	58
Costs of inventories	4,093	3,609
Write down of inventories	13	5
Staff costs	462	509
Operating lease charges		
– hire of equipment	34	62
Fixed assets written off	35	25
Net (gain)/loss on cash flow hedging instruments reclassified from equity		
– interest rate swaps	(5)	(2)
– forward foreign exchange contracts	–	5
Auditors' remuneration		
– audit and audit related work		
– KPMG	5	5
– other auditors	1	1
– non-audit work		
– KPMG	2	2
– other auditors	3	5

The consolidated profit attributable to equity shareholders of the Company includes a profit of $6,055 million (2008: $6,987 million) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

9. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2009 $ million	2008 $ million
Current tax – Hong Kong Profits Tax		
Provision for the year	853	963
Over-provision in respect of prior years	(50)	–
	803	963
Current tax – operations outside Hong Kong		
Provision for the year	4	2
Tax credit for the year	(31)	(19)
	(27)	(17)
	776	946
Deferred tax (see note 26(b)(i))		
Origination and reversal of temporary differences	143	364
Effect on deferred tax balances at 1st January resulting from a change in tax rate	–	(310)
	143	54
	919	1,000

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year.

Taxation for operations outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2009 $ million	2008 $ million
Profit before taxation	7,790	9,339
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	1,034	1,423
Tax effect of non-deductible expenses	18	34
Tax effect of non-taxable income	(121)	(147)
Tax effect of recognition of previously unrecognised temporary differences	38	–
Over-provision in respect of prior years	(50)	–
Effect on deferred tax balances at 1st January resulting from a change in tax rate	–	(310)
Actual tax expense	919	1,000

10. Directors' emoluments and senior management emoluments

(a) Directors' emoluments

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of each of the Directors of the Company are as follows:

Name of Directors	Fees $ million	Basic salaries, allowances and other benefits $ million	Retirement scheme contributions $ million	Bonuses $ million	2009 Total emoluments $ million	2008 Total emoluments $ million
Executive Directors						
Fok Kin Ning, Canning [4]	0.12	0.75	–	–	0.87	0.73
Chairman						
Tso Kai Sum	0.07	6.36	–	9.02	15.45	15.32
Group Managing Director						
Chow Woo Mo Fong, Susan	0.07	0.09	–	–	0.16	0.16
Andrew John Hunter	0.07	0.08	–	–	0.15	0.16
Kam Hing Lam	0.07	0.05	–	–	0.12	0.13
Li Tzar Kuoi, Victor	0.07	0.53	–	–	0.60	0.68
Neil Douglas McGee [1]	0.07	3.97	0.28	2.39	6.71	6.72
Group Finance Director						
Frank John Sixt	0.07	0.06	–	–	0.13	0.11
Wan Chi Tin	0.07	4.21	0.81	3.67	8.76	8.04
Director of Engineering (Planning and Development)						
Yuen Sui See [5]	0.07	3.27	0.71	1.43	5.48	4.86
Director of Operations						
Non-executive Directors						
Ronald Joseph Arculli [3]	0.14	0.05	–	–	0.19	0.20
Lee Lan Yee, Francis [6]	0.07	0.02	–	–	0.09	5.15
George Colin Magnus	0.07	0.03	–	–	0.10	0.10
Holger Kluge [2] [3]	0.14	–	–	–	0.14	0.14
Ralph Raymond Shea [2] [3] [4]	0.16	0.04	–	–	0.20	0.20
Wong Chung Hin [2] [3] [4]	0.16	0.09	–	–	0.25	0.25
Total for the year 2009	**1.49**	**19.60**	**1.80**	**16.51**	**39.40**	42.95
Total for the year 2008	1.48	21.97	1.14	18.36		42.95

Notes:

(1) During the year, Mr. Neil Douglas McGee received director's fees of THB425,000 from Ratchaburi Power Company, Limited, an associate of the Group. The director's fees were then paid back to the Company.

(2) Independent non-executive director.

(3) Member of the Audit Committee.

(4) Member of the Remuneration Committee.

(5) Appointed as a director with effect from March 2008.

(6) Re-designated from an Executive Director to a Non-executive Director in August 2008.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

10. Directors' emoluments and senior management emoluments (continued)

(b) Senior management emoluments

The five highest paid individuals of the Group included four directors (2008: five) whose total emoluments are shown above. The emoluments of the other one individual (2008: Nil) who comprises the five highest paid individuals of the Group are set out below:

	2009 $ million	2008 $ million
Salary and other benefits	3.45	–
Retirement scheme contributions	0.56	–
	4.01	–

The total emoluments of the individual (2008: Nil) are within the following band:

	2009 Number	2008 Number
$4,000,001 to $4,500,000	1	–

11. Scheme of Control transfers

The financial operations of HEC, a wholly-owned subsidiary of the Company, are governed by the SOC agreed with the Government which provides for HEC to earn a Permitted Return (see note 2(u)(i)). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, SOC Net Return and SOC taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the income statement of HEC. When transfer from the Tariff Stabilisation Fund to the income statement is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In addition, a charge calculated by applying the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the income statement of HEC to a Rate Reduction Reserve, which amount is subsequently rebated to customers. Movements in the Tariff Stabilisation Fund and Rate Reduction Reserve are as follows:

(a) Tariff Stabilisation Fund

	2009 $ million	2008 $ million
At 1st January	311	14
Transfer from the income statement	174	297
At 31st December	485	311

(b) Rate Reduction Reserve

	2009 $ million	2008 $ million
At 1st January	14	1
Transfer from the income statement	–	13
At 31st December	14	14

12. Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $6,697 million (2008: $8,029 million) and 2,134,261,654 ordinary shares (2008: 2,134,261,654 ordinary shares) in issue throughout the year.

There were no dilutive potential ordinary shares in existence during the years ended 31st December 2009 and 2008.

13. Fixed assets

$ million	Site formation and buildings	Plant, machinery and equipment	Assets under construction	Sub-total	Interests in leasehold land held for own use under operating leases	Total fixed assets
Cost:						
At 1st January 2008	13,429	52,728	2,623	68,780	2,813	71,593
Additions	8	321	1,753	2,082	2	2,084
Transfers between categories	215	1,651	(1,866)	–	–	–
Disposals	–	(167)	–	(167)	–	(167)
At 31st December 2008	13,652	54,533	2,510	70,695	2,815	73,510
At 1st January 2009	**13,652**	**54,533**	**2,510**	**70,695**	**2,815**	**73,510**
Additions	**6**	**767**	**1,978**	**2,751**	**–**	**2,751**
Transfers between categories	**46**	**1,902**	**(1,948)**	**–**	**–**	**–**
Disposals	**–**	**(223)**	**–**	**(223)**	**–**	**(223)**
At 31st December 2009	**13,704**	**56,979**	**2,540**	**73,223**	**2,815**	**76,038**
Accumulated amortisation and depreciation:						
At 1st January 2008	4,193	20,852	–	25,045	490	25,535
Written back on disposals	–	(130)	–	(130)	–	(130)
Charge for the year	234	1,325	–	1,559	58	1,617
At 31st December 2008	4,427	22,047	–	26,474	548	27,022
At 1st January 2009	**4,427**	**22,047**	**–**	**26,474**	**548**	**27,022**
Written back on disposals	**–**	**(172)**	**–**	**(172)**	**–**	**(172)**
Charge for the year	**237**	**1,429**	**–**	**1,666**	**58**	**1,724**
At 31st December 2009	**4,664**	**23,304**	**–**	**27,968**	**606**	**28,574**
Net book value:						
At 31st December 2009	**9,040**	**33,675**	**2,540**	**45,255**	**2,209**	**47,464**
At 31st December 2008	9,225	32,486	2,510	44,221	2,267	46,488

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to $43 million (2008: $89 million).

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(Expressed in Hong Kong Dollars)

13. Fixed assets (continued)

The Group's leasehold land at 31st December 2009 is held in Hong Kong and comprises long term and medium term leasehold land with carrying values of $42 million (2008: $45 million) and $2,167 million (2008: $2,222 million) respectively.

Depreciation charges for the year included $102 million (2008: $103 million), relating to assets utilised in development activities which has been capitalised.

14. Investments in subsidiaries

	The Company	
	2009	2008
	$ million	$ million
Unlisted shares, at cost	**2,776**	2,776
Loan capital (see note below)	**8,845**	21,845
Amounts due from subsidiaries	**28,574**	10,088
	40,195	34,709

Loan capital represents an investment of funds in HEC as permanent shareholders' investment.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms.

Particulars of the principal subsidiaries are set out in Appendix 2 on page 111.

15. Interest in associates

	The Group	
	2009	2008
	$ million	$ million
Share of net assets	**6,616**	4,600
Loans to unlisted associates (see note below)	**6,600**	5,165
Amounts due from unlisted associates (see note below)	**256**	156
	13,472	9,921

The loans to unlisted associates are unsecured, interest bearing at rates ranging from 10.85% per annum to 13.79% per annum (2008: 6.28% per annum to 13.79% per annum) and are not due within five years.

Included in the loans to unlisted associates are subordinated loans totalling $5,810 million (2008: $4,542 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates and they are treated as part of the investment in the associates.

The amounts due from unlisted associates are unsecured, interest free and have no fixed repayment terms.

Neither the loans to unlisted associates nor the amounts due from unlisted associates are past due or impaired.

At 31st December 2009, the Group's interests in an associate of $740 million (2008: $552 million) have been pledged as part of the security to secure bank borrowings granted to that associate.

The financial guarantees issued by the Company in respect of banking facilities available to associates have been disclosed in note 31.

Particulars of the principal associates are set out in Appendix 3 on page 112.

Summarised financial information based on the unaudited management accounts of the associates is as follows:

	2009 **$ million**	2008 $ million
Assets	**112,143**	87,333
Liabilities	**(94,101)**	(74,513)
Equity	**18,042**	12,820
Revenues	**24,519**	18,107
Profit	**2,826**	1,503

16. Interest in jointly controlled entities

	The Group	
	2009 **$ million**	2008 $ million
Share of net assets	**5,742**	159
Amounts due from unlisted jointly controlled entities (see note below)	**51**	–
	5,793	159

During the year ended 31st December 2009, the Group acquired equity interests in certain jointly controlled entities from a shareholder of the Company, at a purchase consideration, before direct costs, of $5,680 million (see note 32(a)).

The amounts due from unlisted jointly controlled entities are unsecured, interest free and have no fixed repayment terms. They are neither past due nor impaired.

At 31st December 2009, the Group's interests in a jointly controlled entity of $2,991 million (2008: Nil) have been pledged as part of the security to secure bank borrowings granted to that jointly controlled entity.

The financial guarantees issued by the Group in respect of banking facilities available to jointly controlled entities have been disclosed in note 31.

Particulars of the principal jointly controlled entities are set out in Appendix 4 on page 113.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

16. Interest in jointly controlled entities (continued)

Summarised financial information based on the unaudited management accounts of the jointly controlled entities is as follows:

	2009 $ million	2008 $ million
Assets	16,887	1,053
Liabilities	(7,626)	(706)
Equity	9,261	347
Revenues	8,586	–
Profit	1,794	–

17. Other non-current financial assets

	The Group	
	2009 $ million	2008 $ million
Unlisted available-for-sale equity securities, at cost	67	66

18. Inventories

	The Group	
	2009 $ million	2008 $ million
Work in progress	–	1
Coal, fuel oil and liquefied natural gas	629	375
Stores and materials (see note below)	301	283
	930	659

Included in stores and materials is capital stock of $189 million (2008: $190 million) which was purchased for future capital projects.

19. Trade and other receivables

	The Group		The Company	
	2009 $ million	2008 $ million	2009 $ million	2008 $ million
Trade debtors (see note below)	616	670	–	–
Other receivables	402	444	2	30
	1,018	1,114	2	30
Derivative financial instruments				
– held as cash flow/fair value hedging instruments	13	2	–	–
Deposits and prepayments	28	31	3	3
	1,059	1,147	5	33

All of the trade and other receivables are expected to be recovered within one year.

Other receivables of the Group include unbilled electricity charges of $375 million (2008: $390 million) to be received from electricity customers.

The ageing analysis of trade debtors, which are neither individually nor collectively considered to be impaired, are as follows:

	The Group	
	2009	2008
	$ million	$ million
Current	**569**	625
1 to 3 months past due	**35**	31
More than 3 months past due but less than 12 months past due	**12**	14
Total trade debtors	**616**	670

Electricity bills issued to domestic, small industrial, commercial and miscellaneous customers for electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, a surcharge of 5% can be added to the electricity bills.

Trade debtors for electricity charges that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors for electricity charges that were past due but not impaired relate to a number of independent customers. HEC, a wholly-owned subsidiary, obtains sufficient collateral in the form of security deposits from customers (see note 28(a)) and the balances are considered to be fully recoverable.

The Group's trade debtors are individually assessed for impairment. Any impairment losses are written off against the trade debtors directly. No separate account is maintained for impairment losses.

20. Fuel Clause Recovery Account

The Fuel Clause Charges per unit for electricity sales was 25.4 cents from 1st January 2009 (2008: 10.5 cents). Movements on the Fuel Clause Recovery Account were as follows:

	The Group	
	2009	2008
	$ million	$ million
At 1st January	**998**	336
Transfer to profit or loss	**2,329**	1,802
Fuel Clause Charges during the year	**(2,775)**	(1,140)
At 31st December	**552**	998

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs (see note 2(u)(ii)).

The outstanding amount of Fuel Clause Recovery Account is neither past due nor impaired (see note 2(u)(ii)).

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(Expressed in Hong Kong Dollars)

21. Bank deposits and cash

(a) Bank deposits and cash comprise:

	The Group 2009 $ million	The Group 2008 $ million	The Company 2009 $ million	The Company 2008 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	**4,993**	7,104	**4,993**	7,086
Cash at bank and in hand	**100**	31	**2**	6
Cash and cash equivalents for the purpose of the cash flow statement	**5,093**	7,135		
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	**–**	1,827	**–**	1,827
Bank deposits and cash for the purpose of the balance sheet	**5,093**	8,962	**4,995**	8,919

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2009 $ million	2008 $ million
Profit before taxation		**7,790**	9,339
Adjustments for:			
Share of profits less losses of associates		**(898)**	(732)
Share of profits less losses of jointly controlled entities		**(632)**	–
Interest income	5	**(756)**	(959)
Dividend income from unlisted available-for-sale equity securities	5	**(22)**	(7)
Finance costs	7	**347**	475
Depreciation	8	**1,564**	1,456
Amortisation of leasehold land	8	**58**	58
Fixed assets written off	8	**35**	25
Net profit on sale of fixed assets	5	**(2)**	(1)
Exchange losses/(gains)		**36**	(35)
Financial instrument revaluation (gain)/loss		**(2)**	3
Changes in working capital:			
Increase in inventories		**(271)**	(107)
Decrease/(increase) in trade and other receivables		**57**	(29)
Decrease/(increase) in Fuel Clause Recovery Account		**446**	(662)
Increase in trade and other payables		**256**	37
(Decrease)/increase in net employee retirement benefit liabilities		**(122)**	26
Cash generated from operations		**7,884**	8,887

22. Trade and other payables

	The Group 2009 $ million	The Group 2008 $ million	The Company 2009 $ million	The Company 2008 $ million
Creditors measured at amortised cost (see note below)	**1,597**	1,161	**43**	41
Derivative financial instruments				
– held as cash flow/fair value hedging instruments	**3**	12	**–**	2
	1,600	1,173	**43**	43

All of the trade and other payables are expected to be settled within one year.

Creditors' ageing is analysed as follows:

	The Group 2009 $ million	The Group 2008 $ million
Due within 1 month or on demand	**709**	572
Due after 1 month but within 3 months	**325**	247
Due after 3 months but within 12 months	**563**	342
	1,597	1,161

23. Non-current interest-bearing borrowings

	The Group 2009 $ million	The Group 2008 $ million
Bank loans	**9,192**	8,241
Current portion	**–**	(1,687)
	9,192	6,554
Hong Kong dollar notes (see note below)	**3,055**	2,426
Total	**12,247**	8,980

Hong Kong dollar fixed rate notes bear interest at rates between 3.28% to 4.55% per annum (2008: 4.13% to 4.55% per annum), while interest on floating rate notes is determined with reference to the Hong Kong Interbank Offered Rate. Details of the issuer of Hong Kong dollar notes are set out in Appendix 2 on page 111. None of the non-current interest-bearing borrowings is expected to be settled within one year. All the above borrowings are unsecured.

Some banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31st December 2009 and 2008, none of the covenants relating to drawn down facilities had been breached.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

23. Non-current interest-bearing borrowings (continued)

These borrowings have final maturities extending up to 2016 and are repayable as follows:

$ million	Bank loans 2009	Bank loans 2008	Hong Kong dollar notes 2009	Hong Kong dollar notes 2008	Total 2009	Total 2008
Within 1 year	–	1,687	–	–	–	1,687
After 1 year but within 2 years	4,200	–	–	–	4,200	–
After 2 years but within 5 years	4,992	6,554	1,031	529	6,023	7,083
After 5 years	–	–	2,024	1,897	2,024	1,897
	9,192	8,241	3,055	2,426	12,247	10,667

24. Derivative financial instruments

	The Group 2009 $ million	The Group 2008 $ million	The Company 2009 $ million	The Company 2008 $ million
Derivative financial instruments used for hedging:				
– Interest rate swaps	5	(85)	–	–
– Foreign exchange forward contracts	10	(6)	–	(2)
Total	15	(91)	–	(2)
Current portion of derivative financial instruments (see notes 19 and 22)	(10)	10	–	2
	5	(81)	–	–
Represented by:				
Derivative financial instruments assets	31	29	–	–
Derivative financial instruments liabilities	(26)	(110)	–	–
	5	(81)	–	–

25. Employee retirement benefits

The Group offers three retirement schemes which together cover all permanent staff.

One of the schemes ("the Pension Scheme") provides pension benefits based on the employee's final basic salary and length of service. This scheme is accounted for as a defined benefit retirement scheme.

Another scheme is defined contribution in nature and offers its members choices to invest in various investment funds. In respect of one investment fund on which the Group provides a guaranteed return, the scheme is accounted for as a defined benefit retirement scheme. In respect of the other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme.

Both these schemes are established under trust and are registered under the Hong Kong Occupational Retirement Schemes Ordinance. The assets of the schemes are held independently of the Group's assets in separate trustee administered funds.

Since the introduction of the Hong Kong Mandatory Provident Fund Scheme ("the MPF Scheme") in December 2000, the Group has also participated in a master trust MPF Scheme operated by an independent service provider. Since December 2000, all new recruits are enrolled in the MPF Scheme.

The MPF Scheme is a defined contribution retirement scheme with the employer and its employees each contributing to the plan in accordance with the relevant scheme rules. The MPF Scheme rules provide for voluntary contributions to be made by the employer calculated as a percentage of the employees' basic salaries.

(a) Defined benefit retirement schemes ("the Schemes")

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include a long term yield gap, which is the long term expected rate of investment return net of salary increases of 2.2% per annum, pension increases of 2.5% per annum, together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Mr. A. Wong, FSA, FCIA as at 1st January 2008. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

The retirement scheme expense/income recognised in profit or loss for the year ended 31st December 2009 was determined in accordance with HKAS 19, *Employee benefits*.

(i) The amounts recognised in the balance sheets are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	$ million	$ million	**$ million**	$ million
Present value of funded obligations	**(4,976)**	(5,995)	**(529)**	(613)
Fair value of assets of the Schemes	**4,563**	4,458	**378**	349
	(413)	(1,537)	**(151)**	(264)
Represented by:				
Employee retirement benefit assets	**486**	–	**24**	–
Employee retirement benefit liabilities	**(899)**	(1,537)	**(175)**	(264)
	(413)	(1,537)	**(151)**	(264)

The assets of the Schemes did not include ordinary shares issued by the Company for the years ended 31st December 2009 and 2008.

A portion of the above asset/liability is expected to be realised/settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

25. Employee retirement benefits (continued)

(a) Defined benefit retirement schemes ("the Schemes") (continued)

(ii) Changes in present value of funded obligations are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	$ million	$ million	**$ million**	$ million
At 1st January	**5,995**	4,510	**613**	464
Current service cost	**149**	129	**10**	9
Interest cost	**72**	155	**7**	16
Employee contributions paid to the Schemes	**25**	28	**2**	2
Actuarial (gains)/losses	**(834)**	1,401	**(85)**	145
Benefits paid	**(431)**	(252)	**(18)**	(24)
Curtailment loss	**–**	24	**–**	1
At 31st December	**4,976**	5,995	**529**	613

(iii) Changes in fair value of assets of the Schemes are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	$ million	$ million	**$ million**	$ million
At 1st January	**4,458**	5,086	**349**	421
Expected return on assets of the Schemes	**250**	225	**20**	22
Actuarial gains/(losses)	**168**	(686)	**19**	(76)
Employer contributions paid to the Schemes	**93**	57	**6**	4
Employee contributions paid to the Schemes	**25**	28	**2**	2
Benefits paid	**(431)**	(252)	**(18)**	(24)
At 31st December	**4,563**	4,458	**378**	349

The Group expects to contribute $93 million to its defined benefit retirement schemes in 2010.

(iv) The expense/(income) recognised in the consolidated income statement, prior to any capitalisation of employment costs attributable to fixed assets additions, is as follows:

	2009	2008
	$ million	$ million
Current service cost	**149**	129
Interest cost	**72**	155
Expected return on assets of the Schemes	**(250)**	(225)
Curtailment loss	**–**	24
	(29)	83

The expense/(income) is recognised in the following line items in the consolidated income statement:

	2009 **$ million**	2008 $ million
Direct costs	**(25)**	36
Other operating costs	**(4)**	23
Other revenue and other net income	**–**	24
	(29)	83

The actual return on assets of the Schemes (taking into account all changes in the fair value of the assets of the Schemes excluding contributions paid and received) was a net profit of $418 million (2008: net loss of $461 million).

(v) The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income is as follows:

	2009 **$ million**	2008 $ million
At 1st January	**2,238**	151
Actuarial (gains)/losses recognised in the consolidated statement of comprehensive income during the year	**(1,002)**	2,087
At 31st December	**1,236**	2,238

(vi) The major categories of assets of the Schemes as a percentage of total assets of the Schemes are as follows:

	The Group and the Company	
	2009	2008
Hong Kong equities	**5.0%**	3.7%
Europe equities	**6.0%**	6.6%
North America equities	**6.3%**	5.2%
Other Asia Pacific equities	**3.0%**	3.9%
Global bonds	**75.4%**	78.1%
Deposits, cash and others	**4.3%**	2.5%
	100%	100%

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

25. Employee retirement benefits (continued)

(a) Defined benefit retirement schemes ("the Schemes") (continued)

(vii) The principal actuarial assumptions used as at 31st December (expressed as a weighted average) are as follows:

	The Group and the Company	
	2009	2008
Discount rate	**2.6%**	1.2%
Expected rate of return on assets of the Schemes	**5.1% – 6.3%**	5.3% – 7.2%
Long term salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.5%**	2.5%

The expected long-term rate of return on assets of the Schemes is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

(viii) The amounts recognised in respect of defined benefit retirement schemes for the current and previous years are as follows:

	The Group					The Company				
$ million	**2009**	2008	2007	2006	2005	**2009**	2008	2007	2006	2005
Present value of funded obligations	**(4,976)**	(5,995)	(4,510)	(4,410)	(4,151)	**(529)**	(613)	(464)	(438)	(393)
Fair value of assets of the Schemes	**4,563**	4,458	5,086	4,599	3,986	**378**	349	421	391	337
(Deficit)/surplus	**(413)**	(1,537)	576	189	(165)	**(151)**	(264)	(43)	(47)	(56)
Experience adjustments on:										
Scheme liabilities	**107**	21	(26)	(45)	(8)	**9**	(4)	(8)	(26)	(10)
Scheme assets	**168**	(686)	387	447	67	**19**	(76)	23	49	13

(b) Defined contribution retirement scheme

	2009 $ million	2008 $ million
Expenses recognised in the consolidated income statement	**6**	4

No forfeited contribution has been received during the year (2008: $0.2 million).

26. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2009	2008	**2009**	2008
	$ million	$ million	**$ million**	$ million
Provision for Hong Kong Profits Tax for the year	**853**	963	**–**	–
Provisional Profits Tax paid	**(617)**	(781)	**–**	–
	236	182	**–**	–
Balance of Profits Tax provision relating to prior years	**–**	6	**–**	9
	236	188	**–**	9

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Depreciation allowances in excess of the related depreciation $ million	Fuel Clause Recovery Account $ million	Others $ million	Total $ million
At 1st January 2008	5,373	59	12	5,444
(Credited)/charged to profit or loss	(53)	105	2	54
Credited to other comprehensive income	–	–	(30)	(30)
At 31st December 2008	5,320	164	(16)	5,468
At 1st January 2009	**5,320**	**164**	**(16)**	**5,468**
Charged/(credited) to profit or loss	**218**	**(73)**	**(2)**	**143**
Charged to other comprehensive income	**–**	**–**	**9**	**9**
At 31st December 2009	**5,538**	**91**	**(9)**	**5,620**

(ii) Reconciliation to the balance sheet:

	The Group	
	2009	2008
	$ million	$ million
Net deferred tax assets recognised on the balance sheet	**(2)**	(11)
Net deferred tax liabilities recognised on the balance sheet	**5,622**	5,479
	5,620	5,468

The Group had no material unprovided deferred tax assets or liabilities as at 31st December 2009 and 2008.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

27. Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

$ million	Share capital (note 27(c))	Share premium (note 27(d)(i))	Hedging reserve (note 27(d)(iii))	Revenue reserve (note 27(d)(iv))	Proposed/ declared dividend	Total
Balance at 1st January 2008	2,134	4,476	5	31,292	3,052	40,959
Changes in equity for 2008:						
Final dividend in respect of the previous year approved and paid (see note 27(b)(ii))	–	–	–	–	(3,052)	(3,052)
Interim dividend paid (see note 27(b)(i))	–	–	–	(1,323)	–	(1,323)
Proposed final dividend (see note 27(b)(i))	–	–	–	(3,180)	3,180	–
Total comprehensive (loss)/ income for the year	–	–	(5)	6,766	–	6,761
Balance at 31st December 2008 and 1st January 2009	2,134	4,476	–	33,555	3,180	43,345
Changes in equity for 2009:						
Final dividend in respect of the previous year approved and paid (see note 27(b)(ii))	–	–	–	–	(3,180)	(3,180)
Interim dividend paid (see note 27(b)(i))	–	–	–	(1,323)	–	(1,323)
Proposed final dividend (see note 27(b)(i))	–	–	–	(3,180)	3,180	–
Total comprehensive income for the year	–	–	–	6,159	–	6,159
Balance at 31st December 2009	**2,134**	**4,476**	**–**	**35,211**	**3,180**	**45,001**

All of the Company's revenue reserve is available for distribution to equity shareholders. After the balance sheet date, the Directors proposed a final dividend of $1.49 (2008: $1.49) per ordinary share, amounting to $3,180 million (2008: $3,180 million).

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2009 $ million	2008 $ million
Interim dividend declared and paid of 62 cents per ordinary share (2008: 62 cents per ordinary share)	**1,323**	1,323
Final dividend proposed after the balance sheet date of $1.49 per ordinary share (2008: $1.49 per ordinary share)	**3,180**	3,180
	4,503	4,503

The final dividend proposed after the balance sheet date is based on 2,134,261,654 ordinary shares (2008: 2,134,261,654 ordinary shares), being the total number of issued shares at the year end. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2009 $ million	2008 $ million
Final dividend in respect of the previous financial year, approved and paid during the year of $1.49 per ordinary share (2008: $1.43 per ordinary share)	**3,180**	3,052

(c) Share capital

		The Company	
	Number of shares	2009 $ million	2008 $ million
Authorised:			
Ordinary shares of $1 each	3,300,000,000	**3,300**	3,300
Issued and fully paid:			
Ordinary shares of $1 each	2,134,261,654	**2,134**	2,134

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

27. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 2(v).

(iii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(i)(ii).

(iv) Revenue reserve

The revenue reserve comprises the accumulated profits retained by the Company and its subsidiaries and includes the Group's share of the retained profits of its associates and jointly controlled entities.

(e) Capital management

The Group's primary objectives when managing capital are:

– to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;

– to provide returns to shareholders by securing access to finance at a reasonable cost;

– to support the Group's stability and future growth; and

– to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Group and capital efficiency, forecast profitability, forecast operating cash flows, forecast capital expenditure and projected investment opportunities.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-equity ratio. For this purpose the Group defines net debt as interest-bearing borrowings (as shown in the consolidated balance sheet) less bank deposits and cash. Equity comprises all components of equity (as shown in the consolidated balance sheet).

During 2009, the Group's strategy, which was unchanged from 2008, was to control its net debt-to-equity ratio in order to secure access to finance at a reasonable cost. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-equity ratio at 31st December 2009 and 2008 was as follows:

	The Group	
	2009	2008
	$ million	$ million
Interest-bearing borrowings	**12,247**	10,667
Less: Bank deposits and cash	**(5,093)**	(8,962)
Net debt	**7,154**	1,705
Total equity	**52,144**	47,327
Net debt-to-equity ratio	**14%**	4%

During the current year, the Company acted as the guarantor in respect of certain loan facilities granted to its subsidiaries and associates and fully complied with the capital requirements under the loan facility agreements.

28. Financial risk management and fair values

The Group is exposed to credit, liquidity, interest rate and currency risks in the normal course of its businesses. The Group is also exposed to equity price risk arising from its equity investments in other entities. In accordance with the Group's treasury policy, derivative financial instruments are only used to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables relating to electricity customers, bank deposits and over-the-counter derivative financial instruments entered into for hedging purposes. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables relating to electricity customers, HEC, a wholly-owned subsidiary, obtains collateral in the form of security deposits from customers in accordance with the Supply Rules. The outstanding amount of deposits received from customers at 31st December 2009 was $1,676 million (2008: $1,634 million). The credit policy is set out in note 19.

The Group has defined minimum credit rating requirements and transaction limits for counterparties when dealing in financial derivatives or placing deposits to minimise credit exposure. The Group does not expect any counterparty to fail to meet its obligations.

The Group has no significant concentrations of credit risk in respect of trade and other receivables relating to electricity customers, as the five largest customers combined did not exceed 30% of the Group's total turnover.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. Except for the financial guarantees given by the Group as set out in note 31, the Group has not provided any other guarantee which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 31.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

28. Financial risk management and fair values (continued)

(b) Liquidity risk

The Group operates a central cash management system for all its subsidiaries in order to achieve a better control of risk and minimise the costs of funds. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding to meet its liquidity requirements in the short and longer term. The Group had undrawn committed bank facilities of $6,500 million at 31st December 2009 (2008: $7,450 million).

The following tables show the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

The Group

	2009 Contractual undiscounted cash outflow					
$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
Bank loans and other borrowings and interest accruals	320	4,380	6,348	2,283	13,331	12,294
Trade and other payables (excluding interest accruals)	1,535	–	–	–	1,535	1,535
Interest rate swaps (net settled) and related interest accruals	12	(11)	(3)	–	(2)	6
	1,867	4,369	6,345	2,283	14,864	13,835
Derivatives settled gross:						
Foreign exchange forward contracts held as cash flow hedging instruments (note 28(d)(i)):						(9)
– outflow	2,307	319	14	–	2,640	
– inflow	(2,311)	(320)	(14)	–	(2,645)	
Other foreign exchange forward contracts (note 28(d)(ii)):						(1)
– outflow	301	–	–	–	301	
– inflow	(302)	–	–	–	(302)	

$ million	2008 Contractual undiscounted cash outflow Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
Bank loans and other borrowings and interest accruals	1,999	304	7,405	2,072	11,780	10,708
Trade and other payables (excluding interest accruals)	1,116	–	–	–	1,116	1,116
Interest rate swaps (net settled) and related interest accruals	27	19	(7)	–	39	87
	3,142	323	7,398	2,072	12,935	11,911
Derivatives settled gross:						
Foreign exchange forward contracts held as cash flow hedging instruments (note 28(d)(i)):						4
– outflow	2,464	–	–	–	2,464	
– inflow	(2,460)	–	–	–	(2,460)	
Other foreign exchange forward contracts (note 28(d)(ii)):						2
– outflow	1,044	–	–	–	1,044	
– inflow	(1,046)	–	–	–	(1,046)	

The Company

$ million	**2009 Contractual undiscounted cash outflow Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Balance sheet carrying amount**
Trade and other payables	**43**	**–**	**–**	**–**	**43**	**43**
Derivatives settled gross:						
Other foreign exchange forward contracts (note 28(d)(ii)):						**–**
– outflow	**–**	**–**	**–**	**–**	**–**	
– inflow	**–**	**–**	**–**	**–**	**–**	

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

28. Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
	2008 Contractual undiscounted cash outflow					
Trade and other payables	41	–	–	–	41	41
Derivatives settled gross:						
Other foreign exchange forward contracts (note 28(d)(ii)):						2
– outflow	1,019	–	–	–	1,019	
– inflow	(1,020)	–	–	–	(1,020)	

(c) Interest rate risk

The Group is exposed to cash flow interest rate risk on its interest-bearing assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(i) Hedging

The Group's policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Group also uses interest rate derivatives to manage the exposure in accordance with its treasury policy. At 31st December 2009, the Group had interest rate swaps with a total notional amount of $4,949 million (2008: $4,255 million).

The Group classifies interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 2(i).

The fair values of swaps entered into by the Group at 31st December 2009 were recognised as derivative financial instrument assets and liabilities amounting to $31 million (2008: $29 million) and $26 million (2008: $114 million) respectively.

(ii) *Interest rate profile*

The following table details the interest rate profile of the Group's and the Company's net interest-bearing assets and liabilities at the balance sheet date, after taking into account the effect of interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above).

	The Group			
	2009		2008	
	Weighted average interest rate %	**$ million**	Weighted average interest rate %	$ million
Net fixed rate assets/(liabilities)				
Loans to associates	**11.4**	**6,600**	11.4	5,165
Bank loans and other borrowings	**5.3**	**(6,971)**	5.2	(5,649)
		(371)		(484)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	**< 0.1**	**100**	< 0.1	31
Deposits with banks and other financial institutions	**0.4**	**4,993**	2.4	8,931
Bank loans and other borrowings	**0.3**	**(5,276)**	0.9	(5,018)
Customers' deposits	**< 0.1**	**(1,676)**	< 0.1	(1,634)
		(1,859)		2,310

	The Company			
	2009		2008	
	Weighted average interest rate %	**$ million**	Weighted average interest rate %	$ million
Variable rate assets				
Cash at bank and in hand	**< 0.1**	**2**	< 0.1	6
Deposits with banks and other financial institutions	**0.4**	**4,993**	2.4	8,913
		4,995		8,919

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

28. Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(iii) Sensitivity analysis

At 31st December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit for the year and revenue reserve by approximately $5 million (2008: increased/decreased by approximately $48 million). Other components of consolidated equity would have increased/decreased by approximately $6 million (2008: increased/decreased by approximately $15 million) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2008.

(d) Currency risk

(i) Committed and forecast transactions

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars, Sterling pounds, Japanese yen, Canadian dollars and New Zealand dollars.

The Group uses forward exchange contracts to manage its foreign currency risk and classifies these as cash flow hedges. At 31st December 2009, the Group had forward exchange contracts hedging committed and forecast transactions with a net fair asset value of $9 million (2008: $4 million liability) recognised as derivative financial instruments.

(ii) Recognised assets and liabilities

The net fair value of forward exchange contracts used by the Group as economic hedges of monetary assets and liabilities in foreign currencies at 31st December 2009 was a net asset of $1 million (2008: a net liability of $2 million) recognised as derivative financial instruments.

Except for borrowings designated to hedge investments outside Hong Kong (see note 28(d)(iii)), the Group's borrowings are denominated in Hong Kong dollars. Given this, the management does not expect that there would be any significant currency risk associated with the Group's borrowings.

(iii) Investments outside Hong Kong

Currency exposure arising from investments outside Hong Kong is mitigated in part by funding a portion of the investment through external borrowings in the same currency as the underlying investment. The fair value of these borrowings at 31st December 2009 was $4,202 million (2008: $3,207 million).

(iv) *Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from highly probable forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group

	Exposure to foreign currencies				
			2009		
'million	USD	JPY	GBP	CAD	NZD
Trade and other receivables	–	1	–	–	–
Bank deposits and cash	644	10	–	–	–
Trade and other payables	(79)	(373)	(1)	–	–
Gross exposure arising from recognised assets and liabilities	565	(362)	(1)	–	–
Notional amounts of forward exchange contracts used as economic hedges	36	227	–	–	–
Net exposure arising from recognised assets and liabilities	601	(135)	(1)	–	–
Estimated forecast purchases (see note below)	(531)	(4,850)	–	–	–
Gross exposure arising from forecast transactions	(531)	(4,850)	–	–	–
Notional amounts of forward exchange contracts used as cash flow hedging instruments	293	4,387	–	–	–
Net exposure arising from forecast transactions	(238)	(463)	–	–	–
Overall net exposure	363	(598)	(1)	–	–

Note: Included in estimated forecast purchases are forecast purchases of fuel which are for one year's commitment only.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

28. Financial risk management and fair values (continued)

(d) Currency risk (continued)

(iv) Exposure to currency risk (continued)

	Exposure to foreign currencies				
	2008				
'million	USD	JPY	GBP	CAD	NZD
Trade and other receivables	3	2	–	–	–
Bank deposits and cash	1,013	9	–	1	–
Trade and other payables	(46)	(285)	(1)	(1)	(1)
Gross exposure arising from recognised assets and liabilities	970	(274)	(1)	–	(1)
Notional amounts of forward exchange contracts used as economic hedges	132	122	–	–	–
Net exposure arising from recognised assets and liabilities	1,102	(152)	(1)	–	(1)
Estimated forecast purchases (see note below)	(611)	(1,011)	–	–	–
Gross exposure arising from forecast transactions	(611)	(1,011)	–	–	–
Notional amounts of forward exchange contracts used as cash flow hedging instruments	316	119	–	–	–
Net exposure arising from forecast transactions	(295)	(892)	–	–	–
Overall net exposure	807	(1,044)	(1)	–	(1)

Note: Included in estimated forecast purchases are forecast purchases of fuel which are for one year's commitment only.

The Company

	Exposure to foreign currencies			
	2009		2008	
'million	**USD**	**CAD**	USD	CAD
Trade and other receivables	**–**	**–**	3	–
Bank deposits and cash	**644**	**–**	1,013	(1)
Gross exposure arising from recognised assets and liabilities	**644**	**–**	1,016	(1)
Notional amounts of forward exchange contracts used as economic hedges	**–**	**–**	131	–
Net exposure arising from recognised assets and liabilities	**644**	**–**	1,147	(1)

(v) Sensitivity analysis

The following table indicates that a 10 percent strengthening in the following currencies against Hong Kong dollars at the balance sheet date would have increased/(decreased) the Group's profit for the year (and revenue reserve) and other components of consolidated equity.

The Group

$ million	2009 Effect on profit for the year and revenue reserve increase/ (decrease)	2009 Effect on other components of equity increase/ (decrease)	2008 Effect on profit for the year and revenue reserve increase/ (decrease)	2008 Effect on other components of equity increase/ (decrease)
Japanese yen	**(1)**	**38**	–	1
Pounds sterling	**(1)**	**–**	–	–
Canadian dollars	**–**	**–**	(1)	–
New Zealand dollars	**–**	**–**	–	–

A 10 percent weakening in the above currencies against Hong Kong dollars at the balance sheet date would have had an equal but opposite effect on the Group's profit for the year (and revenue reserve) and other components of consolidated equity.

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to currency risk at the balance sheet date, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit for the year and other components of equity measured in their respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis has been performed on the same basis as for 2008.

(e) Equity price risk

The Group is exposed to equity price changes arising from unlisted available-for-sale equity securities which are held for strategic purposes (see note 17).

All of the Group's unlisted investments are held for long term strategic purposes. Their performance is reviewed regularly based on information available to the Group.

These unlisted investments do not have a quoted market price in an active market and are stated at cost. Any increase or decrease in impairment losses in respect of these investments would affect the Group's net profit. As at the balance sheet date, none of these unlisted investments was considered to be impaired. The review has been performed on the same basis as for 2008.

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28. Financial risk management and fair values (continued)

(f) Fair value

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	2009	
	The Group Level 2 $ million	The Company $ million
Assets		
Derivative financial instruments:		
– Interest rate swaps	31	–
– Forward exchange contracts	13	–
	44	–
Liabilities		
Derivative financial instruments:		
– Interest rate swaps	(26)	–
– Forward exchange contracts	(3)	–
Bank loans subject to fair value hedges	(531)	–
	(560)	–

(ii) Fair values of financial instruments carried at other than fair value

Certain of the Group's and the Company's amounts due from subsidiaries and associates are interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value. The Group's unlisted available-for-sale equity securities do not have a quoted market price in an active market and are stated at cost. Other than these financial instruments, the carrying amounts of the Group's and the Company's financial instruments are estimated to approximate their fair value.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Unquoted equity investments do not have a quoted market price in an active market and are measured at cost as their fair value cannot be measured reliably.

(ii) Derivatives

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is determined by discounting the future cash flows of the contracts at the current market interest rate.

(iii) Interest-bearing bank loans and other borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iv) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

29. Operating lease commitment

As at 31st December 2009, the total future minimum lease payments by the Group under a non-cancellable equipment operating lease are payable as follows:

	The Group	
	2009	2008
	$ million	$ million
Within 1 year	**–**	46

During the year ended 31st December 2009, the Group exercised an option to purchase all of the equipment subject to the operating lease at its fair market value as at the end of the lease term under the terms of the non-cancellable equipment lease.

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(Expressed in Hong Kong Dollars)

30. Capital commitments

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

	The Group	
	2009	2008
	$ million	$ million
Contracted for:		
Capital expenditure	**1,367**	1,263
Investment in jointly controlled entities	**37**	37
Others	**–**	1
	1,404	1,301
Authorised but not contracted for:		
Capital expenditure	**10,303**	11,821

31. Contingent liabilities

	The Group		The Company	
	2009	2008	**2009**	2008
	$ million	$ million	**$ million**	$ million
Financial guarantees issued in respect of banking facilities available to (see note below):				
– Subsidiaries	**–**	–	**4,202**	3,207
– Associates	**1,229**	836	**1,229**	836
– Jointly controlled entities	**403**	206	**–**	–
Other guarantees given in respect of:				
– Subsidiaries	**10**	10	**10**	10
– Others	**–**	210	**–**	–
	1,642	1,262	**5,441**	4,053

As at the balance sheet date, the Group and the Company have issued guarantees to banks in respect of banking facilities granted to wholly-owned subsidiaries, associates and jointly controlled entities. The Directors do not consider it probable that a claim will be made against the Group and the Company under any of the guarantees. The maximum liability of the Group and the Company at the balance sheet date under the issued guarantees is disclosed above. The Group and the Company have not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured using observable market data.

32. Material related party transactions

The Group had the following material transactions with related parties during the year:

(a) Shareholder

On 5th February 2009, the Company entered into an agreement with Cheung Kong Infrastructure Holdings Limited ("CKI"), a substantial shareholder holding approximately 38.87% of the issued shares of the Company, to purchase the entire issued share capital of Outram Limited ("Outram"), which held a 45% equity interest in certain joint ventures owning power plants in the People's Republic of China. The consideration for the transaction was $5,680 million. The transaction constituted a connected transaction for the Company. The acquisition was completed on 2nd April 2009.

Upon the acquisition, Outram entered into a three-year renewable contract with CKI under which CKI provides operation and management services to Outram and its subsidiaries. Outram reimbursed CKI $23 million in 2009 being the actual costs incurred for providing the services.

(b) Subsidiaries

Management fees and services fees recharged by the Company to subsidiaries amounted to $133 million (2008: $139 million) for the year. The outstanding balances with subsidiaries at 31st December 2009 are disclosed in note 14. The transactions and balances with subsidiaries are eliminated on consolidation.

(c) Associates

Interest income received/receivable from associates in respect of the loans to associates amounted to $698 million (2008: $603 million) for the year. At 31st December 2009, the total outstanding interest bearing loan balances due from associates were $6,600 million (2008: $5,165 million). The outstanding balances with associates are disclosed in note 15.

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's Directors as disclosed in note 10(a) and the highest paid employees as disclosed in note 10(b), is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	$ million	$ million	**$ million**	$ million
Short-term employee benefits	**60**	63	**37**	37
Post-employment benefits	**5**	3	**2**	1
	65	66	**39**	38

Total remuneration is included in "staff costs" (see note 8). At 31st December 2009 and 2008, there was no amount due from the key management personnel.

33. Substantial shareholder of the Company

The Company is a Hong Kong listed company and its shares are widely held by the public. Cheung Kong Infrastructure Holdings Limited currently holds approximately 38.87% of the issued share capital of the Company and is a substantial shareholder of the Company.

Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

34. Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

35. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 25 and 28 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation and amortisation

Fixed assets are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. Interests in leasehold land held for own use under operating leases are amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the lease term. Both the period and methods of amortisation are reviewed annually. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Impairment

In considering the impairment losses that may be required for the Group's assets which include unlisted available-for-sale securities and fixed assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate the fair value less costs to sell because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

Any increase or decrease in impairment losses, recognised as set out above, would affect the net profit in future years.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December 2009 and which have not been adopted in these financial statements.

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

	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), *Business combinations*	1st July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1st July 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*	1st July 2009
Improvements to HKFRSs 2009	1st July 2009 or 1st January 2010
Revised HKAS 24, *Related party disclosures*	1st January 2011
Amendments to HK(IFRIC) 14, *The limit on a defined benefit asset, minimum funding requirements and their interaction*	1st January 2011
HKFRS 9, *Financial instruments*	1st January 2013

Appendix 1
Segment information

$ million	2009 Sales of electricity	Infrastructure investments	All other activities	Total
For the year ended 31st December				
Revenue				
Group turnover	10,367	–	28	10,395
Other revenue and net income	23	22	14	59
Reportable segment revenue	10,390	22	42	10,454
Result				
Segment earnings	7,456	3	1	7,460
Depreciation and amortisation	(1,622)	–	–	(1,622)
Interest income	–	698	58	756
Operating profit	5,834	701	59	6,594
Finance costs	(92)	(242)	–	(334)
Share of profits less losses of associates and jointly controlled entities	–	1,529	1	1,530
Profit before taxation	5,742	1,988	60	7,790
Income tax	(952)	27	6	(919)
Profit after taxation	4,790	2,015	66	6,871
Scheme of Control transfers	(174)	–	–	(174)
Reportable segment profit	4,616	2,015	66	6,697
At 31st December				
Assets				
Fixed assets	47,463	–	1	47,464
Other assets	3,005	69	53	3,127
Interest in associates and jointly controlled entities	–	19,257	8	19,265
Bank deposits and cash	92	–	5,001	5,093
Reportable segment assets	50,560	19,326	5,063	74,949
Liabilities				
Segment liabilities	(3,900)	(56)	(245)	(4,201)
Current and deferred taxation	(5,858)	–	–	(5,858)
Interest-bearing borrowings	(8,047)	(4,200)	–	(12,247)
Rate Reduction Reserve	(14)	–	–	(14)
Tariff Stabilisation Fund	(485)	–	–	(485)
Reportable segment liabilities	(18,304)	(4,256)	(245)	(22,805)
For the year ended 31st December				
Other information				
Capital expenditure	2,751	–	–	2,751

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Appendix I (continued)
Segment information (continued)

$ million	Sales of electricity	Infrastructure investments	All other activities	Total
		2008		
For the year ended 31st December				
Revenue				
Group turnover	12,731	–	42	12,773
Other revenue and net income	3	43	15	61
Reportable segment revenue	12,734	43	57	12,834
Result				
Segment earnings	9,654	42	(71)	9,625
Depreciation and amortisation	(1,514)	–	–	(1,514)
Interest income	–	603	356	959
Operating profit	8,140	645	285	9,070
Finance costs	(166)	(297)	–	(463)
Share of profits less losses of associates and jointly controlled entities	–	731	1	732
Profit before taxation	7,974	1,079	286	9,339
Income tax	(1,016)	17	(1)	(1,000)
Profit after taxation	6,958	1,096	285	8,339
Scheme of Control transfers	(310)	–	–	(310)
Reportable segment profit	6,648	1,096	285	8,029
At 31st December				
Assets				
Fixed assets	46,488	–	–	46,488
Other assets	2,788	77	45	2,910
Interest in associates and jointly controlled entities	–	10,071	9	10,080
Bank deposits and cash	–	–	8,962	8,962
Reportable segment assets	49,276	10,148	9,016	68,440
Liabilities				
Segment liabilities	(3,922)	(138)	(394)	(4,454)
Current and deferred taxation	(5,667)	9	(9)	(5,667)
Interest-bearing borrowings	(7,463)	(3,204)	–	(10,667)
Rate Reduction Reserve	(14)	–	–	(14)
Tariff Stabilisation Fund	(311)	–	–	(311)
Reportable segment liabilities	(17,377)	(3,333)	(403)	(21,113)
For the year ended 31st December				
Other information				
Capital expenditure	2,084	–	–	2,084

Appendix 2
Principal subsidiaries

The following list contains only the particulars of subsidiaries as at 31st December 2009 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Issued share capital and debt securities	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
The Hongkong Electric Company, Limited	HK$2,411,600,000	100	Hong Kong	Electricity generation and supply
Associated Technical Services Limited	HK$1,000,000	100	Hong Kong	Consulting
Fortress Advertising Company Limited	HK$2	100	Hong Kong	Advertising
Hongkong Electric (Natural Gas) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hongkong Electric International Limited	US$50,900	100	British Virgin Islands	Investment holding
Hongkong Electric Finance Limited	US$1 and HK$3,030 million Hong Kong dollar notes (see note 23)	100*	British Virgin Islands/ Hong Kong	Financing
HEI Investment Holdings Limited	HK$2	100*	Hong Kong	Investment holding
Sigerson Business Corp.	US$101	100*	British Virgin Islands	Investment holding
HEI Utilities (Malaysian) Limited	A$637,510	100*	British Virgin Islands	Investment holding
HEI Power (Malaysian) Limited	A$52,510	100*	British Virgin Islands	Investment holding
Hong Kong Electric International Finance (Australia) Pty Limited	A$1	100*	Australia	Financing
HEI Transmission Finance (Australia) Pty Limited	A$12	100*	Australia	Financing
HEI Distribution Finance (Australia) Pty Limited	A$100	100*	Australia	Financing
Riverland Investment Limited	US$1	100*	British Virgin Islands	Investment holding
Hongkong Electric International Power (Mauritius) Limited	US$2	100*	Mauritius	Investment holding
Kentson Limited	US$1	100*	British Virgin Islands	Investment holding
Beta Central Profits Limited	GBP 63,772,525	100*	United Kingdom	Investment holding
HEI China Limited	US$1	100*	British Virgin Islands	Investment holding
Hongkong Electric Yunnan Dali Wing Power Company Limited	HK$1	100*	Hong Kong	Investment holding
Dako International Limited	US$1 and C$53,550,000	100*	British Virgin Islands	Investment holding
More Advance Development Limited	HK$200,010,000	100*	Hong Kong	Investment holding
HEI Tap Limited S.A.	C$53,550,000	100*	Belgium	Investment holding
Kongwell Development Limited	HK$1	100*	Hong Kong	Financing
Kindmax Enterprises Limited	HK$1	100*	Hong Kong	Financing
Goldteam Resources Limited	US$1 and NZ$58,500,000	100*	British Virgin Islands	Investment holding
HEI Leting Limited	HK$1	100*	Hong Kong	Investment holding
Outram Limited	US$1	100*	British Virgin Islands	Investment holding

* Indirectly held

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(Expressed in Hong Kong Dollars)

Appendix 3
Principal associates

The following list contains only the particulars of associates as at 31st December 2009 which principally affected the results or assets of the Group:

Name of associate	Issued share capital	Percentage of the Group's effective interest	Place of incorporation/ operation	Principal activity
Secan Limited	HK$10	20%	Hong Kong	Property development
CKI Spark Holdings No. One Limited (see note (a) below)	A$250,818,796	54.76%	Bahamas/Australia	Electricity distribution
CKI Spark Holdings No. Two Limited (see note (b) below)	A$498,038,537	54.76%	Bahamas/Australia	Electricity distribution
Ratchaburi Power Company, Limited (see note (c) below)	THB 7,325,000,000	25%	Thailand	Electricity generation and supply
Northern Gas Networks Holdings Limited (see note (d) below)	GBP 571,670,980	41.29%	United Kingdom	Gas distribution
Stanley Power Inc. (see note (e) below)	Ordinary shares C$107,000,000 Preference shares C$46,666,800	50%	Canada	Electricity generation
Wellington Electricity Distribution Network Holdings Limited (see note (f) below)	NZ$117,000,100	50%	New Zealand	Electricity distribution

Notes:

(a) CKI Spark Holdings No. One Limited holds a 51% attributable interest in CKI/HEI Electricity Distributions Holdings (Australia) Pty Limited ("CHEDHAH"). CHEDHAH is the holding company of Powercor Australia Limited ("Powercor") and CitiPower I Pty Limited ("CitiPower"). Powercor operates and manages an electricity distribution business in the State of Victoria, Australia. CitiPower, which is similar to Powercor, is one of five electricity distributors in the State of Victoria, Australia. The Group holds 54.76% of CKI Spark Holdings No. One Limited but the Group does not have effective control over it and, therefore, it has been accounted for as an associate.

(b) CKI Spark Holdings No. Two Limited holds a 51% attributable interest in ETSA Utilities Partnership ("ETSA"). ETSA is an unincorporated body and operates and manages the electricity distribution business in the State of South Australia. The Group holds 54.76% of CKI Spark Holdings No. Two Limited but the Group does not have effective control over it and, therefore, it has been accounted for as an associate.

(c) Ratchaburi Power Company, Limited is incorporated in Thailand and is principally engaged in the development, financing, operation and maintenance of a power generating station in Thailand.

(d) Northern Gas Networks Holdings Limited operates a gas distribution network in the North of England.

(e) Stanley Power Inc. indirectly holds a 49.99% partnership interest in TransAlta Cogeneration L.P.. TransAlta Cogeneration L.P. owns interests in five gas-fired cogeneration facilities in Alberta, Ontario and Saskatchewan and in a coal-fired, mine-mouth generation facility in Alberta, Canada.

(f) Wellington Electricity Distribution Network Holdings Limited owns interests in the Wellington electricity distribution network, which supplies electricity to the city of Wellington, the capital of New Zealand, and extends to the Porirua and Hutt Valley regions of New Zealand.

Appendix 4
Principal jointly controlled entities

The following list contains only the particulars of jointly controlled entities as at 31st December 2009 which principally affected the results or assets of the Group:

Name of joint venture	Issued or registered share capital	Percentage of the Group's effective interest	Place of incorporation/ operation	Principal activity
Huaneng Hongkong Electric Dali Wind Power Company Limited (see note (a) below)	RMB126,048,280	45%	People's Republic of China	Electricity generation
Huaneng Laoting Wind Power Company Limited (see note (b) below)	RMB180,427,511	45%	People's Republic of China	Electricity generation
Guangdong Zhuhai Power Station Company Limited (see note (c) below)	RMB1,765,000,000 and US$166,000,000	45%	People's Republic of China	Electricity generation
Guangdong Zhuhai Jinwan Power Company Limited (see note (d) below)	RMB822,250,000 and US$83,340,993	45%	People's Republic of China	Electricity generation

Notes:

(a) Huaneng Hongkong Electric Dali Wind Power Company Limited is engaged in wind power development, operation, management and supply of electricity in the People's Republic of China.

(b) Huaneng Laoting Wind Power Company Limited is engaged in wind power development, operation, management and supply of electricity in the People's Republic of China.

(c) Guangdong Zhuhai Power Station Company Limited owns and operates power plants in the People's Republic of China.

(d) Guangdong Zhuhai Jinwan Power Company Limited owns and operates power plants in the People's Republic of China.