HONGKONG ELECTRIC HOLDINGS LIMITED

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong Dollars)

1. **Significant Accounting Policies**

(a) Statement of Compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts 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.

(b) Basis of Preparation of the Accounts

The measurement basis used in the preparation of the accounts is historical cost.

(c) Basis of Consolidation

The Group accounts incorporate the accounts of Hongkong Electric Holdings Limited and its subsidiaries made up to 31st December each year, together with the Group's share of the results for the year and the relevant share of the post acquisition results of its associates.

Investments in subsidiaries in the Company's Balance Sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the Profit and Loss Account.

Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is charged directly to reserves in the year in which it arises.

(d) Associates

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

The Consolidated Profit and Loss Account includes the Group's share of the post-acquisition results calculated from their accounts made up to 31st December each year. In the Consolidated Balance Sheet, investments in associates are stated under the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' net assets.

(e) Investments in Securities

(i) Investments held on a continuing basis for an identified long-term purpose are classified as “investment securities”. Investment securities are stated in the Balance Sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the Profit and Loss Account, such provisions being determined for each investment individually.

(ii) Provision against the carrying value of investment securities is written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other investments are stated in the Balance Sheet at fair value. Changes in fair value are recognised in the Profit and Loss Account as they arise.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the Profit and Loss Account as they arise.

(f) Income Recognition

(i) **Regulation of earnings under the Scheme of Control**

The earnings of The Hongkong Electric Company, Limited ("HEC") are regulated by the Hong Kong SAR 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"). HEC is required to submit detailed financial plans for approval by the Government which project the key determinants of the Permitted Return HEC will be entitled to over the Financial Plan period.

The Government has approved the current Financial Plan covering the period from 1999 to 2004. No further Government approval is required during this period unless a need for significant rate increases, over and above those set out in the Financial Plan, is identified during the Annual Review conducted with Government under the terms of the SOC.

(ii) **Fuel Clause Account**

Under the SOC, any difference between the standard cost of fuel and the actual cost of fuel consumed is credited (or debited) to the Fuel Clause Account ("Fuel Clause Transfer").

Fuel Clause Rebates (or Surcharges) are given (or charged) to consumers by reducing (or increasing) the Basic Tariff rate to a Net Tariff rate payable by consumers and are debited (or credited) to the Fuel Clause Account.

The balance on the Fuel Clause Account at the end of a financial year represents the difference between Fuel Clause Rebates (or Surcharges) and Fuel Clause Transfers during the year, together with any balance brought forward from the prior year. Any debit balance is carried forward as a deferred receivable to be recovered from Fuel Clause Transfers or Fuel Clause Surcharges and any credit balance is carried forward as a deferred payable to be cleared by Fuel Clause Transfers or Fuel Clause Rebates, during the remainder of the Financial Plan period.

(iii) **Income recognition**

Income is recognised based on units of electricity sold as recorded by meters read during the year at basic tariff rates, which is the unit charge agreed with Government for HEC to earn the Permitted Return for each financial year in the Financial Plan.

Fuel Clause Rebates included in the Financial Plan include amounts in excess of Fuel Clause Transfers in certain financial years, which are utilised to smooth increases in Net Tariffs paid by consumers during the Financial Plan period. The impact of tariff smoothing under the approved Financial Plan is to reduce the Net Tariffs payable by consumers in certain years and increase the Net Tariff in other years. However, the tariff smoothing, as set out in the Financial Plan, has no impact on HEC's total earnings over the Financial Plan period and the related balance on the Fuel Clause Account (note (ii)) is expected to be recovered by the end of the Financial Plan period. In accounting for income, Fuel Clause Account debit balances are therefore treated as deferred receivables in the Balance Sheet and not accounted for in the Profit and Loss Account each year.

(g) Fixed Assets and Depreciation

(i) The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the Profit and Loss Account.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the Profit and Loss Account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset 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 enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the Profit and Loss Account on the date of retirement or disposal.

(iv) Depreciation is provided on a straight line basis and is calculated to write off the cost of fixed assets over their expected useful lives as set out below:

	Years
Leasehold land	Over the unexpired terms of the leases
Cable tunnels	100
Ash lagoon	50
Buildings, generation plant and machinery, transmission and distribution equipment	35
Cables and gas turbines	30
Meters, microwave and optical fibre equipment and trunk radio system	15
Furniture, fixtures, sundry plant and equipment	10
Workshop tools and office equipment	5
Computers	5 to 10
Motor vehicles and marine craft	5 to 6

(h) Retirement Scheme Costs

Contributions to retirement schemes are assessed based on regular independent actuarial valuations and assessments of the funding requirements of retirement benefits over the service lives of scheme members. The costs of providing these benefits are charged to the Profit and Loss Account as and when they are incurred.

(i) Inventories and Work In Progress

Coal, stores and fuel oil 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 stock to its present location and condition. Cost of stock recognised as an expense includes the write off and all losses of stock.

Work in progress is stated at cost plus attributable profits less progress payments received and receivable.

(j) Foreign Currencies

Foreign currency balances at the year end are translated into Hong Kong dollars at the rates ruling at the Balance Sheet date.

Transactions during the year are translated into Hong Kong dollars at the rates applicable on the transaction dates, or at contract rates if foreign currencies are fixed in supplier agreements or hedged by forward foreign exchange contracts.

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 the Profit and Loss Account.

The results of overseas subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year; Balance Sheet items are translated at the rates of exchange ruling at the Balance Sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(k) Deferred Tax

Provision is made for deferred tax by the liability method in respect of all material timing differences except where it is considered that no liability will crystallize in the foreseeable future. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(l) Borrowing Costs

Borrowing costs are expensed in the Profit and Loss Account in the period in which they are incurred, except to the extent that they are capitalised as being 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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are 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.

(m) Related Parties

Related parties are individuals and companies, where the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

2. Turnover

The principal activity of the Group is the generation and supply of electricity.

Group turnover is analysed as follows:

	2000 ($ million)	1999 ($ million)
Principal activities		
Sales of electricity	**10,543**	9,577
Electricity-related income	**21**	29
Technical service fees	**79**	84
	10,643	9,690
Geographical locations of operations		
Hong Kong	**10,606**	9,646
Middle East	**12**	8
Rest of Asia and Australia	**25**	32
North America	**-**	4
	10,643	9,690

3. Other Revenue

	2000 ($ million)	1999 ($ million)
Profit on disposal of fixed assets	**18**	326
Interest income	**566**	41
Dividend income from unlisted securities	**112**	-
Sundry income	**32**	29
	728	396

4. Operating Profit

	2000 ($ million)	1999 ($ million)
Operating profit is shown after charging:		
Finance costs		
Interest on overdrafts, bank loans and other borrowings repayable within 5 years	**912**	478
Interest on other borrowings	**349**	409
Less : interest capitalised to fixed assets	**(314)**	(232)
interest transferred to fuel cost	**(8)**	(7)
	939	648
Depreciation	**1,443**	1,343
Costs of inventories	**848**	876
Staff costs	**587**	607
Loss on disposal of fixed assets	**47**	36
Auditors' remuneration	**2**	2
	=====	=====
and after crediting:		
Profit on sales of staff quarters	**18**	326
	=====	=====

Interest expenses have been capitalised at rates between 4.16% and 8% p.a. (1999 : between 5.0% and 8.0% p.a.) for assets under construction.

The profit attributable to shareholders includes a profit of $5,256 million (1999 : $5,107 million) which has been dealt with in the accounts of the Company.

5. Retirement Schemes and Costs

The Company and its principal subsidiaries operate Retirement Schemes which cover substantially all permanent staff in the Group. The Schemes are established under trust and are registered under the Occupational Retirement Schemes Ordinance. They are defined benefit in nature whereby the retirement benefits are based on the employee's final basic salary and length of service.

Retirement Scheme costs charged to the Profit and Loss Account for the year ended 31st December 2000 were $151 million (1999 : $155 million). All contributions are made to the trustees of each Scheme and are charged as and when they are incurred.

The funding policy in respect of the Schemes is based on valuations prepared periodically by independent professionally qualified actuaries at Watson Wyatt Hong Kong Limited. The policy on employer's contributions is to fund the Schemes in accordance with the actuary's recommendations on an on-going basis, whereas employees' contributions, if applicable, are fixed at 5% on basic pay.

The appointed actuary, represented by Ms. S. Bronzwaer, FSA and Mr. A. Wong, FSA, FCIA, has carried out valuations as at 1st January 2000 of the Schemes and at that date the valuations revealed that the Scheme assets were sufficient in each case to cover the respective discontinuance liabilities as at the valuation date.

The actuary adopted the "Attained Age Method" for the valuations, and assumed an investment yield of 9% p.a. and a salary inflation rate of 7% p.a. over the long term.

For the retirement scheme administered by the Company, the market value of its Scheme assets at the date of valuation was $3,009.3 million, covering 135% of the actuarial accrued liabilities.

With the enactment of the Mandatory Provident Fund Schemes Ordinance in December 2000, the Company successfully obtained exemption for its applicable retirement scheme and members were given an irrevocable option to remain in the existing scheme or transfer to a new Mandatory Provident Fund which came into being on 1st December 2000. With effect from the same date, all new recruits will be enrolled in the Mandatory Provident Fund instead of the existing retirement scheme.

6. Dividends

	2000 ($ million)	1999 ($ million)
Interim of 54 cents per share (1999 : 53.75 cents per share)	**1,153**	1,108
Proposed final of 97.5 cents per share (1999 : 95 cents per share)	**2,080**	1,980
	3,233	3,088

The proposed dividend is based on 2,134,261,654 shares (1999 : 2,085,152,091 shares), being the total number of issued shares at the year end.

Shareholders were given the option to receive new fully paid shares in lieu of the interim and final cash dividends for the year ended 31st December 1999. No similar option was proposed in respect of the interim and final dividends for the year ended 31st December 2000.

7. Directors' Emoluments & Senior Management Compensation

(a) Directors' Emoluments

	2000 ($ million)	1999 ($ million)
Directors' fees	**0.79**	0.82
Salaries & other benefits	**23.32**	22.57
Retirement scheme contributions	**1.20**	1.14
Bonuses	**1.25**	-
	26.56	24.53

The total emoluments of the Directors are within the following bands:

	2000 Number	1999 Number
HK$ 0 to HK$ 1,000,000	**13**	13
HK$ 5,500,001 to HK$ 6,000,000	**1**	1
HK$ 6,000,001 to HK$ 6,500,000	**-**	1
HK$ 6,500,001 to HK$ 7,000,000	**1**	-
HK$11,000,001 to HK$11,500,000	**-**	1
HK$12,000,001 to HK$12,500,000	**1**	-

(b) Senior Management Compensation

The five (1999 : five) highest paid individuals in the Group included three directors (1999 : three) whose total emoluments are shown above. The emoluments of the other two individuals (1999 : two) who comprise the five are set out below:

	2000 ($ million)	1999 ($ million)
Salaries & other benefits	**9.52**	8.66
Retirement scheme contributions	**1.10**	1.10
Bonuses	**0.20**	-
	10.82	9.76
Company owned quarters at current market rent	**-**	0.33
	10.82	10.09
	=====	=====

The total emoluments of the two individuals (1999 : two) are within the following bands:

	2000 Number	1999 Number
HK$ 4,500,001 to HK$ 5,000,000	**1**	1
HK$ 5,000,001 to HK$ 5,500,000	**-**	1
HK$ 5,500,001 to HK$ 6,000,000	**1**	-

8. Taxation

(a) Taxation in the Group Profit and Loss Account

	2000 ($ million)	1999 ($ million)
Taxation represents the estimated liability to Hong Kong profits tax at 16% (1999 : 16%) based on the assessable profit for the year of:		
The Company and its subsidiaries	**637**	497
Associate	-	(1)
	637	496
	=====	=====

(b) Deferred tax

Unprovided deferred tax at the current tax rate of 16% (1999 : 16%) is approximately $3,886 million (1999 : $3,676 million) and principally relates to timing differences arising from tax depreciation allowances on fixed assets. This has not been recognised in the Accounts as it is considered that no liability will crystallise in the foreseeable future.

9. Scheme of Control Transfers

The financial operations of The Hongkong Electric Company, Limited, a wholly-owned subsidiary of the Company, are governed by a Scheme of Control agreed with the Hong Kong Government. In accordance with this Agreement, Scheme of Control transfers to/from the Profit and Loss Account, and movements on the Development Fund and Rate Reduction Reserve of The Hongkong Electric Company, Limited are as follows:

	2000 ($ million)	1999 ($ million)
(a) Development Fund		
At 1st January	**89**	340
Transfer from/(to) Profit and Loss Account	**160**	(251)
At 31st December	**249**	89

	2000 ($ million)	1999 ($ million)
(b) Rate Reduction Reserve		
At 1st January	**21**	62
Transfer from Profit and Loss Account	**14**	17
Rebate to customers	**(21)**	(58)
At 31st December	**14**	21

10. Earnings Per Share

The calculation of earnings per share is based on profit attributable to shareholders of $5,535 million (1999 : $5,286 million) and on the weighted average number of shares of 2,112,390,455 shares in issue throughout the year (1999 : 2,048,736,210 shares).

There were no dilutive potential ordinary shares in existence during the years ended 31st December 2000 and 1999.

11. Fixed Assets

$ million	Leasehold Land	Buildings	Plant, Machinery and Equipment	Assets Under Construction	Total
Cost					
At 1st January 2000	2,372	8,177	36,941	3,959	51,449
Additions	-	6	309	3,234	3,549
Transfers between categories	2	313	1,709	(2,024)	-
Disposals	(4)	(3)	(246)	-	(253)
At 31st December 2000	2,370	8,493	38,713	5,169	54,745
Depreciation					
At 1st January 2000	108	1,751	9,929	-	11,788
Written back on disposals	-	(2)	(185)	-	(187)
Charge for the year	47	223	1,282	-	1,552
At 31st December 2000	155	1,972	11,026	-	13,153
Net Book Value					
At 31st December 2000	2,215	6,521	27,687	5,169	41,592
At 31st December 1999	2,264	6,426	27,012	3,959	39,661

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to $314 million (1999 : $232 million).

Group leasehold land at 31st December 2000 is held in Hong Kong and comprises $104 million (1999 : $109 million) and $2,111 million (1999 : $2,155 million) of long-term and medium-term leasehold land respectively.

Group assets under construction at 31st December 2000 included leasehold land of $872 million (1999 : $765 million) which is held in Hong Kong for the medium-term.

Depreciation charges for the year included $109 million (1999 : $104 million), relating to assets utilised in development activities, which have been capitalised in accordance with Statement of Standard Accounting Practice No. 17 on Property, Plant and Equipment.

12. Interest in Subsidiaries

	Company 2000 ($ million)	Company 1999 ($ million)
Unlisted shares, at cost	**2,413**	2,413
Loan capital (see note (a) below)	**15,924**	14,385
Amounts due from subsidiaries	**6,782**	4,699
Amount due to subsidiary (see note (b) below)	**(1,539)**	(1,517)
Dividends receivable	**4,060**	3,983
	27,640	23,963

(a) This represents loan capital paid and payable to The Hongkong Electric Company, Limited. These interest free loans, defined as "Loan Capital" in the Scheme of Control Agreement effective 1st January 1994, are not repayable without the prior agreement of the Government.

(b) This represents a reinvestment of part of the dividend receivable from The Hongkong Electric Company, Limited as new loan capital for that subsidiary in respect of the current financial year, payable in the following financial year. An equivalent amount is included under loan capital.

The following list contains only the particulars of subsidiaries as at 31st December 2000 which principally affected the results, assets or liabilities of the Group:

Name	Issued Share Capital	Percentage of Equity Held by the Company	Place of Incorporation/ Operation	Principal Activity
The Hongkong Electric Company, Limited 香港電燈有限公司	HK$2,411,600,000	100	Hong Kong	Electricity generation and supply
Associated Technical Services Limited	HK$1,000,000	100	Hong Kong	Consulting
Cavendish Construction Limited	HK$2	100	Hong Kong	Contracting
Fortress Advertising Company Limited	HK$2	100	Hong Kong	Advertising
Hongkong Electric Fund Management Limited	HK$20	100	Hong Kong	Trustee
Gusbury Enterprises Incorporation	US$2	100	Panama/Hong Kong	Investment holding
HKE International Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hongkong Electric (Cayman) Limited	US$1	100	Cayman Islands/ Hong Kong	Financing

Hongkong Electric Finance (Cayman) Limited	US$1	100	Cayman Islands/ Hong Kong	Financing
Hongkong Electric International Limited	US$1	100	British Virgin Islands	Investment holding
HEI Investment Holdings Limited	HK$2	100*	Hong Kong	Investment holding
HEI Thailand (Rayong) Limited	US$1	100*	British Virgin Islands/Hong Kong	Investment holding
Sigerson Business Corp.	US$1	100*	British Virgin Islands	Investment holding
HEI Utilities (Malaysian) Limited	A$500,010	100*	Malaysia	Investment holding
HEI Power (Malaysian) Limited	A$10	100*	Malaysia	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

* *Indirectly held*

13. Interest in Associates

The Group Balance Sheet figure for the associates comprises the Group's share of net assets together with amounts due to/from associates as follows:

	Group		Company	
	2000 **($ million)**	1999 ($ million)	**2000** **($ million)**	1999 ($ million)
Share of net assets	**14**	17	**-**	-
Loans to associates (see note (c) below)	**6,165**	-	**-**	-
Amounts due to associates	**-**	(4)	**-**	(4)
Amounts due from associates	**147**	10	**-**	-
	6,326	23	**-**	(4)

The following list contains only the particulars of associates which principally affected the results or assets of the Group:

Name	**Issued Share Capital**	**Percentage of Group's Effective Interest**	**Place of Incorporation/ Operation**	**Principal Activity**
Secan Limited	HK$10	20%	Hong Kong	Property Development
ETSA Utilities Partnership	(see note (a) below)	50%	Australia	Electricity distribution
CKI/HEI Electricity Distribution Pty Limited (see note (b) below)	A$200	50%	Australia	Electricity distribution and retail

(a) ETSA Utilities Partnership is an unincorporated body formed by five associates of the Group, namely, HEI Utilities Development Limited, CKI Utilities Development Limited, HEI Utilities Holdings Limited, CKI Utilities Holdings Limited and CKI/HEI Utilities Distribution Limited, to operate and manage the electricity distribution business in the State of South Australia.

(b) This company is the holding company of the Powercor Australia Group, comprising Powercor Australia, LLC, Powercor Australia Holdings Pty Ltd. and Powercor Australia Limited, which operate and manage an electricity distribution and retail business in the State of Victoria, Australia.

(c) Included in the loans to associates, $4,493 million are subordinated loans. The rights in respect of these loans are subordinated to the rights of any other lenders to the associates.

14. Investments in Securities

	Group	
	2000	1999
	($ million)	($ million)
Investment securities (see note (a) below)		
Unlisted equity securities	**779**	-
Dividend receivable	**112**	-
Other investments (see note (b) below)		
Unlisted shares, at cost	-	73
Loan to investee company	-	11
	891	84

(a) Subsequent to the Balance Sheet date, the unlisted investment securities, being shares in CNOOC Limited, were listed on The Stock Exchange of Hong Kong Limited.

(b) Included in the other investments, the Group holds 36% of the issued share capital of Siam Power Generation Company Limited (“SIPCO”). SIPCO is an electricity generation and supply company incorporated in Thailand for the purpose of constructing a power station in Rayong, Thailand in phases. The Group invested on the basis of a guaranteed return in US dollars and the directors do not consider that the Group has any significant influence over the financial or operating policy decisions of SIPCO. Construction work of the power station has been suspended and further provision for impairment loss of the investment amounting to $84 million (1999 : $84 million) was recognised in the Profit and Loss Account for the year ended 31st December 2000.

15. Inventories

	Group	
	2000	1999
	($ million)	($ million)
Work in progress	**3**	4
Coal and fuel oil	**100**	142
Stores & materials (see note below)	**299**	309
	402	455

Included in stores and materials is capital stock of $199 million (1999 : $201 million) which was purchased for the future maintenance of capital assets.

16. Trade & Other Receivables

	Group		Company	
	2000	1999	**2000**	1999
	($ million)	($ million)	**($ million)**	($ million)
Fuel Clause Account (see note (a) below)	**981**	262	**-**	-
Debtors (see note (b) below)	**664**	689	**10**	13
	1,645	951	**10**	13

(a) A rebate to customers of 15.2 cents (1999 : 8.5 cents) per unit of electricity sales was implemented effective 1st January 2000. Movements on the Fuel Clause Account were as follows:

	2000	1999
	($ million)	($ million)
At 1st January	**262**	186
Transfer from Profit and Loss Account	**(801)**	(745)
Rebate during the year	**1,520**	821
At 31st December	**981**	262

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs (see note 1(f)).

(b) Debtors' ageing is analysed as follows:

	Group		Company	
	2000	1999	**2000**	1999
	($ million)	($ million)	**($ million)**	($ million)
Within 1 month	**419**	399	-	-
1 to 3 months overdue	**16**	27	-	-
More than 3 months overdue but less than 12 months overdue	**9**	9	-	-
Total debtors (see note below)	**444**	435	-	-
Deposits, prepayments and other receivables	**220**	254	**10**	13
	664	689	**10**	13

Electricity bills issued to domestic, small industrial and commercial & miscellaneous customers of 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, the company is entitled to add a surcharge of 5% to the respective bills.

17. Trade & Other Payables

	Group		Company	
	2000	1999	**2000**	1999
	($ million)	($ million)	**($ million)**	($ million)
Creditors (see note below)	**1,428**	1,652	**42**	46
Current portion of deferred creditors (see note 19)	**208**	309	**-**	-
	1,636	1,961	**42**	46

Creditors' ageing is analysed as follows:

	Group 2000	Group 1999	Company 2000	Company 1999
Due within 1 month	**598**	596	**2**	9
Due between 1 month and 3 months	**342**	678	**1**	1
Due between 3 months and 12 months	**414**	315	**-**	-
	1,354	1,589	**3**	10
Other payables	**74**	63	**39**	36
	1,428	1,652	**42**	46

18. Non-current Interest-bearing Borrowings

	Group 2000 ($ million)	Group 1999 ($ million)
Bank loans	**13,658**	8,935
Current portion of bank loans	**(3,976)**	(645)
	9,682	8,290
Other borrowings (see note below)	**2,700**	1,200
	12,382	9,490

Other borrowings of $2,700 million (1999 : $1,200 million) represent fixed rate notes, bearing interest at rates ranging from 7% p.a. to 7.73% p.a. (1999 : 7.63% p.a. to 7.73% p.a.). Of the $2,700 million (1999 : $1,200 million), $500 million (1999 : $500 million) notes were issued by The Hongkong Electric Company, Limited, $1,700 million (1999 : $700 million) notes were issued by Hongkong Electric (Cayman) Limited and the remaining $500 million (1999 : Nil) notes were issued by Hongkong Electric Finance (Cayman) Limited.

Bank loans and other borrowings are unsecured and repayable as follows (see note below):

	Group 2000 ($ million)	Group 1999 ($ million)
(a) Bank loans:		
Between 1 and 2 years	**495**	592
Between 2 and 5 years	**8,650**	6,625
Over 5 years	**537**	1,073
	9,682	8,290
(b) Other borrowings:		
Between 1 and 2 years	**500**	-
Between 2 and 5 years	**1,700**	1,200
Over 5 years	**500**	-
	2,700	1,200

Bank loans and other borrowings comprise:

(i) fixed rate loans and loans swapped to fixed rates with interest rates ranging from 5.68% to 8% p.a. (1999 : 5.68% to 8% p.a.) and

(ii) floating rate loans and loans swapped to floating rate bearing interest based on the Hong Kong Interbank Offered Rate.

These borrowings have final maturities extending up to 2007.

19. Deferred Creditors

	Group	
	2000	1999
	($ million)	($ million)
Deferred creditors	**1,570**	2,079
Current portion of deferred creditors (see note 17)	**(208)**	(309)
	1,362	1,770

Deferred creditors are repayable as follows (see note below):

	2000	1999
Between 1 and 2 years	**209**	243
Between 2 and 5 years	**625**	729
Between 5 and 10 years	**528**	798
	1,362	1,770

Deferred creditors are unsecured and bear interest at either a margin over Hong Kong Interbank Offered Rate or fixed rates between 7.75% p.a. and 8.00% p.a. (1999 : between 4.9% p.a. and 8.25% p.a.) with final maturities up to 2010.

20. Share Capital

		Company	
	Number of Shares	**2000 ($ million)**	1999 ($ million)
Authorised			
Ordinary shares of $1 each	3,300,000,000	**3,300**	3,300
Issued and fully paid			
At 1st January	2,085,152,091	**2,085**	2,020
New issues during the year (see note below)	49,109,563	**49**	65
At 31st December	2,134,261,654	**2,134**	2,085

On 12th June 2000, 49,109,563 shares were issued as fully paid new shares in lieu of a final cash dividend for the year ended 31st December 1999, at a value of $23.541 per share. The above fully paid new shares were issued under an optional scrip dividend scheme.

21. Reserves

$ million	Group Share Premium	Group Revenue Reserves	Group Total	Company Share Premium	Company Revenue Reserves	Company Total
At 1st January 1999	1,918	17,335	19,253	1,918	15,658	17,576
Premium on shares issued in lieu of cash dividends	1,451	-	1,451	1,451	-	1,451
Retained profit for the year	-	2,198	2,198	-	2,019	2,019
At 31st December 1999	3,369	19,533	22,902	3,369	17,677	21,046
At 1st January 2000	3,369	19,533	22,902	3,369	17,677	21,046
Premium on shares issued in lieu of cash dividends (see note 20)	1,107	-	1,107	1,107	-	1,107
Retained profit for the year	-	2,302	2,302	-	2,023	2,023
At 31st December 2000	4,476	21,835	26,311	4,476	19,700	24,176

Group revenue reserves as at 31st December 2000 include an amount equal to Scheme of Control tax adjustments of $2,201 million (1999 : $1,975 million), calculated in accordance with the renewed Scheme of Control Agreement effective 1st January 1994. These represent the accumulated difference between the depreciation allowances and depreciation charges, applying the tax rate applicable to each respective year. Such reserve shall be retained within the Company's wholly owned subsidiary, The Hongkong Electric Company, Limited until it may be required to pay the tax and is therefore not distributable.

All of the Company's revenue reserves are available for distribution to shareholders.

22. Notes to the Group Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2000 ($ million)	1999 ($ million)
Operating profit	**6,348**	5,545
Interest income	**(566)**	(41)
Dividend income from unlisted securities	**(112)**	-
Finance costs	**947**	655
Depreciation	**1,443**	1,343
Net loss/(profit) on disposal of fixed assets	**29**	(290)
Exchange (gain)/loss	**(1)**	1
Provision for impairment loss of other investments	**84**	84
Decrease/(increase) in inventories	**50**	(13)
Decrease/(increase) in trade & other receivables	**33**	(146)
Increase/(decrease) in trade & other payables, excluding current portion of deferred creditors	**26**	(24)
Increase in Fuel Clause Account	**(719)**	(76)
Net cash inflow from operating activities	**7,562**	7,038

(b) Analysis of changes in financing during the year

$ million	**2000**	**Net Cash Inflow/ (Outflow)**	**Cash (Outflow)**	**Cash Inflow**	1999
Share capital (including premium)	6,610	1,156	-	1,156	5,454
Bank loans and other borrowings	16,358	6,223	(6,954)	13,177	10,135
Deferred creditors	1,570	(509)	(509)	-	2,079
Customers' deposits	1,242	73	(171)	244	1,169
	25,780	6,943	(7,634)	14,577	18,837

$ million	1999	**Net Cash Inflow/ (Outflow)**	**Cash (Outflow)**	**Cash Inflow**	1998
Share capital (including premium)	5,454	1,516	-	1,516	3,938
Bank loans and other borrowings	10,135	330	(1,620)	1,950	9,805
Deferred creditors	2,079	(263)	(311)	48	2,342
Customers' deposits	1,169	38	(177)	215	1,131
	18,837	1,621	(2,108)	3,729	17,216

23. Related Party Transactions

The Group had the following significant related party transactions during the year:

	Group	
	2000 ($ million)	1999 ($ million)
Purchases of coal (see note (a) below)	**46**	141
Consulting fee received/receivable during the year for providing engineering consultancy services (see note (b) below)	**(4)**	(11)
Purchase of electric appliances for private and public estates (see note (c) below)	**8**	7
Purchase of limestone powder (see note (c) below)	**6**	7
Interest income (see note (d) below)	**(501)**	-
Purchase of assets (see note (e) below)	**21**	-

(a) The Hongkong Electric Company, Limited ("HEC"), a wholly-owned subsidiary of the Company, had on 4th February 1986 entered into an agreement in the usual and ordinary course of its business with Total Energy Resources (Hong Kong) Limited ("Total Energy"), a company which is 50% owned by Hutchison Whampoa Limited, pursuant to which HEC agreed to purchase coal on normal commercial terms from Total Energy at a consideration to be reviewed annually. Hutchison Whampoa Limited is the holding company of Cheung Kong Infrastructure Holdings Limited, a substantial shareholder of the Company. Approximately 6.0% (1999 : 17.1%) of HEC's coal purchases during the year were supplied by Total Energy at a total value of approximately $46 million (1999 : $140 million). The coal price was determined in 2000 by reference to the then prevailing market price for coal. The agreement was disclosed to shareholders in a circular dated 16th May 1987.

The amount due to Total Energy at 31st December 2000 is nil (1999 : $16.7 million).

(b) Associated Technical Services Limited ("ATS"), a wholly-owned subsidiary of the Company, had on 30th October 1997 entered into a consultancy agreement (the "Agreement") in the usual and ordinary course of its business with Guangdong Zhuhai Power Station Company Limited ("GZPSC") and Guangdong Chuangcheng Power Engineering Administration Company Limited ("GCCA") whereby GZPSC engaged ATS and GCCA to jointly provide consultancy services to GZPSC and to assist GZPSC to monitor the performance of the turnkey construction contract of Zhuhai Power Plant (the "Plant") consisting of two 700MW steam turbo-generating units. The terms of the Agreement were on normal commercial terms and were arrived at after arm's length negotiations between the parties thereto.

GZPSC is 45% owned by Cheung Kong Infrastructure Holdings Limited which is a substantial shareholder of the Company. GCCA is an independent third party.

The normal services to be provided by ATS and GCCA under the Agreement include, inter alia, the provision of competent engineers and experts to act as GZPSC's engineering representatives to manage the overall project and monitor the various stages of the construction of the Plant.

ATS and GCCA shall also provide additional services such as despatching engineers to the manufacturers' factories for coordination and expediting of shipments to meet delivery schedules and to assist GZPSC in the clearance of defects on the contractual defect list by the turnkey contractor.

The consultancy services to be provided by ATS and GCCA under the Agreement commenced on 1st November 1996 and shall be extended to February 2001.

ATS shall receive the sum of $35,424,000 for normal services rendered under the Agreement. Such sum is calculated by reference to the estimated number and category of staff who will be required to provide services throughout the term of the Agreement and the fees per month chargeable in respect of each staff.

ATS shall receive further fees for additional services rendered under the Agreement, which fees shall be calculated by reference to the fees chargeable per staff per day as set out in the Agreement and the number of days for which such additional services are rendered. All payments by GZPSC to ATS shall be made within 30 days upon receipt of invoice from ATS.

The amount due from GZPSC at 31st December 2000 is $2 million (1999 : $5.5 million).

(c) HEC has entered into two agreements with A.S. Watson Group (HK) Limited ("Watson"), a subsidiary of Hutchison Whampoa Limited. Pursuant to the agreement dated 7th January 1999, Watson agreed to supply and install different types of electric water heaters for private estates from 1st March 1999 to 28th February 2001. The unit prices of these heaters are fixed during the contract period and the price is payable by HEC within 30 days against certified invoices for water heaters installed. Pursuant to the agreement dated 17th January 2000, Watson agreed to supply and install different types of electric appliances to residents in certain public estates in the year 2000. The unit prices of these electric appliances are set out in the agreement. The difference between the price the residents pay and the unit price set out in the agreement is payable by HEC within 30 days after completion of installation and receipt of invoice. The amount incurred by HEC during the year under the two agreements is $8 million (1999 : $7 million). The amount due to Watson at 31st December 2000 is $0.7 million (1999 : $1 million).

HEC has entered into an agreement dated 16th April 1999 and a variation order dated 22nd May 2000 with Green Island Cement (Holdings) Limited ("GIC"), a subsidiary of Cheung Kong Infrastructure Holdings Limited, pursuant to which GIC agreed to supply limestone powder to HEC from 1st May 1999 to 30th April 2001. HEC will order limestone powder from GIC from time to time and the price is calculated according to the unit rates set out in the agreement and the variation order and is payable within 30 days upon receipt of an invoice from GIC. The amount incurred by HEC during the year under the agreement is $6 million (1999 : $7 million). The amount due to GIC at 31st December 2000 is $0.3 million (1999 : $1 million).

(d) During the year, the Group and Cheung Kong Infrastructure Holdings Limited each acquired a 50% interest in ETSA Utilities Partnership, CKI/HEI Electricity Distribution Pty Limited, Powercor Australia, LLC and Powercor Australia Limited. ETSA Utilities Partnership operates and manages the electricity distribution business in the State of South Australia. CKI/HEI Electricity Distribution Pty Limited, Powercor Australia, LLC and Powercor Australia Limited operate and manage an electricity distribution and retail business in the State of Victoria, Australia.

Two wholly-owned overseas subsidiaries, incorporated in Australia, obtained funds from external financial institutions, which were on lent to these associates. At 31st December 2000, the total outstanding interest bearing loan balances due from these associates to the subsidiaries were $6,165 million (1999 : Nil) (see note 13). The loans are unsecured, carry the same interest rates at which the subsidiaries obtained the funds from various financial institutions plus a margin in respect of the loan agreements and are repayable on demand (subject to the subordination arrangements agreed with these associates' senior creditors).

(e) HEC has entered into two agreements with HUD General Engineering Services Limited ("HUD"). HUD is 50% owned by Hutchison Whampoa Limited which in turn is the holding company of the substantial shareholder of the Company, Cheung Kong Infrastructure Holdings Limited.

Pursuant to the agreement dated 28th March 2000, HUD agreed to erect a coal unloading and conveying system at the Group's Lamma Power Station jetty extension at a consideration of $25.5 million for the transport of the coal used by the Group in the production of electricity from the jetty to the power plant.

Pursuant to the agreement dated 14th December 2000, HUD agreed to supply with complete erection, inspection, testing and commissioning a circulating water system for the combined cycle plant at the Group's Lamma Power Station at a consideration of approximately $11 million.

The amount incurred by HEC during the year under these two agreements is $21 million (1999 : Nil). The amount due to HUD at 31st December 2000 is $5 million (1999 : Nil).

24. Capital Commitments

	Group	
	2000	1999
	($ million)	($ million)
Capital expenditure authorised and contracted for but not provided in these accounts	**2,660**	2,487
	=====	=====
Capital expenditure authorised but not contracted for	**13,872**	12,070
	=====	=====

The above contracted commitments will be financed by bank loans, short-term borrowings and internally generated funds. The Group has also entered into agreements to cover its foreign exchange exposure through forward purchases and swaps of foreign currencies.

Capital expenditure authorised but not yet contracted for will be financed by suppliers' credit contracts, bank loans, short-term borrowings and internally generated funds.

The Company has entered into an agreement with Cavendish International Holdings Limited, Hutchison Whampoa Limited and Cheung Kong (Holdings) Limited whereby the Company undertakes to provide 20% of the capital requirements of its associate, Secan Limited to the extent that such requirements are not funded by means of other borrowings from third parties.

25. Contingent Liabilities

	Group		Company	
	2000	1999	**2000**	1999
	($ million)	($ million)	**($ million)**	($ million)
Guarantees have been executed in respect of banking facilities available as follows:				
To the subsidiaries	**-**	-	**6,458**	-
To the associate	**8**	8	**8**	8
Other guarantees given in respect of subsidiary	**-**	-	**3,205**	1,394
	8	8	**9,671**	1,402

26. Comparative Figures

Interest income has been classified as other revenue in 2000. Comparative figures of turnover and other revenue for the year ended 31st December 1999 have also been reclassified to conform to the current year's presentation.