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 all 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.

(d) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. 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 any impairment losses (see note 1(j)).

(e) 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 reflects the Group's share of the post-acquisition results calculated from their accounts made up to 31st December each year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(f). 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.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the Profit and Loss Account.

(f) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:

- for acquisitions before 1st January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(j)); and

- for acquisitions on or after 1st January 2001, positive goodwill is amortised to the Consolidated Profit and Loss Account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the Consolidated Balance Sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

In respect of acquisitions of associates, positive goodwill is amortised to the Consolidated Profit and Loss Account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(j)) is included in the carrying amount of the interest in associates.

On disposal of a subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the Consolidated Profit and Loss Account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(g) Investment 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 investment 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.

(h) 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 (see note 1(h)(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.

(i) Fixed Assets and Depreciation

(i) Fixed assets are stated in the Balance Sheet at cost less accumulated depreciation (see note 1(i)(iv)) and impairment losses (see note 1(j)).

(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

(j) Impairment of 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 an impairment loss previously recognised no longer exists or may have decreased:
- property, plant and equipment
- investments in subsidiaries and associates
- positive goodwill (whether taken initially to reserves or recognised as an asset)

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its net selling price 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).

(ii) **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses 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 the Profit and Loss Account in the year in which the reversals are recognised.

(k) Retirement 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.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the Profit and Loss Account when incurred.

(l) 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.

(m) Foreign Currencies

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

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at 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 and associates 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.

(n) Deferred Taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) 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.

(p) 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 vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Group 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 expenditures 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.

(r) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

2. Turnover

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

Group turnover is analysed as follows:

	2001 ($ million)	2000 ($ million)
Sales of electricity	**10,911**	10,543
Special subsidy on sales of electricity	**(155)**	-
Concessionary discount on sales of electricity	**(2)**	-
Electricity-related income	**37**	21
Technical service fees	**76**	79
	10,867	10,643

3. Other Revenue and Net Income

	2001 ($ million)	2000 ($ million)
Other Revenue		
Interest income	**555**	566
Dividend income from listed securities	**9**	112
Sundry income	**22**	32
	586	710
Other Net Income		
Net realised gain on disposal of listed securities	**77**	-
	663	710

4. Segment Information

(a) Business Segment

The Group's principal business segments are sales of electricity under Scheme of Control (SOC) Agreement and infrastructure investments. Financial information about the Group's business segments is set out in Appendix 1 on Page 55.

(b) Geographical Segment

The Group operates, through its subsidiaries and associates, in two major geographical regions – Hong Kong and Australia. Financial information about the Group's operations by geographical region is set out in Appendix 1 on Page 56.

5. Operating Profit

	2001 ($ million)	2000 ($ million)
Operating profit is shown after charging:		
Finance costs		
Interest on overdrafts, bank loans and other borrowings repayable within 5 years	**859**	912
Interest on other borrowings	**130**	349
Less : interest capitalised to fixed assets	**(287)**	(314)
interest transferred to fuel cost	**(7)**	(8)
	695	939
Depreciation	**1,567**	1,443
Costs of inventories	**946**	848
Staff costs	**570**	587
Losses on disposal of fixed assets	**23**	29
Auditors' remuneration	**3**	2
	=====	=====
and after crediting:		
Net realised gain on disposal of listed securities	**77**	-
	=====	=====

Interest expenses have been capitalised at rates between 2.11% and 7.91% p.a. (2000 : between 4.16% and 8.0% p.a.) for assets under construction.

The profit attributable to shareholders includes a profit of $5,420 million (2000 : $5,179 million) which has been dealt with in the accounts of the Company.

6. Retirement Schemes and Costs

The Company and its principal subsidiaries operate two 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 2001 were $151 million (2000 : $151 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 both 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.

Ever since the introduction of the Mandatory Provident Fund Scheme in December 2000, all new recruits are enrolled in that Scheme instead of the existing retirement scheme.

7. Directors' Emoluments & Senior Management Compensation

(a) Directors' Emoluments

	2001 ($ million)	2000 ($ million)
Directors' fees	**0.75**	0.79
Salaries & other benefits	**25.06**	23.32
Retirement scheme contributions	**0.55**	1.20
Bonuses	**1.10**	1.25
	27.46	26.56

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

	2001 Number	2000 Number
HK$ 0 to HK$ 1,000,000	**11**	13
HK$ 5,500,001 to HK$ 6,000,000	**-**	1
HK$ 6,000,001 to HK$ 6,500,000	**1**	-
HK$ 6,500,001 to HK$ 7,000,000	**1**	1
HK$11,500,001 to HK$12,000,000	**1**	-
HK$12,000,001 to HK$12,500,000	**-**	1

(b) Senior Management Compensation

The five (2000 : five) highest paid individuals in the Group included three directors (2000 : three) whose total emoluments are shown above. The emoluments of the other two individuals (2000 : two) who comprise the five are set out below:

	2001 ($ million)	2000 ($ million)
Salaries & other benefits	**9.48**	9.52
Retirement scheme contributions	**1.31**	1.10
Bonuses	**-**	0.20
	10.79	10.82

The total emoluments of the two individuals (2000 : two) are within the following bands:

	2001 Number	2000 Number
HK$ 4,500,001 to HK$ 5,000,000	**1**	1
HK$ 5,500,001 to HK$ 6,000,000	**1**	1

8. Taxation

(a) Taxation in the Consolidated Profit and Loss Account

	2001 ($ million)	2000 ($ million)
The Company and its subsidiaries – Hong Kong	**727**	637
Associates - overseas	**49**	-
	776	637

Hong Kong profits tax has been provided for at the rate of 16% (2000 : 16%) based on the assessable profit for the year. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit.

(b) Deferred tax

Unprovided deferred tax at the current tax rate of 16% (2000 : 16%) is approximately $4,325 million (2000 : $3,886 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 ("HEC"), a wholly-owned subsidiary of the Company, are governed by a Scheme of Control ("SOC") agreed with the Hong Kong SAR Government which provides for HEC to earn a Permitted Return (see note 1(h)(i)). Any difference between this Permitted Return and the SOC net revenue as calculated in accordance with the SOC must be transferred to/(from) a Development Fund from/(to) the Profit and Loss Account of HEC. In addition, 8% of the average balance of the Development Fund is transferred from the Profit and Loss Account of HEC to a Rate Reduction Reserve, which is subsequently rebated to consumers. Movements on the Development Fund and Rate Reduction Reserve are as follows:

	2001 ($ million)	2000 ($ million)
(a) Development Fund		
At 1st January	**249**	89
Transfer (to) /from Profit and Loss Account	**(111)**	160
At 31st December	**138**	249
(b) Rate Reduction Reserve		
At 1st January	**14**	21
Transfer from Profit and Loss Account	**15**	14
Rebate to consumers	**(20)**	(21)
At 31st December	**9**	14

10. Dividends

(a) Dividends attributable to the year

	2001 ($ million)	2000 ($ million)
Interim dividend declared and paid of 56 cents per share (2000 : 54 cents per share)	**1,195**	1,153
Proposed final dividend after the balance sheet date of $1.07 per share (2000 : 97.5 cents per share)	**2,284**	2,080
	3,479	3,233

The proposed dividend is based on 2,134,261,654 shares (2000 : 2,134,261,654 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.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2001 ($ million)	2000 ($ million)
Final dividend in respect of the previous financial year, approved and paid during the year, of 97.5 cents per share (2000 : 95 cents per share)	**2,080**	1,980

11. Earnings Per Share

The calculation of earnings per share is based on profit attributable to shareholders of $6,507 million (2000 : $5,535 million) and 2,134,261,654 shares in issue throughout the year (2000 : the weighted average number of 2,112,390,455 shares).

There were no dilutive potential ordinary shares in existence during the years ended 31st December 2001 and 2000.

12. Fixed Assets

$ million	Leasehold Land	Buildings	Plant, Machinery and Equipment	Assets Under Construction	Total
Cost					
At 1st January 2001	2,370	8,493	38,713	5,169	54,745
Additions	-	2	277	3,855	4,134
Transfers between categories	630	1,635	2,164	(4,429)	-
Disposals	(6)	(3)	(209)	-	(218)
At 31st December 2001	2,994	10,127	40,945	4,595	58,661
Depreciation					
At 1st January 2001	155	1,972	11,026	-	13,153
Written back on disposal	-	(2)	(141)	-	(143)
Charge for the year	51	247	1,398	-	1,696
At 31st December 2001	206	2,217	12,283	-	14,706
Net Book Value					
At 31st December 2001	2,788	7,910	28,662	4,595	43,955
At 31st December 2000	2,215	6,521	27,687	5,169	41,592

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to $287 million (2000 : $314 million).

Group leasehold land at 31st December 2001 is held in Hong Kong and comprises $95 million (2000 : $104 million) and $2,693 million (2000 : $2,111 million) of long-term and medium-term leasehold land respectively.

Group assets under construction at 31st December 2001 included leasehold land of $564 million (2000 : $872 million) which is held in Hong Kong for the medium-term.

Depreciation charges for the year included $129 million (2000 : $109 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.

13. Interest in Subsidiaries

	Company	
	2001	2000
	($ million)	($ million)
Unlisted shares, at cost	**2,413**	2,413
Loan capital (see note below)	**15,924**	14,385
Amounts due from subsidiaries	**7,611**	6,782
	25,948	23,580

Loan capital is paid 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.

Particulars of the principal subsidiaries are set out in Appendix 2 on page 57.

14. Interest in Associates

	Group	
	2001	2000
	($ million)	($ million)
Share of net assets	**466**	16
Loans to associates (see note below)	**4,195**	6,165
Amounts due from associates	**175**	145
	4,836	6,326

Included in the loans to associates, $4,169 million (2000 : $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.

Particulars of the principal associates are set out in Appendix 3 on page 58.

15. Investment Securities

	Group	
	2001	2000
	($ million)	($ million)
Listed equity securities	**393**	779
Dividend receivable	**-**	112
	____	____
	393	891
	====	====
Market Value of the listed securities	**450**	-
	====	====

The listed securities, being shares in CNOOC Limited, were listed on The Stock Exchange of Hong Kong Limited on 28th February 2001.

16. Inventories

	Group	
	2001	2000
	($ million)	($ million)
Work in progress	**1**	3
Coal and fuel oil	**138**	100
Stores & materials (see note below)	**301**	299
	____	____
	440	402
	====	====

Included in stores and materials is capital stock of $208 million (2000 : $199 million) which was purchased for the future maintenance of capital assets. Stores and materials of $48 million (2000 : $36 million) are stated net of specific provisions to reflect their estimated net realisable value.

17. Trade & Other Receivables

	Group		Company	
	2001	2000	**2001**	2000
	($ million)	($ million)	**($ million)**	($ million)
Demand Side Management ("DSM") account (see note (a) below)	**15**	6	**-**	-
Debtors (see note (b) below)	**671**	658	**4**	10
	686	664	**4**	10

(a) According to the DSM Agreement with the Government in 2000, DSM programmes have been carried out to promote energy and maximum demand savings among non-domestic customers. The DSM account contains costs spent on DSM programmes and will be recovered from non-domestic customers. Movements on the DSM account were as follows:

	Group	
	2001	2000
	($ million)	($ million)
At 1st January	**6**	-
Programme costs incurred	**9**	6
At 31st December	**15**	6

(b) Debtors' ageing is analysed as follows:

	Group		Company	
	2001	2000	**2001**	2000
	($ million)	($ million)	**($ million)**	($ million)
Within 1 month	**447**	419	**-**	-
1 to 3 months overdue	**23**	16	**-**	-
More than 3 months overdue but less than 12 months overdue	**8**	9	**-**	-
Total debtors (see note below)	**478**	444	**-**	-
Deposits, prepayments and other receivables	**193**	214	**4**	10
	671	658	**4**	10

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 Hongkong Electric Company, Limited is entitled to add a surcharge of 5% to the respective bills.

18. Fuel Clause Account

A rebate to customers of 9.3 cents (2000 : 15.2 cents) per unit of electricity sales was implemented effective 1st January 2001. Movements on the Fuel Clause Account were as follows:

	Group	
	2001 ($ million)	2000 ($ million)
At 1st January	**981**	262
Transfer from Profit and Loss Account	**(740)**	(801)
Rebate during the year	**975**	1,520
At 31st December	**1,216**	981

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

19. Trade & Other Payables

	Group		Company	
	2001 ($ million)	2000 ($ million)	**2001 ($ million)**	2000 ($ million)
Creditors (see note below)	**1,769**	1,428	**51**	42
Current portion of deferred creditors (see note 21)	**211**	208	**-**	-
	1,980	1,636	**51**	42

Creditors' ageing is analysed as follows:

	Group 2001	Group 2000	Company 2001	Company 2000
Due within 1 month	**657**	598	**15**	2
Due between 1 month and 3 months	**591**	342	**1**	1
Due between 3 months and 12 months	**460**	414	**-**	-
	1,708	1,354	**16**	3
Other payables	**61**	74	**35**	39
	1,769	1,428	**51**	42

20. Non-current Interest-bearing Borrowings

	Group 2001 ($ million)	Group 2000 ($ million)
Bank loans	**9,736**	13,658
Current portion	**(231)**	(3,976)
	9,505	9,682
Hong Kong dollar notes (see note below)	**3,200**	2,700
Current portion	**(500)**	-
	2,700	2,700
Total	**12,205**	12,382

Hong Kong dollar notes bear interest at rates ranging from 5.3% p.a. to 7.73% p.a (2000 : 7% p.a. to 7.73% p.a.). Details of issuers of Hong Kong dollar notes are set out in Appendix 2 on page 57.

These borrowings have final maturities extending up to 2007 and are repayable as follows:

$ million	Bank Loans 2001	Bank Loans 2000	Hong Kong Dollar Notes 2001	Hong Kong Dollar Notes 2000	Total 2001	Total 2000
Within 1 year	**231**	3,976	**500**	-	**731**	3,976
Between 1 and 2 years	**220**	495	**1,000**	500	**1,220**	995
Between 2 and 5 years	**9,243**	8,650	**1,200**	1,700	**10,443**	10,350
Over 5 years	**42**	537	**500**	500	**542**	1,037
	9,736	13,658	**3,200**	2,700	**12,936**	16,358

Interest rates on the borrowings are either fixed/capped or floating and determined with reference to the Hong Kong Interbank Offer Rate:

	2001 Amount ($ million)	2001 Interest Rate % p.a.	2000 Amount ($ million)	2000 Interest Rate % p.a.
Fixed/capped rate loans and loans swapped to fixed rate	**9,866**	**3.7 – 7.9**	9,348	5.7 – 8.0
Floating rate loans and loans swapped to floating rate	**3,070**		7,010	
	12,936		16,358	

21. Deferred Creditors

	Group 2001 ($ million)	Group 2000 ($ million)
Deferred creditors	**1,395**	1,570
Current portion of deferred creditors (see note 19)	**(211)**	(208)
	1,184	1,362

	Group 2001 ($ million)	Group 2000 ($ million)
Deferred creditors are repayable as follows (see note below):		
Within 1 year	**211**	208
Between 1 and 2 years	**212**	209
Between 2 and 5 years	**635**	625
Between 5 and 10 years	**337**	528
	1,395	1,570

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 7.95% p.a. (2000 : between 7.75% p.a. and 8.00% p.a.) with final maturities up to 2011.

22. Share Capital

	Number of Shares	Company 2001 ($ million)	Company 2000 ($ million)
Authorised			
Ordinary shares of $1 each	3,300,000,000	**3,300**	3,300
Issued and fully paid			
At 1st January	2,134,261,654	**2,134**	2,085
New issues (see note below)	-	**-**	49
At 31st December	2,134,261,654	**2,134**	2,134

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.

23. **Reserves**

$ million	Share Premium	Exchange Reserves	Revenue Reserves	Proposed Dividends	Total
	Group				
At 1st January 2000					
- as previously reported	3,369	-	19,533	-	22,902
- prior year adjustment in respect of proposed final dividend (see notes 10(b) & 29)	-	-	-	1,980	1,980
- as restated	3,369	-	19,533	1,980	24,882
Final dividend in respect of the previous year approved and paid	-	-	-	(1,980)	(1,980)
Premium on shares issued in lieu of cash dividends	1,107	-	-	-	1,107
Profit for the year	-	-	5,535	-	5,535
Interim dividend paid	-	-	(1,153)	-	(1,153)
Proposed final dividend (see notes 10(a) & 29)	-	-	(2,080)	2,080	-
At 31st December 2000	4,476	-	21,835	2,080	28,391
At 1st January 2001					
- as previously reported	4,476	-	21,835	-	26,311
- prior year adjustment in respect of proposed final dividend (see notes 10(b) & 29)	-	-	-	2,080	2,080
- as restated	4,476	-	21,835	2,080	28,391
Final dividend in respect of the previous year approved and paid	-	-	-	(2,080)	(2,080)
Exchange translation differences	-	1	-	-	1
Profit for the year	-	-	6,507	-	6,507
Interim dividend paid	-	-	(1,195)	-	(1,195)
Proposed final dividend (see notes 10(a) & 29)	-	-	(2,284)	2,284	-
At 31st December 2001	4,476	1	24,863	2,284	31,624

Group revenue reserves as at 31st December 2001 include an amount equal to Scheme of Control tax adjustments of $2,460 million (2000 : $2,201 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.

Group revenue reserves as at 31st December 2001 include the Group's share of the retained profits of its associates amounting to $438 million (2000 : $14 million).

23. **Reserves** (continued)

$ million	Company Share Premium	 Revenue Reserves	 Proposed Dividends	 Total
At 1st January 2000				
- as previously reported	3,369	17,677	-	21,046
- prior year adjustment in respect of				
- proposed final dividend (see notes 10(b) & 29)	-	-	1,980	1,980
- dividend income (see note 29)	-	(3,983)	-	(3,983)
- as restated	3,369	13,694	1,980	19,043
Final dividend in respect of the previous year approved and paid	-	-	(1,980)	(1,980)
Dividend income received in respect of previous year	-	3,983	-	3,983
Premium on shares issued in lieu of cash dividends	1,107	-	-	1,107
Profit for the year	-	5,256	-	5,256
Prior year adjustment in respect of dividend income (see note 29)	-	(4,060)	-	(4,060)
Interim dividend paid	-	(1,153)	-	(1,153)
Proposed final dividend (see notes 10(a) & 29)	-	(2,080)	2,080	-
At 31st December 2000	4,476	15,640	2,080	22,196
	=====	=====	=====	=====
At 1st January 2001				
- as previously reported	4,476	19,700	-	24,176
- prior year adjustment in respect of				
- proposed final dividend (see notes 10(b) & 29)	-	-	2,080	2,080
- dividend income (see note 29)	-	(4,060)	-	(4,060)
- as restated	4,476	15,640	2,080	22,196
Final dividend in respect of the previous year approved and paid	-	-	(2,080)	(2,080)
Profit for the year	-	5,420	-	5,420
Interim dividend paid	-	(1,195)	-	(1,195)
Proposed final dividend (see notes 10(a) & 29)	-	(2,284)	2,284	-
At 31st December 2001	4,476	17,581	2,284	24,341
	=====	=====	=====	=====

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

24. Notes to the Consolidated Cash Flow Statement

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

	2001 ($ million)	2000 ($ million)
Operating profit	**6,715**	6,348
Interest income	**(555)**	(566)
Dividend income from listed securities	**(9)**	(112)
Finance costs	**702**	947
Depreciation	**1,567**	1,443
Net loss on disposal of fixed assets	**23**	29
Net realised gain on disposal of listed securities	**(77)**	-
Exchange gain	**(4)**	(1)
Provision for impairment loss of other investments	**-**	84
(Increase)/decrease in inventories	**(28)**	50
Decrease in trade & other receivables	**8**	33
Increase in trade & other payables, excluding current portion of deferred creditors	**90**	26
Increase in Fuel Clause Account	**(235)**	(719)
Net cash inflow from operating activities	**8,197**	7,562

(b) Analysis of changes in financing during the year

$ million	Share Capital (Including Premium)	Bank Loans and Other Borrowings	Deferred Creditors	Customers' Deposits	Total
At 1st January 2000	5,454	10,135	2,079	1,169	18,837
Cash flows from financing	1,156	6,223	(509)	73	6,943
At 31st December 2000	6,610	16,358	1,570	1,242	25,780
At 1st January 2001	6,610	16,358	1,570	1,242	25,780
Cash flows from financing	-	(3,225)	(175)	60	(3,340)
Effect on foreign exchange rates	-	(197)	-	-	(197)
At 31st December 2001	6,610	12,936	1,395	1,302	22,243

25. Related Party Transactions

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

	Group	
	2001	2000
	($ million)	($ million)
Purchases of coal (see note (a) below)	**43**	46
Purchase of electric appliances for private and public estates (see note (b) below)	**5**	8
Purchase of limestone powder (see note (b) below)	**6**	6
Purchase of assets (see note (c) below)	**43**	21
Consulting fee received/receivable during the year for providing engineering consultancy services (see note (d) below)	**(2)**	(4)
Interest income (see note (e) below)	**(534)**	(501)

(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 4.6% (2000 : 6.0%) of HEC's coal purchases during the year were supplied by Total Energy at a total value of approximately $43 million (2000 : $46 million). The coal price was determined in 2001 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 2001 is $ nil (2000 : $ nil).

(b) HEC has entered into two agreements and various variation orders with A.S. Watson Group (HK) Limited ("Watson"), a subsidiary of Hutchison Whampoa Limited. Pursuant to the agreement dated 7th January 1999 and a variation order dated 9th February 2001, Watson agreed to supply and install different types of electric water heaters for private estates from 1st March 1999 to 31st December 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 18th January 2001 and two variation orders dated 29th June 2001 and 13th September 2001 respectively, Watson agreed to supply and install different types of electric appliances to residents in certain public estates in the year 2001. The unit prices of these electric appliances are set out in the agreement and the said variation orders. The difference between the price the residents pay and the unit price set out in the agreement and the said variation orders is payable by HEC within 30 days after completion of installation and receipt of invoice. The aggregate amount incurred by HEC under the above agreements during the year is $5 million (2000 : $8 million). The amount due to Watson at 31st December 2001 is $0.7 million (2000 : $0.7 million).

HEC has entered into an agreement dated 16th April 1999 and two variation orders dated 22nd May 2000 and 24th March 2001 respectively 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 2002. 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 variation order dated 22nd May 2000 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 (2000 : $6 million). The amount due to GIC at 31st December 2001 is $0.3 million (2000 : $0.3 million).

(c) HEC has entered into three agreements with HUD General Engineering Services Limited ("HUD"). HUD is 50% owned by Hutchison Whampoa 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.

Pursuant to the agreement dated 2nd April 2001, HUD agreed to carry out works for the general electrical and mechanical erection of a steam cycle bottoming system at the Lamma Power Station at a consideration of approximately $42.8 million.

The amount incurred by HEC during the year under the above agreements is $43 million (2000 : $21 million). The amount due to HUD at 31st December 2001 is $30 million (2000 : $5 million).

(d) 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 were completed in 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 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.

Consulting fee received/receivable during the year amounted to $2 million (2000 : $4 million).

The amount due from GZPSC at 31st December 2001 is $ nil (2000 : $2 million).

(e) 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 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 2001, the total outstanding interest bearing loan balances due from these associates to the subsidiaries were $4,169 million (2000 : $6,165 million) (see note 14). 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). Interest income received/receivable from the subsidiaries amounted to $534 million (2000 : $501 million) for the year.

26. Commitments

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

	Group		Company	
	2001 ($ million)	2000 ($ million)	**2001 ($ million)**	2000 ($ million)
Contracted for:				
Capital expenditure	**2,729**	2,660	**-**	-
Investment in associate	**847**	-	**-**	-
	3,576	2,660	**-**	-
Authorised but not contracted for:				
Capital expenditure	**11,765**	13,872	**3**	-

27. Contingent Liabilities

	Group		Company	
	2001 ($ million)	2000 ($ million)	**2001 ($ million)**	2000 ($ million)
Guarantees have been executed in respect of banking facilities available as follows:				
To the subsidiaries	**-**	-	**4,169**	6,458
To the associate	**8**	8	**8**	8
Other guarantees given in respect of				
- subsidiaries	**-**	-	**4,418**	3,205
- associate	**32**	-	**32**	-
	40	8	**8,627**	9,671

28. Off-balance Sheet Financial Instruments

The Group employs derivatives to manage its foreign currency and interest rate risks. The types and contracted notional amounts of derivative transactions outstanding as at 31st December 2001 were as follows:

	2001 ($ million)	2000 ($ million)
Cross currency and interest rate swaps	**122**	87
Interest rate swaps and caps	**11,576**	8,100
Forward rate agreements	**800**	-
Foreign exchange forwards	**1,536**	1,698
	14,034	9,885

29. Changes in Accounting Policies

Dividends

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1st January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in case of interim dividend) or approved by the shareholders (in case of final dividends). Consequently, dividend income from subsidiaries is recognised as income in the Company's Profit and Loss Account in the accounting period in which dividends are declared.

As a result of the new accounting policy, the Group's net assets as at the year end have been increased by $2,284 million (2000: $2,080 million). There is no impact on the Group's profit attributable to shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

30. Comparative Figures

Certain comparative figures have been adjusted as a result of change in accounting policy for dividends, details of which are set out in note 29.

Segment Information

(a) Business Segments
For the year ended 31st December

($ million)	Sales of electricity under SOC 2001	Sales of electricity under SOC 2000	Infrastructure Investments 2001	Infrastructure Investments 2000	Unallocated & Other Items 2001	Unallocated & Other Items 2000	Consolidated 2001	Consolidated 2000
REVENUE								
Group turnover	**10,948**	10,564	**-**	-	**(81)**	79	**10,867**	10,643
Other revenue	**22**	32	**-**	-	**86**	112	**108**	144
Segment revenue	**10,970**	10,596	**-**	-	**5**	191	**10,975**	10,787
RESULT								
Segment result	**6,893**	6,679	**-**	-	**(38)**	126	**6,855**	6,805
Interest income	**-**	1	**534**	501	**21**	64	**555**	566
Provision for impairment loss in Other Investments	**-**	-	**-**	-	**-**	(84)	**-**	(84)
Finance costs	**(359)**	(590)	**(336)**	(349)	**-**	-	**(695)**	(939)
Operating profit	**6,534**	6,090	**198**	152	**(17)**	106	**6,715**	6,348
Share of results of associates	**-**	-	**469**	(2)	**3**	-	**472**	(2)
Profit before taxation	**6,534**	6,090	**667**	150	**(14)**	106	**7,187**	6,346
Taxation	**(1,010)**	(862)	**(49)**	-	**283**	225	**(776)**	(637)
Profit after taxation	**5,524**	5,228	**618**	150	**269**	331	**6,411**	5,709
Scheme of Control transfers	**96**	(174)	**-**	-	**-**	-	**96**	(174)
Profit attributable to shareholders	**5,620**	5,054	**618**	150	**269**	331	**6,507**	5,535
At 31st December								
ASSETS								
Segment assets	**46,364**	43,701	**14**	11	**312**	818	**46,690**	44,530
Interest in associates	**-**	-	**4,823**	6,310	**13**	16	**4,836**	6,326
Bank balances and other liquid funds	**-**	-	**-**	-	**580**	794	**580**	794
Consolidated total assets	**46,364**	43,701	**4,837**	6,321	**905**	1,628	**52,106**	51,650
LIABILITIES								
Segment liabilities	**2,948**	2,544	**52**	58	**71**	68	**3,071**	2,670
Taxation	**792**	209	**-**	-	**-**	-	**792**	209
Interest-bearing borrowings	**10,169**	11,818	**4,169**	6,165	**-**	-	**14,338**	17,983
Rate Reduction Reserve	**9**	14	**-**	-	**-**	-	**9**	14
Development Fund	**138**	249	**-**	-	**-**	-	**138**	249
Consolidated total liabilities	**14,056**	14,834	**4,221**	6,223	**71**	68	**18,348**	21,125
OTHER INFORMATION								
Capital expenditure	**4,133**	3,549	**-**	-	**1**	-	**4,134**	3,549
Depreciation	**1,696**	1,552	**-**	-	**-**	-	**1,696**	1,552

Segment Information

(b) Geographical Segments
For the year ended 31st December

($ million)	**Hong Kong**		**Australia**		**Unallocated & Other Items**		**Consolidated**	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
REVENUE								
Group turnover	**10,835**	10,606	**1**	-	**31**	37	**10,867**	10,643
Other revenue	**108**	144	**-**	-	**-**	-	**108**	144
Segment revenue	**10,943**	10,750	**1**	-	**31**	37	**10,975**	10,787
RESULT								
Segment result	**6,855**	6,824	**-**	-	**-**	(19)	**6,855**	6,805
Interest income	**21**	65	**534**	501	**-**	-	**555**	566
Provision for impairment loss in Other Investments	**-**	-	**-**	-	**-**	(84)	**-**	(84)
Finance costs	**(359)**	(590)	**(336)**	(349)	**-**	-	**(695)**	(939)
Operating profit	**6,517**	6,299	**198**	152	**-**	(103)	**6,715**	6,348
Share of results of associates	**3**	-	**469**	(2)	**-**	-	**472**	(2)
Profit before taxation	**6,520**	6,299	**667**	150	**-**	(103)	**7,187**	6,346
Taxation	**(727)**	(637)	**(49)**	-	**-**	-	**(776)**	(637)
Profit after taxation	**5,793**	5,662	**618**	150	**-**	(103)	**6,411**	5,709
Scheme of Control transfers	**96**	(174)	**-**	-	**-**	-	**96**	(174)
Profit attributable to shareholders	**5,889**	5,488	**618**	150	**-**	(103)	**6,507**	5,535
At 31st December								
ASSETS								
Segment assets	**46,672**	44,508	**15**	11	**3**	11	**46,690**	44,530
Interest in associates	**13**	16	**4,772**	6,310	**51**	-	**4,836**	6,326
Bank balances and other liquid funds	**-**	-	**-**	-	**580**	794	**580**	794
Consolidated total assets	**46,685**	44,524	**4,787**	6,321	**634**	805	**52,106**	51,650
OTHER INFORMATION								
Capital expenditure	**4,134**	3,549	**-**	-	**-**	-	**4,134**	3,549
Depreciation	**1,696**	1,552	**-**	-	**-**	-	**1,696**	1,552

Principal Subsidiaries

The following list contains only the particulars of subsidiaries as at 31st December 2001 which principally affected the results, assets or liabilities of the Group:

Name	Issued Share Capital and Debt Securities	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 and HK$500 million Hong Kong dollar notes (see note 20)	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 and HK$2,200 million Hong Kong dollar notes (see note 20)	100	Cayman Islands/ Hong Kong	Financing
Hongkong Electric Finance (Cayman) Limited	US$1 and HK$500 million Hong Kong dollar notes (see note 20)	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$632,510	100*	Malaysia	Investment holding
HEI Power (Malaysian) Limited	A$52,510	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
HEI Utilities Development Limited	A$280,010	100*	Malaysia	Investment holding
Riverland Investment Limited	US$1	100*	British Virgin Islands	Investment holding
Hongkong Electric International Power (Mauritius) Limited	US$2	100*	Mauritius	Investment holding

* *Indirectly held*

Principal Associates

The following list contains only the particulars of associates as at 31st December 2001 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
Union Power Development Company, Limited ("UPDC") (see note (c) below)	THB1,665,000,000	4.6%	Thailand	Electricity generation and supply

(a) ETSA Utilities Partnership is an unincorporated body formed by five companies, 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. HEI Utilities Development Limited is a wholly owned subsidiary of the Group. HEI Utilities Holdings Limited, CKI Utilities Holdings Limited and CKI/HEI Utilities Distribution Limited are associates of the Group.

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

(c) UPDC is incorporated in Thailand and is principally engaged in the development, financing, construction, installation, testing, operation and maintenance of a coal-fired power generating station in Thailand. Pursuant to a share purchase agreement dated 6th October 2001 (the “Agreement”), the Group have contracted to purchase 26% of the issued shares of UPDC. As at the year end, the Group only held 4.6% of the issued share capital of UPDC, but has contracted to acquire the remaining 21.4% upon the fulfilment of certain conditions as set out in the Agreement. Notwithstanding the conditions to be fulfilled by UPDC, in accordance with the Agreement, the Group shall hold all rights in respect of the 26% shareholding, and thus, UPDC is considered an associate of the Group. Commitments in relation to the investment in this associate are included in note 26. Pertaining to the terms and conditions of the acquisition, the Group has an option to increase its shareholding to 27.5% at commercial operation.