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 modified by the marking to market of other investments as explained in the accounting policies set out below.

(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 customers by reducing (or increasing) the Basic Tariff rate to a Net Tariff rate payable by customers 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. The 1999-2004 Financial Plan was submitted and approved by Government on the basis that any deferred receivable would be recovered by the end of the Financial Plan period, i.e. by the end of 2004. However, during 2002 HEC reached agreement with Government such that recovery of this deferred receivable would be more gradual, and that the balance would be recovered in full by not later than the end of 2008, which is the year in which the current SOC agreement expires. Such agreement will be reflected in the next Financial Plan to be submitted to Government, which will cover the period from 2004 to 2008.

(iii) Income recognition

Income is recognised based on units of electricity consumed by customers 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. This represents a change from previous years, when income was recognised based on electricity sold as recorded by meters read during the year. No prior period adjustment has been made as the impact is not considered material to the accounts.

Fuel Clause Rebates included in the 1999-2004 Financial Plan and to be included in the 2004-2008 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 customers during the Financial Plan period. The impact of tariff smoothing is to reduce the Net Tariffs payable by customers in certain years and increase the Net Tariff in other years. However, the tariff smoothing has no impact on HEC's total earnings over the period to 2008 and the related balance on the Fuel Clause Account (see note 1(h)(ii)) is expected to be recovered by the end of that 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) Employee Retirement Benefits

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

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Profit and Loss Account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Profit and Loss Account.

In calculating the Group's obligation in respect of a scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of scheme assets, that portion is recognised in the Profit and Loss Account over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

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

(ii) Obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the Profit and Loss Account as 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.

(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) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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:

	2002 ($ million)	2001 ($ million)
Sales of electricity	**11,522**	10,911
Special subsidy on sales of electricity	**–**	(155)
Concessionary discount on sales of electricity	**(2)**	(2)
Electricity-related income	**35**	37
Technical service fees	**50**	76
	11,605	10,867

3. Other Revenue and Net Income

	2002 ($ million)	2001 ($ million)
Other Revenue		
Interest income	**609**	555
Dividend income from other investments	**12**	9
Sundry income	**28**	22
	649	586
Other Net Income		
Net realised and unrealised gains on other investments carried at fair value	**229**	77
	878	663

4. Segment Information

(a) Business Segment

The Group's principal business segments are sales of electricity and infrastructure investments. Financial information about the Group's business segments is set out in Appendix 1 (a) on Page 64.

(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 (b) on Page 65.

5. Operating Profit

	2002 ($ million)	2001 ($ million)
Operating profit is shown after charging:		
Finance costs		
Interest on overdrafts, bank loans and other borrowings repayable within 5 years	**727**	859
Interest on other borrowings	**50**	130
Less: interest capitalised to fixed assets	**(207)**	(287)
interest transferred to fuel cost	**(5)**	(7)
	565	695
Depreciation	**1,667**	1,567
Costs of inventories	**991**	946
Staff costs	**570**	570
Net loss on disposal of fixed assets	**27**	23
Auditors' remuneration	**3**	3

Interest expenses have been capitalised at rates between 0.99% and 7.91% p.a. (2001: between 2.11% and 7.91% p.a.) for assets under construction.

The profit attributable to shareholders includes a profit of $5,805 million (2001: $5,420 million) which has been dealt with in the accounts of the Company.

6. Directors' Emoluments and Senior Management Compensation

(a) Directors' Emoluments

	2002 ($ million)	2001 ($ million)
Directors' fees	**0.75**	0.75
Salaries and other benefits	**26.41**	25.06
Retirement scheme contributions	**0.33**	0.55
Bonuses	**–**	1.10
	27.49	27.46

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

	2002 Number	2001 Number
HK$ 0 to HK$ 1,000,000	**11**	11
HK$ 6,000,001 to HK$ 6,500,000	**–**	1
HK$ 6,500,001 to HK$ 7,000,000	**1**	1
HK$ 7,000,001 to HK$ 7,500,000	**1**	–
HK$11,500,001 to HK$12,000,000	**1**	1

(b) Senior Management Compensation

The five (2001: five) highest paid individuals in the Group included three directors (2001: three) whose total emoluments are shown above. The emoluments of the other two individuals (2001: two) who comprise the five are set out below:

	2002 ($ million)	2001 ($ million)
Salaries and other benefits	**8.09**	9.48
Retirement scheme contributions	**1.09**	1.31
	9.18	10.79

The total emoluments of the two individuals (2001: two) are within the following bands:

	2002 Number	2001 Number
HK$ 4,000,001 to HK$ 4,500,000	**1**	–
HK$ 4,500,001 to HK$ 5,000,000	**1**	1
HK$ 5,500,001 to HK$ 6,000,000	**–**	1

7. Employee Retirement Benefits

(a) Defined Benefit Retirement Scheme

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. The assets of the Schemes are held independently of the Group's assets in separate trustee administered funds.

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 Mr. A. Wong, FSA, FCIA and Mr. J.K.L. Yip, FSA, CFA, has carried out valuations as at 1st January 2002 of both Schemes and the valuations revealed that the Scheme assets in each case were sufficient to cover the respective discontinuance liabilities as at the valuation date.

Retirement scheme costs charged to the Profit and Loss Account for the year ended 31st December 2002 were determined in accordance with the Statement of Standard Accounting Practice 34 "Employee Benefits", under which the Schemes are required to be valued using the "Projected Unit Credit Method".

(i) The amount recognised in the Balance Sheet is as follows:

	Group 2002 ($ million)	Company 2002 ($ million)
Present value of funded obligations	**3,295**	**318**
Fair value of scheme assets	**(2,632)**	**(228)**
Net unrecognised actuarial losses	**(812)**	**(81)**
	(149)	**9**

The plan assets include ordinary shares issued by the Company with a fair value of $5.6 million.

(ii) Movements in the net liability/(asset) recognised in the Balance Sheet are as follows:

	Group 2002 ($ million)	Company 2002 ($ million)
At 1st January	**–**	**–**
Expenses recognised in the Profit and Loss Account	**174**	**55**
Contributions paid to schemes	**(323)**	**(46)**
At 31st December	**(149)**	**9**
Represented by:		
Employee retirement benefit assets	**(228)**	**(13)**
Employee retirement benefit liabilities	**79**	**22**
	(149)	**9**

(iii) Expense recognised in the Profit and Loss Account, prior to any capitalisation of employment costs attributable to fixed assets additions, is as follows:

	2002 ($ million)
Current service cost	**125**
Interest cost	**199**
Expected return on scheme assets	**(229)**
Net transitional liability recognised	**79**
	174

Recognised in the following line items:

	2002 ($ million)
Direct costs	**42**
Other operating costs	**132**
	174
Actual return on scheme assets (loss)	**(288)**

(iv) The principal actuarial assumptions used as at 31st December 2002 (expressed as weighted average) are as follows:

	Group and Company 2002
Discount rate	**5.5%**
Expected rate of return on scheme assets	**7.5%**
Future salary increase rate	**5%**
Future pension increase rate	**2.5%**

(v) Corresponding figures for the last year were not shown as no prior year adjustments have been made (note 29).

(b) Defined Contribution Retirement Scheme

Since the introduction of the Hong Kong Mandatory Provident Fund Scheme in December 2000, all new recruits are enrolled in that Scheme instead of the existing retirement schemes.

	2002 ($ million)	2001 ($ million)
Expenses recognised in the Profit and Loss Account	**2**	2

8. Taxation

(a) Taxation in the Consolidated Profit and Loss Account

	2002 ($ million)	2001 ($ million)
The Company and its subsidiaries – Hong Kong	**970**	727
Associates – Hong Kong	**1**	–
– overseas	**30**	49
	1,001	776

Hong Kong profits tax has been provided for at the rate of 16% (2001: 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% (2001: 16%) is approximately $4,676 million (2001: $4,325 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 customers. Movements on the Development Fund and Rate Reduction Reserve are as follows:

(a) Development Fund

	2002 ($ million)	2001 ($ million)
At 1st January	**138**	249
Transfer from/(to) Profit and Loss Account	**1**	(111)
At 31st December	**139**	138

(b) Rate Reduction Reserve

	2002 ($ million)	2001 ($ million)
At 1st January	**9**	14
Transfer from Profit and Loss Account	**11**	15
Rebate to customers	**(10)**	(20)
At 31st December	**10**	9

10. Dividends

(a) Dividends attributable to the year

	2002 ($ million)	2001 ($ million)
Interim dividend declared and paid of 58 cents per share (2001: 56 cents per share)	**1,238**	1,195
Proposed final dividend after the balance sheet date of $1.13 per share (2001: $1.07 per share)	**2,412**	2,284
	3,650	3,479

The proposed dividend is based on 2,134,261,654 shares (2001: 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

	2002 ($ million)	2001 ($ million)
Final dividend in respect of the previous financial year, approved and paid during the year, of $1.07 per share (2001: 97.5 cents per share)	**2,284**	2,080

11. Earnings Per Share

The calculation of earnings per share is based on profit attributable to shareholders of $6,827 million (2001: $6,507 million) and 2,134,261,654 shares in issue throughout the year (2001: 2,134,261,654 shares).

There were no dilutive potential ordinary shares in existence during the years ended 31st December 2002 and 2001.

12. Fixed Assets

($ million)	Leasehold Land	Buildings	Plant, Machinery and Equipment	Assets Under Construction	Total
Cost					
At 1st January 2002	**2,994**	**10,127**	**40,945**	**4,595**	**58,661**
Additions	**–**	**1**	**233**	**2,911**	**3,145**
Transfers between categories	**137**	**923**	**3,293**	**(4,353)**	**–**
Disposals	**(5)**	**(5)**	**(241)**	**–**	**(251)**
At 31st December 2002	**3,126**	**11,046**	**44,230**	**3,153**	**61,555**
Depreciation					
At 1st January 2002	**206**	**2,217**	**12,283**	**–**	**14,706**
Written back on disposal	**–**	**(3)**	**(172)**	**–**	**(175)**
Charge for the year	**61**	**283**	**1,478**	**–**	**1,822**
At 31st December 2002	**267**	**2,497**	**13,589**	**–**	**16,353**
Net Book Value					
At 31st December 2002	**2,859**	**8,549**	**30,641**	**3,153**	**45,202**
At 31st December 2001	2,788	7,910	28,662	4,595	43,955

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to $207 million (2001: $287 million).

Group leasehold land at 31st December 2002 is held in Hong Kong and comprises $92 million (2001: $95 million) and $2,767 million (2001: $2,693 million) of long-term and medium-term leasehold land respectively.

Group assets under construction at 31st December 2002 included leasehold land of $722 million (2001: $564 million) which is held in Hong Kong for the medium-term.

Depreciation charges for the year included $155 million (2001: $129 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	
	2002 ($ million)	2001 ($ million)
Unlisted shares, at cost	**2,417**	2,413
Loan capital (see note below)	**17,587**	15,924
Amounts due from subsidiaries	**8,693**	7,611
	28,697	25,948

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 66.

14. Interest in Associates

	Group	
	2002 ($ million)	2001 ($ million)
Share of net assets	**647**	466
Loans to associates (see note below)	**7,040**	4,195
Amounts due from associates	**295**	175
	7,982	4,836

Included in the loans to associates, $4,595 million (2001: $4,169 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 67.

15. Other Financial Assets

	Group 2002 ($ million)	Group 2001 ($ million)
Investment Securities		
Listed equity securities	**–**	393
Other Investments		
Listed equity securities	**405**	–
	405	393
Market Value of other investments	**405**	450

The Investment Securities were reclassified as Other Investments in 2002.

16. Inventories

	Group 2002 ($ million)	Group 2001 ($ million)
Work in progress	**–**	1
Coal and fuel oil	**120**	138
Stores and materials (see note below)	**292**	301
	412	440

Included in stores and materials is capital stock of $222 million (2001: $208 million) which was purchased for the future maintenance of capital assets. Stores and materials of $49 million (2001: $48 million) are stated net of specific provisions to reflect their estimated net realisable value.

17. Trade and Other Receivables

	Group 2002 ($ million)	Group 2001 ($ million)	Company 2002 ($ million)	Company 2001 ($ million)
Demand Side Management ("DSM") account (see note (a) below)	**37**	15	**–**	–
Debtors (see note (b) below)	**1,025**	671	**4**	4
	1,062	686	**4**	4

(a) The Hongkong Electric Company, Limited reached an agreement with Government in 2000 to carry out Demand Side Management ("DSM") programmes to promote energy and maximum demand savings among non-domestic customers. The DSM account at the year end represents the costs spent on DSM programmes which, as agreed with Government, will be recovered from non-domestic customers by applying DSM surcharges in subsequent years. Movements on the DSM account are as follows:

	Group 2002 ($ million)	Group 2001 ($ million)
At 1st January	**15**	6
Programme costs incurred	**22**	9
At 31st December	**37**	15

(b) Debtors' ageing is analysed as follows:

	Group 2002 ($ million)	Group 2001 ($ million)	Company 2002 ($ million)	Company 2001 ($ million)
Within 1 month	**497**	447	**–**	–
1 to 3 months overdue	**26**	23	**–**	–
More than 3 months overdue but less than 12 months overdue	**9**	8	**–**	–
Total trade debtors (see note below)	**532**	478	**–**	–
Deposits, prepayments and other receivables	**493**	193	**4**	4
	1,025	671	**4**	4

Electricity bills issued to domestic, small industrial and commercial and 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 7.1 cents (2001: 9.3 cents) per unit of electricity sales was implemented effective 1st January 2002. Movements on the Fuel Clause Account were as follows:

	Group	
	2002 ($ million)	2001 ($ million)
At 1st January	**1,216**	981
Transfer from Profit and Loss Account	**(724)**	(740)
Rebate during the year	**743**	975
At 31st December	**1,235**	1,216

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

19. Trade and Other Payables

	Group		Company	
	2002 ($ million)	2001 ($ million)	**2002 ($ million)**	2001 ($ million)
Creditors (see note below)	**1,132**	1,769	**26**	51
Current portion of deferred creditors (see note 21)	**212**	211	**–**	–
	1,344	1,980	**26**	51
Creditors' ageing is analysed as follows:				
Due within 1 month	**353**	657	**3**	15
Due between 1 month and 3 months	**288**	591	**1**	1
Due between 3 months and 12 months	**454**	460	**–**	–
	1,095	1,708	**4**	16
Other payables	**37**	61	**22**	35
	1,132	1,769	**26**	51

20. Non-current Interest-bearing Borrowings

	Group 2002 ($ million)	Group 2001 ($ million)
Bank loans	**10,460**	9,736
Current portion	**(2,270)**	(231)
	8,190	9,505
Hong Kong dollar notes (see note below)	**4,700**	3,200
Current portion	**(1,000)**	(500)
	3,700	2,700
Total	**11,890**	12,205

Hong Kong dollar fixed rate notes bear interest at rates between 4.5% p.a. to 7.73% p.a. (2001: 5.3% p.a. to 7.73% p.a.), while interest on floating rate notes are determined with reference to the Hong Kong Interbank Offer Rate. Details of issuers of Hong Kong dollar notes are set out in Appendix 2 on page 66.

These borrowings have final maturities extending up to 2010 and are repayable as follows:

	Bank Loans		Hong Kong Dollar Notes		Total	
($ million)	**2002**	2001	**2002**	2001	**2002**	2001
Within 1 year	**2,270**	231	**1,000**	500	**3,270**	731
Between 1 and 2 years	**2,700**	220	**1,200**	1,000	**3,900**	1,220
Between 2 and 5 years	**4,990**	9,243	**1,500**	1,200	**6,490**	10,443
Over 5 years	**500**	42	**1,000**	500	**1,500**	542
	10,460	9,736	**4,700**	3,200	**15,160**	12,936

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

	2002 Amount ($ million)	2002 Interest Rate % p.a.	2001 Amount ($ million)	2001 Interest Rate % p.a.
Fixed/capped rate loans and loans swapped to fixed rate	**11,537**	**2.5 – 7.9**	9,866	3.7 – 7.9
Floating rate loans and loans swapped to floating rate	**3,623**		3,070	
	15,160		12,936	

21. Deferred Creditors

	Group 2002 ($ million)	Group 2001 ($ million)
Deferred creditors	**1,184**	1,395
Current portion of deferred creditors (see note 19)	**(212)**	(211)
	972	1,184
Deferred creditors are repayable as follows (see note below):		
Within 1 year	**212**	211
Between 1 and 2 years	**212**	212
Between 2 and 5 years	**635**	635
Between 5 and 10 years	**125**	337
	1,184	1,395

Deferred creditors are unsecured and bear interest at a margin over Hong Kong Interbank Offered Rate with final maturities up to 2011.

22. Share Capital

	Number of Shares	Company 2002 ($ million)	Company 2001 ($ million)
Authorised			
Ordinary shares of $1 each	3,300,000,000	**3,300**	3,300
Issued and fully paid			
Ordinary shares of $1 each	2,134,261,654	**2,134**	2,134

23. Reserves

Group revenue reserves as at 31st December 2002 include an amount equal to Scheme of Control tax adjustments of $2,629 million (2001: $2,460 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 2002 include the Group's share of the retained profits of its associates amounting to $614 million (2001: $438 million).

24. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before taxation to cash generated from operations

	2002 ($ million)	2001 ($ million)
Profit before taxation	**7,840**	7,187
Adjustments for:		
Share of results of associates	**(163)**	(472)
Interest income	**(609)**	(555)
Dividend income from other investments	**(12)**	(9)
Finance costs	**570**	702
Depreciation	**1,667**	1,567
Net loss on disposal of fixed assets	**27**	23
Net realised and unrealised gains on other investments carried at fair value	**(229)**	(77)
Exchange gain	**(2)**	(4)
Operating profit before changes in working capital	**9,089**	8,362
Decrease/(increase) in inventories	**41**	(28)
(Increase)/decrease in trade and other receivables	**(366)**	8
(Decrease)/increase in trade and other payables, excluding current portion of deferred creditors	**(253)**	90
Increase in Fuel Clause Account	**(19)**	(235)
Increase in net employee retirement benefits	**(149)**	–
Cash generated from operations	**8,343**	8,197

25. Related Party Transactions

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

	Group	
	2002 ($ million)	2001 ($ million)
Purchase of coal (see note (a) below)	**141**	43
Purchase of electric appliances for residential premises (see note (b) below)	**2**	5
Purchase of limestone powder (see note (b) below)	**6**	6
Purchase of assets (see note (c) below)	**15**	43
Interest income (see note (d) below)	**(605)**	(534)

(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 was 50% owned by Hutchison Whampoa Limited (until August 2002), 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 15.1% (2001: 4.6%) of HEC's coal purchases during the year were supplied by Total Energy at a total value of approximately $141 million (2001: $43 million). The coal price was determined in 2002 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 2002 is $ nil (2001: $ nil).

(b) HEC has entered into two agreements and a variation order with A.S. Watson Group (HK) Limited ("Watson"), a subsidiary of Hutchison Whampoa Limited. Pursuant to the agreement dated 7th January 2002, Watson agreed to supply and install electric appliances for newly developed residential premises from 1st January 2002 to 31st December 2003. The unit prices of these electric appliances are fixed during the contract period and the price is payable by HEC within 30 days against certified invoices for electric appliances installed. Pursuant to the agreement dated 16th January 2002 and a variation order dated 19th March 2002, Watson agreed to supply and install different types of electric appliances to residents in certain residential estates in the year 2002. The unit prices of these electric appliances are set out in the agreement and the said variation order. The difference between the price the residents pay and the unit price set out in the agreement and the said variation order 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 $2 million (2001: $5 million). The amount due to Watson at 31st December 2002 is $0.3 million (2001: $0.7 million).

HEC has entered into an agreement dated 16th April 1999 and three variation orders dated 22nd May 2000, 24th March 2001 and 18th March 2002 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 2003. 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 (2001: $6 million). The amount due to GIC at 31st December 2002 is $ nil (2001: $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 $15 million (2001: $43 million). The amount due to HUD at 31st December 2002 is $6 million (2001: $30 million).

(d) 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, Powercor Australia Limited and CKI/HEI Electricity Distribution Two Pty 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. During the year, CKI/HEI Electricity Distribution Two Pty Limited purchased all the shares of CitiPower I Pty Limited, which is another one of the five electricity distributors in the State of Victoria, Australia.

Three wholly-owned overseas subsidiaries, incorporated in Australia, obtained funds from external financial institutions, which were on lent to these associates. 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 (where applicable, subject to the subordination arrangements agreed with these associates' senior creditors).

The Group and Cheung Kong Infrastructure Holdings Limited each ultimately owned 50% interest in CKI/HEI Electricity Assignment Limited, which assumed all the obligations under an assignment of a shareholder loan with CitiPower I Pty Limited. A wholly owned overseas subsidiary advanced a shareholder loan to CKI/HEI Electricity Assignment Limited for the completion of the assignment. The loan is interest bearing, unsecured and repayable on demand.

At 31st December 2002, the total outstanding interest bearing loan balances due from these associates to the subsidiaries were $6,999 million (2001: $4,169 million) (see note 14). Interest income received/receivable from the subsidiaries amounted to $605 million (2001: $534 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	
	2002 ($ million)	2001 ($ million)	**2002 ($ million)**	2001 ($ million)
Contracted for:				
Capital expenditure	**2,448**	2,729	**–**	–
Investment in associate	**832**	847	**–**	–
	3,280	3,576	**–**	–
Authorised but not contracted for:				
Capital expenditure	**10,280**	11,765	**1**	3

27. Contingent Liabilities

	Group		Company	
	2002 ($ million)	2001 ($ million)	**2002 ($ million)**	2001 ($ million)
Guarantees have been executed in respect of banking facilities available as follows:				
To the subsidiaries	**–**	–	**6,417**	4,169
To the associate	**8**	8	**8**	8
Other guarantees given in respect of				
– subsidiaries	**–**	–	**6,274**	4,418
– associate	**33**	32	**33**	32
	41	40	**12,732**	8,627

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 2002 were as follows:

	2002 ($ million)	2001 ($ million)
Cross currency and interest rate swaps	**533**	122
Interest rate swaps and caps	**15,361**	11,576
Forward rate agreements	**640**	800
Foreign exchange forwards	**1,824**	1,536
	18,358	14,034

29. Changes in Accounting Policies

Employee Retirement Benefits

In prior years, the actuary adopted the "Attained Age Method" for the valuations of the defined benefit retirements schemes and the costs of providing these benefits was charged to the Profit and Loss Account to the extent of contributions paid to the schemes. With effect from 1st January 2002, in order to comply with Statement of Standard Accounting Practice 34 "Employee Benefits" issued by the Hong Kong Society of Accountants, the Group adopted a new policy for defined benefit schemes as set out in note 1(k). The transitional net liabilities as at 1st January 2002 of $79 million arising from this change in accounting policy have been charged to the Profit and Loss Account for the year. The directors consider that the change in policy has no material impact on the results and net assets of the Group and the new accounting policy has been adopted prospectively, with no adjustments made to the opening balances of retained profits and comparative information.

30. Comparative Figures

Certain comparative figures have been adjusted to conform with changes in presentation in the current financial year as a result of adopting revised Statements of Standard Accounting Practice ("SSAPs"). The Statement of Recognised Gains and Losses was replaced by the Statement of Changes in Equity as required by the SSAP1 (revised) "Presentation of Financial Statements". Comparatives of the Cash Flow Statement have been reclassified to conform with the presentation required by SSAP15 (revised) "Cash Flow Statements".

Appendix 1

Segment Information

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

($ million)	Sales of Electricity 2002	Sales of Electricity 2001	Infrastructure Investments 2002	Infrastructure Investments 2001	Unallocated & Other Items 2002	Unallocated & Other Items 2001	Consolidated 2002	Consolidated 2001
Revenue								
Group turnover	**11,555**	10,791	**–**	–	**50**	76	**11,605**	10,867
Other revenue	**21**	23	**–**	–	**248**	85	**269**	108
Segment revenue	**11,576**	10,814	**–**	–	**298**	161	**11,874**	10,975
Result								
Segment result	**7,389**	6,754	**–**	–	**244**	101	**7,633**	6,855
Interest income	**–**	–	**605**	534	**4**	21	**609**	555
Finance costs	**(196)**	(359)	**(369)**	(336)	**–**	–	**(565)**	(695)
Operating profit	**7,193**	6,395	**236**	198	**248**	122	**7,677**	6,715
Share of results of associates	**–**	–	**158**	469	**5**	3	**163**	472
Profit before taxation	**7,193**	6,395	**394**	667	**253**	125	**7,840**	7,187
Taxation	**(964)**	(726)	**(30)**	(49)	**(7)**	(1)	**(1,001)**	(776)
Profit after taxation	**6,229**	5,669	**364**	618	**246**	124	**6,839**	6,411
Scheme of Control transfers	**(12)**	96	**–**	–	**–**	–	**(12)**	96
Profit attributable to shareholders	**6,217**	5,765	**364**	618	**246**	124	**6,827**	6,507
At 31st December								
Assets								
Segment assets	**48,185**	46,364	**11**	14	**348**	312	**48,544**	46,690
Interest in associates	**–**	–	**7,969**	4,823	**13**	13	**7,982**	4,836
Bank balances and other liquid funds	**–**	–	**–**	–	**114**	580	**114**	580
Consolidated total assets	**48,185**	46,364	**7,980**	4,837	**475**	905	**56,640**	52,106
Liabilities								
Segment liabilities	**2,437**	2,948	**65**	52	**59**	71	**2,561**	3,071
Taxation	**419**	792	**–**	–	**6**	–	**425**	792
Interest-bearing borrowings	**9,937**	10,169	**6,417**	4,169	**–**	–	**16,354**	14,338
Rate Reduction Reserve	**10**	9	**–**	–	**–**	–	**10**	9
Development Fund	**139**	138	**–**	–	**–**	–	**139**	138
Consolidated total liabilities	**12,942**	14,056	**6,482**	4,221	**65**	71	**19,489**	18,348
Other Information								
Capital expenditure	**3,145**	4,133	**–**	–	**–**	1	**3,145**	4,134
Depreciation	**1,822**	1,696	**–**	–	**–**	–	**1,822**	1,696

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

($ million)	Hong Kong 2002	Hong Kong 2001	Australia 2002	Australia 2001	Unallocated & Other Items 2002	Unallocated & Other Items 2001	Consolidated 2002	Consolidated 2001
Revenue								
Group turnover	**11,583**	10,835	**3**	1	**19**	31	**11,605**	10,867
Other revenue	**267**	108	**–**	–	**2**	–	**269**	108
Segment revenue	**11,850**	10,943	**3**	1	**21**	31	**11,874**	10,975
Result								
Segment result	**7,643**	6,855	**1**	–	**(11)**	–	**7,633**	6,855
Interest income	**4**	21	**605**	534	**–**	–	**609**	555
Finance costs	**(196)**	(359)	**(369)**	(336)	**–**	–	**(565)**	(695)
Operating profit	**7,451**	6,517	**237**	198	**(11)**	–	**7,677**	6,715
Share of results of associates	**5**	3	**158**	469	**–**	–	**163**	472
Profit before taxation	**7,456**	6,520	**395**	667	**(11)**	–	**7,840**	7,187
Taxation	**(971)**	(727)	**(30)**	(49)	**–**	–	**(1,001)**	(776)
Profit after taxation	**6,485**	5,793	**365**	618	**(11)**	–	**6,839**	6,411
Scheme of Control transfers	**(12)**	96	**–**	–	**–**	–	**(12)**	96
Profit attributable to shareholders	**6,473**	5,889	**365**	618	**(11)**	–	**6,827**	6,507
At 31st December								
Assets								
Segment assets	**48,527**	46,672	**11**	15	**6**	3	**48,544**	46,690
Interest in associates	**13**	13	**7,898**	4,772	**71**	51	**7,982**	4,836
Bank balances and other liquid funds	**–**	–	**–**	–	**114**	580	**114**	580
Consolidated total assets	**48,540**	46,685	**7,909**	4,787	**191**	634	**56,640**	52,106
Other Information								
Capital expenditure	**3,145**	4,134	**–**	–	**–**	–	**3,145**	4,134
Depreciation	**1,822**	1,696	**–**	–	**–**	–	**1,822**	1,696

Appendix 2

Principal Subsidiaries

The following list contains only the particulars of subsidiaries as at 31st December 2002 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	100	Hong Kong	Electricity generation and supply
Associated Technical Services Limited	HK$1,000,000	100	Hong Kong	Consulting
Cavendish Construction Limited	HK$4,200,000	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 (Natural Gas) Limited	US$1	100	British Virgin Islands/Hong Kong	Investment holding
Hongkong Electric (Cayman) Limited	US$1 and HK$3,200 million Hong Kong dollar notes (see note 20)	100	Cayman Islands/ Hong Kong	Financing
Hongkong Electric Finance (Cayman) Limited	US$1 and HK$1,500 million Hong Kong dollar notes (see note 20)	100	Cayman Islands/ Hong Kong	Financing
Fenning Limited	HK$20	100	Hong Kong	Contracting
Hongkong Electric International Limited	US$1	100	British Virgin Islands	Investment holding
Hongkong Electric Finance Limited	US$1	100*	British Virgin Islands/Hong Kong	Financing
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
HEI Distribution Finance (Australia) Pty Limited	A$100	100*	Australia	Financing
Riverland Investment Limited	US$1	100*	British Virgin Islands	Investment holding
Hongkong Electric International Power (Mauritius) Limited	US$2	100*	Mauritius	Investment holding

* *Indirectly held*

Appendix 3

Principal Associates

The following list contains only the particulars of associates as at 31st December 2002 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 Holdings (Australia) Pty Limited (see note (b) below)	A$200	50%	Australia	Investment holding
CKI/HEI Electricity Distribution Pty Limited (see note (c) below)	A$200	50%	Australia	Electricity distribution
CKI/HEI Electricity Distribution Two Pty Limited (see note (d) below)	A$200	50%	Australia	Electricity distribution
CKI/HEI Electricity Assignment Limited	US$2	50%	British Virgin Islands	Investment holding
Union Power Development Company, Limited ("UPDC") (see note (e) 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 CKI/HEI Electricity Distribution Pty Limited and CKI/HEI Electricity Distribution Two Pty Limited.

(c) This company is the holding company of the Powercor Australia Group, comprising Powercor 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.

(d) This company is the holding company of CitiPower I Pty Limited, which is similar to Powercor Australia Group, is one of five electricity distributors in the State of Victoria, Australia.

(e) 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.