Notes on the Financial Statements

(Expressed in Hong Kong Dollars)

1. Significant Accounting Policies

(a) Statement of Compliance

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

(b) Basis of Preparation of the Financial Statements

The measurement basis used in the preparation of the financial statements 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 financial statements incorporate the financial statements of Hongkong Electric Holdings Limited and all its subsidiaries made up to 31st December each year, together with the Group's share of the results for the year and the 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 financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. In the Company's Balance Sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)).

(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 financial statements 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.

Notes on the Financial Statements

(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(k)); 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(k)).

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(k)) 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 being reviewed by the 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 the Government during the Annual Tariff Review for each financial year.

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 Tariffs 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.

Notes on the Financial Statements

(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(k)).

(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 and overhead lines (132kV and above)	35
Overhead lines (below 132kV), 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) Operating Lease Charges

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases. Where the Group has the use of assets under operating leases, payments made under the leases are charged to the Profit and Loss Account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(k) 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 favourable 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.

(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.

Notes on the Financial Statements

(m) 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.

(n) 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.

(o) Translation of 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.

(p) Income Tax

(i) Income tax for the year comprises current and deferred tax. Income tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

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

Notes on the Financial Statements

(q) 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.

(r) 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.

(s) Provisions and Contingent Liabilities

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

(t) 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:

	2004 $ million	2003 $ million
Sales of electricity	11,442	11,263
Special subsidy	(112)	(104)
Concessionary discount on sales of electricity	(3)	(3)
Electricity-related income	29	43
Technical service fees	51	51
	11,407	11,250

3. Other Revenue and Net Income

	2004 $ million	2003 $ million
Other Revenue		
Interest income	879	797
Dividend income from other investments	–	4
Sundry income	29	87
	908	888
Other Net Income		
Net profit on disposal of fixed assets	30	351
Net realised and unrealised gains on other investments carried at fair value	–	44
	938	1,283

4. Segment Information

(a) Business Segments

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 68.

(b) Geographical Segments

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 69.

Notes on the Financial Statements

5. Directors' Emoluments and Senior Management Compensation

(a) Directors' Emoluments

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

Name of Directors	Fees $ million	Basic Salaries, Allowances & Other Benefits $ million	Retirement Scheme Contributions $ million	Bonuses $ million	2004 Total Emoluments $ million	2003 Total Emoluments $ million
Executive Directors						
George C. Magnus *Chairman*	0.12	0.03	–	–	**0.15**	0.13
Canning Fok Kin-ning *Deputy Chairman*	0.07	0.24	–	–	**0.31**	0.28
Tso Kai-sum *Group Managing Director*	0.07	6.55	–	6.66	**13.28**	11.94
Andrew J. Hunter(1) *Group Finance Director*	0.07	4.16	0.44	3.26	**7.93**	7.30
Kam Hing-lam	0.07	0.05	–	–	**0.12**	0.09
Francis Lee Lan-yee *Director & General Manager (Engineering)*	0.07	4.36	0.01	3.24	**7.68**	7.61
Victor Li Tzar-kuoi	0.07	0.18	–	–	**0.25**	0.21
Frank John Sixt	0.07	0.04	–	–	**0.11**	0.09
Non-executive Directors						
Ronald Joseph Arculli(3)	0.12	0.05	–	–	**0.17**	0.11
Susan M.F. Chow	0.07	0.02	–	–	**0.09**	0.07
Holger Kluge(2)(3)	0.08	–	–	–	**0.08**	0.05
Ralph Raymond Shea(2)(3)	0.12	0.03	–	–	**0.15**	0.08
Wong Chung-hin(2)(3)	0.12	0.07	–	–	**0.19**	0.11
Ewan Yee Lup-yuen	0.07	0.03	–	–	**0.10**	0.08
Total for the year 2004	**1.19**	**15.81**	**0.45**	**13.16**	**30.61**	28.15
Total for the year 2003	0.75	15.43	0.48	11.49		28.15

Notes:

(1) During the year, Mr. Andrew J. Hunter received director's fees of THB212,500 from Ratchaburi Power Company, Limited, an associate of the Group. The director's fees were then paid back to the Company.

(2) Independent non-executive directors.

(3) Members of the Audit Committee.

(b) Senior Management Compensation

The five highest paid individuals in the Group included three directors (2003 : three) whose total emoluments are shown above. The emoluments of the other two individuals (2003 : two) who comprise the five are set out below:

	2004 $ million	2003 $ million
Salaries and other benefits	**7.95**	9.74
Retirement scheme contributions	**1.05**	0.89
	9.00	10.63

The total emoluments of the two individuals (2003 : two) are within the following bands:

	2004 Number	2003 Number
$4,000,001 to $4,500,000	**1**	–
$4,500,001 to $5,000,000	**1**	1
$5,500,001 to $6,000,000	**–**	1

6. Operating Profit

	2004 $ million	2003 $ million
Operating profit is shown after charging/(crediting):		
Finance costs:		
Interest on overdrafts, bank loans and other borrowings repayable within 5 years	**665**	741
Interest on other borrowings	**17**	29
Less: interest capitalised to fixed assets	**(108)**	(121)
interest transferred to fuel cost	**(5)**	(3)
	569	646
Depreciation	**1,805**	1,777
Costs of inventories	**1,315**	1,004
Staff costs	**506**	541
Operating lease charges – equipment	**62**	28
Fixed assets written off	**20**	34
Auditors' remuneration	**3**	3

Interest expenses have been capitalised at the average rate of approximately 2.9% p.a. (2003 : 3.5% p.a.) for assets under construction.

The profit attributable to shareholders includes a profit of $6,807 million (2003 : $3,692 million) which has been dealt with in the financial statements of the Company.

Notes on the Financial Statements

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% of basic pay. The appointed actuary, represented by Mr. A. Wong, FSA, FCIA, has carried out valuations as at 1st January 2004 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 2004 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		**Company**	
	2004 $ million	2003 $ million	**2004 $ million**	2003 $ million
Present value of funded obligations	**3,701**	3,427	**354**	321
Fair value of scheme assets	**(3,639)**	(3,240)	**(312)**	(278)
Net unrecognised actuarial losses	**(256)**	(331)	**(32)**	(32)
	(194)	(144)	**10**	11

The plan assets include ordinary shares issued by the Company with a fair value of $7 million (2003 : $ Nil).

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

	Group		**Company**	
	2004 $ million	2003 $ million	**2004 $ million**	2003 $ million
At 1st January	**(144)**	(149)	**11**	9
Expenses recognised in the Profit and Loss Account	**85**	141	**7**	10
Contributions paid to the schemes	**(135)**	(136)	**(8)**	(8)
At 31st December	**(194)**	(144)	**10**	11
Represented by:				
Employee retirement benefit assets	**(296)**	(236)	**(14)**	(13)
Employee retirement benefit liabilities	**102**	92	**24**	24
	(194)	(144)	**10**	11

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

	2004 $ million	2003 $ million
Current service cost	**134**	137
Interest cost	**185**	174
Expected return on scheme assets	**(245)**	(201)
Net actuarial losses recognised	**11**	31
	85	141

Recognised in the following line items:

	2004 $ million	2003 $ million
Direct costs	**45**	77
Other operating costs	**40**	64
	85	141
Actual return on scheme assets – gain	**394**	593

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

	Group and Company 2004	2003
Discount rate	**5.0%**	5.5%
Expected rate of return on scheme assets	**7.5%**	7.5%
Future salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.5%**	2.5%

(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.

	2004 $ million	2003 $ million
Expenses recognised in the Profit and Loss Account	**2**	2

Notes on the Financial Statements

8. Income Tax

	2004 $ million	2003 $ million
Current Tax – Provision for Hong Kong Profits Tax		
The Company and its subsidiaries	1,048	1,092
Deferred Tax		
Origination and reversal of temporary differences	132	75
Effect of increase in tax rate on deferred tax balances at 1st January	–	431
The Company and its subsidiaries – Hong Kong (see note 22(a))	132	506
Associates – overseas	(129)	113
	3	619
Total income tax expenses	1,051	1,711

Hong Kong Profits Tax has been provided for at the rate of 17.5% (2003 : 17.5%) based on the estimated assessable profit for the year. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit.

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004 $ million	2003 $ million
Profit before taxation	7,331	7,635
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	1,099	1,407
Tax effect of non-deductible expenses	35	20
Tax effect of non-taxable revenue	(80)	(147)
Tax effect of temporary differences not recognised	(1)	(1)
Tax effect of unused tax (gains)/losses not recognised	(1)	3
Tax effect on rebated Rate Reduction Reserve	(1)	(2)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	431
Total income tax expenses	1,051	1,711

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. Where the SOC net revenue is less than the Permitted Return, the amount transferred from the Development Fund to the Profit and Loss Account shall not exceed the balance of the Development Fund. 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

	2004 $ million	2003 $ million
At 1st January	–	139
Transfer to Profit and Loss Account	–	(139)
At 31st December	–	–

(b) Rate Reduction Reserve

	2004 $ million	2003 $ million
At 1st January	5	10
Transfer from Profit and Loss Account	–	6
Rebate to customers	(5)	(11)
At 31st December	–	5

10. Dividends

(a) Dividends attributable to the year

	2004 $ million	2003 $ million
Interim dividend declared and paid of 58 cents per share (2003 : 58 cents per share)	1,238	1,238
Proposed final dividend after the balance sheet date of $1.19 per share (2003 : $1.13 per share)	2,540	2,412
	3,778	3,650

The proposed dividend is based on 2,134,261,654 shares (2003 : 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

	2004 $ million	2003 $ million
Final dividend in respect of the previous financial year, approved and paid during the year, of $1.13 per share (2003 : $1.13 per share)	2,412	2,412

Notes on the Financial Statements

11. Earnings Per Share

The calculation of earnings per share is based on profit attributable to shareholders of $6,280 million (2003 : $6,057 million) and 2,134,261,654 shares (2003 : 2,134,261,654 shares) in issue throughout the year.

There were no dilutive potential ordinary shares in existence during the years ended 31st December 2004 and 2003.

12. Fixed Assets

$ million	Leasehold Land	Buildings	Plant, Machinery and Equipment	Assets Under Construction	Total
Group					
Cost					
At 1st January 2004	3,193	11,336	45,333	3,000	62,862
Additions	–	3	180	2,063	2,246
Transfers between categories	4	52	1,039	(1,095)	–
Disposals	(9)	(7)	(123)	–	(139)
At 31st December 2004	3,188	11,384	46,429	3,968	64,969
Accumulated Depreciation					
At 1st January 2004	332	2,796	14,710	–	17,838
Written back on disposal	–	(4)	(89)	–	(93)
Charge for the year	65	311	1,572	–	1,948
At 31st December 2004	397	3,103	16,193	–	19,693
Net Book Value					
At 31st December 2004	**2,791**	**8,281**	**30,236**	**3,968**	**45,276**
At 31st December 2003	2,861	8,540	30,623	3,000	45,024

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to $108 million (2003 : $121 million).

Group leasehold land at 31st December 2004 is held in Hong Kong and comprises $61 million (2003 : $75 million) and $2,730 million (2003 : $2,786 million) of long-term and medium-term leasehold land respectively.

Group assets under construction at 31st December 2004 included leasehold land of $823 million (2003 : $788 million) which is held in Hong Kong for the medium-term.

Depreciation charges for the year included $143 million (2003 : $150 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 2004 $ million	2003 $ million
Unlisted shares, at cost	**2,417**	2,417
Loan capital (see note below)	**21,324**	19,490
Amounts due from subsidiaries	**6,832**	6,478
	30,573	28,385

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 70.

14. Interest in Associates

	Group 2004 $ million	2003 $ million
Share of net assets	**1,361**	877
Loans to associates (see note below)	**7,417**	7,136
Amounts due from associates	**420**	412
	9,198	8,425

Included in the loans to associates, $6,556 million (2003 : $6,335 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 71.

15. Other Investments

	Group 2004 $ million	2003 $ million
Unlisted equity securities	**39**	7

16. Inventories

	Group 2004 $ million	2003 $ million
Work in progress	**2**	1
Coal and fuel oil	**189**	86
Stores and materials (see note below)	**275**	281
	466	368

Included in stores and materials is capital stock of $176 million (2003 : $194 million) which was purchased for the future maintenance of capital assets. Stores and materials of $47 million (2003 : $45 million) are stated net of specific provisions to reflect their estimated net realisable value.

Notes on the Financial Statements

17. Trade and Other Receivables

	Group		Company	
	2004 **$ million**	2003 $ million	**2004** **$ million**	2003 $ million
Demand Side Management account (see note (a) below)	**46**	45	**–**	–
Debtors (see note (b) below)	**1,023**	996	**6**	3
	1,069	1,041	**6**	3

(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	
	2004 **$ million**	2003 $ million
At 1st January	**45**	37
Programme costs incurred	**1**	8
At 31st December	**46**	45

(b) Debtors' ageing is analysed as follows:

	Group		Company	
	2004 **$ million**	2003 $ million	**2004** **$ million**	2003 $ million
Within 1 month	**528**	505	**–**	–
1 to 3 months overdue	**25**	28	**–**	–
More than 3 months overdue but less than 12 months overdue	**10**	9	**–**	–
Total trade debtors (see note below)	**563**	542	**–**	–
Deposits, prepayments and other receivables	**460**	454	**6**	3
	1,023	996	**6**	3

Electricity bills issued to domestic, small industrial, 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

The rebate per unit of electricity sales was 6.10 cents from January to March 2004 and 4.10 cents from April to December 2004 (2003 : 6.13 cents). Movements on the Fuel Clause Account were as follows:

	Group	
	2004 $ million	2003 $ million
At 1st January	**1,147**	1,235
Transfer from Profit and Loss Account	**(443)**	(726)
Rebate during the year	**493**	638
At 31st December	**1,197**	1,147

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	
	2004 $ million	2003 $ million	**2004 $ million**	2003 $ million
Creditors (see note below)	**1,070**	912	**28**	36
Current portion of deferred creditors (see note 21)	**212**	212	**–**	–
	1,282	1,124	**28**	36
Creditors' ageing is analysed as follows:				
Due within 1 month	**440**	341	**2**	11
Due between 1 month and 3 months	**236**	241	**–**	–
Due between 3 months and 12 months	**366**	301	**1**	1
	1,042	883	**3**	12
Other payables	**28**	29	**25**	24
	1,070	912	**28**	36

Notes on the Financial Statements

20. Non-current Interest-bearing Borrowings

	Group 2004 $ million	Group 2003 $ million
Bank loans	9,232	8,923
Current portion	(400)	(1,236)
	8,832	7,687
Hong Kong dollar notes (see note below)	3,000	3,700
Current portion	(1,000)	(1,200)
	2,000	2,500
Total	10,832	10,187

Hong Kong dollar fixed rate notes bear interest at rates between 4.13% p.a. to 7.35% p.a. (2003 : 4.5% p.a. to 7.73% p.a.), while interest on floating rate notes are determined with reference to the Hong Kong Interbank Offered Rate. Details of issuers of Hong Kong dollar notes are set out in Appendix 2 on page 70.

These borrowings have final maturities extending up to 2014 and are repayable as follows:

$ million	Bank Loans 2004	Bank Loans 2003	Hong Kong Dollar Notes 2004	Hong Kong Dollar Notes 2003	Total 2004	Total 2003
Within 1 year	400	1,236	1,000	1,200	1,400	2,436
After 1 year but within 2 years	2,520	126	–	1,000	2,520	1,126
After 2 years but within 5 years	6,312	7,061	500	500	6,812	7,561
After 5 years	–	500	1,500	1,000	1,500	1,500
	9,232	8,923	3,000	3,700	12,232	12,623

Interest rates on the borrowings are either fixed or floating and determined with reference to the Hong Kong Interbank Offered Rate or Australian Bank Bill Swaps Reference Rate:

	2004 $ million	2004 Interest Rate % p.a.	2003 $ million	2003 Interest Rate % p.a.
Fixed rate borrowings and borrowings swapped to fixed rate	8,898	4.1-7.3	9,400	4.1-7.9
Floating rate borrowings and borrowings swapped to floating rate	3,334		3,223	
	12,232		12,623	

21. Deferred Creditors and Other Payables

	Group 2004 $ million	Group 2003 $ million
Deferred creditors	760	972
Current portion of deferred creditors (see note 19)	(212)	(212)
Other payables	21	–
	569	760
Deferred creditors are repayable as follows (see note below):		
Within 1 year	212	212
After 1 year but within 2 years	212	212
After 2 years but within 5 years	329	534
After 5 years but within 10 years	7	14
	760	972

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

22. Deferred Taxation

(a) Movements in deferred taxation during the year are as follows:

	Group 2004 $ million	Group 2003 $ million
At 1st January	5,105	4,599
Transfer from Profit and Loss Account (see note 8)	132	506
At 31st December	5,237	5,105

(b) Major components of deferred tax liabilities are set out below:

	Group 2004 $ million	Group 2003 $ million
Tax effects of:		
Depreciation allowances in excess of related depreciation	5,009	4,898
Fuel clause rebates	209	201
Contributions to employee retirement schemes	19	6
	5,237	5,105

(c) Deferred tax assets have not been recognised in respect of the following items:

	Group 2004 $ million	Group 2003 $ million	Company 2004 $ million	Company 2003 $ million
Deductible temporary differences	5	6	5	6
Tax losses	2	3	2	3
	7	9	7	9

The deductible temporary differences and tax losses do not expire under current tax legislation.

Notes on the Financial Statements

23. Share Capital

	Number of Shares	Company 2004 $ million	Company 2003 $ 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

24. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before taxation to cash generated from operations

	2004 $ million	2003 $ million
Profit before taxation	**7,331**	7,635
Adjustments for:		
Share of results of associates	**(314)**	(241)
Interest income	**(879)**	(797)
Dividend income from other investments	**–**	(4)
Finance costs	**574**	649
Depreciation	**1,805**	1,777
Fixed assets written off	**20**	34
Net profit on disposal of fixed assets	**(30)**	(351)
Net realised and unrealised gains on other investments carried at fair value	**–**	(44)
Exchange gain	**(1)**	–
Operating profit before changes in working capital	**8,506**	8,658
(Increase)/decrease in inventories	**(116)**	16
(Increase)/decrease in trade and other receivables	**(30)**	19
(Increase)/decrease in Fuel Clause Account	**(50)**	88
Increase in trade and other payables, excluding current portion of deferred creditors	**27**	1
(Increase)/decrease in net employee retirement benefits	**(50)**	5
Cash generated from operations	**8,287**	8,787

25. Related Party Transactions

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

(a) 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. CKI/HEI Electricity Distribution Two Pty Limited operates electricity distribution business through 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 2004, the total outstanding interest bearing loan balances due from these associates to the subsidiaries were $7,337 million (2003 : $7,090 million) (see note 14). Interest income received/receivable from the subsidiaries amounted to $846 million (2003 : $783 million) for the year.

(b) On 10th September 2004, Hongkong Electric Holdings Limited ("HEH") and Cheung Kong Infrastructure Holdings Limited ("CKI") entered into an agreement under which HEH agreed to purchase, or procure the purchase by its wholly-owned subsidiary, of the entire issued share capital of Alpha Central Profits Limited ("Alpha"). Alpha is a newly formed wholly-owned indirect subsidiary of CKI that owns 19.9% of the issued share capital of Gas Network Limited. Gas Network Limited has agreed to acquire Blackwater F Limited ("Blackwater"), a newly formed wholly-owned subsidiary of Transco plc that will, at completion of a hive down agreement, own the North of England Gas Distribution Network business in the United Kingdom presently carried on by Transco plc. HEH will also assume certain obligations of CKI under the Gas Network Shareholders Agreement in respect of Alpha. Prior to completion of the Blackwater acquisition, Alpha will subscribe approximately £104,276,000 for new share capital in Gas Network Limited, which will represent approximately 19.9% of the net consideration payable by Gas Network Limited on completion of the Blackwater acquisition. Commitments in relation to this acquisition are included in note 27. At the Extraordinary General Meeting of HEH held on 14th December 2004, the ordinary resolution to approve the Alpha acquisition on the terms and subject to the conditions of the related acquisition agreement was duly passed by the HEH's independent shareholders.

Notes on the Financial Statements

26. Operating Lease

Analysis of future minimum lease payments by the Group under a non-cancellable equipment operating lease at the balance sheet date are as follows:

	Group	
	2004 **$ million**	2003 $ million
Not later than 1 year	**62**	62
Later than 1 year and not later than 5 years	**232**	248
Later than 5 years	**–**	46
	294	356

Under the non-cancellable equipment operating lease agreement, the lessee has an option to purchase all of the equipment at the fair market value as at the lease maturity date.

27. Commitments

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

	Group		Company	
	2004 **$ million**	2003 $ million	**2004** **$ million**	2003 $ million
Contracted for:				
Capital expenditure	**2,961**	1,808	**–**	–
Investment in associate	**312**	823	**–**	–
Other investments	**1,581**	54	**–**	–
	4,854	2,685	**–**	–
Authorised but not contracted for:				
Capital expenditure	**7,195**	9,729	**1**	1

28. Contingent Liabilities

	Group		Company	
	2004 **$ million**	2003 $ million	**2004** **$ million**	2003 $ million
Guarantees have been executed in respect of banking facilities available as follows:				
To the subsidiaries	**–**	–	**6,270**	6,097
To the associate	**–**	8	**–**	8
Other guarantees given in respect of:				
Subsidiaries	**5**	–	**4,866**	5,130
Associate	**35**	36	**35**	36
Others	**256**	215	**45**	–
	296	259	**11,216**	11,271

29. 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 2004 were as follows:

	2004 $ million	2003 $ million
Cross currency and interest rate swaps	**2,132**	2,087
Interest rate swaps and caps	**14,825**	17,246
Forward rate agreements	**250**	–
Foreign exchange forwards	**3,391**	2,061
	20,598	21,394

30. Review of Financial Statements

The financial statements have been reviewed by the Audit Committee.

31. Recently Issued Accounting Standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has carried out a preliminary assessment and has so far concluded that the adoption of these new HKFRSs in 2005 would not have a significant impact on the Group's results of operations and financial position.

The Group will be continuing with the assessment of the impact of the new HKFRSs and other significant changes may be identified as a result.

Notes on the Financial Statements

Appendix 1

Segment Information

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

$ million	Sales of Electricity 2004	Sales of Electricity 2003	Infrastructure Investments 2004	Infrastructure Investments 2003	Unallocated & Other Items 2004	Unallocated & Other Items 2003	Consolidated 2004	Consolidated 2003
Revenue								
Group turnover	11,356	11,199	–	–	51	51	11,407	11,250
Other revenue	52	374	–	–	7	112	59	486
Segment revenue	11,408	11,573	–	–	58	163	11,466	11,736
Result								
Segment result	6,744	7,160	–	–	(37)	83	6,707	7,243
Interest income	–	–	848	783	31	14	879	797
Finance costs	(83)	(195)	(486)	(451)	–	–	(569)	(646)
Operating profit	6,661	6,965	362	332	(6)	97	7,017	7,394
Share of results of associates	–	–	312	239	2	2	314	241
Profit before taxation	6,661	6,965	674	571	(4)	99	7,331	7,635
Income tax	(1,180)	(1,597)	129	(113)	–	(1)	(1,051)	(1,711)
Profit after taxation	5,481	5,368	803	458	(4)	98	6,280	5,924
Scheme of Control transfers	–	133	–	–	–	–	–	133
Profit attributable to shareholders	5,481	5,501	803	458	(4)	98	6,280	6,057
At 31st December								
Assets								
Segment assets	48,340	47,856	45	15	(42)	(48)	48,343	47,823
Interest in associates	–	–	9,187	8,413	11	12	9,198	8,425
Bank balances and other liquid funds	–	–	–	–	1,426	464	1,426	464
Consolidated total assets	48,340	47,856	9,232	8,428	1,395	428	58,967	56,712
Liabilities								
Segment liabilities	2,332	2,254	255	65	61	72	2,648	2,391
Current and deferred taxation	5,465	5,405	–	–	1	1	5,466	5,406
Interest-bearing borrowings	6,441	7,264	6,556	6,335	–	–	12,997	13,599
Rate Reduction Reserve	–	5	–	–	–	–	–	5
Development Fund	–	–	–	–	–	–	–	–
Consolidated total liabilities	14,238	14,928	6,811	6,400	62	73	21,111	21,401
Other information								
Capital expenditure	2,246	2,106	–	–	–	–	2,246	2,106
Depreciation	1,948	1,927	–	–	–	–	1,948	1,927

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

$ million	Hong Kong 2004	Hong Kong 2003	Australia 2004	Australia 2003	Unallocated & Other Items 2004	Unallocated & Other Items 2003	Consolidated 2004	Consolidated 2003
Revenue								
Group turnover	**11,394**	11,239	**2**	2	**11**	9	**11,407**	11,250
Other revenue	**56**	485	**–**	–	**3**	1	**59**	486
Segment revenue	**11,450**	11,724	**2**	2	**14**	10	**11,466**	11,736
Result								
Segment result	**6,751**	7,264	**1**	1	**(45)**	(22)	**6,707**	7,243
Interest income	**31**	14	**846**	783	**2**	–	**879**	797
Finance costs	**(83)**	(195)	**(486)**	(451)	**–**	–	**(569)**	(646)
Operating profit	**6,699**	7,083	**361**	333	**(43)**	(22)	**7,017**	7,394
Share of results of associates	**2**	2	**330**	239	**(18)**	–	**314**	241
Profit before taxation	**6,701**	7,085	**691**	572	**(61)**	(22)	**7,331**	7,635
Income tax	**(1,180)**	(1,598)	**129**	(113)	**–**	–	**(1,051)**	(1,711)
Profit after taxation	**5,521**	5,487	**820**	459	**(61)**	(22)	**6,280**	5,924
Scheme of Control transfers	**–**	133	**–**	–	**–**	–	**–**	133
Profit attributable to shareholders	**5,521**	5,620	**820**	459	**(61)**	(22)	**6,280**	6,057
At 31st December								
Assets								
Segment assets	**48,292**	47,799	**6**	8	**45**	16	**48,343**	47,823
Interest in associates	**11**	12	**9,078**	8,329	**109**	84	**9,198**	8,425
Bank balances and other liquid funds	**–**	–	**–**	–	**1,426**	464	**1,426**	464
Consolidated total assets	**48,303**	47,811	**9,084**	8,337	**1,580**	564	**58,967**	56,712
Other information								
Capital expenditure	**2,246**	2,106	**–**	–	**–**	–	**2,246**	2,106
Depreciation	**1,948**	1,927	**–**	–	**–**	–	**1,948**	1,927

Notes on the Financial Statements

Appendix 2

Principal Subsidiaries

The following list contains only the particulars of subsidiaries as at 31st December 2004 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$1,000 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
Dunway Investment Limited	US$1	100	British Virgin Islands	Investment
Hongkong Electric International Limited	US$1	100	British Virgin Islands	Investment holding
Hongkong Electric Finance Limited	US$1 HK$500 million Hong Kong dollar notes (see note 20)	100*	British Virgin Islands/ Hong Kong	Financing
HEI Investment Holdings Limited	HK$2	100*	Hong Kong	Investment holding
Rayong Energy Developments 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) Ltd	A$637,510	100*	British Virgin Islands	Investment holding
HEI Power (Malaysian) Ltd	A$52,510	100*	British Virgin Islands	Investment holding
Hong Kong Electric International Finance (Australia) Pty Limited	A$1	100*	Australia	Financing
HEI Transmission Finance (Australia) Pty Limited	A$12	100*	Australia	Financing
HEI Utilities Development Limited	A$280,010	100*	Bahamas	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
Kentson Limited	US$1	100*	British Virgin Islands	Investment holding
Alpha Central Profits Limited	US$1	100*	British Virgin Islands	Investment holding

* *Indirectly held*

Appendix 3

Principal Associates

The following list contains only the particulars of associates as at 31st December 2004 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
Ratchaburi Power Company, Limited ("RPC") (see note (e) below)	THB1,665,000,000	25%	Thailand	Electricity generation and supply

Notes:

(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 similar to Powercor Australia Group, is one of five electricity distributors in the State of Victoria, Australia.*

(e) *RPC is incorporated in Thailand and is principally engaged in the development, financing, construction, installation, testing, operation and maintenance of a power generating station in Thailand. Commitments in relation to the investment in this associate are included in note 27. On 27th February 2004, the shareholding of RPC was reduced from 26% to 25% after the finalisation of shareholding arrangements with five other shareholders.*