Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

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

The name of the Company was changed from Hongkong Electric Holdings Limited to Power Assets Holdings Limited. This change of name was approved by shareholders at the extraordinary general meeting held on 26th January 2011 and became effective on 16th February 2011, the date the certificate of change of name was issued by the Registrar of Companies of Hong Kong.

2. Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 33.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies *(continued)*

(c) Basis of consolidation

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

(d) Subsidiaries

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

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 2(e)).

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

(e) Associates and jointly controlled entities

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

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

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

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

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

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(e)).

(f) Goodwill

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

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

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

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

(g) Other investments in debt and equity securities

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies *(continued)*

(h) Derivative financial instruments

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

(i) Hedging

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

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

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

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

(iii) Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

(j) Fixed assets, depreciation and amortisation

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

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

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

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

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

(vi) The cost of acquiring land held under a finance lease is amortised on a straight-line basis over the period of the unexpired lease term.

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

	Years
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Photovoltaic systems	25
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk radio systems	15
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles and marine craft	5 to 6
Workshop tools and office equipment	5

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies *(continued)*

(k) Leased assets and operating lease charges

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

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

(l) Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For investments in subsidiaries recognised at cost and associates and jointly controlled entities recognised using the equity method (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(ii).
- For unquoted equity securities and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

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

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

Impairment losses are written off against the corresponding assets directly.

(ii) Impairment of other assets

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

– fixed assets; and

– goodwill.

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies *(continued)*

(l) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

– *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

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

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

(m) Inventories

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

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

(n) Trade and other receivables

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

(o) Interest-bearing borrowings

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

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

(p) Trade and other payables

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

(q) Cash and cash equivalents

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

(r) Employee benefits

(i) Short term employee benefits

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

(ii) Defined benefit retirement scheme obligations

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

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

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

(iii) Contributions to defined contribution retirement schemes

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

(s) Income tax

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies *(continued)*

(s) Income tax *(continued)*

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

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

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

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

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

When consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in profit or loss.

(ii) Other provisions and contingent liabilities

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

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

(u) Revenue recognition

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

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

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

(ii) Fuel Clause Recovery Account

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

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

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

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

(iii) Income recognition

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

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

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

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

(v) Translation of foreign currencies

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies *(continued)*

(v) Translation of foreign currencies *(continued)*

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

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

(w) Borrowing costs

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

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

(x) Related parties

(i) A person or a close member of that person's family is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions apply:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in 2(x)(i)(a).

(g) A person identified in 2(x)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(y) Segment reporting

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

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

3. Changes in accounting policies

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

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- Amendments to HK(IFRIC) 14, *HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*

The Group has not applied any new standard or interpretation that is not effective for the current accounting period.

The amendments to HK(IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group.

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements of HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 28 are consistent with the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4. Turnover

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

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

	2011 $ million	2010 $ million
Sales of electricity	10,140	10,338
Concessionary discount on sales of electricity	(6)	(6)
Electricity-related income	51	31
Technical service fees	16	8
	10,201	10,371

5. Other revenue and other net income

	2011 $ million	2010 $ million
Interest income from financial assets not at fair value through profit or loss	1,417	967
Dividend income from unlisted available-for-sale equity securities	40	33
Foreign exchange gain on loans and receivables	100	19
Net profit on sale of fixed assets	1	5
Sundry income	67	39
	1,625	1,063

6. Segment information

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

- Sales of electricity: this segment supplies electricity in Hong Kong.
- Infrastructure investments: this segment invests in electricity and other infrastructure projects and is segregated further into four reportable segments (Australia, United Kingdom, Mainland China and Others) on a geographical basis.
- All other activities: this segment represents other activities carried out by the Group.

The basis of accounting for the Group's segment information is the same as that for the Group's financial statements. The financial information about the Group's segments is set out in Appendix 1 on pages 124 to 125.

7. Finance costs

	2011 $ million	2010 $ million
Interest on overdrafts, bank loans and other borrowings repayable within 5 years	512	370
Interest on other borrowings repayable over 5 years	175	81
Less: Interest capitalised to fixed assets	(50)	(43)
Interest transferred to fuel cost	(20)	(17)
Total interest expense on financial liabilities not at fair value through profit or loss	617	391

Interest expenses have been capitalised at an average rate of approximately 1.9% per annum (2010: 1.7% per annum) for assets under construction.

8. Profit before taxation

	2011 $ million	2010 $ million
Profit before taxation is arrived at after charging:		
Depreciation	1,777	1,734
Amortisation of leasehold land	58	57
Costs of inventories	5,552	4,578
Write down of inventories	5	5
Staff costs	503	482
Fixed assets written off	39	46
Auditors' remuneration		
– audit and audit related work		
– KPMG	5	5
– other auditors	1	1
– non-audit work		
– KPMG	1	–
– other auditors	2	3

The consolidated profit attributable to equity shareholders of the Company includes a profit of $7,921 million (2010: $6,786 million) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

9. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2011 $ million	2010 $ million
Current tax – Hong Kong Profits Tax		
Provision for the year	625	797
Under provision in respect of prior years	–	1
	625	798
Current tax – operations outside Hong Kong		
Provision for the year	7	12
Tax credit for the year	(37)	(11)
	(30)	1
	595	799
Deferred tax (see note 26(b)(i))		
Origination and reversal of temporary differences	263	138
	858	937

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

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

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

	2011 $ million	2010 $ million
Profit before taxation	9,888	8,190
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	941	1,041
Tax effect of non-deductible expenses	161	29
Tax effect of non-taxable income	(243)	(132)
Tax effect on Rate Reduction Reserve rebated	(1)	(2)
Under provision in respect of prior years	–	1
Actual tax expense	858	937

10. Directors' emoluments and senior management emoluments

(a) Directors' emoluments

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

Name of Directors	Fees $ million	Basic salaries, allowances and other benefits $ million	Retirement scheme contributions $ million	Bonuses $ million	2011 Total emoluments $ million	2010 Total emoluments $ million
Executive Directors						
Fok Kin Ning, Canning[3]	0.12	0.75	–	–	0.87	0.77
Chairman						
Tso Kai Sum	0.07	7.87	–	10.00	17.94	16.60
Group Managing Director						
Chow Woo Mo Fong, Susan	0.07	0.08	–	–	0.15	0.15
Andrew John Hunter	0.07	0.08	–	–	0.15	0.15
Kam Hing Lam	0.07	0.05	–	–	0.12	0.12
Li Tzar Kuoi, Victor	0.07	0.49	–	–	0.56	0.57
Neil Douglas McGee[4]	0.07	4.12	0.36	2.70	7.25	7.08
Group Finance Director						
Frank John Sixt	0.07	0.07	–	–	0.14	0.14
Wan Chi Tin	0.07	4.45	0.01	4.04	8.57	9.17
Director of Engineering (Planning and Development)						
Yuen Sui See	0.07	3.37	0.01	1.80	5.25	6.13
Director of Operations						
Non-executive Directors						
Ronald Joseph Arculli[2]	0.14	0.05	–	–	0.19	0.19
Lee Lan Yee, Francis[1]	0.07	0.02	–	–	0.09	0.09
George Colin Magnus	0.07	0.03	–	–	0.10	0.10
Holger Kluge[1] [2]	0.14	–	–	–	0.14	0.14
Ralph Raymond Shea[1] [2] [3]	0.16	0.03	–	–	0.19	0.20
Wong Chung Hin[1] [2] [3]	0.16	0.07	–	–	0.23	0.24
Total for the year 2011	**1.49**	**21.53**	**0.38**	**18.54**	**41.94**	41.84
Total for the year 2010	1.49	20.12	1.69	18.54		41.84

Notes:

(1) Independent non-executive director.

(2) Member of the Audit Committee.

(3) Member of the Remuneration Committee.

(4) During the year, Mr. Neil Douglas McGee received director's fees of THB424,150 from Ratchaburi Power Company Limited, an associate of the Group. The director's fees received were paid back to the Company.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Senior management emoluments

The five highest paid individuals of the Group included four directors (2010: four) whose total emoluments are shown above. The emoluments of the other one individual (2010: one) who comprises the five highest paid individuals of the Group are set out below:

	2011 $ million	2010 $ million
Salary and other benefits	3.63	3.50
Retirement scheme contributions	0.60	0.57
	4.23	4.07

The total emoluments of the individual (2010: one) are within the following band:

	2011 Number	2010 Number
$4,000,001 to $4,500,000	1	1

11. Scheme of Control transfers

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

(a) Tariff Stabilisation Fund

	2011 $ million	2010 $ million
At 1st January	543	485
Transfer (to)/from the consolidated income statement	(46)	58
At 31st December	497	543

(b) Rate Reduction Reserve

	2011 $ million	2010 $ million
At 1st January	4	14
Transfer from the consolidated income statement	1	1
Rebate to customers	(4)	(11)
At 31st December	1	4

12. Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $9,075 million (2010: $7,194 million) and 2,134,261,654 ordinary shares (2010: 2,134,261,654 ordinary shares) in issue throughout the year.

There were no dilutive potential ordinary shares in existence during the years ended 31st December 2011 and 2010.

13. Fixed assets

The Group

$ million	Site formation and buildings	Plant, machinery and equipment	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total fixed assets
Cost:						
At 1st January 2010	13,704	56,979	2,540	73,223	2,815	76,038
Additions	2	635	1,792	2,429	2	2,431
Transfers between categories	80	2,014	(2,094)	–	–	–
Disposals	(1)	(403)	–	(404)	(1)	(405)
At 31st December 2010	13,785	59,225	2,238	75,248	2,816	78,064
At 1st January 2011	13,785	59,225	2,238	75,248	2,816	78,064
Additions	5	856	2,028	2,889	1	2,890
Transfers between categories	93	1,197	(1,290)	–	–	–
Disposals	–	(758)	–	(758)	–	(758)
At 31st December 2011	**13,883**	**60,520**	**2,976**	**77,379**	**2,817**	**80,196**
Accumulated amortisation and depreciation:						
At 1st January 2010	4,664	23,304	–	27,968	606	28,574
Written back on disposals	–	(336)	–	(336)	–	(336)
Charge for the year	242	1,603	–	1,845	57	1,902
At 31st December 2010	4,906	24,571	–	29,477	663	30,140
At 1st January 2011	4,906	24,571	–	29,477	663	30,140
Written back on disposals	–	(690)	–	(690)	–	(690)
Charge for the year	245	1,644	–	1,889	58	1,947
At 31st December 2011	**5,151**	**25,525**	**–**	**30,676**	**721**	**31,397**
Net book value:						
At 31st December 2011	**8,732**	**34,995**	**2,976**	**46,703**	**2,096**	**48,799**
At 31st December 2010	8,879	34,654	2,238	45,771	2,153	47,924

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to $50 million (2010: $43 million).

The Group's leasehold land at 31st December 2011 is held in Hong Kong and comprises long term and medium term leasehold land with carrying values of $42 million (2010: $42 million) and $2,054 million (2010: $2,111 million) respectively.

Depreciation charges for the year included $112 million (2010: $111 million), relating to assets utilised in development activities, which has been capitalised.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

14. Investments in subsidiaries

	The Company	
	2011 $ million	2010 $ million
Unlisted shares, at cost	2,776	2,776
Loan capital (see note below)	8,845	8,845
Amounts due from subsidiaries (see note below)	33,166	30,043
	44,787	41,664

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

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms but the Company is unlikely to demand payment within 12 months of the balance sheet date.

Particulars of the principal subsidiaries are set out in Appendix 2 on pages 126 to 127.

15. Interest in associates

	The Group	
	2011 $ million	2010 $ million
Share of net assets	17,681	17,117
Loans to unlisted associates (see note below)	11,966	11,958
Amounts due from unlisted associates (see note below)	424	397
	30,071	29,472

The loans to unlisted associates are unsecured, interest bearing at rates ranging from 9.95% per annum to 13.79% per annum (2010: 10.00% per annum to 13.79% per annum) and are not due within five years.

Included in the loans to unlisted associates are subordinated loans totalling $11,060 million (2010: $11,064 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates and they are treated as part of the investment in the associates.

The amounts due from unlisted associates are unsecured, interest free and have no fixed repayment terms but the Group is unlikely to demand payment within 12 months of the balance sheet date.

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

At 31st December 2011, the Group's interest in two associates of $10,964 million (2010: $9,982 million) had been pledged as part of the security to secure financing facilities granted to those associates.

The financial guarantees issued by the Company in respect of banking facilities available to associates have been disclosed in note 30.

Particulars of the principal associates are set out in Appendix 3 on page 128.

Summarised financial information (gross amount) based on the unaudited management accounts of the associates is as follows (100%):

	2011 $ million	2010 $ million
Assets	236,527	221,380
Liabilities	(190,670)	(177,005)
Equity	45,857	44,375
Revenues	47,083	31,451
Profit	6,625	4,047

16. Interest in jointly controlled entities

	The Group 2011 $ million	2010 $ million
Share of net assets	5,622	5,982
Amounts due from unlisted jointly controlled entities (see note below)	4	2
	5,626	5,984

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

At 31st December 2011, the Group's interest in a jointly controlled entity of $3,120 million (2010: $3,259 million) had been pledged as part of the security to secure financing facilities granted to that jointly controlled entity.

The financial guarantees issued by the Group in respect of banking facilities available to jointly controlled entities have been disclosed in note 30.

Particulars of the principal jointly controlled entities are set out in Appendix 4 on page 129.

Summarised financial information (gross amount) based on the unaudited management accounts of the jointly controlled entities is as follows (100%):

	2011 $ million	2010 $ million
Assets	17,485	17,504
Liabilities	(7,641)	(8,262)
Equity	9,844	9,242
Revenues	10,573	9,311
Profit	1,307	1,744

17. Other non-current financial assets

	The Group 2011 $ million	2010 $ million
Unlisted available-for-sale equity securities, at cost	67	67

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

18. Inventories

	The Group	
	2011	2010
	$ million	$ million
Coal, fuel oil and natural gas	780	433
Stores and materials (see note below)	335	314
	1,115	747

Included in stores and materials is capital stock of $221 million (2010: $212 million) which was purchased for future capital projects.

19. Trade and other receivables

	The Group		The Company	
	2011	2010	2011	2010
	$ million	$ million	$ million	$ million
Trade debtors (see note below)	637	637	–	–
Other receivables	427	425	13	4
	1,064	1,062	13	4
Derivative financial instruments				
– held as cash flow/fair value hedging instruments	16	74	–	–
Deposits and prepayments	21	46	3	1
	1,101	1,182	16	5

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

Other receivables of the Group include unbilled electricity charges of $379 million (2010: $370 million) to be received from electricity customers.

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

	The Group	
	2011	2010
	$ million	$ million
Current	597	582
1 to 3 months past due	26	37
More than 3 months past due but less than 12 months past due	14	18
Total trade debtors	637	637

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

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

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

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

20. Fuel Clause Recovery Account

The Fuel Clause Charges per unit for electricity sales was 30.2 cents from 1st January 2011 (2010: 25.4 cents). Movements on the Fuel Clause Recovery Account were as follows:

	The Group	
	2011	2010
	$ million	$ million
At 1st January	**569**	552
Transfer to profit or loss	**3,755**	2,794
Fuel Clause Charges during the year	**(3,289)**	(2,777)
At 31st December	**1,035**	569

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

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

21. Bank deposits and cash

(a) Bank deposits and cash comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	$ million	$ million	**$ million**	$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	**4,421**	5,802	**4,421**	5,802
Cash at bank and on hand	**101**	37	**68**	3
Bank overdrafts	**–**	(2)	**–**	–
Cash and cash equivalents in the consolidated cash flow statement	**4,522**	5,837		
Bank overdrafts	**–**	2	**–**	–
Deposit with banks and other financial institutions with more than 3 months to maturity when placed	**1,599**	–	**1,599**	–
Bank deposits and cash in the balance sheet	**6,121**	5,839	**6,088**	5,805

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21. Bank deposits and cash *(continued)*

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

	Note	2011 $ million	2010 $ million
Profit before taxation		9,888	8,190
Adjustments for:			
Share of profits less losses of associates		(3,717)	(1,391)
Share of profits less losses of jointly controlled entities		(476)	(508)
Interest income	5	(1,417)	(967)
Dividend income from unlisted available-for-sale equity securities	5	(40)	(33)
Finance costs	7	637	408
Depreciation	8	1,777	1,734
Amortisation of leasehold land	8	58	57
Fixed assets written off	8	39	46
Net profit on sale of fixed assets	5	(1)	(5)
Exchange (gains)/losses		(133)	49
Financial instrument revaluation gain		(1)	(58)
Changes in working capital:			
(Increase)/decrease in inventories		(359)	206
Decrease/(increase) in trade and other receivables		10	(32)
Increase in Fuel Clause Recovery Account		(466)	(17)
Increase in trade and other payables		1,442	33
Decrease/increase in net employee retirement benefit liabilities/assets		(97)	(91)
Cash generated from operations		7,144	7,621

22. Trade and other payables

	The Group		The Company	
	2011 $ million	2010 $ million	2011 $ million	2010 $ million
Creditors measured at amortised cost (see note below)	3,447	1,702	49	44
Derivative financial instruments – held as cash flow/fair value hedging instruments	4	–	–	–
	3,451	1,702	49	44

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

Creditors' ageing is analysed as follows:

	The Group	
	2011 $ million	2010 $ million
Due within 1 month or on demand	997	539
Due after 1 month but within 3 months	497	455
Due after 3 months but within 12 months	1,953	708
	3,447	1,702

23. Non-current bank loans and other interest-bearing borrowings

	The Group	
	2011	2010
	$ million	$ million
Bank loans	12,963	18,228
Current portion	(115)	(8,459)
	12,848	9,769
Hong Kong dollar notes (see note below)	4,826	3,786
United States dollar notes (see note below)	5,837	3,757
	10,663	7,543
Current portion	(502)	–
	10,161	7,543
Total	23,009	17,312

The Hong Kong dollar fixed rate notes bear interest at rates ranging between 3.28% to 4.55% per annum (2010: 3.28% to 4.55% per annum), while interest on the Hong Kong dollar floating rate notes is determined with reference to the Hong Kong Interbank Offered Rate. Details of the issuer of the Hong Kong dollar notes are set out in Appendix 2 on page 126.

The United States dollar fixed rate notes bear interest at 4.25% per annum (2010: 4.25% per annum). Details of the issuer of the United States dollar notes are set out in Appendix 2 on page 126.

Some banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31st December 2011 and 2010, none of the covenants relating to drawn down facilities had been breached.

None of the non-current interest-bearing borrowings is expected to be settled within one year. All the above borrowings are unsecured.

The borrowings are repayable as follows:

	The Group	
	2011	2010
	$ million	$ million
After 1 year but within 2 years	4,996	521
After 2 years but within 5 years	6,722	5,993
After 5 years	11,291	10,798
	23,009	17,312

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24. Derivative financial instruments

	The Group	
	2011	2010
	$ million	$ million
Derivative financial instruments used for hedging:		
– Cross currency swaps	**422**	(123)
– Interest rate swaps	**(245)**	40
– Foreign exchange forward contracts	**(89)**	102
Total	**88**	19
Current portion of derivative financial instruments (see notes 19 and 22)	**(12)**	(74)
	76	(55)
Represented by:		
Derivative financial instruments assets	**433**	77
Derivative financial instruments liabilities	**(357)**	(132)
	76	(55)

25. Employee retirement benefits

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

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

Another scheme is defined contribution in nature and offers its members choices to invest in various investment funds. One of the investment funds provides a guaranteed return and is accounted for as a defined benefit retirement scheme. The other investment funds, which do not offer a guaranteed return, are accounted for as defined contribution retirement schemes.

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

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

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

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

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include a long term yield gap, which is the long term expected rate of investment return net of salary increases, of 1.0% per annum, pension increases of 2.5% per annum, together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 1st January 2011. The valuation revealed that the aggregate vested liabilities exceeded the assets of the Pension Scheme which situation was addressed prior to year end.

The retirement scheme expense/income recognised in profit or loss for the year ended 31st December 2011 was determined in accordance with HKAS 19, *Employee benefits*.

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$ million	$ million	**$ million**	$ million
Present value of funded obligations	**(5,047)**	(4,323)	**(514)**	(428)
Fair value of assets of the Schemes	**4,297**	4,435	**317**	328
	(750)	112	**(197)**	(100)
Represented by:				
Employee retirement benefit assets	**273**	842	**–**	43
Employee retirement benefit liabilities	**(1,023)**	(730)	**(197)**	(143)
	(750)	112	**(197)**	(100)

The assets of the Schemes did not include ordinary shares issued by the Company for the years ended 31st December 2011 and 2010.

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

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$ million	$ million	**$ million**	$ million
At 1st January	**4,323**	4,976	**428**	529
Current service cost	**77**	92	**4**	7
Interest cost	**128**	123	**13**	13
Employee contributions paid to the Schemes	**17**	15	**1**	1
Actuarial losses/(gains)	**809**	(420)	**86**	(43)
Benefits paid	**(307)**	(463)	**(18)**	(76)
Intra-group transfer of members	**–**	–	**–**	(3)
At 31st December	**5,047**	4,323	**514**	428

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Employee retirement benefits *(continued)*

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

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$ million	$ million	**$ million**	$ million
At 1st January	**4,435**	4,563	**328**	378
Expected return on assets of the Schemes	**232**	242	**17**	21
Actuarial (losses)/gains	**(150)**	14	**(14)**	3
Employer contributions paid to the Schemes	**70**	64	**3**	4
Employee contributions paid to the Schemes	**17**	15	**1**	1
Benefits paid	**(307)**	(463)	**(18)**	(76)
Intra-group transfer of members	**–**	–	**–**	(3)
At 31st December	**4,297**	4,435	**317**	328

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

	2011	2010
	$ million	$ million
Current service cost	**77**	92
Interest cost	**128**	123
Expected return on assets of the Schemes	**(232)**	(242)
	(27)	(27)

The income is recognised in the following line items in the consolidated income statement:

	2011	2010
	$ million	$ million
Direct costs	**(20)**	(21)
Other operating costs	**(7)**	(6)
	(27)	(27)

The actual return on assets of the Schemes (taking into account all changes in the fair value of the assets of the Schemes excluding contributions paid and received) was a net profit of $83 million (2010: $256 million).

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

	2011 $ million	2010 $ million
At 1st January	802	1,236
Actuarial losses/(gains) recognised in the consolidated statement of comprehensive income during the year	959	(434)
At 31st December	1,761	802

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

	The Group and the Company	
	2011	2010
Hong Kong equities	5.5%	6.1%
Europe equities	2.8%	4.3%
North America equities	7.8%	7.4%
Other Asia Pacific equities	3.0%	3.4%
Global bonds	70.0%	76.7%
Deposits, cash and others	10.9%	2.1%
	100%	100%

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

	The Group and the Company	
	2011	2010
Discount rate	1.5%	3.0%
Expected rate of return on assets of the Schemes	4.2% – 5.3%	4.9% – 5.9%
Long term salary increase rate	5.0%	5.0%
Future pension increase rate	2.5%	2.5%

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

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

	The Group					The Company				
$ million	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
Present value of funded obligations	(5,047)	(4,323)	(4,976)	(5,995)	(4,510)	(514)	(428)	(529)	(613)	(464)
Fair value of assets of the Schemes	4,297	4,435	4,563	4,458	5,086	317	328	378	349	421
(Deficit)/surplus	(750)	112	(413)	(1,537)	576	(197)	(100)	(151)	(264)	(43)
Experience adjustments on:										
Scheme liabilities	(34)	49	107	21	(26)	(6)	5	9	(4)	(8)
Scheme assets	(150)	14	168	(686)	387	(14)	3	19	(76)	23

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Employee retirement benefits *(continued)*

(b) Defined contribution retirement scheme

	2011 $ million	2010 $ million
Expenses recognised in the consolidated income statement	31	34

Forfeited contributions of $4 million have been received during the year (2010: $2 million).

26. Income tax in the balance sheet

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2011 $ million	2010 $ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	625	797
Provisional Profits Tax paid	(407)	(640)
	218	157
Operations outside Hong Kong		
Tax provision for the year	7	12
Provisional tax paid	(9)	(6)
	(2)	6
Current tax payable	218	163
Current tax recoverable	(2)	–
	216	163

(b) Deferred tax assets and liabilities recognised:

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

The Group

$ million	Depreciation allowances in excess of the related depreciation	Fuel Clause Recovery Account	Defined Benefit Retirement Schemes	Others	Total
At 1st January 2010	5,538	91	–	(9)	5,620
Charged to profit or loss	135	3	–	–	138
Charged to other comprehensive income	–	–	–	13	13
At 31st December 2010	5,673	94	–	4	5,771
At 1st January 2011	5,673	94	–	4	5,771
Charged to profit or loss	173	77	13	–	263
Credited to other comprehensive income	–	–	(158)	(80)	(238)
At 31st December 2011	5,846	171	(145)	(76)	5,796

(ii) Reconciliation to the balance sheets:

	The Group		The Company	
	2011 $ million	2010 $ million	2011 $ million	2010 $ million
Net deferred tax assets recognised on the balance sheet	(87)	–	(18)	–
Net deferred tax liabilities recognised on the balance sheet	5,883	5,771	–	–
	5,796	5,771	(18)	–

The Group and the Company had no material unprovided deferred tax assets or liabilities as at 31st December 2011 and 2010.

27. Capital, reserves and dividends

(a) Movements in components of equity

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

The Company

$ million	Share capital (note 27(c))	Share premium (note 27(d)(i))	Revenue reserve (note 27(d)(iv))	Proposed/ declared dividend (note 27(b))	Total
Balance at 1st January 2010	2,134	4,476	35,211	3,180	45,001
Changes in equity for 2010:					
Profit for the year	–	–	6,786	–	6,786
Other comprehensive income	–	–	46	–	46
Total comprehensive income	–	–	6,832	–	6,832
Final dividend in respect of the previous year approved and paid (see note 27(b)(ii))	–	–	–	(3,180)	(3,180)
Interim dividend paid (see note 27(b)(i))	–	–	(1,323)	–	(1,323)
Proposed final dividend (see note 27(b)(i))	–	–	(3,180)	3,180	–
Balance at 31st December 2010 and 1st January 2011	2,134	4,476	37,540	3,180	47,330
Changes in equity for 2011:					
Profit for the year	–	–	7,921	–	7,921
Other comprehensive income	–	–	(85)	–	(85)
Total comprehensive income	–	–	7,836	–	7,836
Final dividend in respect of the previous year approved and paid (see note 27(b)(ii))	–	–	–	(3,180)	(3,180)
Interim dividend paid (see note 27(b)(i))	–	–	(1,323)	–	(1,323)
Proposed final dividend (see note 27(b)(i))	–	–	(3,628)	3,628	–
Balance at 31st December 2011	2,134	4,476	40,425	3,628	50,663

All of the Company's revenue reserve is available for distribution to equity shareholders. After the balance sheet date, the Directors proposed a final dividend of $1.7 (2010: $1.49) per ordinary share, amounting to $3,628 million (2010: $3,180 million).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Capital, reserves and dividends *(continued)*

(b) Dividends

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

	2011 $ million	2010 $ million
Interim dividend declared and paid of $0.62 per ordinary share (2010: $0.62 per ordinary share)	1,323	1,323
Final dividend proposed after the balance sheet date of $1.7 per ordinary share (2010: $1.49 per ordinary share)	3,628	3,180
	4,951	4,503

The final dividend proposed after the balance sheet date is based on 2,134,261,654 ordinary shares (2010: 2,134,261,654 ordinary shares), being the total number of issued shares at the year end. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2011 $ million	2010 $ million
Final dividend in respect of the previous financial year, approved and paid during the year, of $1.49 per ordinary share (2010: $1.49 per ordinary share)	3,180	3,180

(c) Share capital

		The Company	
	Number of shares	2011 $ million	2010 $ million
Authorised:			
Ordinary shares of $1 each	3,300,000,000	3,300	3,300
Issued and fully paid:			
Ordinary shares of $1 each	2,134,261,654	2,134	2,134

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

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 2(i)(iii) and 2(v).

(iii) Hedging reserve

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

(iv) Revenue reserve

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

(e) Capital management

The Group's primary objectives when managing capital are:

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

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

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

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

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

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

During 2011, the Group's strategy, which was unchanged from 2010, was to control its level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-equity ratio at 31st December 2011 and 2010 was as follows:

	The Group	
	2011	2010
	$ million	$ million
Bank loans and other interest-bearing borrowings	**23,626**	25,773
Less: Bank deposits and cash	**(6,121)**	(5,839)
Net debt	**17,505**	19,934
Total equity	**57,873**	56,137
Net debt-to-equity ratio	**30%**	36%

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Financial risk management and fair values

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

(a) Credit risk

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

In respect of trade and other receivables relating to electricity customers, HEC, a wholly-owned subsidiary, obtains collateral in the form of security deposits from customers in accordance with the Supply Rules. The security deposits covered $406 million of trade and other receivables at 31st December 2011. The credit policy is set out in note 19.

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. Except for the financial guarantees given by the Group as set out in note 30, the Group has not provided any other guarantee which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 30.

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

(b) Liquidity risk

The Group operates a central cash management system for all its subsidiaries in order to achieve a better control of risk and minimise the costs of funds. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding to meet its liquidity requirements in the short and longer term. The Group had undrawn committed bank facilities of $6,500 million at 31st December 2011 (2010: $6,500 million).

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

The Group

	2011 Contractual undiscounted cash outflow/(inflow)					
$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
Bank loans and other borrowings and interest accruals	1,348	5,687	8,655	12,748	28,438	23,705
Trade and other payables (excluding interest accruals)	3,341	–	–	–	3,341	3,341
Interest rate swaps (net settled) and related interest accruals	25	16	49	1	91	267
Cross currency swaps and related interest accruals						(432)
– outflow	117	117	350	467	1,051	
– inflow	(248)	(248)	(744)	(992)	(2,232)	
	4,583	5,572	8,310	12,224	30,689	26,881
Derivatives settled gross:						
Foreign exchange forward contracts held as cash flow hedging instruments (note 28(d)(i)):						(7)
– outflow	3,040	66	–	–	3,106	
– inflow	(3,048)	(64)	–	–	(3,112)	
Other foreign exchange forward contracts (notes 28(d)(ii) and 28(d)(iii)):						95
– outflow	992	–	6,095	1,829	8,916	
– inflow	(996)	–	(6,022)	(1,821)	(8,839)	

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Financial risk management and fair values *(continued)*

(b) Liquidity risk *(continued)*

$ million	2010 Contractual undiscounted cash outflow/(inflow) Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
Bank loans and other borrowings and interest accruals	9,092	1,077	7,625	12,361	30,155	25,844
Trade and other payables (excluding interest accruals)	1,622	–	–	–	1,622	1,622
Interest rate swaps (net settled) and related interest accruals	(2)	(3)	–	–	(5)	(38)
Cross currency swaps and related interest accruals						118
– outflow	69	69	207	346	691	
– inflow	(165)	(165)	(495)	(827)	(1,652)	
	10,616	978	7,337	11,880	30,811	27,546
Derivatives settled gross:						
Foreign exchange forward contracts held as cash flow hedging instruments (note 28(d)(i)):						(27)
– outflow	2,186	66	–	–	2,252	
– inflow	(2,210)	(70)	–	–	(2,280)	
Other foreign exchange forward contracts (notes 28(d)(ii) and 28(d)(iii)):						(75)
– outflow	1,821	4	2,404	–	4,229	
– inflow	(1,867)	(4)	(2,410)	–	(4,281)	

The Company

$ million	2011 Contractual undiscounted cash outflow Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
Trade and other payables	49	–	–	–	49	49

$ million	2010 Contractual undiscounted cash outflow Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
Trade and other payables	44	–	–	–	44	44

(c) Interest rate risk

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

(i) Hedging

The Group's policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Group also uses cross currency swaps and interest rate derivatives to manage the exposure in accordance with its treasury policy. At 31st December 2011, the Group had cross currency swaps with a total notional amount of $5,826 million (2010: $3,882 million) and interest rate swaps with a total notional amount of $8,638 million (2010: $5,521 million).

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

The fair values of cross currency swaps entered into by the Group at 31st December 2011 were recognised as derivative financial instrument assets and liabilities amounting to $433 million (2010: Nil) and $11 million (2010: $123 million) respectively. The fair values of interest rate swaps entered into by the Group at 31st December 2011 were recognised as derivative financial instrument assets and liabilities amounting to $2 million (2010: $49 million) and $247 million (2010: $9 million) respectively.

(ii) Interest rate profile

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

	The Group			
	2011		2010	
	Weighted average interest rate %	$ million	Weighted average interest rate %	$ million
Net fixed rate assets/(liabilities)				
Loans to unlisted associates	10.9	11,966	10.9	11,958
Bank loans and other borrowings	3.0	(10,587)	4.9	(9,081)
		1,379		2,877
Net variable rate assets/(liabilities)				
Cash at bank and on hand	< 0.1	101	2.2	37
Deposits with banks and other financial institutions	1.9	6,020	0.7	5,802
Bank overdrafts – unsecured	–	–	5.0	(2)
Bank loans and other borrowings	1.0	(13,039)	0.9	(16,690)
Customers' deposits	< 0.1	(1,801)	< 0.1	(1,748)
		(8,719)		(12,601)

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(Expressed in Hong Kong dollars unless otherwise indicated)

28. Financial risk management and fair values *(continued)*

(c) Interest rate risk *(continued)*

(ii) Interest rate profile *(continued)*

	The Company			
	2011		2010	
	Weighted average interest rate %	$ million	Weighted average interest rate %	$ million
Variable rate assets				
Cash at bank and on hand	< 0.1	68	< 0.1	3
Deposits with banks and other financial institutions	1.9	6,020	0.7	5,802
		6,088		5,805

(iii) Sensitivity analysis

At 31st December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit for the year and revenue reserve by approximately $59 million (2010: decreased/increased by approximately $24 million). Other components of consolidated equity would have increased/decreased by approximately $270 million (2010: increased/decreased by approximately $117 million) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2010.

(d) Currency risk

(i) Committed and forecast transactions

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

The Group uses forward exchange contracts to manage its foreign currency risk and classifies these as cash flow hedges. At 31st December 2011, the Group had forward exchange contracts hedging committed and forecast transactions with a net fair asset value of $6 million (2010: $27 million) recognised as derivative financial instruments.

(ii) Recognised assets and liabilities

The net fair value of forward exchange contracts used by the Group as economic hedges of monetary assets and liabilities in foreign currencies at 31st December 2011 was a net asset of $4 million (2010: $18 million) recognised as derivative financial instruments.

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

(iii) Investments outside Hong Kong

Currency exposure arising from investments outside Hong Kong is mitigated in part either by funding a portion of the investment through external borrowings in the same currency as the underlying investment or by hedging with forward exchange contracts. The fair value of such borrowings at 31st December 2011 was $4,844 million (2010: $4,775 million). The fair value of forward exchange contracts at 31st December 2011 was a liability of $99 million (2010: asset $57 million).

(iv) Exposure to currency risk

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

The Group

	2011 Exposure to foreign currencies				
'million	USD	JPY	GBP	AUD	SGD
Trade and other receivables	1	–	–	–	–
Bank deposits and cash	572	15	55	8	–
Trade and other payables	(80)	(2,313)	(1)	–	–
Interest-bearing borrowings	(750)	–	–	–	–
Gross exposure arising from recognised assets and liabilities	(257)	(2,298)	54	8	–
Notional amounts of forward exchange contracts used as economic hedges	28	1,093	1	–	–
Notional amounts of cross currency swaps	750	–	–	–	–
Net exposure arising from recognised assets and liabilities	521	(1,205)	55	8	–
Estimated forecast purchases (see note below)	(599)	(1,962)	(2)	–	(4)
Gross exposure arising from forecast transactions	(599)	(1,962)	(2)	–	(4)
Notional amounts of forward exchange contracts used as cash flow hedging instruments	364	2,201	2	–	3
Net exposure arising from forecast transactions	(235)	239	–	–	(1)
Overall net exposure	286	(966)	55	8	(1)

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Financial risk management and fair values *(continued)*

(d) Currency risk *(continued)*

(iv) Exposure to currency risk *(continued)*

'million	2010 Exposure to foreign currencies USD	JPY	GBP	AUD	SGD
Trade and other receivables	–	4	–	–	–
Bank deposits and cash	248	11	23	4	–
Trade and other payables	(27)	(3,235)	(2)	–	–
Interest-bearing borrowings	(500)	–	–	–	–
Gross exposure arising from recognised assets and liabilities	(279)	(3,220)	21	4	–
Notional amounts of forward exchange contracts used as economic hedges	19	2,571	–	–	–
Notional amounts of cross currency swaps	500	–	–	–	–
Net exposure arising from recognised assets and liabilities	240	(649)	21	4	–
Estimated forecast purchases (see note below)	(546)	(4,178)	(2)	–	(3)
Gross exposure arising from forecast transactions	(546)	(4,178)	(2)	–	(3)
Notional amounts of forward exchange contracts used as cash flow hedging instruments	253	2,952	2	–	3
Net exposure arising from forecast transactions	(293)	(1,226)	–	–	–
Overall net exposure	(53)	(1,875)	21	4	–

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

The Company

'million	2011 Exposure to foreign currencies USD	GBP	AUD
Trade and other receivables	1	–	–
Bank deposits and cash	572	55	8
Gross exposure arising from recognised assets and liabilities	573	55	8
Notional amounts of forward exchange contracts used as economic hedges	–	–	–
Net exposure arising from recognised assets and liabilities	573	55	8

'million	2010 Exposure to foreign currencies USD	GBP	AUD
Bank deposits and cash	248	23	4
Gross exposure arising from recognised assets and liabilities	248	23	4
Notional amounts of forward exchange contracts used as economic hedges	–	–	–
Net exposure arising from recognised assets and liabilities	248	23	4

(v) Sensitivity analysis

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

The Group

	2011		2010	
$ million	Effect on profit for the year and revenue reserve increase/ (decrease)	Effect on other components of equity increase/ (decrease)	Effect on profit for the year and revenue reserve increase/ (decrease)	Effect on other components of equity increase/ (decrease)
Japanese yen	–	19	–	23
Sterling pounds	67	1	25	2
Australian dollars	7	–	3	–
Singapore dollars	–	1	–	1

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

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to currency risk at the balance sheet date, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit for the year and other components of equity measured in their respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis has been performed on the same basis as for 2010.

(e) Equity price risk

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

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

These unlisted investments do not have a quoted market price in an active market and are stated at cost. Any increase or decrease in impairment losses in respect of these investments would affect the Group's net profit. As at the balance sheet date, none of these unlisted investments was considered to be impaired. The review has been performed on the same basis as for 2010.

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28. Financial risk management and fair values *(continued)*

(f) Fair value

(i) Financial instruments carried at fair value

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

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

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

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

	The Group	
	Level 2	
	2011 $ million	2010 $ million
Assets		
Derivative financial instruments:		
– Interest rate swaps	2	49
– Forward exchange contracts	14	102
– Cross currency swaps	433	–
	449	151
Liabilities		
Derivative financial instruments:		
– Interest rate swaps	(247)	(9)
– Forward exchange contracts	(103)	–
– Cross currency swaps	(11)	(123)
Bank loans subject to fair value hedges	(5,147)	(3,486)
	(5,508)	(3,618)

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

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

(g) Estimation of fair values

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

(i) Securities

Unquoted equity investments do not have a quoted market price in an active market and are measured at cost as their fair value cannot be measured reliably.

(ii) Derivatives

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

(iii) Bank loans and other interest-bearing borrowings

The fair value of bank loans and other interest-bearing borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The carrying amounts of bank loans and other interest-bearing borrowings are estimated to approximate their fair value at the balance sheet date.

29. Capital commitments

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

	The Group	
	2011	2010
	$ million	$ million
Contracted for:		
Capital expenditure for fixed assets	1,565	1,576
Investment in associates	–	465
	1,565	2,041
Authorised but not contracted for:		
Capital expenditure for fixed assets	9,348	9,377

30. Contingent liabilities

	The Group		The Company	
	2011	2010	2011	2010
	$ million	$ million	$ million	$ million
Financial guarantees issued in respect of banking facilities available to (see note below):				
– Subsidiaries	–	–	7,891	13,190
– Associates	–	1,685	–	1,272
Other guarantees given in respect of:				
– Subsidiaries	5	10	270	10
– Associates	1,144	431	1,144	431
	1,149	2,126	9,305	14,903

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30. Contingent liabilities *(continued)*

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

31. Material related party transactions

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

(a) Shareholder

(i) On 17th June 2011, a wholly owned subsidiary of the Company entered into an agreement with a wholly owned subsidiary of Cheung Kong Infrastructure Holdings Limited ("CKI"), a substantial shareholder holding approximately 38.87% of the issued shares of the Company. Pursuant to the agreement, the subsidiary of the Company undertook a turnkey solution project for the subsidiary of CKI at a consideration of $26 million. The project is expected to be completed in February 2013.

(ii) Outram Limited ("Outram"), a subsidiary of the Company, reimbursed CKI $35 million (2010: $33 million) being the actual costs incurred for providing the operation and management services to Outram and its subsidiaries for the year.

On 30th September 2011, Outram issued a notice to an indirect wholly owned subsidiary of CKI, to extend the term of the operation and management services contract which will expire on April 2012 for a further three-year period, renewable thereafter with the same contract terms.

(b) Associates

(i) Interest income received/receivable from associates in respect of the loans to associates amounted to $1,362 million (2010: $938 million) for the year. At 31st December 2011, the total outstanding interest-bearing loan balances due from associates were $11,966 million (2010: $11,958 million). The outstanding balances with associates are disclosed in note 15.

(ii) A wholly owned subsidiary of the Company received $37 million (2010: $11 million) from an associate in respect of the tax credit claimed under the consortium relief in the United Kingdom.

(c) Key management personnel remuneration

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$ million	$ million	**$ million**	$ million
Short-term employee benefits	**65**	64	**41**	39
Post-employment benefits	**4**	5	**1**	2
	69	69	**42**	41

Total remuneration is included in "staff costs" (see note 8). At 31st December 2011 and 2010, there was no amount due from the key management personnel.

32. Substantial shareholder of the Company

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

33. Critical accounting judgements and estimates

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

(a) Depreciation and amortisation

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

(b) Impairment

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

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

34. Possible impact of amendments and new standards issued but not yet effective for the year ended 31st December 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31st December 2011 and which have not been adopted in these financial statements.

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

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial Instruments: Disclosures – Transfers of financial assets*	1st July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1st January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1st July 2012
HKAS 19 (revised), *Employee benefits*	1st January 2013
HKAS 27, *Separate financial statements (2011)*	1st January 2013
HKAS 28, *Investments in associates and joint ventures*	1st January 2013
HKFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*	1st January 2013
HKFRS 10, *Consolidated financial statements*	1st January 2013
HKFRS 11, *Joint arrangements*	1st January 2013
HKFRS 12, *Disclosure of interests in other entities*	1st January 2013
HKFRS 13, *Fair value measurement*	1st January 2013
HKAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*	1st January 2014
HKFRS 9, *Financial instruments*	1st January 2015

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Appendix 1
Segment information

$ million	Sales of electricity Hong Kong	2011 Infrastructure investments: Australia	United Kingdom	Mainland China	Others	Sub-total	All other activities	Total
For the year ended 31st December								
Revenue								
Group turnover	10,185	–	–	–	–	–	16	10,201
Other revenue and other net income	50	–	–	40	81	121	37	208
Reportable segment revenue	10,235	–	–	40	81	121	53	10,409
Result								
Segment earnings	7,410	–	–	13	87	100	(780)	6,730
Depreciation and amortisation	(1,837)	–	–	–	–	–	2	(1,835)
Interest income	–	631	487	–	244	1,362	55	1,417
Operating profit	5,573	631	487	13	331	1,462	(723)	6,312
Finance costs	(249)	(316)	(52)	–	–	(368)	–	(617)
Share of profits less losses of associates and jointly controlled entities	–	528	3,086	498	79	4,191	2	4,193
Profit before taxation	5,324	843	3,521	511	410	5,285	(721)	9,888
Income tax	(889)	–	37	(4)	–	33	(2)	(858)
Profit after taxation	4,435	843	3,558	507	410	5,318	(723)	9,030
Scheme of Control transfers	45	–	–	–	–	–	–	45
Reportable segment profit	4,480	843	3,558	507	410	5,318	(723)	9,075
At 31st December								
Assets								
Fixed assets	48,848	–	–	–	–	–	(49)	48,799
Other assets	3,932	69	–	67	–	136	45	4,113
Interest in associates and jointly controlled entities	–	7,566	19,017	5,851	3,255	35,689	8	35,697
Bank deposits and cash	24	–	–	–	–	–	6,097	6,121
Reportable segment assets	52,804	7,635	19,017	5,918	3,255	35,825	6,101	94,730
Liabilities								
Segment liabilities	(5,199)	(273)	(199)	(4)	–	(476)	(957)	(6,632)
Current and deferred taxation	(6,101)	–	–	–	–	–	–	(6,101)
Interest-bearing borrowings	(15,774)	(4,823)	(3,029)	–	–	(7,852)	–	(23,626)
Rate Reduction Reserve	(1)	–	–	–	–	–	–	(1)
Tariff Stabilisation Fund	(497)	–	–	–	–	–	–	(497)
Reportable segment liabilities	(27,572)	(5,096)	(3,228)	(4)	–	(8,328)	(957)	(36,857)
For the year ended 31st December								
Other information								
Capital expenditure	2,888	–	–	–	–	–	2	2,890

$ million	Sales of electricity Hong Kong	2010 Infrastructure investments					All other activities	Total
		Australia	United Kingdom	Mainland China	Others	Sub-total		
For the year ended 31st December								
Revenue								
Group turnover	10,363	–	–	–	–	–	8	10,371
Other revenue and other net income	34	–	–	33	–	33	29	96
Reportable segment revenue	10,397	–	–	33	–	33	37	10,467
Result								
Segment earnings	7,522	–	–	6	–	6	(22)	7,506
Depreciation and amortisation	(1,794)	–	–	–	–	–	3	(1,791)
Interest income	–	565	126	–	248	939	28	967
Operating profit	5,728	565	126	6	248	945	9	6,682
Finance costs	(113)	(264)	(14)	–	–	(278)	–	(391)
Share of profits less losses of associates and jointly controlled entities	–	455	876	532	34	1,897	2	1,899
Profit before taxation	5,615	756	988	538	282	2,564	11	8,190
Income tax	(936)	–	11	(3)	–	8	(9)	(937)
Profit after taxation	4,679	756	999	535	282	2,572	2	7,253
Scheme of Control transfers	(59)	–	–	–	–	–	–	(59)
Reportable segment profit	4,620	756	999	535	282	2,572	2	7,194
At 31st December								
Assets								
Fixed assets	47,976	–	–	–	–	–	(52)	47,924
Other assets	3,251	53	57	67	–	177	56	3,484
Interest in associates and jointly controlled entities	–	7,903	17,630	6,196	3,719	35,448	8	35,456
Bank deposits and cash	9	–	–	–	–	–	5,830	5,839
Reportable segment assets	51,236	7,956	17,687	6,263	3,719	35,625	5,842	92,703
Liabilities								
Segment liabilities	(4,035)	(38)	(28)	(3)	–	(69)	(208)	(4,312)
Current and deferred taxation	(5,919)	(9)	–	–	–	(9)	(6)	(5,934)
Interest-bearing borrowings	(12,589)	(4,775)	(8,409)	–	–	(13,184)	–	(25,773)
Rate Reduction Reserve	(4)	–	–	–	–	–	–	(4)
Tariff Stabilisation Fund	(543)	–	–	–	–	–	–	(543)
Reportable segment liabilities	(23,090)	(4,822)	(8,437)	(3)	–	(13,262)	(214)	(36,566)
For the year ended 31st December								
Other information								
Capital expenditure	2,431	–	–	–	–	–	–	2,431

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Appendix 2

Principal subsidiaries

The following list contains only the particulars of subsidiaries as at 31st December 2011 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Issued share capital and debt securities	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
The Hongkong Electric Company, Limited	HK$2,411,600,000	100	Hong Kong	Electricity generation and supply
Associated Technical Services Limited	HK$1,000,000	100	Hong Kong	Consulting
Power Assets (Electric Vehicles) Company Limited (formerly known as HEH (Electric Vehicles) Company Limited)	HK$1	100	Hong Kong	Leasing of electric vehicles
Hongkong Electric (Natural Gas) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Power Assets Investments Limited	US$50,900	100	British Virgin Islands	Investment holding
Hongkong Electric Finance Limited	US$1 and HK$4,510 million Hong Kong dollar notes US$750 million United States dollar notes (see note 23)	100*	British Virgin Islands/ Hong Kong	Financing
PAI Investment Holdings Limited (formerly known as HEI Investment Holdings Limited)	HK$2	100*	Hong Kong	Investment holding
Sigerson Business Corp.	US$101	100*	British Virgin Islands	Investment holding
PAI Utilities (Malaysian) Limited (formerly known as HEI Utilities (Malaysian) Limited)	A$637,510	100*	British Virgin Islands	Investment holding
PAI Power (Malaysian) Limited (formerly known as HEI Power (Malaysian) Limited)	A$52,510	100*	British Virgin Islands	Investment holding
Hong Kong Electric International Finance (Australia) Pty Limited	A$1	100*	Australia	Financing
HEI Transmission Finance (Australia) Pty Limited	A$50,012	100*	Australia	Financing
HEI Distribution Finance (Australia) Pty Limited	A$50,100	100*	Australia	Financing

* Indirectly held

Name of company	Issued share capital and debt securities	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
Riverland Investment Limited	US$1	100*	British Virgin Islands	Investment holding
PAI International Power (Mauritius) Limited (formerly known as Hongkong Electric International Power (Mauritius) Limited)	US$2	100*	Mauritius	Investment holding
Kentson Limited	US$1	100*	British Virgin Islands	Investment holding
Beta Central Profits Limited	GBP63,772,525	100*	United Kingdom	Investment holding
PAI China Limited (formerly known as HEI China Limited)	US$1	100*	British Virgin Islands	Investment holding
Hongkong Electric Yunnan Dali Wind Power Company Limited	HK$1	100*	Hong Kong	Investment holding
Dako International Limited	US$1 and C$53,550,000	100*	British Virgin Islands	Investment holding
More Advance Development Limited	HK$200,010,000	100*	Hong Kong	Financing
PAI Tap Limited S.A. (formerly known as HEI Tap Limited S.A.)	C$53,550,000	100*	Belgium	Investment holding
Kongwell Development Limited	HK$1	100*	Hong Kong	Financing
Kindmax Enterprises Limited	HK$1	100*	Hong Kong	Financing
Goldteam Resources Limited	US$1 and NZ$58,500,000	100*	British Virgin Islands	Investment holding
HEI Leting Limited	HK$1	100*	Hong Kong	Investment holding
Outram Limited	US$1	100*	British Virgin Islands	Investment holding
Divo Investments Limited	US$1	100*	British Virgin Islands	Investment holding
Superb Year Limited	US$2	100*	British Virgin Islands	Investment holding
Vanora Holdings Limited	US$1	100*	British Virgin Islands	Financing
Framework Investments Limited	US$1 and GBP320,872,000	100*	British Virgin Islands	Investment holding
Devin International Limited	US$1 and GBP711,200,000	100*	British Virgin Islands	Investment holding

* Indirectly held

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Appendix 3
Principal associates

The following list contains only the particulars of associates as at 31st December 2011 which principally affected the results or assets of the Group:

Name of associate	Issued share capital	Percentage of the Group's effective interest	Place of incorporation/ operation	Principal activity
Secan Limited	HK$10	20%	Hong Kong	Property development
CKI Spark Holdings No. One Limited (note (a))	A$201,800,174	54.76%	Bahamas/ Australia	Electricity distribution
CKI Spark Holdings No. Two Limited (note (b))	A$498,038,537	54.76%	Bahamas/ Australia	Electricity distribution
Ratchaburi Power Company Limited (note (c))	THB7,325,000,000	25%	Thailand	Electricity generation and supply
Northern Gas Networks Holdings Limited (note (d))	GBP571,670,980	41.29%	United Kingdom	Gas distribution
Stanley Power Inc. (note (e))	Ordinary shares C$107,000,000	50%	Canada	Electricity generation
Wellington Electricity Distribution Network Holdings Limited (note (f))	NZ$117,000,100	50%	New Zealand	Electricity distribution
Electricity First Limited (note (g))	GBP4	50%	United Kingdom	Electricity generation
UK Power Networks Holdings Limited (note (h))	GBP1,778,000,000	40%	United Kingdom	Electricity distribution
Huaneng Hongkong Electric Dali Wind Power Company Limited (note (i))	RMB150,690,000	45%	People's Republic of China	Electricity generation
Huaneng Laoting Wind Power Company Limited (note (j))	RMB185,280,000	45%	People's Republic of China	Electricity generation

Notes:

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

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

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

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

(e) Stanley Power Inc. holds a 49.99% partnership interest in TransAlta Cogeneration L.P.. TransAlta Cogeneration L.P. owns interests in five gas-fired cogeneration facilities in Alberta, Ontario and Saskatchewan and in a coal-fired, mine-mouth generation facility in Alberta, Canada. In April 2011, Stanley Power Inc. acquired the remaining interest in one of the gas-fired plants, the 220MW Meridian Power Station in Saskatchewan. As at 31 December 2011, Stanley Power Inc holds a 100% interest in the Meridian Power Station.

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

(g) Electricity First Limited holds a 50% stake in Seabank Power Limited, an electricity-generating company located near Bristol in the United Kingdom.

(h) UK Power Networks Holdings Limited owns and operates three regulated electricity distribution networks in the United Kingdom that cover London, South East England and East England. The power networks also include certain non-regulated electricity distribution businesses in the United Kingdom, which consist predominantly of commercial contracts to distribute electricity to a number of privately owned sites, including certain major airports and railway systems.

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

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

Appendix 4
Principal jointly controlled entities

The following list contains only the particulars of jointly controlled entities as at 31st December 2011 which principally affected the results or assets of the Group:

Name of joint venture	Issued or registered share capital	Percentage of the Group's effective interest	Place of incorporation/ operation	Principal activity
Guangdong Zhuhai Power Station Company Limited (note (a))	RMB1,765,000,000 and US$166,000,000	45%	People's Republic of China	Electricity generation
Guangdong Zhuhai Jinwan Power Company Limited (note (b))	RMB822,250,000 and US$83,340,993	45%	People's Republic of China	Electricity generation

Notes:

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

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