

Beta Central Profits Limited

Annual report and accounts
for the year ended 31 December 2009

Registered number 6297913

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Directors' report

For the year ended 31 December 2009

The directors present their Annual Report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 2009

Principal activity

The principal activity of the company is to hold and manage an investment in Northern Gas Networks Holdings Limited (NGNH)

Business review

As shown in the profit and loss account the company has made a loss of £4,257,000 (2008 – profit of £18,292,000) in the year. This has resulted in a corresponding decrease in net assets in the balance sheet year on year.

On 5 November 2009 the company sold its 100% shareholding in Goldia Resources Limited, for £12.1m to its parent company Kentson Limited.

On 18 November 2009 the company acquired an additional 6.2% shareholding in NGNH resulting in a total shareholding of 41.3% for consideration of £35.4m, funded through an interest bearing loan. This loan was converted into 10.55% per annum interest bearing loan notes, issued by the company on 1 February 2010, and listed on the Channel Islands Stock Exchange on 2 February 2010.

The company is managed by Hongkong Electric Holdings Limited as part of the overall group. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of Hongkong Electric Holdings Limited is discussed in that company's Annual Report which does not form part of this report.

Principal risks and uncertainties

The company is financed by intercompany loans and listed loan notes. The risks and uncertainties of the company reflect those associated with these loans as discussed below.

Future outlook

The directors expect the company to make a profit in the forthcoming year.

Financial risk management objectives and policies

The company's financial instruments comprise intercompany loans, listed loan notes and cash.

The main qualitative and quantitative risk arising from the company's financial instruments is liquidity risk as summarised below along with policies established by the Board to manage that risk.

Directors' report (continued)

Liquidity risk

The company's external debt comprises listed loan notes. The associated liquidity risk is currently mitigated as they do not mature until 2013. It is planned that the loan notes will be replaced by facilities before the existing loan notes mature.

Going Concern

At 31 December 2009 the company had £162.6m of listed loan notes issued which mature in 2013 and interest bearing intercompany debt of £35.4m. Cash flow projections, which include dividends receivable, show that the company will be able to meet its financial obligations as they fall due. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Dividends

No dividend was declared in the year (2008 - £18,000,000), as shown in note 4.

Directors

The directors, who served throughout the year were as follows:

N D McGee

C Tsai

K S Tso

Auditors

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

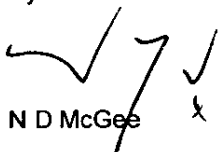
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The directors will place a resolution before the annual general meeting to reappoint Deloitte LLP as auditors for the ensuing year.

3 More London Riverside
London
SE1 2AQ

8 September 2010

By order of the Board,


N D McGee
Director

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the accounts in accordance with applicable law and regulations

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these accounts, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the Members of Beta Central Profits Limited

We have audited the accounts of Beta Central Profits Limited for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the accounts.

Opinion on accounts

In our opinion the accounts

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the accounts are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Christopher Powell FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

Leeds, England

24 September 2010

Profit and loss account

For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Administrative expenses		(9)	(126)
Operating loss		(9)	(126)
Finance charges (net)	1	(17,605)	(5,239)
Income from associate undertaking	13	10,685	22,176
(Loss) profit on ordinary activities before taxation	2	(6,929)	16,811
Tax on (loss) profit on ordinary activities	3	2,672	1,481
(Loss) profit for the financial year	11	(4,257)	18,292

The above results arise from continuing operations

The accompanying notes are an integral part of this profit and loss account


There are no recognised gains or losses in the year other than the loss for the year

Balance sheet
31 December 2009

	Notes	2009 £'000	2008 £'000
Fixed asset investments	5	<u>261,953</u>	<u>238,475</u>
Current assets			
Debtors – due within one year	6	1,315	750
Cash at bank and in hand		<u>13</u>	<u>13</u>
		1,328	763
Creditors. Amounts falling due within one year	7	<u>(40,850)</u>	<u>(12,550)</u>
Net current liabilities		<u>(39,522)</u>	<u>(11,787)</u>
Total assets less current liabilities		222,431	226,688
Creditors: Amounts falling due after more than one year	8	<u>(162,600)</u>	<u>(162,600)</u>
Net assets		<u>59,831</u>	<u>64,088</u>
Capital and reserves			
Called-up share capital	10	63,773	63,773
Profit and loss account	11	<u>(3,942)</u>	<u>315</u>
Shareholders' funds	12	<u>59,831</u>	<u>64,088</u>

The accompanying notes are an integral part of this balance sheet

The accounts of Beta Central Profits Limited, Registered number 6297913, were approved by the Board of Directors and authorised for issue on 8 September 2010 and signed on its behalf by


X N D McGee X

Director

8 September 2010

Statement of accounting policies

31 December 2009

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The company is exempt from the requirements of FRS1 (revised) "Cash flow statements" to present a cash flow statement as it is a wholly owned subsidiary of Hongkong Electric Holdings Limited, which prepares consolidated accounts which are publicly available.

The company is not required to prepare group accounts as it is a wholly owned subsidiary of Hongkong Electric Holdings Limited which prepares consolidated accounts that are publicly available.

Going concern

The Directors' report includes a note on page 2 stating that the directors consider the business to be a going concern at the time of the approval of the Annual Report and accounts.

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting year and reduced by payments made in the year.

Notes to the accounts

31 December 2009

1 Finance charges (net)

	2009 £'000	2008 £'000
Interest payable and similar charges		
- Loan notes	17,154	1,489
- Intercompany loans	451	1,269
- Bank loans	-	2,481
	<u>17,605</u>	<u>5,239</u>

2 (Loss) profit on ordinary activities before taxation

The directors did not receive any remuneration in relation to their services to the company during the current or prior years. The fees payable to the company's auditors for the audit of the company's annual accounts was £3,300 (2008 - £3,000). There are no employees other than the directors.

3 Tax on (loss) profit on ordinary activities

The tax credit comprises

	2009 £'000	2008 £'000
Current tax		
UK corporation tax	(2,626)	(1,499)
Adjustments in respect of prior years	(46)	18
Total tax on profit on ordinary activities	<u>(2,672)</u>	<u>(1,481)</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the (loss) profit before tax are as follows

	2009 £'000	2008 £'000
(Loss) profit on ordinary activities before taxation	<u>(6,929)</u>	<u>16,811</u>
Tax on (loss) profit on ordinary activities at standard UK corporation tax rate of 28% (2008 – 28%)	(1,940)	4,707
Effects of		
Income not taxable	(2,992)	(6,209)
Unrecoverable tax losses	2,306	31
Adjustments in respect of prior years	(46)	18
Change in standard UK corporation tax rate	-	(28)
Current tax credit for the year	<u>(2,672)</u>	<u>(1,481)</u>

The company earns its profits in the UK. Therefore the tax rate used for tax on (loss) profit on ordinary activities is the standard rate for UK corporation tax, currently 28% (2008 – 28%).

Notes to the accounts (continued)

3 Tax on (loss) profit on ordinary activities

A deferred tax asset amounting to £646,000 (2008 - £61,000) for tax losses has not been recognised because in the opinion of the directors there will be no suitable taxable profits available in the foreseeable future

4 Dividends paid on equity shares

	2009 £'000	2008 £'000
Equity shares		
- interim dividend paid of nil (2008 - 3 1p) per ordinary share	-	2,000
- final dividend paid of nil (2008 - 25 1p) per ordinary share	-	16,000
	<u>-</u>	<u>18,000</u>

5 Fixed asset investments

	2009 £'000	2008 £'000
Subsidiary undertaking (cost and net book value)	-	12,113
Associate (cost and net book value)	261,953	226,362
	<u>261,953</u>	<u>238,475</u>

The subsidiary undertaking was a 100% holding in the ordinary share capital of Goldia Resources Limited, a company incorporated in the British Virgin Islands which is non-trading and was sold for £12.1m on 5 November 2009

The associate is a 41.3% (2008 - 35.1%) holding in the ordinary share capital of NGNH, a group whose principal activity is the distribution of gas through the North of England network, which is incorporated in England and Wales. The additional share holding was acquired on 18 November 2009 for consideration of £35.4m plus costs.

6 Debtors - due within one year

	2009 £'000	2008 £'000
Amounts owed by associate undertakings	1,313	750
Prepayments and accrued income	2	-
	<u>1,315</u>	<u>750</u>

Notes to the accounts (continued)

7 Creditors: Amounts falling due within one year

	2009 £'000	2008 £'000
Amounts owed to group undertakings	40,845	12,502
Accruals and deferred income	5	48
	<u>40,850</u>	<u>12,550</u>

Amounts owed to group undertakings includes a 10 55% per annum interest bearing loan of £35 4m (2008 - £nil) repayable on demand

8 Creditors: Amounts falling due after more than one year

	2009 £'000	2008 £'000
Listed loan notes	162,600	162,600
	<u>162,600</u>	<u>162,600</u>

The loan notes are listed on the Channel Islands Stock Exchange and carry fixed interest at 10 55% per annum paid annually on 31 December and mature on 4 November 2013

9 Derivatives and other financial instruments

The Directors' report provides an explanation of the role that financial instruments have had during the year in creating or changing the risks the company faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" (FRS 13). Certain financial assets such as investments in subsidiary undertakings are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures. The directors believe that the fair values are not materially different from the balance sheet values.

Notes to the accounts (continued)

9 Derivatives and other financial instruments (continued)

Interest rate profile

The company has no financial assets other than sterling cash deposits of £13,000 (2008 - £13,000) which are part of the financing arrangements of the company. The sterling cash deposits comprise monies held in bank accounts.

The interest rate profile of the company's financial liabilities at 31 December was as follows:

	Fixed rate 2009 £'000	Fixed rate 2008 £'000	Weighted average interest rate 2009 %	Weighted average interest rate 2008 %	Weighted average period for which rate is fixed 2009 Years	Weighted average period for which rate is fixed 2008 Years
Loan notes	162,600	162,600	10.55	10.55	3.8	4.8
Intercompany loan	35,410	-	10.55	-	0.2	-
Total	198,010	162,600				

Maturity of financial liabilities

The maturity profile of the company's financial liabilities at 31 December was as follows:

	2009 £'000	2008 £'000
In one year or less	35,410	-
In more than two years but not more than five years	162,600	162,600
	198,010	162,600

Borrowing facilities

The company had no undrawn committed borrowing facilities at either the current or prior year end.

Fair values

The directors believe that the fair values of all financial instruments are not materially different from the balance sheet values.

10 Called-up share capital

	2009 £'000	2008 £'000
<i>Authorised</i>		
65,000,000 ordinary shares of £1 each	65,000	65,000
	65,000	65,000
<i>Allotted, called-up and fully paid</i>		
63,772,525 ordinary shares of £1 each	63,773	63,773
	63,773	63,773

Notes to the accounts (continued)

11 Reserves

Profit and
loss account
£'000

At 1 January 2009	315
Loss for the financial year	(4,257)
At 31 December 2009	<u>(3,942)</u>

12 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
(Loss) profit for the financial year	(4,257)	18,292
Dividends paid on equity shares	-	(18,000)
Net movement in shareholders' funds	<u>(4,257)</u>	<u>292</u>
Opening shareholders' funds	<u>64,088</u>	<u>63,796</u>
Closing shareholders' funds	<u>59,831</u>	<u>64,088</u>

13 Related party transactions

As a subsidiary undertaking of Hongkong Electric Holdings Limited, the company has taken advantage of the exemption in FRS8 "Related party disclosures" from disclosing transactions with other members of the group headed by Hongkong Electric Holdings Limited

The company received dividend income of £10.7m (2008 - £22.2m) from NGNH

14 Ultimate controlling party

Kentson Limited is the immediate parent company

Hongkong Electric Holdings Limited is the ultimate parent company and the largest and smallest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available from the registered address of this company as shown in the Directors' report.

Growing from our strengths



港燈

HK Electric

(Stock Code 6)

Annual Report 2009

Hongkong Electric Holdings Ltd



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Hongkong Electric Holdings Limited (HEH) is the holding company of The Hongkong Electric Company, Limited (HEC), Hongkong Electric International Limited (HEI) and Associated Technical Services Limited (ATS)

HEC is the main operating company of HEH. Founded in 1889, HEC is responsible for the generation, transmission and distribution of power to Hong Kong Island and Lamma Island.

HEI was established in 1997 as the international investment arm of HEH. HEI has interests in power-related businesses in Australia, Thailand, Canada, the United Kingdom, New Zealand and mainland China.

ATS is a wholly-owned subsidiary of HEH. It was established in 1975 as an engineering consultancy firm serving the electricity supply industry.

HEH is listed on The Stock Exchange of Hong Kong and is one of the constituent shares of the Hang Seng Index in Hong Kong.

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With its long heritage and strong foundation at home, HK Electric has been actively pursuing investment opportunities outside Hong Kong for the past decade. It now has a wide range of energy-related businesses across the continents, accounting for over 30% of the Group's total profits in 2009, up from 13% the year before.



Growing from our strengths

IN BUSINESS' BEYOND HONG KONG

From our coal and gas-fired power stations in Canada to gas-fired units in Thailand, electricity distribution networks in Australia to gas distribution in the United Kingdom and wind farms in mainland China, HK Electric has been leveraging the success in Hong Kong in its operations outside Hong Kong

New foray into mainland China

In 2009, we took a strategic step in gaining access to the electricity generating business in mainland China by acquiring 45% interests in two power plants in Guangdong province and one in Jilin province. Given Guangdong's proximity to Hong Kong, we are well positioned for greater entry into the mainland market in the future.

Increased shares in NGN

In the United Kingdom, our investment in Northern Gas Networks (NGN) increased from 35.1% to 41.3% in November 2009. NGN is sharply focused on being the most efficient network in the UK's gas industry.

Stanley Power looking for acquisitions

With operations across Canada, Stanley Power is looking to expand its current portfolio for even greater earnings opportunities. A 50% stake in Stanley Power puts HK Electric in a good position to see this materialise.

ETSA Utilities' proposal for 2010–2015 regulatory period

ETSA Utilities, of which HK Electric holds a 27.9% interest, has submitted a proposal for the 2010–2015 regulatory price reset period. The Australian Energy Regulator's final decision is due in April 2010.

Thailand full year operations

In Thailand, where HK Electric holds a 25% stake in the Ratchaburi Power Company Limited, we expect a promising future after seeing a full year operation of the Ratchaburi Power Station Two gas-fired generation units totalling 1,400MW were commissioned in 2008.

Growth opportunities

Growing our earnings base from operations outside Hong Kong remains a key strategy for HK Electric. We expect these profit contributions to continue increasing in the coming years as we keep looking for investment opportunities outside Hong Kong and aim to reduce reliance on our Hong Kong operation.

Meeting local demand

In Hong Kong, our customers have the full assurance that under the new Scheme of Control Agreement effective 1st January 2009, provisions are in place to encourage emissions reduction, energy efficiency, operational performance, service quality, and the use of renewable energy.

Projects to increase the supply of electricity to the MTR West Island Line and South Island Line will begin in 2010. Replacement and addition of transformers for the two lines will be up for commissioning through 2016.

Growing from our strengths

FOR THE ENVIRONMENT. PROVIDING GREEN POWER

HK Electric is actively engaged in global efforts to deliver cleaner, more efficient and reliable electricity. Whether in Hong Kong or outside, we do so with an acute awareness that our customers' needs for electricity are inseparable from their respect for the planet we all share. A number of measures are in place to address their concerns about environmental challenges associated with the provision of electricity.

Increasing the use of natural gas

HK Electric has been gradually increasing its gas-fired generation since 2006 with the commissioning of its first gas-fired unit. This now accounts for 20% of our total electricity sent out in 2009, and is expected to continue rising to about 30% in 2010 when new gas supply is available.

With our increased use of natural gas, we have significantly reduced coal consumption for power generation.

Retrofitting more FGDs and Low NO_x Burners

To help meet emission targets set by the Hong Kong SAR Government for 2010, HK Electric completed the retrofitting of the 4th Flue Gas Desulphurisation (FGD) plant and Low Nitrogen Oxides (NO_x) Burner on an existing coal-fired generating unit, L5, in Lamma Power Station in mid 2009. Two more FGD plants and one more Low NO_x Burner will be brought on line for L4 and L2 in 2010. When all these emission reduction works are completed, the electricity generated by Lamma Power Station is basically clean.

Developing wind farm in Hong Kong

HK Electric is in the planning stages for a proposed 100MW offshore wind farm in the Southwest Lamma Channel. The plan is to produce enough energy for

about 50,000 families in Hong Kong, representing 1-2% of our total electricity output. An environmental impact assessment study was completed at the end of 2009, and, subject to approval by the Government, a one-year wind monitoring exercise will be conducted before tendering and construction.

Introducing solar energy

We are also embarking on the largest project to harness solar energy in Hong Kong. 5,500 modules using Thin Film Photovoltaic (TFPV) technology will be installed on the roofs of the Main Station Buildings at the Lamma Power Station. This 550kW TFPV system is expected to generate 773,000 kWh of electricity annually. Erection work will begin in March 2010 and commissioning of the project is scheduled for June 2010.

Building wind farms in mainland China

In 2009, we saw the successful commissioning of our two wind farms in Yunnan and Hebei, totaling 97.5MW, in partnership with the China Huaneng Group. Following these successes, we are watching for new investment opportunities in renewable resources.

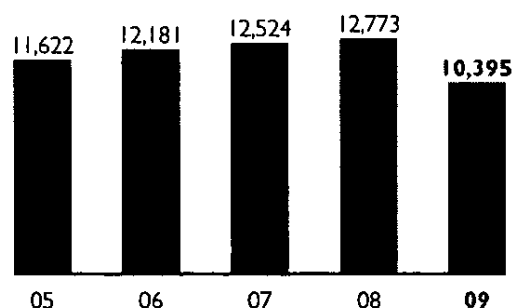
Support for electric vehicles

In December 2009, we opened the first electric vehicle (EV) charging station in our supply territory. In support of the Hong Kong Government's promotion of the wider use of EVs to improve roadside air quality, we have been working with car park operators and property management companies to install charging infrastructure. Free charging is available to motorists during the initial period to familiarise them with the procedures.

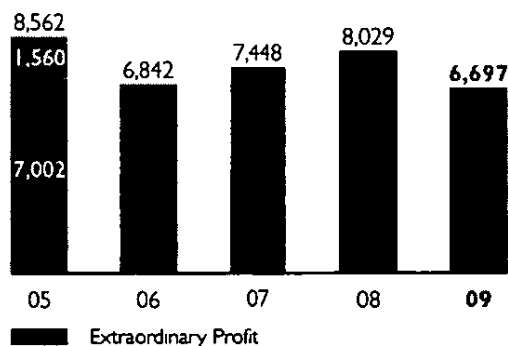
Financial Highlights

HK\$ million	2009	2008	2007	2006	2005
Turnover	10,395	12,773	12,524	12,181	11,622
Profit attributable to shareholders	6,697	8,029	7,448	6,842	8,562
Dividends	4,503	4,503	4,290	3,948	4,952
Fixed Assets	47,464	46,488	46,058	46,496	46,258
Shareholders' funds	52,144	47,327	48,104	44,085	41,685
HK\$					
Earnings per share	3.14	3.76	3.49	3.21	4.01
Dividends per share					
Ordinary	2.11	2.11	2.01	1.85	1.59
Special	—	—	—	—	0.73

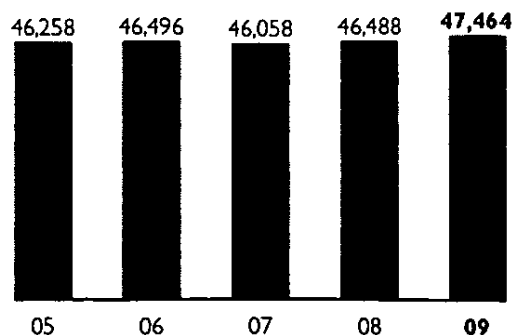
Turnover (HK\$ million)



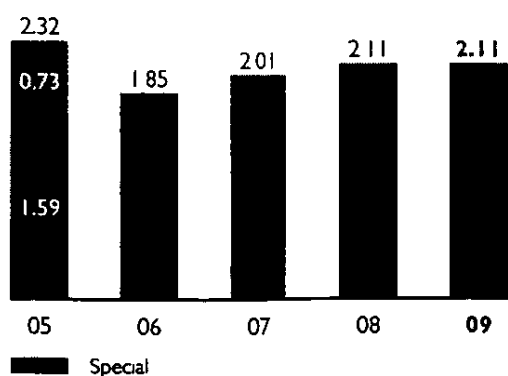
Profit attributable to shareholders
(HK\$ million)



Fixed assets (HK\$ million)



Dividends per share (HK\$)



Chairman's Statement

Results

The Group's audited profit for the year ended 31st December 2009 was HK\$6,697 million (2008 HK\$8,029 million), a decrease of 17%. Earnings from the Group's Hong Kong operations were HK\$4,646 million (2008 HK\$7,008 million). The lower Hong Kong earnings were primarily due to the lower Hongkong Electric (HEC) rate of permitted return and to lower cash deposit balances and deposit interest rates. Earnings from the Group's operations outside Hong Kong were HK\$2,051 million (2008 HK\$1,021 million). The higher earnings from operations outside Hong Kong were primarily due to the inclusion of earnings from the mainland China power station projects, the increased interest in Northern Gas Networks and higher revenue for the Australian businesses.

The Group reported strong operating results from its operations outside Hong Kong for 2009 with earnings more than double that recorded for 2008. In Hong Kong, the lower operating results for 2009 reflected the impact of a full year of HEC's lower rate of permitted return under the new Scheme of Control Agreement (SCA) which became effective 1st January 2009. It is pleasing to note that the proportion of the Group's total earnings arising from activities outside Hong Kong increased from approximately 13% in 2008 to over 30% in 2009 reflecting the steady progress in implementing the Group's strategy of growing its earnings base from activities outside Hong Kong. The increased earnings from activities outside Hong Kong were a substantial offset to the impact of the lower earnings from Hong Kong activities. Overall the Group's earnings

were 17% lower in 2009 compared with those for 2008 notwithstanding the 34% drop in earnings from Hong Kong activities in 2009.

The year 2009 saw continued growth in the Group's operations outside Hong Kong with the acquisition of the interests in the mainland China power station projects in April and the increase in the Group's interest in Northern Gas Networks in November. The Group now has interests in 5,649MW of generating capacity outside Hong Kong up from 2,752MW at the end of 2008. In Hong Kong, 2009 was the first year in which HEC operated under the new SCA and I am pleased to be able to report that HEC was able to meet the operational and environmental requirements under the new SCA for the year. The new SCA provides for a rate of permitted return of 9.99% on average net fixed assets with an 11% rate of return on renewable energy assets.

Final dividend

The Directors will recommend a final dividend of HK\$1.49 per share, payable on 7th May 2010 to those persons registered as shareholders on 6th May 2010. This, together with the interim dividend of HK\$0.62 per share, will give a total dividend of HK\$2.11 per share for the year (2008 HK\$2.11 per share).



Chairman's Statement

Hong Kong operations

HEC unit sales of electricity for 2009 were 0.5% higher than that recorded for 2008. The higher unit sales were primarily due to the impact of a warmer summer partially offset by various energy saving initiatives. The total number of customers showed a slight increase which came from both the domestic and commercial sectors with the industrial sector continuing its declining trend.

In 2009, Lamma Power Station's gas-fired units generated approximately 20% of the electricity sent out from the power station up from 17% in 2008 with the remainder of the electricity sent out being generated by the Lamma coal-fired units.

While the coal-fired units at Lamma remained the main generator of electricity, a reduction in emission levels was recorded in 2009. The lower emission levels were achieved through the commissioning of an additional flue gas desulphurisation (FGD) plant, the increased consumption of natural gas and efficient operation and maintenance activities. The emission reduction programme at the Lamma Power Station progressed satisfactorily in 2009 with the FGD plant and low nitrogen oxide burner for Unit 5 being commissioned and work on the FGD plants for Units 4 and 2 and the low nitrogen oxide burner for Unit 4 well underway. Completion of these emission reduction projects is scheduled for the first half of 2010. The focus of HEC over the last few years on emission reduction at the Lamma Power Station has resulted in a significant fall in emissions with the power station being able to consistently meet the increasingly tighter emission requirements set by the Government. The reduction in emissions would not have been possible without the required capital investment being made and the operational and maintenance improvements achieved.

The 800 kW wind turbine at Lamma operated satisfactorily in 2009 with an increased capacity factor. In early 2010, we proposed the development of a 100MW offshore wind farm in the south west Lamma channel. An environmental impact assessment study has been completed and made available for public comment.

During 2009, supply reliability was maintained at over 99.999% which surpassed HEC's pledged service standard. This world class supply reliability has the enviable record of having been consistently maintained over the last decade. Supporting the high reliability standards were the improvement and maintenance works carried out on HEC's transmission and distribution network in 2009.

2009 saw continued participation in environmental and community activities. A new three-year Green Hong Kong Green programme was established to develop new eco-heritage trail routes on Hong Kong Island. The HK Electric Clean Energy Fund continued to promote renewable energy through sponsorship of projects undertaken at schools and tertiary institutions while the HK Electric Volunteers put in more than 4,100 hours of voluntary service.

In 2009, the Government released its Air Quality Objectives Review Study Report which contains 19 phase one control measures for public consultation. HEC supports the Government in its efforts to improve air quality. HEC will in 2010 increase the amount of electricity generated by gas-fired units at Lamma to 30% of the electricity sent out from the power station. This increase will be achieved through the upgrading of existing gas-fired units and through the importation of more gas.

Operations outside Hong Kong

I am pleased to report that all of the Group's operations outside Hong Kong performed satisfactorily in 2009 notwithstanding the uncertain business environment.

In mainland China, the power station interests acquired in April 2009 performed ahead of our expectations. The interests comprise 45% interests in the coal-fired 1,400MW Zhuhai power plant and the 1,200MW Jinwan power plant, both strategically located in Guangdong province adjacent to Hong Kong and the 200MW Siping cogeneration power plant in Jilin province. The Zhuhai power plant operated with high reliability and efficiency in 2009 and with an excellent safety record. Jinwan delivered an outstanding performance benefiting from stable coal costs and increased plant efficiency. Both the Zhuhai and Jinwan power plants are equipped with FGD plant to improve their

environmental performance The Siping cogeneration power plant as well as generating electricity provides steam for heating in the Siping municipality FGD installation work at the Siping cogeneration power plant is nearing completion

The 48MW wind project in Dali, Yunnan province and the 49.5MW wind project in Leping, Hebei province in which we have 45% interests achieved commercial operation in January and October 2009 respectively and are operating satisfactorily

In Thailand, the 25% owned Ratchaburi Power Company Limited which operates a 1,400MW gas-fired power plant in Ratchaburi province achieved full commercial operation in June 2008 and is performing satisfactorily The plant output is sold to the Electricity Generating Authority of Thailand under a 25-year power purchase agreement and gas is supplied to the power station under a long term supply contract

In the United Kingdom, the 41% owned Northern Gas Networks (NGN) performed well in 2009 reporting increased revenue NGN operates a 37,000 km gas distribution pipeline network in the north of England

In Australia, ETSA Utilities (ETSA) in which the group has a 27.9% interest recorded a strong year with increased revenue ETSA is the sole electricity distributor in South Australia In November 2009, the Australian Energy Regulator issued its draft decision in response to ETSA's proposals for the 2010-2015 price reset period A final decision is due in April 2010 CHEDHA in which the Group has a 27.9% interest reported higher distribution and unregulated revenue in 2009 CHEDHA comprises Powercor which operates an electricity distribution network in western Victoria and CribPower which distributes electricity to the Melbourne central business district

In Canada, the Group has a 50% interest in Stanley Power Inc. which holds 49.99% of TransAlta Cogen which has interests in one coal-fired power plant and five gas-fired power plants in Canada Stanley Power performed satisfactorily in 2009 with the Canadian operations recording higher income for the year

In New Zealand, the Group benefited from the first full year of operations of the 50% owned Wellington Electricity Lines Limited, which owns and operates a 4,592 km electricity distribution network which supplies electricity to more than 160,000 customers in the city of Wellington and in the Porirua and Hutt Valley regions of New Zealand The business performed well in 2009 with higher distribution revenue due to colder weather

Outlook

While there are signs that economic conditions in global markets have stabilised there remains uncertainty as to the strength of any economic recovery in 2010 However, with HEC operating in Hong Kong under the new SCA and with the conservative nature of the Group's businesses outside Hong Kong, the Group is expected to perform satisfactorily in 2010 With its strong balance sheet and low gearing, the Group has the capacity to take advantage of any investment opportunities that may arise

In Hong Kong, the emission reduction programme at the Lamma Power Station which was commenced several years ago is expected to be completed in 2010 and the focus will move to reducing our reliance on coal-fired generation at the power station

The success of our investments outside Hong Kong has been very encouraging and we are actively pursuing investment opportunities to further increase our earnings base from operations outside Hong Kong Going forward we expect to see our investments outside Hong Kong becoming a much more significant part of our overall operations

I would like to thank the board of directors and the management and staff for their hard work and contributions during the year

Fok Kin Ning, Canning

Chairman

Hong Kong, 3rd March 2010



Group Managing Director's Report

At HK Electric, 2009 was a year of consistency and stability. Consistent with our past performance, the reliability of our power supply remained at excellent levels. Coal prices, which in the previous year experienced record volatility, stabilised in 2009. Due to reliable gas supply and successful commissioning of the Stage I Emission Control Project, we were able to reduce emissions from the Lamma Power Station and out perform set targets.

While industries worldwide attempted to recover from a severe economic downturn in 2009, HK Electric continued to venture out and invest outside Hong Kong. Looking to neighbouring Guangdong, our acquisition of interests in power stations gave us a strategic stake in the electricity generating business in mainland China.

Consistency and stability remain hallmarks of our organisation. For more than a century, we have been lighting up the streets, homes and businesses of Hong Kong. In recent decades, we have also taken that service outside of Hong Kong by investing in energy companies throughout the world. Going forward, we are doing our utmost to light the way for all of our customers in an ever-greener marketplace.



Group Managing Director's Report

HONG KONG OPERATIONS

Generation

With HK Electric's power generation centred on Lamma Island, the Lamma Power Station (LPS) and Lamma Winds have a total installed capacity of 3,736MW, comprising eight coal-fired units, five gas turbine units, two combined cycle units and one wind turbine

Owing to the increased use of natural gas and optimal operations of our units, we saw our overall thermal efficiency improve in 2009 to 36.2% while the reliability of these units was the highest since 1994, with a forced outage rate far below 1%

Through our efforts on several fronts in 2009, we were able to meet the emission caps imposed by the HKSAR Government. A reduction in the emission of sulphur dioxide, nitrogen oxides, and respirable suspended particulates from LPS meant that we outperformed emission allowances set by the Government.

Our improved performance was due to the successful commissioning of the Unit 5 Flue Gas Desulphurisation (FGD) Plant and Low Nitrogen Oxides (NOx) Burner System, an increased consumption of natural gas, and a lower sulphur content of the coal supply, as well as our prudent operations and maintenance

FGD and Low NOx Burner

In July 2009, we marked the completion of the first of a two-phase emission reduction programme at LPS with the commissioning of an FGD plant and a Low NOx Burner system for our coal-fired generating unit L5

Four of our coal-fired units are now equipped with FGD plants and Low NOx Burners. Retrofit works are in progress

to install two more FGD plants and one more Low NOx Burner, scheduled for completion in the first half of 2010

Natural gas and coal supply

Increased generation by natural gas helped us meet EPD emission caps in 2009. In terms of units sent out, electricity from natural gas increased to 20% from 17% in 2008, and it will increase further to 30% in 2010. In preparation for this rise, additional gas was secured in August 2009.

Coal-fired generation units remained the primary source of electricity from LPS in 2009, but the quality of coal improved due to our staff ensuring the quality control aspect of the coal supply at the mines, loading ports, independent laboratories, and in Hong Kong. The sulphur content of the coal dropped significantly because of coals that were sourced from Australia and Russia.

Lamma Winds

In 2009 we saw the annual generation of our 800 kW wind turbine at Tai Ling of Lamma Island surpass one million units of electricity for the first time.

Plant management

Prudent operations and maintenance of LPS have produced exemplary safety and conservation records. Since the introduction of natural gas in 2006, the operations have been satisfactory. Moreover, teams and individuals from the Generation Division have won several local and regional awards in 2009 for their safety knowledge and practice. Conservation of resources has also been a top priority among management and staff. Among other examples, we collected 167,700 m³ of wastewater and rainwater for reuse, as well as using 20,792 MT of ash for reclamation and land formation at our Lamma Extension site.



Group Managing Director's Report

Transmission and distribution

2009 was another satisfactory year for our transmission and distribution operations. We achieved or surpassed world-class service targets in both supply reliability and power quality through well-planned maintenance of equipment and careful monitoring of the operations. To cope with the steady growth in customer base, we continue to upgrade and expand our supply network.

Outstanding reliability

In 2009, our supply reliability was over 99.999%, a record which we have consistently maintained since 1997 and which surpassed the pledged service standard of 99.998%. Our power quality was also superior by world-class standards.

Asset management

Apart from pursuing a stringent maintenance programme in accordance with our PAS55-1 certified asset management system, we increasingly applied condition monitoring techniques to our strategic equipment such as the transmission switchgear and transformers. More extensive deployment of condition monitoring systems has been planned in 2010. In addition, we will further apply the technology to the 11kV underground distribution cables to assess their condition. We envision that with the more intensive application of the condition monitoring technology, we will be able to reduce further the forced outages and improve our network performance.

Growth in customer base

Our total customer base rose from 562,717 to 563,956, with modest growth in both the domestic and commercial sectors in 2009. Likewise, electricity sales increased modestly. Overall electricity sales were 10,921 million kWh, or an increase of 0.52% over 2008. Specifically, sales to the residential sector grew by 3.26%, while sales to the industrial sector fell by 6.69%, and sales to the commercial sector rose just slightly by 0.03% over last year.

Investment in our supply network

During 2009, 33 distribution substations were commissioned, increasing the total number of substations in the territory to 3,667. In addition, 145.9 km of distribution cable was laid.

Among our major projects completed were additional transmission circuits for the Lamma Power Station (Cyberport – Marsh Road 275kV Circuit No. 1 & re-configuration of Tin Wan – Kennedy Road 275kV circuit No. 1), the Central Zone Substation 11kV Bus Section Improvement, the Lamma Extension 275kV Shunt Reactor No. 2, and the Wong Chuk Hang 132kV Cable Diversion.

Serving the needs of commuters, we will expand our supply for the MTR West Island Line by commissioning one new 132/33kV 50MVA gas transformer to be installed at the MTR Admiralty Infeed Substation in 2013. For the new supply to the MTR South Island Line, two 132/33kV 30MVA gas transformers will be installed at Heung Yip Road Zone Substation and are set for commissioning in 2013.



Group Managing Director's Report

Customer service

HK Electric's continual focus on customer service has brought about impressive results. In 2009, all of our pledged customer service standards were either achieved or surpassed. The number of commendations from customers reached a record high of 1,463, reflecting a high level of customer satisfaction with our services.

New technology

In April 2009, we successfully launched the HK Electric Customer Information System (HECIS), a robust and integrated IT system that not only manages all electricity account services more effectively, but also supports efficient delivery of customer services across multiple channels for higher customer satisfaction. The new customer information system operated smoothly and all pledged service standards were maintained during and after the migration.

Installing smart meters

We at HK Electric are pressing forward to upgrade old infrastructures to be more intelligent and efficient. To help the business sector to devise load management programmes for higher energy efficiency, HK Electric will progressively install smart meters for commercial customers to provide them with more detailed consumption data.

Emergency service

Should an emergency related to electricity arise, customers of HK Electric get immediate attention. In 2009, the average waiting time for telephone calls to our Customer Emergency Services Centre was 184 seconds, whereas the average arrival time to the scene of the problem in urban areas in response to emergency calls was 20 minutes, both of which were better than our pledged service standards of 9 seconds and 28 minutes respectively.

Customer relations

Through the Customer Liaison Group, we maintain close and regular relations with our customers. At the annual meeting in January 2009, we updated members on the latest developments of the Company, while a visit to Marsh Road Station Building in September 2009 introduced them to the green measures adopted there.

Pamphlets for local customers of minority languages, including Indonesian, Tagalog, and Urdu, were produced in 2009 to offer information about our electricity account services and advice on the efficient use of electricity within their communities.

Our relationship with customers was recognised again in 2009 for the fourth consecutive year. HK Electric won the Public Service of the Year award in the corporate category and five awards in the individual category of the Customer Relationship Excellence Awards that were organised by the Asia Pacific Customer Service Consortium.



Group Managing Director's Report

Environment

HK Electric actively participates in measures that show respect for the earth by efficient energy use and promoting clean technology

Energy efficiency

Supporting efforts by green groups, HK Electric switched off external and decorative lighting at our buildings during 'Earth Hour 2009' and 'Dim It 6.21' in March and June 2009 respectively

We took additional steps inside our office buildings and implemented various energy efficiency and housekeeping measures. In doing so, we achieved very good energy efficiency results at our various office buildings, in excess of the 2.5% reduction targets. We also continued to recycle used paper in our offices, collecting a total of 35,250kg.

In line with the provisions under the Scheme of Control Agreement, 63 energy audits were completed for commercial customers and non government organisations in 2009. As well, an Energy Efficiency Loan Scheme was launched in collaboration with banks to help eligible customers implement energy efficiency initiatives.

Promoting the use of electric vehicles

To support the Government's drive to promote the use of electric vehicles (EV), HK Electric converted a hybrid car to a plug-in hybrid electric vehicle in May 2009, making it the first of its kind on the streets of the territory.

We also collaborated with commercial and government car park operators to launch an EV charging infrastructure pilot programme. The first EV charging station opened for motorists at the Peak in December 2009 and four more

will be completed in stages by mid February 2010. In the initial period, free service was available to allow motorists to become familiar with the charging procedures.

Improving air quality and combating global climate change

HK Electric remains committed to combating climate change. In 2009, we carried out a carbon audit for HK Electric Centre and the Electric Tower with recommendations to reduce our carbon footprint. A carbon calculator on our website assists customers in calculating their carbon footprint. And, continuing participation in the Carbon Disclosure Project (CDP), we reported the annual greenhouse gas emissions, the mitigation efforts, and the response to CDP's questionnaire which are now accessible to the public via CDP's website.

On improving Hong Kong's air quality, we have made a submission to the Government in response to its Air Quality Objective Review consultation exercise and will work closely and actively with it to achieve future targets.

Awards

In 2009, we received several environmental awards such as the Class of Excellence IAQw\$e Label for HK Electric Centre under the 2009 Hong Kong Award for Environmental Excellence Scheme organised by the HKSAR Government. We also took Outstanding Green Corporation Award and Outstanding Green Performance Award organised by CAPITAL Magazine and the Prime Award for Eco-Business 2009 organised by Prime Magazine.



Group Managing Director's Report

Caring for our employees

HK Electric regards employees as our most valuable assets and invests a lot in training and employee wellness. We also strive to excel in health and safety performance and achieve accident-free operations.

Employee training

In 2009, we made a continuous effort to provide training for our staff. A total of 70,190 training hours for our 2,000 employees were recorded for in-house and external training activities. This represented an average of 35 hours of training per employee.

Employee wellness

With the introduction of our Employee Wellness Programme in 2008 with focus on physical, emotional, intellectual and social wellness, we continued to organise numerous activities and events for employees and their families, including eco-tours, outings, fitness courses, family day and an annual spring dinner which were very popular, with an encouraging increase in participation rates.

Workplace hygiene

In response to the outbreak of Human Swine Influenza (H1N1), we implemented additional health, cleaning and hygiene measures. Several major measures were taken to reduce the effect of H1N1 in our workplace. Included in these measures were the hourly disinfection of the lift panels and buttons, notices and posters to remind employees about preventative personal hygiene, and body temperature checking at LPS and all office buildings. As well, split office arrangement was implemented for the essential operations and contingency plans were put in place for all departments.

Growing our talent base

To sustain our business growth and succession planning, 26 trainees were recruited in 2009. An orientation programme was arranged to enable them to quickly become familiar with the Group. Of the trainees recruited in earlier years, 21 successfully completed their two/three-year training programmes with a graduation camp in September to consolidate and reflect on their learning.

In 2009, we piloted a vocational training scheme to encourage secondary school graduates to consider engineering as their future profession and HK Electric as their preferred employer. Seven candidates were chosen to participate in a one-month training programme from July to August.

Awards

For the seventh consecutive year, HK Electric was awarded the Caring Company logo, and in May 2009 we won the Silver Award and the 7th Top Fund-raiser Award, Employee Contribution Programme.

In addition, our health and safety efforts were recognised with several awards. We won the Gold Award in the "Safety Management System Award – Others" category in the 2009 Hong Kong Occupational Safety & Health Award. As well, we were the Cup and Plate Champions and Cup 2nd Runner-up in the 2009 Occupational Safety & Health Quiz jointly organised by the Occupational Safety & Health Council and Labour Department.



Group Managing Director's Report

Community activities

At HK Electric, giving back to the community has always been a meaningful part of our corporate culture. In 2009, 61 voluntary services were organised and over 4,100 hours donated by the HK Electric Volunteers Team. The total membership in the volunteer team now accounts for about 45% of our entire workforce.

Smart power use

A record 30,000 people joined various activities under the Smart Power Campaign 2009 that was launched in early March to encourage the public to embrace energy saving as a shared value and to conserve energy in their daily lives. Activities organised included a promo design competition, roving exhibitions at MTR stations, radio programmes, and open days at the LPS.

Green Hong Kong Green

A new three-year programme was launched jointly with the Conservancy Association in September 2009 to develop new eco-heritage routes on Hong Kong Island. It was kicked off with a competition inviting the public to name their "favourite eco-heritage hotspots" in Lung Fu Shan, Aberdeen and Tai Tam Country Parks. About 400 submissions were received and winning entries may be included in the new eco routes.

Education Fund

In 2009, a HK\$2.5 million Education Fund was set up to support energy-efficiency-related education and promotional activities. External stakeholders sit on the Fund's Advisory committee and offer their views and suggestions.

The HK Electric Clean Energy Fund received a record 51 applications for funding in 2009. Of those applications

we chose 12, including one that harnesses solar energy to power an organic farm of Chinese herbs, and awarded them more than HK\$1 million. To encourage participation from schools, an experience sharing session was conducted and attended by approximately 80 school representatives. As in the past, 170 scholarships were provided to secondary school students under the HK Electric Centenary Trust.

Caring for senior citizens

We launched a new community programme to encourage the elderly to take initiative in seeking help when needed and to bring them closer to the community, featuring district-based carnivals and monthly home visits by our volunteers.

In March 2009, we celebrated with twelve retired persons as they were named "Outstanding Third Age Citizens" in an award presentation organised by HK Electric and the Hong Kong Council of Social Service to recognise retirees with outstanding performance in lifelong learning and community service. This was a continuation of the U3A project which has now expanded to include 25 social service agencies. The programme has recently won the Asia-Pacific Superior Achievement in Branding and Reputation Award in the corporate social responsibility category.

Knowing your power station

Our monthly visit programme inviting HK Electric shareholders to visit LPS has been very well received. Hundreds of shareholders and friends had the opportunity to see first hand how electricity is generated at LPS in 2009. In addition, a total of 56 other visits to LPS, Lamma Winds and Marsh Road Station were organised for various stakeholder groups throughout the year.



Group Managing Director's Report

OPERATIONS OUTSIDE HONG KONG

In 2009 we expanded and grew our operations outside Hong Kong yielding a total of more than HK\$6 billion in new investments. As a result, the profits from these businesses increased substantially to over 30% of the total group profits for 2009.

China

With our acquisition of Outram in April 2009, we took our first significant step towards a strategic stake in the electricity generation business in mainland China. Conveniently located in Guangdong province and adjacent to Hong Kong, the core assets of Outram comprise 45% equity interests in the 1,400MW Zhuhai Power Plant and the 1,200MW Jinwan Power Plant in Zhuhai, as well as the 200MW Siping Cogeneration Power Plant located in Jilin province.

United Kingdom

In 2009, we increased our stake by 6.2% in Northern Gas Networks Holdings Limited (NGN), which owns the regulated gas distribution network serving a population of 6.7 million people from the Scottish borders to South Yorkshire. Our total interest in the company stands at 41.3%.

Thailand

From our Thailand Independent Power Producer project, Ratchaburi Power Company Limited, in which we hold a 25% stake, we received a full-year's earnings in 2009. Although the project only achieved full commercial operation in June 2008, the efficiency in 2009 by the two 700MW combined cycle blocks exceeded our expectations.

Australia

ETSA Utilities (ETSA) in South Australia, in which we have a 27.9% stake, exceeded all key financial targets in 2009. Despite the risks inherent in the economic downturn,

ETSA's regulated and unregulated businesses effectively weathered an uncertain environment, and by the year's end experienced a much more stable operating environment.

With regard to Powercor and CitiPower in Victoria, in which we also have a 27.9% stake, an extensive Smart Meter Programme is being rolled out.

Canada

Our 50% interest in Stanley Power Inc. provided solid and stable returns in 2009 despite the challenges of lower energy prices resulting from the economic downturn. The year was highlighted by equipment upgrades in three of the power generation stations in which Stanley Power holds an interest. The upgrades resulted in annual reductions of 5% in fuel consumption, 46,000 tonnes in greenhouse gas emissions, and an increase of 18% in generating capacity.

New Zealand

Wellington Electricity, in which we hold a 50% stake, is the sole electricity lines operator for New Zealand's Capital City and surrounding region with a base of approximately 162,000 customers. Wellington Electricity achieved modest growth in revenue and met its financial and operating targets for 2009, notwithstanding the adverse economic climate.

Renewable energy

Our keen interest in developing clean and renewable energy is reflected in our two wind projects in mainland China. In partnership with China Huaneng Group, a 48MW wind farm in Dali, Yunnan, and a 49.5MW wind farm in Leling, Hebei, achieved commercial operation in January and October 2009 respectively.



The Board of Directors

FOK Kin Ning, Canning

Chairman

Aged 58 Appointed to the Board in 1985 and became Chairman in 2005. He is also Chairman of The Hongkong Electric Company, Limited ("HEC"), a wholly owned subsidiary of the Company. Mr Fok is the Group Managing Director of Hutchison Whampoa Limited ("Hutchison"), the Deputy Chairman of Cheung Kong Infrastructure Holdings Limited ("CKI"), a Non-executive Director of Cheung Kong (Holdings) Limited ("Cheung Kong") and a Director of Hutchison International Limited ("HIL"), all being substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). He is also the Chairman of Hutchison Harbour Ring Limited, Hutchison Telecommunications International Limited, Hutchison Telecommunications (Australia) Limited and Hutchison Telecommunications Hong Kong Holdings Limited and the Co-Chairman of Husky Energy Inc. In addition, Mr Fok was previously the Chairman of Partner Communications Company Ltd (resigned on 28th October 2009). All the companies mentioned above, except HEC and HIL, are listed companies. Mr Fok holds a Bachelor of Arts degree and a Diploma in Financial Management, and is a member of the Australian Institute of Chartered Accountants.

TSO Kai Sum

Group Managing Director

Aged 78 Appointed to the Board in 1985 and became Group Managing Director in 1997. Mr Tso is also Managing Director of HEC and a Director of most of the subsidiaries of the Company. Mr Tso worked with the Hongkong Electric Group from 1966 to 1981, holding the positions of Chief Project Engineer of HEC and Executive Director of Associated Technical Services Limited. In 1981, he joined International City Holdings Limited as an Executive Director. In 1987, he joined the Hutchison Whampoa Group as the Group Managing Director of Hutchison Whampoa Properties. In 1997, he re-joined the Hongkong Electric Group as Group Managing Director. He is also an Executive Director of CKI, a listed company and a substantial shareholder of the Company. Mr Tso holds a Bachelor of Science degree in Civil Engineering.

CHOW WOO Mo Fong, Susan

Aged 56 Appointed to the Board in 1996 and re-designated from a Non-executive Director to an Executive Director in May 2006. Mrs. Chow is Alternate Director to Mr Fok Kin Ning, Canning, the Chairman and Mr Frank John Sixt, an Executive Director. She is also a Director of HEC and Hongkong Electric Fund Management Limited, both wholly owned subsidiaries of the Company. Mrs. Chow is the Deputy Group Managing Director of Hutchison, an Executive Director of CKI, a Director of Interman Development Inc., Monitor Equities S.A., Uninvest Equity S.A., Venniton Development Inc., HIL and Hutchison Infrastructure Holdings Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO. Hutchison and CKI are listed companies. Mrs. Chow is an Executive Director of Hutchison Harbour Ring Limited, a Non-executive Director of Hutchison Telecommunications International Limited, Hutchison Telecommunications Hong Kong Holdings Limited and TOM Group Limited, and a Director of Hutchison Telecommunications (Australia) Limited, all being listed companies. She is also an Alternate Director of TOM Online Inc., a previously listed company. In addition, Mrs. Chow was previously a Director of Partner Communications Company Ltd. (resigned on 28th October 2009). Mrs. Chow is a solicitor of the High Court of the Hong Kong Special Administrative Region and the Supreme Court of England and Wales. She holds a Bachelor's degree in Business Administration.

Andrew John HUNTER

Aged 51 Appointed to the Board in 1999, prior to which he was Finance Director of the Hutchison Property Group. Mr Hunter was Group Finance Director from 1999 to January 2006. He is also a Director of HEC. Mr Hunter is currently the Chief Financial Officer of Cheung Kong and an Executive Director and Chief Operating Officer of CKI, both substantial shareholders of the Company within the meaning of Part XV of the SFO. He is also a Non-executive Director of Spark Infrastructure Group. All the companies mentioned above, except HEC, are listed companies. Mr Hunter holds a Master of Arts degree and a Master's degree in Business Administration and is a member of the Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. He has over 27 years of experience in accounting and financial management.

KAM Hing Lam

Aged 63 Appointed to the Board in 1993. Mr Kam is also a Director of HEC. He is President and Chief Executive Officer of CK Life Sciences Int'l. (Holdings) Inc. ("CK Life"), the Deputy Managing Director of Cheung Kong, an Executive Director of Hutchison, the Group Managing Director of CKI and a Non-executive Director of Spark Infrastructure Group. All the companies mentioned above, except HEC, are listed companies. Mr Kam acts as a Director of the substantial shareholders of the Company within the meaning of Part XV of the SFO, namely Cheung Kong, Hutchison, CKI, Hyford Limited, Interman Development Inc., Monitor Equities S.A., Uninvest Equity S.A., Venniton Development Inc. and HIL. Mr Kam is a member of the 11th Beijing Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration. Mr Kam is an uncle of Mr Li Tzar Kuo, Victor, an Executive Director of the Company.

LI Tzar Kuo, Victor

Aged 45 Appointed to the Board in 1994. Mr Li is also a Director of HEC. He is the Chairman of CKI and CK Life, the Managing Director and Deputy Chairman of Cheung Kong, Deputy Chairman of Hutchison, Co-Chairman of Husky Energy Inc. and a Director of The Hongkong and Shanghai Banking Corporation Limited ("HSBC"). All the companies mentioned above, except HEC and HSBC, are listed companies. Mr Li serves as a member of the Standing Committee of the 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is also a member of the Commission on Strategic Development, the Greater Pearl River Delta Business Council and the Council for Sustainable Development of the Hong Kong Special Administrative Region, and Vice Chairman of Hong Kong General Chamber of Commerce. Mr Li is also the Honorary Consul of Barbados in Hong Kong. Mr Li acts as a Director of the substantial shareholders of the Company within the meaning of Part XV of the SFO, namely Cheung Kong, Hutchison, CKI, Hyford Limited and HIL. He holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Structural Engineering and an honorary degree Doctor of Laws, honours causa (LL.D.). Mr Li is a nephew of Mr Kam Hing Lam, an Executive Director of the Company.

Neil Douglas MCGEE

Group Finance Director

Aged 58 Appointed to the Board in 2005 and became Group Finance Director in 2006. Mr McGee is also a Director of all the subsidiaries of the Company including HEC. Mr McGee worked with the Hongkong Electric Group and the Hutchison Whampoa Group from 1978 holding legal, corporate finance and corporate secretarial positions. He then joined Husky Oil Ltd. in 1998 as Vice President and Chief Financial Officer and from 2000

to October 2005, he served as Vice President and Chief Financial Officer of Husky Energy Inc. Mr McGee holds a Bachelor of Arts degree and a Bachelor of Laws degree.

Frank John SIXT

Aged 58 Appointed to the Board in 1998 Mr Sixt is also a Director of HEC and certain subsidiaries of the Company. He is Group Finance Director of Hutchison, the Non-executive Chairman of TOM Group Limited and an Executive Director of CKI. He is also a Non-executive Director of Cheung Kong, Hutchison Telecommunications International Limited and Hutchison Telecommunications Hong Kong Holdings Limited and a Director of Hutchison Telecommunications (Australia) Limited and Husky Energy Inc. All the companies mentioned above, except HEC, are listed companies. Mr Sixt acts as a Director of the substantial shareholders of the Company within the meaning of Part XV of the SFO, namely Cheung Kong, Hutchison, CKI, Li Ka-Shing Unity Trustcorp Limited, Li Ka-Shing Unity Trustee Company Limited, Li Ka-Shing Unity Trustee Corporation Limited, HIL and Hutchison Infrastructure Holdings Limited. Mr Sixt is also the Non-executive Chairman of TOM Online Inc., a previously listed company. In addition, Mr Sixt was previously a Director of Partner Communications Company Ltd. (resigned on 28th October 2009). Mr Sixt holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada.

WAN Chi Tin

Director of Engineering (Planning & Development)

Aged 59 Appointed to the Board in 2005 Mr Wan is also a Director of HEC and certain subsidiaries of the Company. He has worked for the Hongkong Electric Group since 1978 holding various positions. Between September 2000 and June 2003 he served as Chief Executive Officer of Powercor Australia Limited and CriPower Pty, associate companies of the Group in Australia. He returned to Hong Kong in July 2003 taking up the role of General Manager (Corporate Development). Mr Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology and a Fellow of the Hong Kong Institution of Engineers.

YUEN Sui See

Director of Operations

Aged 59 Appointed to the Board in 2008 Mr Yuen is also a Director of HEC and certain subsidiaries of the Company. Mr Yuen joined the Hongkong Electric Group in 1986 and prior to his appointment as an Executive Director, was General Manager (Transmission & Distribution). Mr Yuen has over 30 years of experience in the electricity industry. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer in the United Kingdom, a Registered Professional Engineer in Hong Kong and a Fellow of the Hong Kong Institution of Engineers.

CHAN Loi Shun

(Alternate Director)

Aged 47 Appointed Alternate Director to Mr Kam Hing Lam, an Executive Director, in 2008. He is Chief Financial Officer of CKI, a substantial shareholder of the Company, a Director of Envestra Limited and an Alternate Director of Spark Infrastructure Group, all being listed companies. Mr Chan is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Ronald Joseph ARCULLI

Aged 71 Appointed to the Board in 1997 Mr Arculli is also a Director of HEC. He is a practising solicitor and a non-official member of the Executive Council of the Government of the Hong Kong Special Administrative Region. Mr Arculli also serves on the committees of various Government and public service bodies. Mr Arculli is the Independent Non-executive Chairman of Hong Kong Exchanges and Clearing Limited, an Independent Non-executive Director of Hang Lung Properties Limited and SCMP Group Limited and a Non-executive Director of HKR International Limited, Hutchison Harbour Ring Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited, all being listed companies. He has served on the Legislative Council from 1988 to 2000. He was an Independent Non-executive Director of Shanghai Century Acquisition Corporation from 2005 to 2008.

LEE Lan Yee, Francis

Aged 69 Appointed to the Board in 1997 and re-designated from an Executive Director to a Non-executive Director in August 2008. Mr Lee is also a Director of HEC. He has served the Group for over 40 years in various capacities and while being Director & General Manager (Engineering) from 1997 to 2008, Mr Lee was responsible for all the engineering activities of the Group including the development and operation of power generation, transmission and distribution systems. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers in Hong Kong and the United Kingdom.

George Colin MAGNUS

Aged 74 Appointed to the Board in 1985 Mr Magnus is also a Director of HEC. He was Chairman from 1993 to October 2005. Mr Magnus is a Non-executive Director of Cheung Kong, Hutchison and CKI having served earlier as Deputy Chairman of each of these companies, all being listed companies and substantial shareholders of the Company within the meaning of Part XV of the SFO. He holds a Master's degree in Economics.

Holger KLUGE

Aged 68 Appointed to the Board in 1999 Mr Kluge is also a Director of HEC. He was formerly President of Personal and Commercial Bank, CIBC, one of the largest financial services institutions in North America. He is an Independent Non-executive Director of Hutchison, a substantial shareholder of the Company within the meaning of Part XV of the SFO and a Director of Shoppers Drug Mart, both being listed companies. He was previously a Director of Husky Energy Inc. (ceased to hold office on 21st April 2009). He holds a Bachelor of Commerce degree and a Master's degree in Business Administration.

Ralph Raymond SHEA

Aged 76 Appointed to the Board in 1985 Mr Shea is also a Director of HEC. He is a solicitor of the Supreme Court of England and of Hong Kong.

WONG Chung Hin

Aged 76 Appointed to the Board in 1985 Mr Wong is also a Director of HEC. He is a solicitor. He is an Independent Non-executive Director of Hutchison, a listed company and a substantial shareholder of the Company within the meaning of Part XV of the SFO. He is also an Independent Non-executive Director of The Bank of East Asia, Limited, a listed company.



**Executive
Director**



**Non-executive
Director**



**Independent Non-executive
Director**



Senior Management

TSO Kai Sum

Group Managing Director

Aged 78 Appointed to the Board in 1985 and became Group Managing Director in 1997 Mr Tso is also Managing Director of The Hongkong Electric Company, Limited ("HEC") and a Director of most of the subsidiaries of the Company Mr Tso worked with the Hongkong Electric Group from 1966 to 1981, holding the positions of Chief Project Engineer of HEC and Executive Director of Associated Technical Services Limited In 1981, he joined International City Holdings Limited as an Executive Director In 1987, he joined the Hutchison Whampoa Group as the Group Managing Director of Hutchison Whampoa Properties. In 1997, he re-joined the Hongkong Electric Group as Group Managing Director He is also an Executive Director of Cheung Kong Infrastructure Holdings Limited, a listed company and a substantial shareholder of the Company Mr Tso holds a Bachelor of Science degree in Civil Engineering.

WAN Chi Tin

Director of Engineering (Planning & Development)

Aged 59 Appointed to the Board in 2005 Mr Wan is also a Director of HEC and certain subsidiaries of the Company He has worked for the Hongkong Electric Group since 1978 holding various positions. Between September 2000 and June 2003 he served as Chief Executive Officer of Powercor Australia Limited and CitiPower Pty, associate companies of the Group in Australia. He returned to Hong Kong in July 2003 taking up the role of General Manager (Corporate Development) Mr Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology and a Fellow of the Hong Kong Institution of Engineers.

Neil Douglas MCGEE

Group Finance Director

Aged 58 Appointed to the Board in 2005 and became Group Finance Director in 2006. Mr McGee is also a Director of all the subsidiaries of the Company including HEC Mr McGee worked with the Hongkong Electric Group and the Hutchison Whampoa Group from 1978 holding legal, corporate finance and corporate secretarial positions. He then joined Husky Oil Ltd in 1998 as Vice President and Chief Financial Officer and from 2000 to October 2005, he served as Vice President and Chief Financial Officer of Husky Energy Inc. Mr McGee holds a Bachelor of Arts degree and a Bachelor of Laws degree

YUEN Sui See

Director of Operations

Aged 59 Appointed to the Board in 2008 Mr Yuen is also a Director of HEC and certain subsidiaries of the Company Mr Yuen joined the Hongkong Electric Group in 1986 and prior to his appointment as an Executive Director, was General Manager (Transmission & Distribution) Mr Yuen has over 30 years of experience in the electricity industry He holds a Bachelor of Science degree and a Master of Science degree in Engineering He is a Chartered Engineer in the United Kingdom a Registered Professional Engineer in Hong Kong and a Fellow of the Hong Kong Institution of Engineers

CHAN Lai Yee, Trini

Aged 55, General Manager (Human Resources), has been with the Group since December 2005 Ms. Chan has over 25 years of experience in human resources management and administration She holds a Bachelor's degree in Politics and Education



CHENG Cho Ying, Francis

Aged 53, General Manager (Generation), has been with the Group since August 1979. Prior to his promotion to the present position, Mr Cheng has worked in the Technical Services, Operations and Maintenance Departments of the Generation Division. He holds a Bachelor's degree in Chemistry and is a Fellow of the Royal Society of Chemistry in the United Kingdom. He is also a member of the Hong Kong Institution of Engineers.

CHU Wing Kin

Aged 59, General Manager (Group Commercial), has been with the Group since July 1974. Dr Chu is a Chartered Engineer and a Fellow of the Hong Kong Institution of Engineers and Institution of Engineering and Technology in the United Kingdom. He is also a Fellow of the Institution of Engineers in Australia and holds a Master's and a Doctoral degree in Business Administration.

IP Pak Nin

Aged 58, General Manager (Transmission & Distribution), has been with the Group since April 1976. Mr Ip has over 30 years of experience in electricity supply. He holds a Bachelor of Science degree in Electrical Engineering and a Master's degree in Business Administration. He is a Chartered Engineer and a Fellow of the Hong Kong Institution of Engineers.

LAU Fuk Hoi, Frank

Aged 57, General Manager (Projects), has been with the Group since August 1977. Mr Lau is also General Manager of Associated Technical Services Limited, a wholly owned subsidiary of the Company. He has over 30 years of experience in project management. He also participated in the Group's power plant development projects outside Hong Kong in recent years. He holds a Bachelor's degree in Engineering. He is a Chartered Engineer and a member of the Hong Kong Institution of Engineers and the Institution of Mechanical Engineers in the United Kingdom.

TSAI Chao Chung, Charles

Aged 53, Director and General Manager of Hongkong Electric International Limited ("HEI"), a wholly owned subsidiary of the Company. Mr Tsai is also a Director or Alternate Director of most of the subsidiaries of HEI. He has been with the Group since June 1987 and has been responsible for the Group's investments outside Hong Kong since 1997. He holds a Bachelor of Applied Science Degree in Mechanical Engineering, and is a Registered Professional Engineer and a Chartered Engineer. He is also a member of the Hong Kong Institution of Engineers and the Institution of Mechanical Engineers in the United Kingdom.

WONG Lee Wah, Lillian

Aged 55, Company Secretary, has been with the Group since June 1997. Ms Wong has over 20 years of experience in company secretarial practice. She is a Fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

YEE Tak Chow

Aged 55, General Manager (Corporate Development), has been with the Group since August 1976. Mr Yee had worked on a number of energy infrastructure projects both in and outside Hong Kong, including stationing in Saudi Arabia and Japan for three years. Between 2005 and 2008, he worked for the Group's energy investments outside Hong Kong. He holds a Master's degree in Information Technology. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, The Institution of Engineers in Australia, and The Institution of Engineering and Technology in the United Kingdom.

YEUNG Yuk Chun, Mimi

Aged 46, General Manager (Public Affairs), has been with the Group since July 2003. Ms Yeung has over 25 years of experience in journalism and corporate communications. She holds a Bachelor of Arts degree and a Master's degree in Public Administration.



Corporate Governance Report

Corporate governance practices

The Company is committed to maintaining high standards of corporate governance. The Company recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value.

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices ("Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December 2009.



Board of Directors

The Board, led by the Chairman, is responsible for the approval and monitoring of Group-wide strategies and policies, approval of annual budgets and business plans, evaluating the performance of the Group, and oversight of management. Management is responsible for the day-to-day operations of the Group under the leadership of the Group Managing Director.

As at 31st December 2009, the Board comprised of the following Directors:

Executive Directors

Mr Fok Kin Ning, Canning ⁽¹⁾

(Chairman)

Mr Tso Kai Sum

(Group Managing Director)

Mrs Chow Woo Mo Fong, Susan ⁽¹⁾

Mr Andrew John Hunter

Mr Kam Hing Lam ^{(2) (3)}

Mr Li Tzar Kuoi, Victor ⁽²⁾

Mr Neil Douglas McGee

(Group Finance Director)

Mr Frank John Sixt ⁽¹⁾

Mr Wan Chi Tin

(Director of Engineering (Planning & Development))

Mr Yuen Sui See

(Director of Operations)

Non-executive Directors

Mr Ronald Joseph Arculli

Mr Lee Lan Yee, Francis

Mr George Colin Magnus

Independent Non-executive Directors

Mr Holger Kluge

Mr Ralph Raymond Shea

Mr Wong Chung Hin

Alternate Director

Mr Chan Loi Shun ⁽³⁾

Notes

(1) Mrs. Chow Woo Mo Fong, Susan is also Alternate Director to Mr Fok Kin Ning, Canning and Mr Frank John Sixt.

(2) Mr Kam Hing Lam is an uncle of Mr Li Tzar Kuoi, Victor.

(3) Mr Chan Loi Shun is Alternate Director to Mr Kam Hing Lam.

Biographical information of the Directors are set out in "The Board of Directors" section on pages 26 to 27 of the Annual Report. An updated list of Directors containing biographical information and identifying the Independent Non-executive Directors is maintained on the website of the Company.

The Board meets at least four times a year. Additional board meetings will be held when warranted. Regular meetings of a year are scheduled during the last quarter of the preceding year, providing Directors with adequate time to plan their schedules to attend. The Directors may attend meetings in person, by telephone or other electronic means or by their alternate directors in accordance with the Company's articles of association. Throughout the year, Directors also participate in the consideration and approval of matters of the Company by way of written resolutions circulated to Directors together with supporting explanatory write-up, coupled with briefings from the Group Managing Director, the Group Finance Director or the Company Secretary as required. Directors are required to declare their interests, if any, in the matters to be considered by them during board meetings and in the circular resolutions.

Directors at all times have full access to information on the Group. They have independent access to senior management for information on the Group and unrestricted access to the services of the Company Secretary. The Company Secretary advises the Board on governance matters and Board procedures. There is a procedure for Directors to seek independent professional advice whenever deemed necessary by them at the Company's expense.

Directors receive at least 14 days prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. An agenda with supporting board papers is sent to Directors no less than three days prior to a regular meeting. The Company Secretary assists the Chairman in seeing that Directors receive adequate information on each matter set out in the agenda and acts as co-ordinator for management in providing clarification sought by Directors.



Corporate Governance Report

The Board held four meetings during the 2009 financial year. The record of attendance of each Director is as follows:

	Name of Director	Number of meetings attended
Executive Directors	Mr Fok Kin Ning, Canning (<i>Chairman</i>)	4
	Mr Tso Kai Sum (<i>Group Managing Director</i>)	3
	Mrs. Chow Woo Mo Fong, Susan	3
	Mr Andrew John Hunter	4
	Mr Kam Hing Lam	4
	Mr Li Tzar Kuoi, Victor	4
	Mr Neil Douglas McGee	4
	Mr Frank John Sixt	4
	Mr Wan Chi Tin	4
	Mr Yuen Sur See	4
Non-executive Directors	Mr Ronald Joseph Arculli	2
	Mr Lee Lan Yee, Francis	4
	Mr George Colin Magnus	4
Independent Non-executive Directors	Mr Holger Kluge	3
	Mr Ralph Raymond Shea	4
	Mr Wong Chung Hin	4

The minutes of board meetings are prepared by the Company Secretary with details of the decisions reached, any concerns raised and dissenting views expressed. The draft minutes are sent to all Directors within a reasonable time after each meeting for their comment before being formally signed by the chairman of the meeting. Copies of the final version of board minutes are sent to Directors for their information and records. The signed minutes are kept in safe custody by the Company Secretary and are available for inspection by Directors.

During the year, the Chairman and the Non-executive Directors held two meetings without the presence of the Executive Directors.

All Non-executive Directors have been appointed on an annual twelve-month basis. All Directors are required to retire from office by rotation and are subject to re-election by shareholders at the annual general meeting once every three years pursuant to the articles of association of the Company. Directors retiring by rotation and offering themselves for re-election at the forthcoming annual general meeting are Mr Lee Lan Yee, Francis and Mr Frank John Sixt. Information required to be disclosed by the Listing Rules on the said Directors is contained in the circular to shareholders dated 7th April 2010. None of the said Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).



Insurance coverage in respect of Directors' liability has been arranged by the Company

The Chairman and the Group Managing Director may recommend candidates for election to the Board. The principal consideration is to build an effective and complementary board with the expertise, skills and experience relevant to the Group's businesses. Potential candidates for Independent Non-executive Director will also be reviewed to determine whether they are independent according to the requirements of the Listing Rules, and able to devote sufficient time to Board and committee meetings. Credentials of candidates are put forward to the Board for consideration in respect of any proposed appointment of a new Director, and the appointment is subject to the approval of the Board.

Newly appointed Directors receive briefings and a package of orientation materials on the operations and businesses of the Group, together with information relating to duties and responsibilities of directors under statutory regulations and the Listing Rules. The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties. As part of the continuous professional development exercise, Directors are invited to seminars on subjects relating to corporate governance, directors' duties and other relevant areas.

Directors' securities transactions

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 of the Listing Rules as the Group's code of conduct regarding Directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31st December 2009.

Senior managers who are likely to be in possession of unpublished price sensitive information regarding the Company and its securities are also required to comply with the Model Code.

Reminders are sent during each year to Directors and senior managers that they should not deal in the securities of the Company during the "black-out period" specified in the Model Code.

Directors' responsibility for financial reporting and publishing required disclosures

Annual and interim reports and financial statements

The Directors acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Company and of the Group. The annual and interim results of the Company are published in a timely manner within the limits of three months and two months respectively after the end of the relevant periods.

Accounting policies

The Directors consider that in preparing financial statements, the Group ensures statutory requirements are met and applies appropriate accounting policies that are consistently adopted and makes judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting records

The Directors are responsible for ensuring the Group keeps proper accounting records which disclose at any time the financial position of the Group upon which financial statements of the Group could be prepared in accordance with statutory requirements and the Group's accounting policies.



Corporate Governance Report

Safeguarding assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group

Going concern

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Group's financial statements have accordingly been prepared on a going concern basis.

Disclosure

The Board is aware of the requirements under the applicable Listing Rules and statutory regulations with regard to the timely and proper disclosure of price sensitive information, announcements and financial disclosures and authorises their publication as and when required.

Chairman and Group Managing Director

The positions of the Chairman (Mr Fok Kin Ning, Canning) and the Group Managing Director (Mr Tso Kai Sum) are held by separate individuals. The Chairman is elected among the Directors by the Board for a term of one year until the conclusion of each annual general meeting whereupon the Chairman is subject to re-election. Both the Chairman and the Group Managing Director are subject to retirement from their offices as Directors by rotation and re-election by shareholders every three years at the annual general meeting.

The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Board to ensure that the Board acts in the best interests of the Group. The Chairman approves Board meeting agendas and ensures that Board meetings are planned and conducted effectively and that all Directors are properly briefed on issues arising at Board meetings. In addition to Board meetings, the Chairman holds meetings

with Executive Directors and two meetings annually with Non-executive Directors without the presence of Executive Directors. The Chairman also performs functions as an Executive Director in the management of the Group and acts in an advisory capacity to the Group Managing Director in all matters covering the interests and management of the Group. He is chairman of the Remuneration Committee.

The Group Managing Director, working with the executive management team of each operating unit, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Board for all Group operations. The Group Managing Director attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with the Group Finance Director, other Executive Directors and the general manager of each operational division, he ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action when necessary. He maintains an ongoing dialogue with the Chairman and all other Directors to keep them informed of all major business development and issues. He is also responsible for building and maintaining an effective team to support him in his role.

Independent Non-executive Directors

The Board must satisfy itself that an Independent Non-executive Director does not have any material relationship with the Group. The Board is also guided by the criteria of independence as set out in the Listing Rules in determining the independence of Directors.

Each of Messrs Holger Kluge, Ralph Raymond Shea and Wong Chung Hin, Independent Non-executive Directors of the Company, has provided to the Company a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board continues to consider all the Independent Non-executive Directors to be independent.



Interests of Directors in shares and underlying shares of the Company

At 31st December 2009, the interests of the Directors in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SF Ordinance")) as recorded in the register required to be kept under Section 352 of the SF Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code were as follows

Long positions in shares of the Company

Name of Director	Capacity	Nature of interests	Number of shares held	Total	Approximate % of shareholding
Lee Lan Yee, Francis	Beneficial owner	Personal	739	739	≈ 0%
Yuen Sui See	Beneficial owner	Personal	1,500	1,500	≈ 0%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	2,011	2,011	≈ 0%
Li Tzar Kuoi, Victor	Interest of child or spouse	Family	151,000)	829,750,612	≈ 38.87%
)		
)		
	Beneficiary of trusts	Other	829,599,612)		
			(Notes 1 and 2))		

Notes:

- (1) These shares are held by subsidiaries of Cheung Kong Infrastructure Holdings Limited ("CKI")

The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") are inter alia, Mr Li Tzar Kuoi Victor his wife and children, and Mr Li Tzar Kai, Richard. Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1" which is the trustee of DT1) and Li Ka Shing Unity Trustcorp Limited ("TDT2" which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("UTI") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT1 related companies") hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of Hutchison Whampoa Limited ("HWL"). A subsidiary of HWL in turn holds more than one-third of the issued share capital of CKI.

The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka Shing Unity Holdings Limited ("Unity Holdco"). Each of Mr Li Ka-shing, Mr Li Tzar Kuoi Victor and Mr Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and when performing its functions as trustee exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr Li Ka-shing, Mr Li Tzar Kuoi Victor and Mr Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a Director of CKH Mr Li Tzar Kuoi Victor is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies the shares of HWL held by the subsidiaries of CKH the shares of CKI held by the subsidiary of HWL and the shares of the Company held by the subsidiaries of CKI under the SF Ordinance as a Director of the Company. Although Mr Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco and is a discretionary beneficiary of each of DT1 and DT2, he is not a director of CKH and has no duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies under the SF Ordinance.

- (2) Mr Li Tzar Kuoi Victor by virtue of his interests as described in Note (1) above and as a Director of the Company, is also deemed to be interested in the shares of subsidiaries and associated corporations (within the meaning of Part XV of the SF Ordinance) of the Company held through the Company under the SF Ordinance.

Save as disclosed above, at 31st December 2009, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SF Ordinance) as recorded in the register required to be kept by the Company under Section 352 of the SF Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



Corporate Governance Report

Directors' interests in competing business

During the year of 2009, the interests of Directors in businesses which may compete with the Group's business of development, investment and operation of power generation, transmission and distribution and other energy related infrastructure facilities ("Business") were as follows

Name of Director	Name of company	Nature of interests
Fok Kin Ning, Canning	Hutchison Whampoa Limited	Group Managing Director
	Cheung Kong Infrastructure Holdings Limited	Deputy Chairman
	Husky Energy Inc	Co-Chairman
Tso Kai Sum	Cheung Kong Infrastructure Holdings Limited	Executive Director
Chow Woo Mo Fong, Susan	Hutchison Whampoa Limited	Deputy Group Managing Director
	Cheung Kong Infrastructure Holdings Limited	Executive Director
Andrew John Hunter	Cheung Kong Infrastructure Holdings Limited	Executive Director (Chief Operating Officer)
	Spark Infrastructure Group	Non-executive Director
Kam Hing Lam	Hutchison Whampoa Limited	Executive Director
	Cheung Kong Infrastructure Holdings Limited	Group Managing Director
	Spark Infrastructure Group	Non-executive Director
Li Tzar Kuoi, Victor	Hutchison Whampoa Limited	Deputy Chairman
	Cheung Kong Infrastructure Holdings Limited	Chairman
George Colin Magnus	Hutchison Whampoa Limited	Non-executive Director
	Cheung Kong Infrastructure Holdings Limited	Non-executive Director
Frank John Sixt	Hutchison Whampoa Limited	Group Finance Director
	Cheung Kong Infrastructure Holdings Limited	Executive Director
	Husky Energy Inc	Director
Chan Loi Shun (Alternate Director)	Spark Infrastructure Group	Alternate Director to Mr Kam Hing Lam

The Board is of the view that the Group is capable of carrying on the Business independent of, and at arm's length from the businesses of the above companies. When making decisions on the Business, the above Directors, in the performance of their duties as Directors of the Company, have acted and will continue to act in the commercial best interest of the Group and all its shareholders.



Directors' interests in contracts of significance

No contracts of significance to which the Company or any subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of or at any time during the year ended 31st December 2009

Remuneration Committee

The Remuneration Committee is chaired by the Chairman, Mr Fok Kin Ning, Canning with Mr Ralph Raymond Shea and Mr Wong Chung Hin, both Independent Non-executive Directors as members

The principal responsibilities of the Remuneration Committee include reviewing and considering the Company's policy for remuneration of Executive Directors and senior management, and determining their remuneration packages. The Remuneration Committee reports its decisions and recommendations to the Board at the next Board meeting after the meeting of the Committee. Committee members may seek independent professional advice at the expense of the Company to discharge their duties as members of the Committee. The terms of reference of the Remuneration Committee are published on the Company's website.

The Group's Human Resources Division assists the Remuneration Committee by providing relevant remuneration data and market conditions for the Committee's consideration. The remuneration of Executive Directors and senior management is determined with reference to the Company's performance and profitability, as well as remuneration benchmarks in the industry and the prevailing market conditions. Remuneration is performance-based and coupled with an incentive system is competitive to attract and retain talented employees.

The Remuneration Committee held one meeting in 2009 which was attended by Mr Ralph Raymond Shea and Mr Wong Chung Hin. During the meeting, the Committee assessed the performance of the full time Executive Directors and senior management of the Group and

considered and determined the performance-based bonus payable to them in respect of the 2009 financial year and their remuneration for the next year. None of the Executive Directors and senior management participated in the determination of their own remuneration. The Committee, authorised by the Board, also reviewed and approved the 2010 wage and salary review proposal at the meeting.

The emoluments paid to each Director for the 2009 financial year are shown in note 10 to the financial statements on page 77 of the Annual Report.

Audit Committee

The Audit Committee comprises four members. It is chaired by Mr Wong Chung Hin (an Independent Non-executive Director) and the other members are Mr Ronald Joseph Arculli (a Non-executive Director), Mr Holger Kluge (an Independent Non-executive Director) and Mr Ralph Raymond Shea (an Independent Non-executive Director). The Company Secretary acts as secretary to the Audit Committee. None of the Committee members is a partner or former partner of KPMG, the Group's external auditors.

The Audit Committee reports directly to the Board of Directors and its principal responsibilities include the review and supervision of the Group's financial reporting and internal control systems and the review of the Company's interim and annual financial statements. The Committee also meets regularly with KPMG to discuss the audit process and accounting issues. The chairman of the Committee summarises the subjects discussed and decisions or recommendations made in a written report to the Board after each meeting. Committee members may seek independent professional advice at the expense of the Company to discharge their duties as members of the Committee. The terms of reference of the Audit Committee were updated on 1st January 2009 to include the new requirements of the Code relating to the review of the adequacy of the Company's accounting and financial reporting function and are published on the Company's website.



Corporate Governance Report

The Audit Committee held three meetings in 2009
The record of attendance of its members is as follows

Name of member	Number of meetings attended
Mr Wong Chung Hin (<i>Chairman</i>)	3
Mr Ronald Joseph Arculli	3
Mr Holger Kluge	3
Mr Ralph Raymond Shea	3

During those meetings, the Audit Committee reviewed and considered matters including the Group financial statements and Annual Report for the year ended 31st December 2008, the audit fee and auditors engagement letter for the 2008 Group financial statements, the re-appointment of auditors, the report of the auditors to the Audit Committee in relation to the audit of the 2008 Group financial statements, the internal control assessment declarations for the year 2008 and for the half year to 30th June 2009 in respect of the effectiveness of the system of internal controls of the Group made by the Group Managing Director and Group Finance Director, the Group's risk management report as of December 2008, the non-audit services provided by KPMG in the year 2008, the internal audit plan for 2009, the 4-year cycle internal audit plan for 2009 to 2012, the financial statements for the six months ended 30th June 2009, KPMG's audit plan for the 2009 Group results and all internal audit reports compiled during the year. Representatives from KPMG were invited to attend two of the meetings and they discussed the 2008 audited financial statements, the 2009 audit plan and various accounting issues with the Committee.

Internal control and risk management

Introduction

The Board has overall responsibility for the Group's system of internal control and reviews its effectiveness to ensure that policies and procedures in place for the identification and management of risks are adequate.

The Audit Committee assists the Board in meeting its responsibility for maintaining an effective system of internal controls. The Committee reviews all material controls,

including financial, operational and compliance controls and risk management functions. It reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. It also reviews the annual work plans of the Group Manager, Internal Audit, and considers the report of the Group Managing Director and Group Finance Director to the Committee on the effectiveness of internal controls in the Group's business operations. These reviews and reports are taken into consideration by the Committee when it makes its recommendation to the Board for approval of the annual consolidated financial statements.

Internal control environment

The Company's management encourages a risk aware and control conscious environment throughout the Group. Management sets objectives, performance targets and policies for the management of key risks including strategic planning, business operations, acquisitions, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Company has a well established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any system of internal control and accordingly the Group's internal control system is designed to provide reasonable and not absolute assurance against material misstatement or loss.

Full-time Executive Directors review operational and financial reports and key operating statistics of each division and hold regular meetings with the division general managers to review their reports.

Full-time Executive Directors and senior executives are appointed to the boards and board committees of all major operating subsidiaries and associates for monitoring the operations of those companies. There is a comprehensive system for reporting information by those companies to the Company's management.

Budgets are prepared annually by the management of the operating units and are subject to review and approval firstly by the Group Managing Director and then by the



Board Re-forecasts of operating results for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval by the Executive Directors

The Group Finance Director has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control, with approval levels being set by reference to the level of authority of each executive and officer. Capital expenditure is also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Monthly reports of actual versus budgeted and approved expenditure are also reviewed.

The Group Finance Director is in charge of the treasury function overseeing the Group's investment and borrowing activities. The Group Treasurer regularly reports on the Group's cash and liquid investments, borrowings and movements thereto, outstanding contingent liabilities and financial derivatives commitments. The Board has approved and adopted a treasury policy to manage the financial risks of the Group and the operational risks associated with such risk management activities. The treasury policy is reviewed by the Audit Committee from time to time.

The Group Manager, Internal Audit, reporting to the Group Finance Director, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations. Using risk assessment methodology and taking into account the scope and nature of the Group's activities, Internal Audit prepares its yearly audit plan which is reviewed and approved by the Audit Committee. Internal Audit's reports on the Group's operations are also reviewed and considered by the Audit Committee. Internal Audit follows up on its reports to ensure that its recommendations are implemented by the operating units. The scope of work performed by Internal Audit includes financial and operations review, recurring and unscheduled audits, fraud investigation and productivity efficiency reviews. With the assistance of Internal Audit, the Group Managing Director and Group Finance Director assess the Group's internal control system, formulate an opinion on the system and report their findings to the Audit Committee and the Board.

Each division is required to undertake risk identification, mitigation and monitoring by compiling and updating on an ongoing basis a risk register taking into account emerging issues and new regulations. A risk management report highlighting the key risks updated as at the end of each year and outlining the action plans to manage the risks is then reviewed and considered by the Audit Committee. An internal control self assessment has also been established requiring division general managers and department heads to half-yearly assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Group Managing Director and Group Finance Director formulate their opinion on the Group's internal control system.

Reports from the external auditors on material non-compliance with procedures and internal control weaknesses, if any, are presented to the Audit Committee. These reports are considered and reviewed and the appropriate action is taken if required.

Established guidelines where new businesses are being acquired including detailed appraisal and review procedures and due diligence processes are in place.

The Group Managing Director and Group Finance Director have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The Company Secretary, working with the operating units, is responsible for arranging appropriate insurance coverage for the Group.

Code of Conduct

The Group places great emphasis on employees' ethical standards and integrity in all aspects of its operations. Employees are required to adhere to the standards set out in the Group's Code of Conduct.



Corporate Governance Report

External auditors

Independence

KPMG, the external auditors, have confirmed that they have been for the year ended 31st December 2009 independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants

Rotation of engagement partner

KPMG adopts a policy of rotating every seven years the engagement partner servicing their client companies. The last rotation took place in the audit of the 2007 financial statements

Reporting responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Report on page 53 of the Annual Report.

Remuneration

An analysis of the fees of KPMG and other external auditors is shown in note 8 to the financial statements on page 75 of the Annual Report.

Re-appointment

A resolution for re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting. There has been no change in auditors in any of the preceding three years

Shareholders

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars, the Company's website at www.heh.com and meetings with investors and analysts. All shareholders have the opportunity to put questions to the Board at the annual general meeting, and at other times by e-mailing or writing to the Company.

Shareholders may at any time change their choice of language (English or Chinese or both) or means of receipt

(printed copies or through the Company's website) of corporate communications by writing or e-mailing the Company.

The Company handles share registration and related matters for shareholders through Computershare Hong Kong Investor Services Limited, the Company's share registrar.

2009 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and shareholders. The 2009 Annual General Meeting was held at Harbour Plaza Hong Kong (now known as Harbour Grand Kowloon) on 14th May 2009. The notice of meeting, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders on 14th April 2009 which was 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committee and the Remuneration Committee were available to answer questions from the shareholders. At the meeting, a separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to shareholders during the meeting. Computershare Hong Kong Investor Services Limited, the Company's share registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed at the meeting and the percentage of votes cast in favour of them are set out below:-

- Statement of accounts and the reports of the directors and auditors for the year ended 31st December 2008 (99.8913%),
- Declaration of a final dividend of HK\$1.49 per share (100%),
- Election of Mr Neil Douglas McGee (98.0702%), Mr Ralph Raymond Shea (98.2143%), Mr Wan Chi Tin (86.0695%) and Mr Wong Chung Hin (98.8324%) as Directors,



- Re-appointment of KPMG as auditors and authorisation of Directors to fix their remuneration (99.7615%),
- General mandates to Directors to issue additional shares of the Company (64.9826%) and to repurchase shares of the Company (99.9971%), and extension of the general mandate to issue shares (69.1751%)

The results of the poll which included the number of shares voted for and against each resolution were posted on the Stock Exchange's and the Company's websites on the same day of the meeting

Extraordinary General Meeting

An Extraordinary General Meeting was held at Harbour Plaza Hong Kong (now known as Harbour Grand Kowloon) on 16th March 2009 for the purpose of approving the acquisition of the entire issued share capital of Outram Limited from Cheung Kong Infrastructure Holdings Limited ("CKI"). A circular containing information on the proposed resolution, including the respective advice of the independent board committee and the independent financial adviser and notice of the meeting were sent to shareholders on 26th February 2009, which was more than 10 clear business days (as defined in the Listing Rules) and more than 14 clear days (as required by the Company's articles of association) before the meeting. At the meeting, the independent board committee was available to answer questions from shareholders, and voting was conducted by way of a poll. The poll voting procedure was explained fully to shareholders during the meeting. As the acquisition constituted a connected transaction under the Listing Rules, CKI and its associates had abstained from voting. Computershare Hong Kong Investor Services Limited, the Company's share registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting.

The percentage of votes cast in favour of the resolution was 99.8303%. The poll results which included the number of shares voted for and against the resolution were posted on the Stock Exchange's and the Company's websites on the same day of the meeting and published in the newspapers on the next day.

Company's website

The Company maintains a website at www.heh.com. For the dissemination of published information, the Company uploads such information including press releases, results announcements and other announcements onto its website.

Memorandum and articles of association

No changes were made to the memorandum and articles of association of the Company during the year ended 31st December 2009.

Key dates

Announcement of 2009 interim results	5th August 2009
Payment of 2009 interim dividend (62 cents per share)	15th September 2009
Announcement of audited results for the year ended 31st December 2009	3rd March 2010
Last day to register for 2009 final dividend	28th April 2010
Closure of register of members	29th April 2010 to 6th May 2010
2010 annual general meeting	6th May 2010
Payment of 2009 final dividend	7th May 2010



Corporate Governance Report

Interests of substantial shareholders and other person in shares and underlying shares of the Company

According to the register kept under Section 336 of the SF Ordinance and information received by the Company, at 31st December 2009, shareholders (other than Directors or chief executives of the Company) who had interests in the shares and underlying shares of the Company were as follows

Substantial shareholders – long positions in shares of the Company

Name	Capacity	Number of shares held		Approximate % of shareholding
Interman Development Inc	Beneficial owner	186,736,842	(Note 1)	8.75%
Venniton Development Inc	Beneficial owner	197,597,511	(Note 1)	9.26%
Uninvest Equity S.A.	Beneficial owner	279,011,102	(Note 1)	13.07%
Monitor Equities S.A.	Beneficial owner & interest of controlled corporation	287,211,674	(Note 1)	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612	(Note 2)	38.87%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612	(Note 2)	38.87%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612	(Note 3)	38.87%
Hutchison International Limited	Interest of controlled corporations	829,599,612	(Note 3)	38.87%
Hutchison Whampoa Limited	Interest of controlled corporations	829,599,612	(Note 3)	38.87%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	829,599,612	(Note 4)	38.87%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	829,599,612	(Note 5)	38.87%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	829,599,612	(Note 6)	38.87%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	829,599,612	(Note 6)	38.87%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	829,599,612	(Note 6)	38.87%



Other person – long position in shares of the Company

Name	Capacity	Number of shares held	Approximate % of shareholding
Capital Research and Management Company	Investment Manager	170,284,000	7.98%

Notes

- (1) These are direct or indirect wholly-owned subsidiaries of Hyford Limited ("Hyford") and their interests are duplicated in the same 829,599,612 shares of the Company held by Hyford described in Note (2) below.
- (2) Cheung Kong Infrastructure Holdings Limited ("CKI") is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (1) above as it holds more than one-third of the issued share capital of Hyford indirectly its interests are duplicated in the interest of Hutchison Whampoa Limited ("HWL") in the Company described in Note (3) below.
- (3) HWL is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (2) above as it holds more than one-third of the issued share capital of Hutchison International Limited which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited ("HIH") HIH holds more than one-third of the issued share capital of CKI.
- (4) Cheung Kong (Holdings) Limited ("CKH") is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (3) above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.
- (5) Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UTI") is deemed to be interested in those shares of the Company described in Note (4) above as TUT1 as trustee of UTI and its related companies in which TUT1 as trustee of UTI is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of CKH.
- (6) By virtue of the SF Ordinance, each of Mr Li Ka-shing, being the settlor and may be regarded as a founder of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") for the purpose of the SF Ordinance. Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of DT1 and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of DT2 is deemed to be interested in the same block of shares TUT1 as trustee of UTI is deemed to be interested in as referred to in Note (5) above as all issued and outstanding units in UTI are held by TDT1 as trustee of DT1 and by TDT2 as trustee of DT2. More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco") Mr Li Ka-shing owns one-third of the issued share capital of Unity Holdco.

Save as disclosed above, at 31st December 2009, there was no other person (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SF Ordinance.



Corporate Governance Report

Public float

According to information that is available to the Company, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares

Connected transactions

Acquisition of Outram Limited

The acquisition of Outram Limited by the Company from Cheung Kong Infrastructure Holdings Limited ("CKI"), a connected person of the Company, was completed on 2nd April 2009. Particulars of this transaction have been disclosed in an announcement posted on the respective websites of the Stock Exchange and the Company on 5th February 2009, the circular to shareholders dated 26th February 2009, and the last year's Corporate Governance Report

Financial assistance provided to associates

On 9th July 2009, the Company entered into swap guarantees ("Swap Guarantees") guaranteeing on a several basis to the extent of 50% of all liabilities of Wellington Electricity Distribution Network Limited ("WEDNL") under certain cross currency swap arrangements ("Swaps") which WEDNL entered into on the same day and the related ISDA master agreements which WEDNL would enter into as soon as practicable thereafter. The Swaps and ISDA master agreements were and to be entered into respectively in connection with a two-year term loan in US dollar which would be entered into by WEDNL on 10th July 2009. On 10th July 2009, the Company executed two guarantees ("Loans Guarantees") pursuant to which the Company agreed to guarantee the two-year term loan of US\$263,000,000 and the two-year revolving loan of up to NZ\$30,000,000 (collectively "Loans"), both entered into by WEDNL on the same day, on a several basis to the extent of 50% of all liabilities and obligations of WEDNL due under the Loans. On 10th July 2009, Sigerson Business Corp ("Sigerson"), an indirect wholly owned subsidiary of the Company, in consideration of a support fee from Wellington Electricity Distribution Network Holdings Limited ("WEDNHL"), the immediate holding company of WEDNL, entered into an undertaking ("Undertaking")

pursuant to which Sigerson agreed to provide financial support to WEDNHL limited to 50% of the obligations of WEDNHL under a credit facility agreement between WEDNHL and WEDNL. Under the said credit facility agreement, WEDNHL agreed to provide WEDNL with a standby facility of up to NZ\$450,000,000 which could only be drawn and applied by WEDNL towards payment or repayment of the indebtedness due by WEDNL under the Loans. The above transactions were entered into to meet the financing requirement of WEDNL.

WEDNL and WEDNHL were each indirectly owned as to 50% by the Company and 50% by CKI which was a substantial shareholder holding approximately 38.87% of the issued share capital of the Company. WEDNL and WEDNHL were therefore connected persons of the Company within the meaning of the Listing Rules and the Swap Guarantees, the Loans Guarantees and the Undertaking constituted connected transactions of the Company. The Swap Guarantees, the Loans Guarantees and the Undertaking were provided on a pro rata basis according to the Company's equity interest in WEDNL and WEDNHL as the case may be, and were on the same terms as the corresponding documents entered into by CKI.

Shareholders have been informed of the above transactions in an announcement posted on the respective websites of the Stock Exchange and the Company on 10th July 2009, and the particulars thereof are herein disclosed pursuant to Rule 14A.45 of the Listing Rules.

Acquisition of additional interest in Northern Gas Networks Holdings Limited

On 16th November 2009, Beta Central Profits Limited ("Beta"), an indirect wholly owned subsidiary of the Company, which at the time held 35.1% shareholding in Northern Gas Networks Holdings Limited ("NGN"), entered into a deed ("Deed") with United Utilities Energy & Contracting Services Holdings Limited ("UU"), another shareholder of NGN and an independent third party of the Company, pursuant to which Beta agreed to purchase from UU 35,409,973 shares in NGN ("Sale Shares") representing 6.19% of NGN's issued share capital. Upon completion of the transaction, the Company (through Beta) would hold a 41.29% interest in NGN. NGN operates a gas distribution



network in the North of England Pursuant to the Deed, the consideration payable by Beta to United Utilities was GBP 35,409,973 Beta would be entitled to one-twelfths of all dividends declared by NGN during the 2009 financial year in respect of the Sale Shares, while UU would be entitled to the remaining portion of such dividends If UU did not receive by the end of 2009 an amount equal to not less than GBP 1,650,000 in respect of any dividend on the Sale Shares declared and paid by NGN during the period from the date of the Deed to the end of 2009, Beta would pay to UU an amount equal to approximately 46.74% of the difference between the aggregate amount of dividends received by UU by the end of 2009 and GBP 1,650,000 Completion of the Deed took place on 18th November 2009

CKI was a substantial shareholder holding approximately 38.87% of the issued share capital of the Company and was therefore a connected person of the Company under the Listing Rules The above transaction involved the Company's acquisition of shares in NGN where CKI, being a 40% shareholder of NGN immediately prior to the date of the Deed, was a controller of the Company, and it therefore constituted a connected transaction for the Company under the Listing Rules

Shareholders have been informed of the above transaction and the Deed in an announcement posted on the respective websites of the Stock Exchange and the Company on 16th November 2009, and the particulars thereof are herein disclosed pursuant to Rule 14A.45 of the Listing Rules

Continuing connected transactions

Operation and management contract in respect of power plant investments in mainland China

Pursuant to an agreement dated 2nd April 2009 ("Agreement") entered into between Outram Limited ("Outram"), an indirect wholly owned subsidiary of the Company, and Cheung Kong China Infrastructure Limited ("CKCI"), CKCI agreed to provide Outram with services in relation to the operation and management of Outram's power plant investments in mainland China The Agreement is for an initial term of three years and may, at Outram's option, be renewed for further term(s) of three years each

on the same terms The fees payable to CKCI for the services are equivalent to CKCI's costs for provision of such services and are paid in cash on a monthly basis subject to a maximum of HK\$35,000,000 per year CKCI is a wholly owned subsidiary of CKI, a substantial shareholder of the Company, and therefore CKCI's provision of the services to Outram constituted continuing connected transactions ("Continuing Connected Transactions") for the Company under the Listing Rules

The aggregate amount paid for the year ended 31st December 2009 attributable to the Continuing Connected Transactions subject to annual review requirements under the Listing Rules was HK\$23,244,099

All the Independent Non-executive Directors have reviewed the Continuing Connected Transactions in the 2009 financial year and confirmed that the transactions had been entered into (i) in the ordinary and usual course of business of the Group, (ii) either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties, and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole

The auditors of the Company, KPMG have confirmed in a letter to the Board that (a) the Continuing Connected Transactions in the 2009 financial year (i) had received the approval of the Board of the Company and (ii) did not exceed the cap amount of HK\$26,274,000 for the period from 2nd April 2009 (the effective date of the Agreement) to 31st December 2009 which is calculated on a pro rata basis based on the annual cap amount of HK\$35,000,000 disclosed in the announcement of the Company dated 5th February 2009 and in the circular to shareholders dated 26th February 2009, and (b) an agreement governing the Continuing Connected Transactions was in place



Financial summary

Commentary on the consolidated income statement and balance sheet

Consolidated Income statement	2009 HK\$M	2008 HK\$M	Increase/ (decrease) HK\$M	%	Commentary
Turnover	10,395	12,773	(2,378)	-18.6	The decrease is mainly due to lower basic tariff
Other revenue and other net income	815	1,020	(205)	-20.1	The decrease is mainly due to lower interest income from cash deposits as a result of lower interest rates and lower deposit balances in 2009
Direct and other operating costs	4,616	4,723	(107)	-2.3	The decrease is mainly due to lower rates expenses as a result of lower rateable value in 2009 and lower retirement service costs
Finance costs	334	463	(129)	-27.9	The decrease is mainly due to lower interest rates on HK\$ borrowings and lower average exchange rate on foreign currency interest expenses
Share of profits less losses of associates	898	732	166	22.7	The increase is mainly due to increase in share of Northern Gas in 2009 and higher revenue earned by Australian associates.
Share of profits less losses of jointly controlled entities	632	–	632	100.0	New mainland China investments acquired in April 2009
Income tax	919	1,000	(81)	-8.1	The decrease is mainly due to drop in profit as a result of tariff cut.
Scheme of Control transfers	174	310	(136)	-43.9	Scheme of Control ("SOC") Transfers are calculated in accordance with the SOC Agreement.
Profit attributable to equity shareholders					
– Hong Kong operations	4,646	7,008	(2,362)	-33.7	The decrease is mainly due to lower permitted return and lower interest income from cash deposits
– Outside Hong Kong operations	2,051	1,021	1,030	100.9	The increase is mainly due to contributions from new investments in mainland China and higher revenue earned by Australian associates.
Profit for the year	6,697	8,029	(1,332)	-16.6	



Consolidated balance sheet	2009 HK\$M	2008 HK\$M	Increase/ (decrease) HK\$M	%	Commentary
Fixed assets	47,464	46,488	976	2.1	The Group's capital expenditure for 2009 amounted to HK\$2,751 million, invested principally in generation, transmission and distribution assets. Depreciation and amortisation charges for the year were HK\$1,724 million. Total disposals of fixed assets amounted to HK\$51 million (net book value).
Interest in associates	13,472	9,921	3,551	35.8	The increase is mainly due to stronger Australian Dollar and other currencies and increase in share of Northern Gas in 2009.
Interest in jointly controlled entities	5,793	159	5,634	3,543.4	The increase is mainly due to new investments in mainland China.
Other assets	8,220	11,872	(3,652)	-30.8	The decrease is mainly due to lower cash deposits.
Bank loans and other borrowings	12,247	10,667	1,580	14.8	The increase is mainly due to more financing requirements for the Hong Kong electricity business and higher Hong Kong Dollar equivalent for bank loans denominated in Australian Dollar.
Current and deferred taxation	5,858	5,667	191	3.4	The increase is mainly due to lower provisional tax paid.
Other liabilities	4,201	4,454	(253)	-5.7	The decrease is mainly due to the lower employee retirement benefit liabilities.
Tariff Stabilisation Fund and Rate Reduction Reserve	499	325	174	53.5	The balances are calculated in accordance with the SOC Agreement.
Net assets	52,144	47,327	4,817	10.2	
Dividends paid			(4,503)		Previous year's final dividend and current year's interim dividend, which were approved and paid during 2009.
Other comprehensive income			2,623		Exchange gains arising on translating foreign operations and actuarial adjustments to employee retirement schemes which were credited directly to reserves.
Profit for the year			6,697		



Financial review

Capital expenditure, liquidity and financial resources

Capital expenditure during the year amounted to HK\$2,751 million (2008 HK\$2,084 million), which was primarily funded by cash from operations. Total external borrowings outstanding at the year end were HK\$12,247 million (31st December 2008 HK\$10,667 million), comprising unsecured bank loans and debt securities in issue. In addition, the Group had undrawn committed bank facilities of HK\$6,500 million (31st December 2008 HK\$7,450 million) and bank deposits and cash of HK\$5,093 million (31st December 2008 HK\$8,962 million).

Treasury policies, financing activities and capital structure

The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. The Group aims to ensure that adequate financial resources are available for refinancing and business growth.

The Group's financial profile remained strong during the year. In December 2009, Standard and Poor's affirmed the A+ long term credit ratings of Hongkong Electric Holdings Limited and The Hongkong Electric Company, Limited with a stable outlook. As at 31st December 2009, the net debt of the Group was HK\$7,154 million (31st December 2008 HK\$1,705 million) with a net debt-to-equity ratio of 14% (31st December 2008 4%).

The profile of the Group's external borrowings, after taking into account interest rate swaps was as follows -

- (1) 66% was in Hong Kong dollars and 34% in Australian dollars,
- (2) 75% was bank loans and 25% was capital market instruments,
- (3) 0% was repayable within 1 year; 83% was repayable between 2 and 5 years and 17% was repayable beyond 5 years,
- (4) 57% was at fixed interest rates and 43% was at floating interest rates.

By currency

- 66% Hong Kong dollars
- 34% Australian dollars

By maturity

- ⊕ 0% Within 1 Year
- 83% Between 2 and 5 Years
- 17% Beyond 5 Years

By structure

- 75% Bank loans
- 25% Capital market instruments

By interest rate structure

- 57% Fixed rate
- 43% Floating rate



Currency and interest rate risks are actively managed in accordance with the Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control credit risk exposure.

The Group's policy is to maintain a portion of its debt at fixed interest rates. Interest rate risk is managed by either securing fixed or floating rate borrowings or by using interest rate derivatives. As at 31st December 2009, 57% of the Group's total borrowings were at fixed interest rates.

The Group's principal foreign currency exposures arise from its investments outside Hong Kong and from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward contracts. As at 31st December 2009, over 85% of the Group's transaction exposure was either denominated in US dollars or hedged into Hong Kong or US dollars. Where considered appropriate, currency exposure arising from investments outside Hong Kong is mitigated by financing those investments in local currency borrowings. Foreign currency fluctuations will affect the translated value of the net assets of investments outside Hong Kong and the resultant translation difference is included in the Group's reserve account. Income received from the Group's investments outside Hong Kong which is not denominated in Hong Kong dollars is, unless otherwise determined, converted into Hong Kong dollars on receipt.

The contractual notional amounts of derivative financial instruments outstanding at 31st December 2009 amounted to HK\$7,891 million (31st December 2008 HK\$7,763 million).

Charges on group assets

At 31st December 2009, the Group's interests in an associate of HK\$740 million (31st December 2008 HK\$552 million) have been pledged as part of the security to secure bank borrowings granted to that associate.

At 31st December 2009, the Group's interests in a jointly controlled entity of HK\$2,991 million (31st December 2008 Nil) have been pledged as part of the security to secure bank borrowings granted to that jointly controlled entity.

Contingent liabilities

As at 31st December 2009, the Group had given guarantees and indemnities totalling HK\$1,642 million (31st December 2008 HK\$1,262 million).

The Company had given guarantees and indemnities in respect of bank and other borrowing facilities made available to and financial commitments of subsidiaries totalling HK\$4,212 million (2008 HK\$3,217 million). Out of this amount, HK\$4,202 million (2008 HK\$3,207 million), while being a contingent liability of the Company, is reflected in the consolidated balance sheet of the Group.

Employees

The Group continues its policy of pay for performance and market pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31st December 2009, excluding directors' emoluments, amounted to HK\$798 million (2008 HK\$877 million). As at 31st December 2009, the Group employed 1,879 permanent staff (2008 1,864). No share option scheme is in operation.

The Group provides training for employees in management and functional skills, language skills, computer knowledge and technology relevant to the Group's industry by both classroom training and e-learning platforms. Training schemes for university graduates, trainee technicians and apprentices and other job-related programmes are also available for employees to develop and enhance their skills and abilities. In addition, talks are arranged to provide updates on company developments and wellness information.

Report of the Directors

(Expressed in Hong Kong Dollars)

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31st December 2009

Principal activities

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are the generation and supply of electricity. Particulars of the Company's principal subsidiaries are set out in Appendix 2 on page 111 of the financial statements.

Financial statements

The consolidated income statement for the year ended 31st December 2009 is set out on page 54 and shows the Group's profit after tax and Scheme of Control transfers, of \$6,697 million (2008: \$8,029 million). The state of the Company's and the Group's affairs as at 31st December 2009 are set out in the financial statements on pages 54 to 113.

Dividends

An interim dividend of 62 cents (2008: 62 cents) per ordinary share was paid to shareholders on 15th September 2009 and the Directors recommend a final dividend of \$1.49 (2008: \$1.49) per ordinary share payable on 7th May 2010 to shareholders who are registered on the register of members on 6th May 2010.

Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 27(a) to the financial statements and in the consolidated statement of changes in equity on page 57 respectively.

Charitable donations

Charitable donations made by the Group during the year amounted to \$3 million (2008: \$3 million).

Fixed assets

Additions of fixed assets for the year amounted to \$2,751 million (2008: \$2,084 million). The movements in fixed assets during the year are set out in note 13 to the financial statements.

Subsidiaries

The names, principal activities, places of incorporation and operation and particulars of the issued share capital and debt securities of the principal subsidiaries are set out in Appendix 2 on page 111 of the financial statements.

Summary of five-year financial results

The summary of five-year financial results of the Group is set out on page 114.

Major customers and suppliers

The Group's five largest customers combined did not exceed 30% of the Group's total turnover for each of the years ended 31st December 2009 and 2008.

The largest supplier of revenue items for the year represents 15.6% (2008: 31.3%) of the Group's total purchase of revenue items, and the combined total of the largest five suppliers accounts for 61.6% (2008: 71.8%) for the year ended 31st December 2009.

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the above major customers and suppliers.



Directors

The Directors in office during the year were Mr Fok Kin Ning, Canning, Mr Tso Kai Sum, Mr Ronald Joseph Arculli, Mrs Chow Woo Mo Fong, Susan, Mr Andrew John Hunter, Mr Kam Hing Lam, Mr Holger Kluge, Mr Lee Lan Yee, Francis, Mr Li Tzar Kuoi, Victor, Mr George Colin Magnus, Mr Neil Douglas McGee, Mr Ralph Raymond Shea, Mr Frank John Sixt, Mr Wan Chi Tin, Mr Wong Chung Hin and Mr Yuen Sui See

During the year, Mrs Chow Woo Mo Fong, Susan also served as Alternate Director to Mr Fok Kin Ning, Canning and Mr Frank John Sixt, and Mr Chan Loi Shun served as Alternate Director to Mr Kam Hing Lam

Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the year (2008 Nil)

Arrangement to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement that enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate (2008 Nil)



Report of the Directors

Disclosure under Rule 13.22 of Chapter 13 of the Listing Rules

In relation to the provision of financial assistance by the Group to certain affiliated companies, a combined balance sheet of the affiliated companies as at 31st December 2009 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below

Combined balance sheet of the affiliated companies as at 31st December 2009

\$ million

Non-current assets	77,601
Current assets	7,423
Current liabilities	(10,416)
Non-current liabilities	(62,613)
Net assets	11,995
Share capital	6,356
Reserves	5,639
Capital and reserves	11,995

As at 31st December 2009, the consolidated attributable interest of the Group in these affiliated companies amounted to \$9,538 million

By Order of the Board

Fok Kin Ning, Canning

Chairman

Hong Kong, 3rd March 2010



Independent Auditor's Report

To the Shareholders of Hongkong Electric Holdings Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hongkong Electric Holdings Limited (the "Company") set out on pages 54 to 113 which comprise the consolidated and company balance sheets as at 31st December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

3rd March 2010



Consolidated Income Statement

For the year ended 31st December 2009

(Expressed in Hong Kong dollars)

	Note	2009 \$ million	2008 \$ million
Turnover	4	10,395	12,773
Direct costs		(3,820)	(3,782)
		6,575	8,991
Other revenue and other net income	5	815	1,020
Other operating costs		(796)	(941)
Operating profit		6,594	9,070
Finance costs	7	(334)	(463)
Share of profits less losses of associates		898	732
Share of profits less losses of jointly controlled entities		632	–
Profit before taxation	8	7,790	9,339
Income tax	9		
Current		(776)	(946)
Deferred		(143)	(54)
		(919)	(1,000)
Profit after taxation		6,871	8,339
Scheme of Control transfers to	11		
Tariff Stabilisation Fund		(174)	(297)
Rate Reduction Reserve		–	(13)
		(174)	(310)
Profit attributable to equity shareholders of the Company			
Hong Kong operations		4,646	7,008
Operations outside Hong Kong		2,051	1,021
Profit for the year		6,697	8,029
Earnings per share			
Basic and diluted	12	\$3.14	\$3.76

The notes on pages 59 to 113 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 27(b).



Consolidated Statement of Comprehensive Income

For the year ended 31st December 2009

(Expressed in Hong Kong dollars)

	2009 \$ million	2008 \$ million
Profit for the year	6,697	8,029
Other comprehensive income/(loss) for the year		
Exchange differences on translating operations outside Hong Kong, including associates and jointly controlled entities	1,163	(1,264)
Cash flow hedges		
Effective portion of changes in fair value of hedging instruments recognised during the year	39	(115)
Reclassification adjustments for amounts transferred to the income statement		
– finance costs	5	2
– other revenue and other net income	–	(5)
Amounts transferred to the initial carrying amount of hedged items	4	(3)
Net deferred tax (charged)/credited to other comprehensive income	(9)	30
	39	(91)
Defined benefit retirement schemes		
Actuarial gains/(losses), net of nil tax	1,002	(2,087)
Share of other comprehensive income/(loss) of associates		
Other comprehensive income/(loss)	589	(1,399)
Net deferred tax (charged)/credited to other comprehensive income	(170)	410
	419	(989)
	2,623	(4,431)
Total comprehensive income for the year attributable to equity shareholders of the Company	9,320	3,598

The notes on pages 59 to 113 form part of these financial statements



Balance Sheets

At 31st December 2009

(Expressed in Hong Kong dollars)

	Note	The Group 2009 \$ million	2008 \$ million	The Company 2009 \$ million	2008 \$ million
Non-current assets					
Fixed assets					
– Property, plant and equipment		42,715	41,711	–	–
– Assets under construction		2,540	2,510	–	–
– Interests in leasehold land held for own use under operating leases		2,209	2,267	–	–
	13	47,464	46,488	–	–
Investments in subsidiaries	14	–	–	40,195	34,709
Interest in associates	15	13,472	9,921	–	–
Interest in jointly controlled entities	16	5,793	159	–	–
Other non-current financial assets	17	67	66	–	–
Derivative financial instruments	24	31	29	–	–
Deferred tax assets	26(b)	2	11	–	–
Employee retirement benefit assets	25	486	–	24	–
		67,315	56,674	40,219	34,709
Current assets					
Inventories	18	930	659	–	–
Trade and other receivables	19	1,059	1,147	5	33
Fuel Clause Recovery Account	20	552	998	–	–
Bank deposits and cash	21(a)	5,093	8,962	4,995	8,919
		7,634	11,766	5,000	8,952
Current liabilities					
Trade and other payables	22	(1,600)	(1,173)	(43)	(43)
Current portion of bank loans and other borrowings	23	–	(1,687)	–	–
Current taxation	26(a)	(236)	(188)	–	(9)
		(1,836)	(3,048)	(43)	(52)
Net current assets		5,798	8,718	4,957	8,900
Total assets less current liabilities		73,113	65,392	45,176	43,609
Non-current liabilities					
Interest-bearing borrowings	23	(12,247)	(8,980)	–	–
Derivative financial instruments	24	(26)	(110)	–	–
Customers' deposits		(1,676)	(1,634)	–	–
Deferred tax liabilities	26(b)	(5,622)	(5,479)	–	–
Employee retirement benefit liabilities	25	(899)	(1,537)	(175)	(264)
		(20,470)	(17,740)	(175)	(264)
Rate Reduction Reserve	11(b)	(14)	(14)	–	–
Tariff Stabilisation Fund	11(a)	(485)	(311)	–	–
Net assets		52,144	47,327	45,001	43,345
Capital and reserves					
Share capital	27(c)	2,134	2,134	2,134	2,134
Reserves		50,010	45,193	42,867	41,211
Total equity attributable to equity shareholders of the Company		52,144	47,327	45,001	43,345

Approved and authorised for issue by the Board of Directors on 3rd March 2010

Fok Kin Ning, Canning
Chairman

Tso Kai Sum
Group Managing Director

The notes on pages 59 to 113 form part of these financial statements



Consolidated Statement of Changes in Equity

For the year ended 31st December 2009

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company						Total
	Share capital (note 27(c))	Share premium (note 27(d)(i))	Exchange reserve (note 27(d)(ii))	Hedging reserve (note 27(d)(iii))	Revenue reserve (note 27(d)(iv))	Proposed/ declared dividend	
\$ million							
Balance at 1st January 2008	2,134	4,476	655	232	37,555	3,052	48,104
Changes in equity for 2008							
Final dividend in respect of the previous year approved and paid (see note 27(b)(ii))	-	-	-	-	-	(3,052)	(3,052)
Interim dividend paid (see note 27(b)(i))	-	-	-	-	(1,323)	-	(1,323)
Proposed final dividend (see note 27(b)(i))	-	-	-	-	(3,180)	3,180	-
Total comprehensive (loss)/income for the year	-	-	(1,264)	(713)	5,575	-	3,598
Balance at 31st December 2008 and 1st January 2009	2,134	4,476	(609)	(481)	38,627	3,180	47,327
Changes in equity for 2009							
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	-
Total comprehensive income for the year	-	-	1,163	365	7,792	-	9,320
Balance at 31st December 2009	2,134	4,476	554	(116)	41,916	3,180	52,144

The notes on pages 59 to 113 form part of these financial statements



Consolidated Cash Flow Statement

For the year ended 31st December 2009

(Expressed in Hong Kong dollars)

	Note	2009 \$ million	2008 \$ million
Operating activities			
Cash generated from operations	21(b)	7,884	8,887
Interest paid		(337)	(541)
Interest received		669	1,198
Hong Kong Profits Tax paid		(755)	(1,190)
Tax paid for operations outside Hong Kong		(4)	(4)
Tax refunded for operations outside Hong Kong		31	12
Net cash generated from operating activities		7,488	8,362
Investing activities			
Purchase of fixed assets and capital stock		(2,427)	(1,770)
Decrease in bank deposits maturing in over three months when placed		1,827	2,275
Capitalised interest paid		(40)	(95)
Receipts from sale of fixed assets		3	1
Investments in associates		(468)	(2,371)
Investments in jointly controlled entities		(5,686)	(141)
Investments in available-for-sale equity securities		(1)	–
New loans to associates		(5)	(1,822)
Loans repaid by associates		–	106
Repayment of amounts due from jointly controlled entities		689	–
Dividends received from associates		471	584
Dividends received from available-for-sale equity securities		22	7
Net cash used in investing activities		(5,615)	(3,226)
Financing activities			
New bank loans and other borrowings		4,033	3,789
Repayment of bank loans and other borrowings		(3,440)	(5,533)
New customers' deposits		283	256
Repayment of customers' deposits		(241)	(207)
Dividends paid to equity shareholders of the Company		(4,503)	(4,375)
Net cash used in financing activities		(3,868)	(6,070)
Net decrease in cash and cash equivalents		(1,995)	(934)
Cash and cash equivalents at 1st January	21(a)	7,135	8,078
Effect of foreign exchange rate changes		(47)	(9)
Cash and cash equivalents at 31st December	21(a)	5,093	7,135

The notes on pages 59 to 113 form part of these financial statements



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

1. General information

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.

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 collective term 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 2009 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 35.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Hongkong Electric Holdings Limited and all its subsidiaries made up to 31st December each year, together with the Group's share of the results for the year and the 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.

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 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 Company and other parties, where the contractual arrangement establishes that the Group or 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 and adjusted thereafter 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 2(l)). 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

(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

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)).

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.

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)

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, 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 are 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.

(j) Fixed assets, depreciation and amortisation

- (i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 2(j)(vi)), amortisation (see note 2(k)) 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 operating leases is stated in the balance sheet at cost less accumulated amortisation (see note 2(k)) and impairment losses (see note 2(l)).
- (vi) 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
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk radio system	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)

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.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) Impairment of assets

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

Investments in debt and equity securities (other than investments in subsidiaries see note 2(l)(ii)) 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 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 the assets), where the effect of discounting is material. This assessment is made collectively where 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.

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,
- pre-paid interests in leasehold land classified as being held under an operating lease,
- investments in subsidiaries, 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).



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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.

– 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 liquefied 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, fair value changes that are attributable to the hedged risk are 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.

(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.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(r) Employee benefits (continued)

(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 or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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.

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.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(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*

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 ("SOC") which provides for a permitted level of earnings based principally on a return on HEC's capital investment in electricity generation, transmission and distribution assets (the "Permitted Return"). The SOC 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 SOC 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 SOC.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(u) Revenue recognition (continued)

(ii) Fuel Clause Recovery Account

Under the SOC, 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 Adjustment")

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 Adjustment 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 Adjustment and any credit balance is carried forward as a deferred payable to be cleared by Fuel Clause Rebates and/or Fuel Cost Account Adjustment

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 Adjustment

(iii) Income recognition

Electricity income is recognised based on 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.

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

For the purposes of these financial statements, a party is considered to be related to the Group if

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group,
- (ii) the Group and the party are subject to common control,
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer,
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals,
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

2. Significant accounting policies (continued)

(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 one new HKFRS, a number of amendments to HKFRSs and new Interpretations 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:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Amendments to HKFRS 7, *Financial instruments: Disclosures* – improving disclosures about financial instruments
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements* – cost of an investment in a subsidiary, jointly controlled entity or associate
- HKAS 23 (revised 2007), *Borrowing costs*

The "Improvements to HKFRSs (2008)" comprise a number of minor amendments to a range of HKFRSs. These, together with the amendments to HKAS 23, have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's chief operating decision maker. Corresponding amounts have been provided on a basis consistent with the revised segment information.



- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the year arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- As a result of the adoption of the amendments to HKFRS 7, the Group's financial statements include expanded disclosures in note 28(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1st January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

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.

	2009 \$ million	2008 \$ million
Sales of electricity	10,331	12,704
Concessionary discount on sales of electricity	(6)	(6)
Electricity-related income	42	33
Technical service fees	28	42
	10,395	12,773



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

5. Other revenue and other net income

	2009 \$ million	2008 \$ million
Interest income from financial assets not at fair value through profit or loss	756	959
Dividend income from unlisted available-for-sale equity securities	22	7
Curtailment loss on defined benefit retirement scheme (see note 25)	–	(24)
Foreign exchange gain on loans and receivables	3	35
Net profit on sale of fixed assets	2	1
Sundry income	32	42
	815	1,020

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
- 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 I on pages 109 to 110.

7. Finance costs

	2009 \$ million	2008 \$ million
Interest on overdrafts, bank loans and other borrowings repayable within 5 years	319	482
Interest on other borrowings repayable over 5 years	71	82
Less: Interest capitalised to fixed assets	(43)	(89)
Interest transferred to fuel cost	(13)	(12)
Total interest expense on financial liabilities not at fair value through profit or loss	334	463

Interest expenses have been capitalised at an average rate of approximately 1.7% per annum (2008: 3.1% per annum) for assets under construction.



8. Profit before taxation

	2009 \$ million	2008 \$ million
Profit before taxation is arrived at after charging/(crediting)		
Depreciation	1,564	1,456
Amortisation of leasehold land	58	58
Costs of inventories	4,093	3,609
Write down of inventories	13	5
Staff costs	462	509
Operating lease charges		
– hire of equipment	34	62
Fixed assets written off	35	25
Net (gain)/loss on cash flow hedging instruments reclassified from equity		
– interest rate swaps	(5)	(2)
– forward foreign exchange contracts	–	5
Auditors' remuneration		
– audit and audit related work		
– KPMG	5	5
– other auditors	1	1
– non-audit work		
– KPMG	2	2
– other auditors	3	5

The consolidated profit attributable to equity shareholders of the Company includes a profit of \$6,055 million (2008 \$6,987 million) which has been dealt with in the financial statements of the Company



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

9. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents

	2009 \$ million	2008 \$ million
Current tax – Hong Kong Profits Tax		
Provision for the year	853	963
Over-provision in respect of prior years	(50)	–
	803	963
Current tax – operations outside Hong Kong		
Provision for the year	4	2
Tax credit for the year	(31)	(19)
	(27)	(17)
	776	946
Deferred tax (see note 26(b)(i))		
Origination and reversal of temporary differences	143	364
Effect on deferred tax balances at 1st January resulting from a change in tax rate	–	(310)
	143	54
	919	1,000

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 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.

	2009 \$ million	2008 \$ million
Profit before taxation	7,790	9,339
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	1,034	1,423
Tax effect of non-deductible expenses	18	34
Tax effect of non-taxable income	(121)	(147)
Tax effect of recognition of previously unrecognised temporary differences	38	–
Over-provision in respect of prior years	(50)	–
Effect on deferred tax balances at 1st January resulting from a change in tax rate	–	(310)
Actual tax expense	919	1,000



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	2009 Total emoluments \$ million	2008 Total emoluments \$ million
Executive Directors						
Fok Kin Ning, Canning ⁽⁴⁾ <i>Chairman</i>	0.12	0.75	–	–	0.87	0.73
Tso Kai Sum <i>Group Managing Director</i>	0.07	6.36	–	9.02	15.45	15.32
Chow Woo Mo Fong, Susan	0.07	0.09	–	–	0.16	0.16
Andrew John Hunter	0.07	0.08	–	–	0.15	0.16
Kam Hing Lam	0.07	0.05	–	–	0.12	0.13
Li Tzar Kuoi, Victor	0.07	0.53	–	–	0.60	0.68
Neil Douglas McGee ⁽¹⁾ <i>Group Finance Director</i>	0.07	3.97	0.28	2.39	6.71	6.72
Frank John Sixt	0.07	0.06	–	–	0.13	0.11
Wan Chi Tin <i>Director of Engineering (Planning and Development)</i>	0.07	4.21	0.81	3.67	8.76	8.04
Yuen Sui See ⁽²⁾ <i>Director of Operations</i>	0.07	3.27	0.71	1.43	5.48	4.86
Non-executive Directors						
Ronald Joseph Arculli ⁽³⁾	0.14	0.05	–	–	0.19	0.20
Lee Lan Yee, Francis ⁽⁶⁾	0.07	0.02	–	–	0.09	5.15
George Colin Magnus	0.07	0.03	–	–	0.10	0.10
Holger Kluge ^{(2) (3)}	0.14	–	–	–	0.14	0.14
Ralph Raymond Shea ^{(2) (3) (4)}	0.16	0.04	–	–	0.20	0.20
Wong Chung Hin ^{(2) (3) (4)}	0.16	0.09	–	–	0.25	0.25
Total for the year 2009	1.49	19.60	1.80	16.51	39.40	42.95
Total for the year 2008	1.48	21.97	1.14	18.36		42.95

Notes

- (1) During the year Mr Neil Douglas McGee received director's fees of THB425,000 from Ratchaburi Power Company, Limited, an associate of the Group. The director's fees were then paid back to the Company.
- (2) Independent non-executive director.
- (3) Member of the Audit Committee.
- (4) Member of the Remuneration Committee.
- (5) Appointed as a director with effect from March 2008.
- (6) Re-designated from an Executive Director to a Non-executive Director in August 2008.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

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

(b) Senior management emoluments

The five highest paid individuals of the Group included four directors (2008: five) whose total emoluments are shown above. The emoluments of the other one individual (2008: Nil) who comprises the five highest paid individuals of the Group are set out below.

	2009 \$ million	2008 \$ million
Salary and other benefits	3.45	–
Retirement scheme contributions	0.56	–
	4.01	–

The total emoluments of the individual (2008: Nil) are within the following band:

	2009 Number	2008 Number
\$4,000,001 to \$4,500,000	1	–

11. Scheme of Control transfers

The financial operations of HEC, a wholly-owned subsidiary of the Company, are governed by the SOC 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, SOC Net Return and SOC 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

	2009 \$ million	2008 \$ million
At 1st January	311	14
Transfer from the income statement	174	297
At 31st December	485	311

(b) Rate Reduction Reserve

	2009 \$ million	2008 \$ million
At 1st January	14	1
Transfer from the income statement	–	13
At 31st December	14	14



12. Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$6,697 million (2008 \$8,029 million) and 2,134,261,654 ordinary shares (2008 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 2009 and 2008

13. Fixed assets

\$ million	Site formation and buildings	Plant, machinery and equipment	Assets under construction	Sub-total	Interests in leasehold land held for own use under operating leases	Total fixed assets
Cost:						
At 1st January 2008	13,429	52,728	2,623	68,780	2,813	71,593
Additions	8	321	1,753	2,082	2	2,084
Transfers between categories	215	1,651	(1,866)	-	-	-
Disposals	-	(167)	-	(167)	-	(167)
At 31st December 2008	13,652	54,533	2,510	70,695	2,815	73,510
At 1st January 2009	13,652	54,533	2,510	70,695	2,815	73,510
Additions	6	767	1,978	2,751	-	2,751
Transfers between categories	46	1,902	(1,948)	-	-	-
Disposals	-	(223)	-	(223)	-	(223)
At 31st December 2009	13,704	56,979	2,540	73,223	2,815	76,038
Accumulated amortisation and depreciation:						
At 1st January 2008	4,193	20,852	-	25,045	490	25,535
Written back on disposals	-	(130)	-	(130)	-	(130)
Charge for the year	234	1,325	-	1,559	58	1,617
At 31st December 2008	4,427	22,047	-	26,474	548	27,022
At 1st January 2009	4,427	22,047	-	26,474	548	27,022
Written back on disposals	-	(172)	-	(172)	-	(172)
Charge for the year	237	1,429	-	1,666	58	1,724
At 31st December 2009	4,664	23,304	-	27,968	606	28,574
Net book value:						
At 31st December 2009	9,040	33,675	2,540	45,255	2,209	47,464
At 31st December 2008	9,225	32,486	2,510	44,221	2,267	46,488

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to \$43 million (2008 \$89 million)



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

13. Fixed assets *(continued)*

The Group's leasehold land at 31st December 2009 is held in Hong Kong and comprises long term and medium term leasehold land with carrying values of \$42 million (2008 \$45 million) and \$2,167 million (2008 \$2,222 million) respectively

Depreciation charges for the year included \$102 million (2008 \$103 million), relating to assets utilised in development activities which has been capitalised

14. Investments in subsidiaries

	The Company	
	2009	2008
	\$ million	\$ million
Unlisted shares, at cost	2,776	2,776
Loan capital (see note below)	8,845	21,845
Amounts due from subsidiaries	28,574	10,088
	40,195	34,709

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

Particulars of the principal subsidiaries are set out in Appendix 2 on page 111

15. Interest in associates

	The Group	
	2009	2008
	\$ million	\$ million
Share of net assets	6,616	4,600
Loans to unlisted associates (see note below)	6,600	5,165
Amounts due from unlisted associates (see note below)	256	156
	13,472	9,921

The loans to unlisted associates are unsecured, interest bearing at rates ranging from 10.85% per annum to 13.79% per annum (2008 6.28% 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 \$5,810 million (2008 \$4,542 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

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

At 31st December 2009, the Group's interests in an associate of \$740 million (2008 \$552 million) have been pledged as part of the security to secure bank borrowings granted to that associate

The financial guarantees issued by the Company in respect of banking facilities available to associates have been disclosed in note 31

Particulars of the principal associates are set out in Appendix 3 on page 112

Summarised financial information based on the unaudited management accounts of the associates is as follows

	2009 \$ million	2008 \$ million
Assets	112,143	87,333
Liabilities	(94,101)	(74,513)
Equity	18,042	12,820
Revenues	24,519	18,107
Profit	2,826	1,503

16. Interest in jointly controlled entities

	The Group 2009 \$ million	2008 \$ million
Share of net assets	5,742	159
Amounts due from unlisted jointly controlled entities (see note below)	51	–
	5,793	159

During the year ended 31st December 2009, the Group acquired equity interests in certain jointly controlled entities from a shareholder of the Company, at a purchase consideration, before direct costs, of \$5,680 million (see note 32(a))

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 2009, the Group's interests in a jointly controlled entity of \$2,991 million (2008 Nil) have been pledged as part of the security to secure bank borrowings 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 31.

Particulars of the principal jointly controlled entities are set out in Appendix 4 on page 113.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

16. Interest in jointly controlled entities *(continued)*

Summarised financial information based on the unaudited management accounts of the jointly controlled entities is as follows

	2009 \$ million	2008 \$ million
Assets	16,887	1,053
Liabilities	(7,626)	(706)
Equity	9,261	347
Revenues	8,586	–
Profit	1,794	–

17. Other non-current financial assets

	The Group 2009 \$ million	2008 \$ million
Unlisted available-for-sale equity securities, at cost	67	66

18. Inventories

	The Group 2009 \$ million	2008 \$ million
Work in progress	–	1
Coal, fuel oil and liquefied natural gas	629	375
Stores and materials (see note below)	301	283
	930	659

Included in stores and materials is capital stock of \$189 million (2008 \$190 million) which was purchased for future capital projects

19. Trade and other receivables

	The Group		The Company	
	2009 \$ million	2008 \$ million	2009 \$ million	2008 \$ million
Trade debtors (see note below)	616	670	–	–
Other receivables	402	444	2	30
	1,018	1,114	2	30
Derivative financial instruments				
– held as cash flow/fair value hedging instruments	13	2	–	–
Deposits and prepayments	28	31	3	3
	1,059	1,147	5	33

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 \$375 million (2008 \$390 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	
	2009	2008
	\$ million	\$ million
Current	569	625
1 to 3 months past due	35	31
More than 3 months past due but less than 12 months past due	12	14
Total trade debtors	616	670

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 sufficient 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 25.4 cents from 1st January 2009 (2008 10.5 cents). Movements on the Fuel Clause Recovery Account were as follows:

	The Group	
	2009	2008
	\$ million	\$ million
At 1st January	998	336
Transfer to profit or loss	2,329	1,802
Fuel Clause Charges during the year	(2,775)	(1,140)
At 31st December	552	998

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)(iii)).



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

21. Bank deposits and cash

(a) Bank deposits and cash comprise

	The Group		The Company	
	2009	2008	2009	2008
	\$ million	\$ million	\$ million	\$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	4,993	7,104	4,993	7,086
Cash at bank and in hand	100	31	2	6
Cash and cash equivalents for the purpose of the cash flow statement	5,093	7,135		
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	–	1,827	–	1,827
Bank deposits and cash for the purpose of the balance sheet	5,093	8,962	4,995	8,919

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

	Note	2009 \$ million	2008 \$ million
Profit before taxation		7,790	9,339
Adjustments for			
Share of profits less losses of associates		(898)	(732)
Share of profits less losses of jointly controlled entities		(632)	–
Interest income	5	(756)	(959)
Dividend income from unlisted available-for-sale equity securities	5	(22)	(7)
Finance costs	7	347	475
Depreciation	8	1,564	1,456
Amortisation of leasehold land	8	58	58
Fixed assets written off	8	35	25
Net profit on sale of fixed assets	5	(2)	(1)
Exchange losses/(gains)		36	(35)
Financial instrument revaluation (gain)/loss		(2)	3
Changes in working capital			
Increase in inventories		(271)	(107)
Decrease/(increase) in trade and other receivables		57	(29)
Decrease/(increase) in Fuel Clause Recovery Account		446	(662)
Increase in trade and other payables		256	37
(Decrease)/increase in net employee retirement benefit liabilities		(122)	26
Cash generated from operations		7,884	8,887

22. Trade and other payables

	The Group		The Company	
	2009	2008	2009	2008
	\$ million	\$ million	\$ million	\$ million
Creditors measured at amortised cost (see note below)	1,597	1,161	43	41
Derivative financial instruments – held as cash flow/fair value hedging instruments	3	12	–	2
	1,600	1,173	43	43

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

Creditors' ageing is analysed as follows

	The Group	
	2009	2008
	\$ million	\$ million
Due within 1 month or on demand	709	572
Due after 1 month but within 3 months	325	247
Due after 3 months but within 12 months	563	342
	1,597	1,161

23. Non-current interest-bearing borrowings

	The Group	
	2009	2008
	\$ million	\$ million
Bank loans	9,192	8,241
Current portion	–	(1,687)
	9,192	6,554
Hong Kong dollar notes (see note below)	3,055	2,426
Total	12,247	8,980

Hong Kong dollar fixed rate notes bear interest at rates between 3.28% to 4.55% per annum (2008 4.13% to 4.55% per annum), while interest on floating rate notes is determined with reference to the Hong Kong Interbank Offered Rate. Details of the issuer of Hong Kong dollar notes are set out in Appendix 2 on page 111. None of the non-current interest-bearing borrowings is expected to be settled within one year. All the above borrowings are unsecured.

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 2009 and 2008, none of the covenants relating to drawn down facilities had been breached.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

23. Non-current interest-bearing borrowings (continued)

These borrowings have final maturities extending up to 2016 and are repayable as follows

\$ million	Bank loans		Hong Kong dollar notes		Total	
	2009	2008	2009	2008	2009	2008
Within 1 year	–	1,687	–	–	–	1,687
After 1 year but within 2 years	4,200	–	–	–	4,200	–
After 2 years but within 5 years	4,992	6,554	1,031	529	6,023	7,083
After 5 years	–	–	2,024	1,897	2,024	1,897
	9,192	8,241	3,055	2,426	12,247	10,667

24. Derivative financial instruments

	The Group		The Company	
	2009 \$ million	2008 \$ million	2009 \$ million	2008 \$ million
Derivative financial instruments used for hedging				
– Interest rate swaps	5	(85)	–	–
– Foreign exchange forward contracts	10	(6)	–	(2)
Total	15	(91)	–	(2)
Current portion of derivative financial instruments (see notes 19 and 22)	(10)	10	–	2
	5	(81)	–	–
Represented by				
Derivative financial instruments assets	31	29	–	–
Derivative financial instruments liabilities	(26)	(110)	–	–
	5	(81)	–	–

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. In respect of one investment fund on which the Group provides a guaranteed return, the scheme is accounted for as a defined benefit retirement scheme. In respect of the other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme.

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 2.2% 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 Mr A Wong, FSA, FCIA as at 1st January 2008. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

The retirement scheme expense/income recognised in profit or loss for the year ended 31st December 2009 was determined in accordance with HKAS 19, *Employee benefits*.

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

	The Group		The Company	
	2009	2008	2009	2008
	\$ million	\$ million	\$ million	\$ million
Present value of funded obligations	(4,976)	(5,995)	(529)	(613)
Fair value of assets of the Schemes	4,563	4,458	378	349
	(413)	(1,537)	(151)	(264)
Represented by				
Employee retirement benefit assets	486	—	24	—
Employee retirement benefit liabilities	(899)	(1,537)	(175)	(264)
	(413)	(1,537)	(151)	(264)

The assets of the Schemes did not include ordinary shares issued by the Company for the years ended 31st December 2009 and 2008.

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.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

25. Employee retirement benefits (continued)

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

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

	The Group		The Company	
	2009	2008	2009	2008
	\$ million	\$ million	\$ million	\$ million
At 1st January	5,995	4,510	613	464
Current service cost	149	129	10	9
Interest cost	72	155	7	16
Employee contributions paid to the Schemes	25	28	2	2
Actuarial (gains)/losses	(834)	1,401	(85)	145
Benefits paid	(431)	(252)	(18)	(24)
Curtailment loss	–	24	–	1
At 31st December	4,976	5,995	529	613

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

	The Group		The Company	
	2009	2008	2009	2008
	\$ million	\$ million	\$ million	\$ million
At 1st January	4,458	5,086	349	421
Expected return on assets of the Schemes	250	225	20	22
Actuarial gains/(losses)	168	(686)	19	(76)
Employer contributions paid to the Schemes	93	57	6	4
Employee contributions paid to the Schemes	25	28	2	2
Benefits paid	(431)	(252)	(18)	(24)
At 31st December	4,563	4,458	378	349

The Group expects to contribute \$93 million to its defined benefit retirement schemes in 2010

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

	2009	2008
	\$ million	\$ million
Current service cost	149	129
Interest cost	72	155
Expected return on assets of the Schemes	(250)	(225)
Curtailment loss	–	24
	(29)	83

The expense/(income) is recognised in the following line items in the consolidated income statement

	2009 \$ million	2008 \$ million
Direct costs	(25)	36
Other operating costs	(4)	23
Other revenue and other net income	–	24
	(29)	83

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 \$418 million (2008 net loss of \$461 million)

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

	2009 \$ million	2008 \$ million
At 1st January	2,238	151
Actuarial (gains)/losses recognised in the consolidated statement of comprehensive income during the year	(1,002)	2,087
At 31st December	1,236	2,238

- (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	
	2009	2008
Hong Kong equities	5.0%	3.7%
Europe equities	6.0%	6.6%
North America equities	6.3%	5.2%
Other Asia Pacific equities	3.0%	3.9%
Global bonds	75.4%	78.1%
Deposits, cash and others	4.3%	2.5%
	100%	100%



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

25. Employee retirement benefits (continued)

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

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

	The Group and the Company	
	2009	2008
Discount rate	2.6%	1.2%
Expected rate of return on assets of the Schemes	5.1% – 6.3%	5.3% – 7.2%
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	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
Present value of funded obligations	(4,976)	(5,995)	(4,510)	(4,410)	(4,151)	(529)	(613)	(464)	(438)	(393)
Fair value of assets of the Schemes	4,563	4,458	5,086	4,599	3,986	378	349	421	391	337
(Deficit)/surplus	(413)	(1,537)	576	189	(165)	(151)	(264)	(43)	(47)	(56)
Experience adjustments on										
Scheme liabilities	107	21	(26)	(45)	(8)	9	(4)	(8)	(26)	(10)
Scheme assets	168	(686)	387	447	67	19	(76)	23	49	13

(b) Defined contribution retirement scheme

	2009 \$ million	2008 \$ million
Expenses recognised in the consolidated income statement	6	4

No forfeited contribution has been received during the year (2008 \$0.2 million)

26. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2009	2008	2009	2008
	\$ million	\$ million	\$ million	\$ million
Provision for Hong Kong Profits Tax for the year	853	963	-	-
Provisional Profits Tax paid	(617)	(781)	-	-
	236	182	-	-
Balance of Profits Tax provision relating to prior years	-	6	-	9
	236	188	-	9

(b) Deferred tax assets and liabilities recognised

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

The Group

	Depreciation allowances in excess of the related depreciation	Fuel Clause Recovery Account	Others	Total
	\$ million	\$ million	\$ million	\$ million
At 1st January 2008	5,373	59	12	5,444
(Credited)/charged to profit or loss	(53)	105	2	54
Credited to other comprehensive income	-	-	(30)	(30)
At 31st December 2008	5,320	164	(16)	5,468
At 1st January 2009	5,320	164	(16)	5,468
Charged/(credited) to profit or loss	218	(73)	(2)	143
Charged to other comprehensive income	-	-	9	9
At 31st December 2009	5,538	91	(9)	5,620

(ii) Reconciliation to the balance sheet

	The Group	
	2009	2008
	\$ million	\$ million
Net deferred tax assets recognised on the balance sheet	(2)	(11)
Net deferred tax liabilities recognised on the balance sheet	5,622	5,479
	5,620	5,468

The Group had no material unprovided deferred tax assets or liabilities as at 31st December 2009 and 2008



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

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))	Hedging reserve (note 27(d)(iii))	Revenue reserve (note 27(d)(iv))	Proposed/ declared dividend	Total
Balance at 1st January 2008	2,134	4,476	5	31,292	3,052	40,959
Changes in equity for 2008						
Final dividend in respect of the previous year approved and paid (see note 27(b)(ii))	-	-	-	-	(3,052)	(3,052)
Interim dividend paid (see note 27(b)(i))	-	-	-	(1,323)	-	(1,323)
Proposed final dividend (see note 27(b)(i))	-	-	-	(3,180)	3,180	-
Total comprehensive (loss)/ income for the year	-	-	(5)	6,766	-	6,761
Balance at 31st December 2008 and 1st January 2009	2,134	4,476	-	33,555	3,180	43,345
Changes in equity for 2009						
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	-
Total comprehensive income for the year	-	-	-	6,159	-	6,159
Balance at 31st December 2009	2,134	4,476	-	35,211	3,180	45,001

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 \$1.49 (2008 \$1.49) per ordinary share, amounting to \$3,180 million (2008 \$3,180 million).

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

	2009 \$ million	2008 \$ million
Interim dividend declared and paid of 62 cents per ordinary share (2008 62 cents per ordinary share)	1,323	1,323
Final dividend proposed after the balance sheet date of \$1.49 per ordinary share (2008 \$1.49 per ordinary share)	3,180	3,180
	4,503	4,503

The final dividend proposed after the balance sheet date is based on 2,134,261,654 ordinary shares (2008 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

	2009 \$ million	2008 \$ million
Final dividend in respect of the previous financial year, approved and paid during the year of \$1.49 per ordinary share (2008 \$1.43 per ordinary share)	3,180	3,052

(c) Share capital

		The Company	
	Number of shares	2009 \$ million	2008 \$ 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.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

27. Capital, reserves and dividends (continued)

(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. The reserve is dealt with in accordance with the accounting policies set out in note 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.

Consistent with industry practice, 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 2009, the Group's strategy, which was unchanged from 2008, was to control its net debt-to-equity ratio in order to secure access to finance at a reasonable cost. In order to maintain or adjust the ratio, 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 2009 and 2008 was as follows

	The Group	
	2009	2008
	\$ million	\$ million
Interest-bearing borrowings	12,247	10,667
Less Bank deposits and cash	(5,093)	(8,962)
Net debt	7,154	1,705
Total equity	52,144	47,327
Net debt-to-equity ratio	14%	4%

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

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 outstanding amount of deposits received from customers at 31st December 2009 was \$1,676 million (2008 \$1,634 million). 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 31, 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 31.

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.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

28. Financial risk management and fair values (continued)

(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 2009 (2008 \$7,450 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

\$ million	2009 Contractual undiscounted cash outflow				Total	Balance sheet carrying amount
	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		
Bank loans and other borrowings and interest accruals	320	4,380	6,348	2,283	13,331	12,294
Trade and other payables (excluding interest accruals)	1,535	-	-	-	1,535	1,535
Interest rate swaps (net settled) and related interest accruals	12	(11)	(3)	-	(2)	6
	1,867	4,369	6,345	2,283	14,864	13,835
Derivatives settled gross						
Foreign exchange forward contracts held as cash flow hedging instruments (note 28(d)(i))						(9)
- outflow	2,307	319	14	-	2,640	
- inflow	(2,311)	(320)	(14)	-	(2,645)	
Other foreign exchange forward contracts (note 28(d)(ii))						(1)
- outflow	301	-	-	-	301	
- inflow	(302)	-	-	-	(302)	



\$ million	2008 Contractual undiscounted cash outflow					Balance sheet carrying amount
	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	
Bank loans and other borrowings and interest accruals	1,999	304	7,405	2,072	11,780	10,708
Trade and other payables (excluding interest accruals)	1,116	–	–	–	1,116	1,116
Interest rate swaps (net settled) and related interest accruals	27	19	(7)	–	39	87
	3,142	323	7,398	2,072	12,935	11,911
Derivatives settled gross						
Foreign exchange forward contracts held as cash flow hedging instruments (note 28(d)(i))						4
– outflow	2,464	–	–	–	2,464	
– inflow	(2,460)	–	–	–	(2,460)	
Other foreign exchange forward contracts (note 28(d)(ii))						2
– outflow	1,044	–	–	–	1,044	
– inflow	(1,046)	–	–	–	(1,046)	

The Company

\$ million	2009 Contractual undiscounted cash outflow					Balance sheet carrying amount
	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	
Trade and other payables	43	–	–	–	43	43
Derivatives settled gross						
Other foreign exchange forward contracts (note 28(d)(ii))						–
– outflow	–	–	–	–	–	
– inflow	–	–	–	–	–	



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

28. Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

\$ million	2008 Contractual undiscounted cash outflow				Total	Balance sheet carrying amount
	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		
Trade and other payables	41	–	–	–	41	41
Derivatives settled gross						
Other foreign exchange forward contracts (note 28(d)(ii))						2
– outflow	1,019	–	–	–	1,019	
– inflow	(1,020)	–	–	–	(1,020)	

(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 interest rate derivatives to manage the exposure in accordance with its treasury policy. At 31st December 2009, the Group had interest rate swaps with a total notional amount of \$4,949 million (2008: \$4,255 million).

The Group classifies 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 swaps entered into by the Group at 31st December 2009 were recognised as derivative financial instrument assets and liabilities amounting to \$31 million (2008: \$29 million) and \$26 million (2008: \$114 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 interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above)

	The Group			
	2009		2008	
	Weighted average interest rate %	\$ million	Weighted average interest rate %	\$ million
Net fixed rate assets/(liabilities)				
Loans to associates	11.4	6,600	11.4	5,165
Bank loans and other borrowings	5.3	(6,971)	5.2	(5,649)
		(371)		(484)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	< 0.1	100	< 0.1	31
Deposits with banks and other financial institutions	0.4	4,993	2.4	8,931
Bank loans and other borrowings	0.3	(5,276)	0.9	(5,018)
Customers' deposits	< 0.1	(1,676)	< 0.1	(1,634)
		(1,859)		2,310

	The Company			
	2009		2008	
	Weighted average interest rate %	\$ million	Weighted average interest rate %	\$ million
Variable rate assets				
Cash at bank and in hand	< 0.1	2	< 0.1	6
Deposits with banks and other financial institutions	0.4	4,993	2.4	8,913
		4,995		8,919



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

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

(c) Interest rate risk *(continued)*

(iii) Sensitivity analysis

At 31st December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit for the year and revenue reserve by approximately \$5 million (2008 increased/decreased by approximately \$48 million). Other components of consolidated equity would have increased/decreased by approximately \$6 million (2008 increased/decreased by approximately \$15 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 2008.

(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, Canadian dollars and New Zealand dollars.

The Group uses forward exchange contracts to manage its foreign currency risk and classifies these as cash flow hedges. At 31st December 2009, the Group had forward exchange contracts hedging committed and forecast transactions with a net fair asset value of \$9 million (2008 \$4 million liability) 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 2009 was a net asset of \$1 million (2008 a net liability of \$2 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 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 by funding a portion of the investment through external borrowings in the same currency as the underlying investment. The fair value of these borrowings at 31st December 2009 was \$4,202 million (2008 \$3,207 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

'million	Exposure to foreign currencies				
	USD	JPY	2009 GBP	CAD	NZD
Trade and other receivables	-	1	-	-	-
Bank deposits and cash	644	10	-	-	-
Trade and other payables	(79)	(373)	(1)	-	-
Gross exposure arising from recognised assets and liabilities	565	(362)	(1)	-	-
Notional amounts of forward exchange contracts used as economic hedges	36	227	-	-	-
Net exposure arising from recognised assets and liabilities	601	(135)	(1)	-	-
Estimated forecast purchases (see note below)	(531)	(4,850)	-	-	-
Gross exposure arising from forecast transactions	(531)	(4,850)	-	-	-
Notional amounts of forward exchange contracts used as cash flow hedging instruments	293	4,387	-	-	-
Net exposure arising from forecast transactions	(238)	(463)	-	-	-
Overall net exposure	363	(598)	(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)

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

(d) Currency risk *(continued)*

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

'million	Exposure to foreign currencies				
	USD	JPY	2008 GBP	CAD	NZD
Trade and other receivables	3	2	–	–	–
Bank deposits and cash	1,013	9	–	1	–
Trade and other payables	(46)	(285)	(1)	(1)	(1)
Gross exposure arising from recognised assets and liabilities	970	(274)	(1)	–	(1)
Notional amounts of forward exchange contracts used as economic hedges	132	122	–	–	–
Net exposure arising from recognised assets and liabilities	1,102	(152)	(1)	–	(1)
Estimated forecast purchases (see note below)	(611)	(1,011)	–	–	–
Gross exposure arising from forecast transactions	(611)	(1,011)	–	–	–
Notional amounts of forward exchange contracts used as cash flow hedging instruments	316	119	–	–	–
Net exposure arising from forecast transactions	(295)	(892)	–	–	–
Overall net exposure	807	(1,044)	(1)	–	(1)

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

The Company

'million	Exposure to foreign currencies			
	2009		2008	
	USD	CAD	USD	CAD
Trade and other receivables	–	–	3	–
Bank deposits and cash	644	–	1,013	(1)
Gross exposure arising from recognised assets and liabilities	644	–	1,016	(1)
Notional amounts of forward exchange contracts used as economic hedges	–	–	131	–
Net exposure arising from recognised assets and liabilities	644	–	1,147	(1)



(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

	2009		2008	
	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)
\$ million				
Japanese yen	(1)	38	–	1
Pounds sterling	(1)	–	–	–
Canadian dollars	–	–	(1)	–
New Zealand dollars	–	–	–	–

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 2008.

(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 2008.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

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

	2009	
	The Group Level 2	The Company
	\$ million	\$ million
Assets		
Derivative financial instruments		
– Interest rate swaps	31	–
– Forward exchange contracts	13	–
	44	–
Liabilities		
Derivative financial instruments		
– Interest rate swaps	(26)	–
– Forward exchange contracts	(3)	–
Bank loans subject to fair value hedges	(531)	–
	(560)	–

(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

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs. 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 interest rate swaps is determined by discounting the future cash flows of the contracts at the current market interest rate.

(iii) Interest-bearing bank loans and other borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iv) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

29. Operating lease commitment

As at 31st December 2009, the total future minimum lease payments by the Group under a non-cancellable equipment operating lease are payable as follows:

	The Group	
	2009	2008
	\$ million	\$ million
Within 1 year	–	46

During the year ended 31st December 2009, the Group exercised an option to purchase all of the equipment subject to the operating lease at its fair market value as at the end of the lease term under the terms of the non-cancellable equipment lease.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

30. Capital commitments

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

	The Group	
	2009	2008
	\$ million	\$ million
Contracted for		
Capital expenditure	1,367	1,263
Investment in jointly controlled entities	37	37
Others	–	1
	1,404	1,301
Authorised but not contracted for		
Capital expenditure	10,303	11,821

31. Contingent liabilities

	The Group		The Company	
	2009	2008	2009	2008
	\$ million	\$ million	\$ million	\$ million
Financial guarantees issued in respect of banking facilities available to (see note below)				
– Subsidiaries	–	–	4,202	3,207
– Associates	1,229	836	1,229	836
– Jointly controlled entities	403	206	–	–
Other guarantees given in respect of				
– Subsidiaries	10	10	10	10
– Others	–	210	–	–
	1,642	1,262	5,441	4,053

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

32. Material related party transactions

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

(a) Shareholder

On 5th February 2009, the Company entered into an agreement with Cheung Kong Infrastructure Holdings Limited ("CKI"), a substantial shareholder holding approximately 38.87% of the issued shares of the Company, to purchase the entire issued share capital of Outram Limited ("Outram"), which held a 45% equity interest in certain joint ventures owning power plants in the People's Republic of China. The consideration for the transaction was \$5,680 million. The transaction constituted a connected transaction for the Company. The acquisition was completed on 2nd April 2009.

Upon the acquisition, Outram entered into a three-year renewable contract with CKI under which CKI provides operation and management services to Outram and its subsidiaries. Outram reimbursed CKI \$23 million in 2009 being the actual costs incurred for providing the services.

(b) Subsidiaries

Management fees and services fees recharged by the Company to subsidiaries amounted to \$133 million (2008: \$139 million) for the year. The outstanding balances with subsidiaries at 31st December 2009 are disclosed in note 14. The transactions and balances with subsidiaries are eliminated on consolidation.

(c) Associates

Interest income received/receivable from associates in respect of the loans to associates amounted to \$698 million (2008: \$603 million) for the year. At 31st December 2009, the total outstanding interest bearing loan balances due from associates were \$6,600 million (2008: \$5,165 million). The outstanding balances with associates are disclosed in note 15.

(d) 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	
	2009	2008	2009	2008
	\$ million	\$ million	\$ million	\$ million
Short-term employee benefits	60	63	37	37
Post-employment benefits	5	3	2	1
	65	66	39	38

Total remuneration is included in "staff costs" (see note 8). At 31st December 2009 and 2008, there was no amount due from the key management personnel.

33. 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.



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

34. Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

35. 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 operating leases are amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the 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 amount of the asset needs 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.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December 2009 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, new standards and interpretations 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
HKFRS 3 (Revised), <i>Business combinations</i>	1st July 2009
Amendments to HKAS 27, <i>Consolidated and separate financial statements</i>	1st July 2009
Amendments to HKAS 39, <i>Financial instruments</i>	1st July 2009
<i>Recognition and measurement – Eligible hedged items</i>	
Improvements to HKFRSs 2009	1st July 2009 or 1st January 2010
Revised HKAS 24, <i>Related party disclosures</i>	1st January 2011
Amendments to HK(IFRIC) 14, <i>The limit on a defined benefit asset, minimum funding requirements and their interaction</i>	1st January 2011
HKFRS 9, <i>Financial instruments</i>	1st January 2013

Appendix I

Segment information

	2009			
\$ million	Sales of electricity	Infrastructure investments	All other activities	Total
For the year ended 31st December				
Revenue				
Group turnover	10,367	–	28	10,395
Other revenue and net income	23	22	14	59
Reportable segment revenue	10,390	22	42	10,454
Result				
Segment earnings	7,456	3	1	7,460
Depreciation and amortisation	(1,622)	–	–	(1,622)
Interest income	–	698	58	756
Operating profit	5,834	701	59	6,594
Finance costs	(92)	(242)	–	(334)
Share of profits less losses of associates and jointly controlled entities	–	1,529	1	1,530
Profit before taxation	5,742	1,988	60	7,790
Income tax	(952)	27	6	(919)
Profit after taxation	4,790	2,015	66	6,871
Scheme of Control transfers	(174)	–	–	(174)
Reportable segment profit	4,616	2,015	66	6,697
At 31st December				
Assets				
Fixed assets	47,463	–	1	47,464
Other assets	3,005	69	53	3,127
Interest in associates and jointly controlled entities	–	19,257	8	19,265
Bank deposits and cash	92	–	5,001	5,093
Reportable segment assets	50,560	19,326	5,063	74,949
Liabilities				
Segment liabilities	(3,900)	(56)	(245)	(4,201)
Current and deferred taxation	(5,858)	–	–	(5,858)
Interest-bearing borrowings	(8,047)	(4,200)	–	(12,247)
Rate Reduction Reserve	(14)	–	–	(14)
Tariff Stabilisation Fund	(485)	–	–	(485)
Reportable segment liabilities	(18,304)	(4,256)	(245)	(22,805)
For the year ended 31st December				
Other information				
Capital expenditure	2,751	–	–	2,751



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

Appendix I (continued)

Segment information (continued)

\$ million	2008			Total
	Sales of electricity	Infrastructure investments	All other activities	
For the year ended 31st December				
Revenue				
Group turnover	12,731	–	42	12,773
Other revenue and net income	3	43	15	61
Reportable segment revenue	12,734	43	57	12,834
Result				
Segment earnings	9,654	42	(71)	9,625
Depreciation and amortisation	(1,514)	–	–	(1,514)
Interest income	–	603	356	959
Operating profit	8,140	645	285	9,070
Finance costs	(166)	(297)	–	(463)
Share of profits less losses of associates and jointly controlled entities	–	731	1	732
Profit before taxation	7,974	1,079	286	9,339
Income tax	(1,016)	17	(1)	(1,000)
Profit after taxation	6,958	1,096	285	8,339
Scheme of Control transfers	(310)	–	–	(310)
Reportable segment profit	6,648	1,096	285	8,029
At 31st December				
Assets				
Fixed assets	46,488	–	–	46,488
Other assets	2,788	77	45	2,910
Interest in associates and jointly controlled entities	–	10,071	9	10,080
Bank deposits and cash	–	–	8,962	8,962
Reportable segment assets	49,276	10,148	9,016	68,440
Liabilities				
Segment liabilities	(3,922)	(138)	(394)	(4,454)
Current and deferred taxation	(5,667)	9	(9)	(5,667)
Interest-bearing borrowings	(7,463)	(3,204)	–	(10,667)
Rate Reduction Reserve	(14)	–	–	(14)
Tariff Stabilisation Fund	(311)	–	–	(311)
Reportable segment liabilities	(17,377)	(3,333)	(403)	(21,113)
For the year ended 31st December				
Other information				
Capital expenditure	2,084	–	–	2,084



Appendix 2

Principal subsidiaries

The following list contains only the particulars of subsidiaries as at 31st December 2009 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
Fortress Advertising Company Limited	HK\$2	100	Hong Kong	Advertising
Hongkong Electric (Natural Gas) Limited	US\$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hongkong Electric International Limited	US\$50,900	100	British Virgin Islands	Investment holding
Hongkong Electric Finance Limited	US\$1 and HK\$3,030 million Hong Kong dollar notes (see note 23)	100*	British Virgin Islands/ Hong Kong	Financing
HEI Investment Holdings Limited	HK\$2	100*	Hong Kong	Investment holding
Sigerson Business Corp	US\$101	100*	British Virgin Islands	Investment holding
HEI Utilities (Malaysian) Limited	A\$637,510	100*	British Virgin Islands	Investment holding
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\$12	100*	Australia	Financing
HEI Distribution Finance (Australia) Pty Limited	A\$100	100*	Australia	Financing
Riverland Investment Limited	US\$1	100*	British Virgin Islands	Investment holding
Hongkong Electric International Power (Mauritius) Limited	US\$2	100*	Mauritius	Investment holding
Kentson Limited	US\$1	100*	British Virgin Islands	Investment holding
Beta Central Profits Limited	GBP 63,772,525	100*	United Kingdom	Investment holding
HEI China Limited	US\$1	100*	British Virgin Islands	Investment holding
Hongkong Electric Yunnan Dali Wing 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	Investment holding
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

* Indirectly held



Notes to the Financial Statements

(Expressed in Hong Kong Dollars)

Appendix 3 Principal associates

The following list contains only the particulars of associates as at 31st December 2009 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 (see note (a) below)	A\$250,818,796	54.76%	Bahamas/Australia	Electricity distribution
CKI Spark Holdings No. Two Limited (see note (b) below)	A\$498,038,537	54.76%	Bahamas/Australia	Electricity distribution
Ratchaburi Power Company, Limited (see note (c) below)	THB 7,325,000,000	25%	Thailand	Electricity generation and supply
Northern Gas Networks Holdings Limited (see note (d) below)	GBP 571,670,980	41.29%	United Kingdom	Gas distribution
Stanley Power Inc. (see note (e) below)	Ordinary shares C\$107,000,000 Preference shares C\$46,666,800	50%	Canada	Electricity generation
Wellington Electricity Distribution Network Holdings Limited (see note (f) below)	NZ\$117,000,100	50%	New Zealand	Electricity distribution

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 the State of Victoria, Australia. CitiPower, which is similar to Powercor, is one of five electricity distributors in the State of Victoria, Australia. 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 an unincorporated body and operates and manages the electricity distribution business in the State of 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. indirectly holds a 49.99% partnership interest in TransAlta Cogeneration LP. TransAlta Cogeneration LP 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.
- (f) Wellington Electricity Distribution Network Holdings Limited owns interests in the Wellington electricity distribution network, 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.



Appendix 4

Principal jointly controlled entities

The following list contains only the particulars of jointly controlled entities as at 31st December 2009 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
Huaneng Hongkong Electric Dali Wind Power Company Limited (see note (a) below)	RMB126,048,280	45%	People's Republic of China	Electricity generation
Huaneng Laoting Wind Power Company Limited (see note (b) below)	RMB180,427,511	45%	People's Republic of China	Electricity generation
Guangdong Zhuhai Power Station Company Limited (see note (c) below)	RMB1,765,000,000 and US\$166,000,000	45%	People's Republic of China	Electricity generation
Guangdong Zhuhai Jinwan Power Company Limited (see note (d) below)	RMB822,250,000 and US\$83,340,993	45%	People's Republic of China	Electricity generation

Notes

- (a) 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
- (b) 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
- (c) Guangdong Zhuhai Power Station Company Limited owns and operates power plants in the People's Republic of China
- (d) Guangdong Zhuhai Jinwan Power Company Limited owns and operates power plants in the People's Republic of China



Five-Year Group Profit Summary and Group Balance Sheet

Five-Year Group Profit Summary

HK\$ million	2009	2008	2007	2006	2005
Turnover	10,395	12,773	12,524	12,181	11,622
Operating profit	6,594	9,070	8,869	8,334	7,755
Finance costs	(334)	(463)	(634)	(420)	(588)
Profit on disposal of interest in associates	–	–	–	–	1,560
Share of profits less losses of associates and jointly controlled entities	1,530	732	524	229	1,050
Profit before taxation	7,790	9,339	8,759	8,143	9,777
Income tax	(919)	(1,000)	(1,296)	(1,301)	(1,215)
Profit after taxation	6,871	8,339	7,463	6,842	8,562
Scheme of Control transfers	(174)	(310)	(15)	–	–
Profit attributable to equity shareholders of the Company	6,697	8,029	7,448	6,842	8,562

Five-Year Group Balance Sheet

HK\$ million	2009	2008	2007	2006	2005
Fixed assets	47,464	46,488	46,058	46,496	46,258
Interest in associates and jointly controlled entities	19,265	10,080	9,071	6,339	5,780
Other non-current financial assets	67	66	66	1,687	1,682
Other non-current assets	519	40	1,228	626	213
Net current assets	5,798	8,718	10,566	9,892	5,525
Total assets less current liabilities	73,113	65,392	66,989	65,040	59,458
Non-current liabilities	(20,470)	(17,740)	(18,870)	(20,955)	(17,773)
Rate Reduction Reserve	(14)	(14)	(1)	–	–
Tariff Stabilisation Fund	(485)	(311)	(14)	–	–
Net assets	52,144	47,327	48,104	44,085	41,685
Share capital	2,134	2,134	2,134	2,134	2,134
Reserves	50,010	45,193	45,970	41,951	39,551
Capital and reserves	52,144	47,327	48,104	44,085	41,685



Ten-Year Scheme of Control Statement

The Hongkong Electric Company, Limited

(a) Scheme of Control

The activities of The Hongkong Electric Company, Limited ("HEC"), a wholly-owned subsidiary of the Company, are subject to a Scheme of Control ("SOC") agreed with the Hong Kong SAR Government with a term of 10 years commencing 1st January 2009 and a Government option to extend the agreement for a further term of 5 years

The agreement provides for HEC to earn a Permitted Return of 9.99% of average net fixed assets other than for renewable energy fixed assets for which the permitted return is 11% (2008 13.5% of average net fixed assets plus 1.5% of average net fixed assets acquired after 1st January 1979 from additional shareholders' investment). The Permitted Return is determined after any excess capacity adjustment, in accordance with the Annex to the SOC. An excess capacity adjustment of \$33 million was made in 2009 (2008 \$43 million). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, SOC Net Return and SOC taxation charges is transferred to/(from) a Tariff Stabilisation Fund (formerly named Development 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 calculating the SOC net revenue, interest relating to the acquisition of fixed assets (whether it has been charged to revenue or capitalised) up to 8% per annum, is added to, and a tax adjustment is made against, profit after taxation. In addition, each year a charge calculated by applying the average of one-month Hong Kong Interbank Offered Rates (2008 fixed 8%) on the average balance of the Tariff Stabilisation Fund is transferred from the income statement of HEC to a Rate Reduction Reserve, the purpose of which is to rebate electricity charges to customers.

(b) Ten-Year Scheme of Control statement for the year ended 31st December

HK\$ million	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Sales of electricity	10,331	12,704	12,452	12,326	12,310	11,442	11,263	11,522	10,911	10,543
Transfer from/(to) Fuel Clause Recovery Account	2,329	1,802	413	15	119	(443)	(726)	(724)	(740)	(801)
Other Scheme of Control revenue	63	36	455	42	56	51	66	56	59	54
Gross tariff revenue	12,723	14,542	13,320	12,383	12,485	11,050	10,603	10,854	10,230	9,796
Fuel costs	(4,104)	(3,597)	(2,167)	(1,780)	(1,887)	(1,301)	(983)	(972)	(917)	(823)
Operating costs	(1,158)	(1,283)	(1,260)	(1,155)	(1,190)	(1,105)	(918)	(833)	(848)	(845)
Interest	(91)	(166)	(369)	(186)	(128)	(83)	(195)	(196)	(359)	(590)
Depreciation and amortisation	(1,623)	(1,516)	(2,025)	(1,892)	(1,832)	(1,810)	(1,782)	(1,671)	(1,572)	(1,448)
Profit on disposal of fixed assets	-	-	-	-	-	-	317	-	-	-
Net revenue before taxation	5,747	7,980	7,499	7,370	7,448	6,751	7,042	7,182	6,534	6,090
Scheme of Control taxation	(1,025)	(1,218)	(1,331)	(1,453)	(1,314)	(1,167)	(1,193)	(1,134)	(1,010)	(862)
Net revenue after taxation	4,722	6,762	6,168	5,917	6,134	5,584	5,849	6,048	5,524	5,228
Interest on borrowed capital	103	154	307	285	181	128	218	329	524	775
Interest on incremental customers' deposits	-	1	9	9	3	-	-	-	3	3
Scheme of Control net revenue	4,825	6,917	6,484	6,211	6,318	5,712	6,067	6,377	6,051	6,006
Transfer (to)/from Tariff Stabilisation Fund	(174)	(297)	(14)	-	-	-	139	(1)	111	(160)
Shortfall in Tariff Stabilisation Fund	-	-	-	487	288	869	228	-	-	-
Permitted return	4,651	6,620	6,470	6,698	6,606	6,581	6,434	6,376	6,162	5,846
Shortfall in Tariff Stabilisation Fund	-	-	-	(487)	(288)	(869)	(228)	-	-	-
Interest on borrowed capital	(103)	(154)	(307)	(285)	(181)	(128)	(218)	(329)	(524)	(775)
Interest on incremental customers' deposits	-	(1)	(9)	(9)	(3)	-	-	-	(3)	(3)
Transfer to Rate Reduction Reserve	-	(13)	(1)	-	-	-	(6)	(11)	(15)	(14)
Net return	4,548	6,452	6,153	5,917	6,134	5,584	5,982	6,036	5,620	5,054



Ten-Year Balance Sheet

As at 31st December

The Hongkong Electric Company, Limited

HK\$ million	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Non-current assets										
Fixed assets	47,523	46,550	46,123	46,565	46,331	45,353	45,104	45,287	44,045	41,688
Employee retirement benefit assets	456	–	1,033	539	159	277	220	212	–	–
Derivative financial instruments	31	29	8	1	29	–	–	–	–	–
	48,010	46,579	47,164	47,105	46,519	45,630	45,324	45,499	44,045	41,688
Current assets										
Coal, fuel oil and liquefied natural gas	629	375	255	204	164	189	86	120	138	100
Stores and materials	301	283	281	278	281	275	281	292	301	299
Fuel Clause Recovery Account	551	998	336	566	1,079	1,197	1,147	1,235	1,216	981
Trade and other receivables	1,035	1,104	1,071	1,056	1,013	1,049	1,018	1,039	664	633
Bank deposit and cash	92	11	4	21	2	7	3	2	5	12
	2,608	2,771	1,947	2,125	2,539	2,717	2,535	2,688	2,324	2,025
Current liabilities										
Bank loans and other borrowings	–	(1,687)	(1,405)	(3,735)	(4,398)	(7,535)	(8,269)	(9,266)	(7,944)	(6,573)
Trade and other payables	(1,487)	(1,009)	(860)	(898)	(842)	(1,010)	(1,011)	(1,242)	(1,858)	(1,511)
Current taxation	(236)	(187)	(410)	(540)	(220)	(229)	(301)	(419)	(792)	(209)
	(1,723)	(2,883)	(2,675)	(5,173)	(5,460)	(8,774)	(9,581)	(10,927)	(10,594)	(8,293)
Net current assets/(liabilities)	885	(112)	(728)	(3,048)	(2,921)	(6,057)	(7,046)	(8,239)	(8,270)	(6,268)
Total assets less current liabilities	48,895	46,467	46,436	44,057	43,598	39,573	38,278	37,260	35,775	35,420
Non-current liabilities										
Bank loans and other borrowings	(24,909)	(10,037)	(9,796)	(9,845)	(6,936)	(4,276)	(3,852)	(7,295)	(8,036)	(9,639)
Deferred creditors	–	–	–	–	(52)	(548)	(760)	(972)	(1,184)	(1,362)
Customers' deposits	(1,676)	(1,634)	(1,585)	(1,537)	(1,508)	(1,455)	(1,387)	(1,350)	(1,302)	(1,242)
Employee retirement benefit liabilities	(722)	(1,267)	(423)	(307)	(268)	(79)	(68)	(57)	–	–
Deferred tax liabilities (note 4)	(5,622)	(5,479)	(5,426)	(5,432)	(5,382)	(5,236)	(5,105)	(4,599)	–	–
Derivative financial instruments	(15)	(14)	(7)	(1)	(5)	–	–	–	–	–
	(32,944)	(18,431)	(17,237)	(17,122)	(14,151)	(11,594)	(11,172)	(14,273)	(10,522)	(12,243)
Rate Reduction Reserve (note 1)	(14)	(14)	(1)	–	–	–	(5)	(10)	(9)	(14)
Tariff Stabilisation Fund (note 2)	(485)	(311)	(14)	–	–	–	–	(139)	(138)	(249)
Net assets	15,452	27,711	29,184	26,935	29,447	27,979	27,101	22,838	25,106	22,914
Capital and reserves										
Share capital	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411
Reserves (notes 3 and 4)	6	22	6	4	–	–	–	937	2,460	2,201
Hedging reserves	(6)	(22)	(6)	(4)	3	–	–	–	–	–
Proposed dividend	4,196	3,455	4,928	4,878	3,882	4,244	5,200	1,903	4,311	3,917
	6,607	5,866	7,339	7,289	6,296	6,655	7,611	5,251	9,182	8,529
Loan capital	8,845	21,845	21,845	19,646	23,151	21,324	19,490	17,587	15,924	14,385
	15,452	27,711	29,184	26,935	29,447	27,979	27,101	22,838	25,106	22,914

Notes

- (1) The purpose of this reserve is to reduce by means of rebates, electricity tariffs to customers
- (2) The tariff stabilisation fund is not part of shareholders' funds
- (3) Up to 2001, these reserves include a Scheme of Control tax adjustment, calculated in accordance with the renewed Scheme of Control Agreement effective 1st January 1994. These represent the accumulated difference between depreciation and the Inland Revenue tax allowances applying the tax rate applicable to each respective year. This Scheme of Control tax adjustment was required to be retained within The Hongkong Electric Company, Limited ("HEC") until such time as it may be required to pay the tax. Starting from 2002 following the implementation of Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income Taxes", a deferred tax liability has been recognised on HEC's balance sheet and this Scheme of Control tax adjustment is no longer considered necessary.
- (4) Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income Taxes" was first effective for accounting periods beginning on or after 1st January 2003. In order to comply with this revised Statement, the Group adopted a new accounting policy for deferred tax in 2003. Figures for 2002 have been adjusted. However it is not practicable to restate earlier years for comparison purposes.



Ten-Year Operating Statistics

The Hongkong Electric Company, Limited

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Units sold (millions of kWh)										
Commercial	8,084	8,082	8,109	7,984	7,866	7,781	7,596	7,709	7,456	7,141
Domestic	2,495	2,416	2,394	2,372	2,445	2,332	2,346	2,443	2,359	2,346
Industrial	342	367	388	417	444	480	471	490	496	505
Total (millions of kWh) (note 1)	10,921	10,865	10,891	10,773	10,755	10,593	10,413	10,642	10,311	9,992
Annual increase/(decrease) (%)	0.5	(0.2)	1.1	0.2	1.5	1.7	(2.2)	3.2	3.2	3.5
Average Net Tariff (cents per kWh)										
Basic Tariff	94.5	116.9	114.3	114.4	114.9	108.5	108.5	108.5	105.7	105.7
Fuel Clause Surcharge/(Rebate)	25.4	10.5	5.9	4.9	2.2	(4.1)	(6.1)	(7.1)	(9.3)	(15.2)
Special Rebate	-	-	-	(1.9)	(7.1)	(1.0)	(1.0)	-	-	-
Rate Reduction Rebate	-	-	-	-	-	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Net Tariff (cents per kWh)	119.9	127.4	120.2	117.4	110.0	103.3	101.3	101.3	96.2	90.3
						(note 2)	(note 3)			
Number of customers ('000's)	564	563	561	559	556	552	547	544	536	526
Installed capacity (MW)										
Gas turbines and standby units	555	555	920	920	920	920	920	920	805	805
Coal-fired units	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Gas-fired combined cycle unit	680	680	335	335	-	-	-	-	-	-
Wind turbine	1	1	1	1	1	-	-	-	-	-
Total (MW)	3,736	3,736	3,756	3,756	3,421	3,420	3,420	3,420	3,305	3,305
System maximum demand (MW)	2,537	2,589	2,552	2,597	2,565	2,588	2,440	2,436	2,516	2,417
Annual increase/(decrease) (%)	(2.0)	1.4	(1.7)	1.2	(0.9)	6.1	0.2	(3.2)	4.1	3.2
Annual load factor (%)	55.4	53.9	54.8	53.6	54.3	52.9	55.3	55.2	53.0	53.5
Thermal efficiency (%)	36.2	35.8	36.4	35.5	35.1	35.3	35.3	35.4	35.5	35.6
Plant availability (%)	83.4	85.5	83.8	86.3	83.8	87.6	87.0	85.1	80.3	84.7
Number of switching stations	24	24	23	23	23	22	23	22	20	20
Number of zone substations	26	26	26	26	26	26	28	26	25	25
Number of consumer substations	3,667	3,648	3,632	3,617	3,597	3,570	3,531	3,487	3,444	3,391
Number of employees	1,862	1,841	1,857	1,907	1,965	2,022	2,092	2,168	2,277	2,325
Capital expenditure (HK\$ million)	2,751	2,084	1,747	2,307	3,006	2,248	2,106	3,145	4,133	3,549

Notes

(1) 2002 included a one-off adjustment arising from a change in the recognition of electricity units sold during the year

(2) Applicable from April 2004 to December 2004

(3) Applicable from January 2003 to March 2004



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of the Company will be held at the Ballroom, 1st Floor, Harbour Grand Kowloon (formerly Harbour Plaza Hong Kong), 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 6th May 2010 at 12 00 noon for the following purposes

Ordinary Business

- 1 To receive and consider the audited Financial Statements and the Reports of the Directors and Auditor for the year ended 31st December 2009
- 2 To declare a final dividend
- 3 To re-elect retiring Directors
- 4 To appoint Auditor and authorise the Directors to fix the Auditor's remuneration.

Special Business

- 5 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution

"THAT

- (a) a general mandate be and is hereby unconditionally given to the Directors during the Relevant Period to issue and dispose of additional shares of the Company not exceeding twenty per cent of the existing issued share capital of the Company as at the date of passing this resolution, such mandate to include the granting of offers or options (including bonds and debentures convertible into shares of the Company) which might be exercisable or convertible during or after the Relevant Period, and

- (b) for the purpose of this resolution

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of

- (i) the conclusion of the next annual general meeting of the Company,
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held, and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting"

- 6 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution

"THAT

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to repurchase shares of HK\$1.00 each in the issued capital of the Company in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved,
- (b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed ten per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of this resolution, and

(c) for the purpose of this resolution

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of

- (i) the conclusion of the next annual general meeting of the Company,
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held, and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting"

7 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution

"**THAT** the general mandate granted to the Directors to issue and dispose of additional shares pursuant to Resolution 5 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 6 set out in the notice convening this meeting, provided that such amount shall not exceed ten per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of the said resolution"

8 To consider and, if thought fit, pass the following resolution as a Special Resolution

"**THAT** the Articles of Association of the Company be altered by deleting the last sentence in Article 99 and substituting therefor the following sentence

"Any Director so appointed shall hold office only until the next following General Meeting of the Company (in the case of filling a casual vacancy) or until the next following Annual General Meeting of the Company (in the case of an addition to the Board) and shall then be eligible for re-election at the meeting" "

By Order of the Board

Lillian Wong
Company Secretary
Hong Kong, 7th April 2010

Notes

- (1) At the Annual General Meeting the Chairman of the Meeting will exercise his power under Article 80 of the Company's Articles of Association to put each of the above resolutions to the vote by way of a poll
- (2) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and on a poll vote for him. The number of proxies appointed by any member who is a holder of two or more shares shall not exceed two. A proxy need not be a member. To be valid, all proxies must be deposited at the registered office of the Company 44 Kennedy Road Hong Kong not later than 48 hours before the time for holding the Meeting.
- (3) The register of members will be closed from Thursday, 29th April 2010 to Thursday 6th May 2010 both days inclusive during which no transfer of shares will be effected. To qualify for the final dividend and the right to attend and vote at the Meeting (or any adjournment thereof), all transfers accompanied by the relevant share certificates should be lodged with the Company's Registrar Computershare Hong Kong Investor Services Limited, Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong not later than 4.30 p.m. on Wednesday 28th April 2010.
- (4) Regarding Resolution 3 above Mr Lee Lan Yee, Francis and Mr Frank John Sutt will retire under Article 116 of the Company's Articles of Association and being eligible, will offer themselves for re-election at the Meeting. Particulars of these Directors required to be disclosed by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") are set out in Appendix II to the circular mentioned in Note (9) below.
- (5) With reference to Resolution 5 above, approval is being sought from members for a general mandate to be granted to the Directors to issue and dispose of shares of the Company. The Directors wish to state that they have no immediate plans to issue any new shares in the Company. The general mandate is being sought from members in compliance with the Companies Ordinance and the Listing Rules.
- (6) With reference to Resolution 6 above, approval is being sought from members for a general mandate to be granted to the Directors to repurchase shares issued by the Company. The Directors wish to state that they will exercise the powers conferred thereby in circumstances which they deem appropriate for the benefit of the members. The explanatory statement containing the information relating to the repurchase of shares as required by the Listing Rules, is set out in Appendix I to the circular mentioned in Note (9) below.
- (7) With reference to Resolution 7 above, approval is being sought from members for the general mandate to be granted to the Directors under Resolution 5 above be extended by adding to it the amount of shares repurchased under the authority to be granted pursuant to Resolution 6 above.
- (8) Regarding Resolution 8 above, the proposed amendment to the Company's Articles of Association is also set out in the circular mentioned in Note (9) below. The reason for the proposed amendment is to comply with Code A.4.2 of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules which provides that any Director appointed for filling a casual vacancy shall hold office until the next following general meeting.
- (9) A circular containing the information regarding, inter alia, the Directors proposed to be re-elected at the Meeting, the general mandates to issue shares and repurchase shares of the Company and the proposed amendment to the Articles of Association of the Company will be despatched to members together with the 2009 annual report.



Corporate Information

Board of Directors

Executive Directors

FOK Kin Ning, Canning (*Chairman*)
TSO Kai Sum (*Group Managing Director*)
CHOW WOO Mo Fong, Susan*
Andrew John HUNTER
KAM Hing Lam
LI Tzar Kuoi, Victor
Neil Douglas MCGEE (*Group Finance Director*)
Frank John SIXT
WAN Chi Tin (*Director of Engineering (Planning & Development)*)
YUEN Sui See (*Director of Operations*)
CHAN Loi Shun (*Alternate Director to KAM Hing Lam*)

Non-executive Directors

Ronald Joseph ARCULLI
LEE Lan Yee, Francis
George Colin MAGNUS

Independent Non-executive Directors

Holger KLUGE
Ralph Raymond SHEA
WONG Chung Hin

* Also Alternate Director to FOK Kin Ning, Canning and Frank John SIXT

Audit Committee

WONG Chung Hin (*Chairman*)
Ronald Joseph ARCULLI
Holger KLUGE
Ralph Raymond SHEA

Remuneration Committee

FOK Kin Ning, Canning (*Chairman*)
Ralph Raymond SHEA
WONG Chung Hin

Company Secretary

Lillian WONG

Registered Office

44 Kennedy Road, Hong Kong
Telephone 2843 3111 Facsimile 2537 1013
E-mail mail@heh.com Website www.heh.com

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Solicitors

JSM

Auditors

KPMG

Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712 – 1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Stock Codes

The Stock Exchange of Hong Kong Limited 6
Bloomberg 6 HK
Reuters 0006 HK

ADR Depositary

Citibank, N A
Shareholder Services
PO Box 43077, Providence, Rhode Island 02940-3077, U S A

Financial Calendar

Half-year results

announced on 5th August 2009

Full-year results

announced on 3rd March 2010

Annual Report

posted to shareholders on or before 7th April 2010

Share register closed

29th April 2010 to 6th May 2010 (both days inclusive)

Annual General Meeting

to be held on 6th May 2010

Dividends per share

Interim: HK\$0.62

Final : HK\$1.49

paid on 15th September 2009

payable on 7th May 2010

This Annual Report has been printed in both the English and Chinese languages. If shareholders who have received an English copy of this Annual Report wish to obtain a Chinese copy, or vice versa, they may request for it by writing to the share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

This Annual Report has been posted in both the English and Chinese languages on the Company's website at www.heh.com. If shareholders who have chosen to receive corporate communications through the Company's website are unable to gain access to the Annual Report, they may request that a copy of this Annual Report be sent to them free of charge by mail.

Shareholders may at any time change their choice of language of all future corporate communications, or choose to receive all future corporate communications either in printed form or through the Company's website, by writing to the Company at the registered office, 44 Kennedy Road, Hong Kong or the share registrar, Computershare Hong Kong Investor Services Limited at the address above-mentioned or by emailing to the Company's email address at mail@heh.com.

Hongkong Electric Holdings Ltd.

Hongkong Electric Centre
44 Kennedy Road, Hong Kong
Telephone: 28433111
Facsimile: 25371013
Website: www.heh.com

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