Power Assets Holdings Ltd.
電能實業有限公司
於香港註冊成立的有限公司
Incorporated in Hong Kong with limited liability
股份代號 Stock Code: 6

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2010 ANNUAL RESULTS

CHAIRMAN'S STATEMENT

Our Global Perspective

The Group has made outstanding progress in implementing its investment strategy of growing its earning base from outside Hong Kong. To identify the company name with the Group's business development, the name of the company was changed to "Power Assets Holdings Limited" from "Hongkong Electric Holdings Limited" with effect from 16 February 2011. The new company name reflects the increasingly diverse worldwide interests of the Group, and its pursuit of investment opportunities in power and utility related businesses outside Hong Kong. In 2010 we took a defining step in implementing this strategy when we acquired a 40% stake in UK Power Networks (UKPN).

We have seen a substantial increase in earnings generated from operations outside Hong Kong. Ten years after our first investment outside Hong Kong in 2000, these operations have contributed 35% of the Group's overall earnings in 2010. While our focus is now global we will continue through our subsidiary The Hongkong Electric Company, Limited, a company which for more than a century has been committed to providing Hong Kong with a world class electricity supply, to maintain the high level of reliability while working towards a low carbon future for Hong Kong.

Results

The Group's audited profit for the year ended 31 December 2010 was HK$7,194 million (2009: HK$6,697 million), an increase of 7%. Earnings from the Group's Hong Kong operations were HK$4,659 million (2009: HK$4,646 million), including earnings from The Hongkong Electric Company, Limited of HK$4,620 million (2009: HK$4,613 million). Earnings from the Group's operations outside Hong Kong were HK$2,535 million (2009: HK$2,051 million). The 24% growth in earnings from operations outside Hong Kong was mainly attributable to the acquisition of the interests in Seabank Power Limited (SPL) and UKPN in June and October 2010 respectively, and to the overall higher contribution from the Group's existing investments outside Hong Kong.

Dividends

The Directors will recommend a final dividend of HK$1.49 per share, payable on 19 May 2011 to those persons registered as shareholders on 18 May 2011. This, together with the interim dividend of HK$0.62 per share, will add up to a total dividend of HK$2.11 per share for the year (2009: HK$2.11 per share).

Hong Kong Operations

At Hongkong Electric, we continued to invest in our generation facilities to enhance reliability and environmental performance in 2010. Equally significant were the improvements and expansion to our transmission and distribution system. Overall capital expenditure in 2010 was HK$2,431 million.

At the outset of 2010, we aimed to reduce our dependence on coal and increase our use of natural gas. We are indeed pleased to have achieved these targets. Overall, units sent out from our gas-fired generating units increased from 20% to 33% of our total electricity supply. The important step toward natural gas enabled us to reduce about 13% of our carbon dioxide emissions as compared with levels in 2005.

The emission reduction programme at the Lamma Power Station started in 2006 was successfully completed with the installation of flue gas desulphurisation (FGD) plant for the coal-fired Units 2, 4 and 5 and low nitrogen oxide burners for Units 4 and 5. The overall result was a substantial reduction in the emission of sulphur dioxide, nitrogen oxides, and respirable suspended particulates.

In July, we took another clear step towards the use of renewable energy when the 550kW thin film photovoltaic system, the largest solar power system in Hong Kong, was commissioned at the Lamma Power Station. In the first six-month operation period, the system generated 414,000 units of electricity while helping to reduce the emission of 345 tonnes of carbon dioxide – the equivalent of planting 15,000 trees.

Additionally, the environmental impact assessment of our proposed offshore wind farm project of approximately 100MW was approved in May and an environmental permit was granted to us in June 2010. Our next step will be to set up an in-situ wind monitoring station to collect necessary meteorological and oceanographic data for use in a detailed design of the wind farm, scheduled to commence in the latter half of 2011.

In response to the Government's consultation paper on Hong Kong's Climate Change Strategy and Action Agenda for public comment in September 2010, we have affirmed that the target of a clean and low-carbon fuel mix of about 3-4% of Hong Kong's electricity coming from renewable energy sources, 40% from natural gas, not more than 10% from coal, and the remaining 50% from nuclear power can be a viable strategy to achieve carbon intensity reduction targets by 2020, provided there is a stable and proven regulatory framework similar to the existing one, a reasonable lead time is allowed for planning and constructing the necessary infrastructure, and government policy supports are available.

The total unit sales of electricity in 2010 were at the same level as in 2009 with our customer base growing slightly to 566,000 resulting from an increase in the domestic and commercial sectors, partially offset by the continued decline in the industrial sector.

In 2010, our customers once again enjoyed a world-class supply reliability rating of over 99.999%, a record we have maintained since 1997. We are continuing to improve our supply reliability with the introduction of advanced cable diagnostic systems for early detection of any weak components in cables and joints.

To meet the expansion needs of our system, we commissioned sixteen 22kV and forty-two 11kV distribution substations, which make up a total of 3,710 substations in our system, and installed 116km of distribution cable in 2010. To serve future needs and enhance reliability, we will expand the 275kV transmission system to phase out the 132kV overhead lines. New transformers will be installed from 2013 to 2016 to support the Mass Transit Railway West Island Line and South Island Line.

Operations Outside Hong Kong

The Group reported impressive results from operations outside Hong Kong, despite the slow economic recovery globally.

We took a landmark step in 2010 with the acquisition of a 40% interest in UKPN, the largest electricity distributor in the United Kingdom. UKPN connects approximately eight million customers who depend on our power supply. We are excited about the future earnings contribution potential this 40% shareholding will provide to the Group.

The underlying financial performance of the UKPN business in the two months since its acquisition in late October 2010 has been above expectations. Total revenues for the last two months of 2010 were higher than in the corresponding period in 2009.

We also acquired a 25% stake in SPL in June 2010. The electricity-generating company is located near Bristol in the United Kingdom and operates two gas-fired combined-cycle gas turbine generating units with an aggregate capacity of 1,140MW. SPL has achieved excellent availability from these operations.

Northern Gas Networks' (NGN) total revenue for 2010 was marginally lower than in 2009. It was however able to maintain earnings before interest, taxation, depreciation and amortisation in line with that for 2009. NGN has been ranked the best performing and most efficient network for the past two years by the regulator, Office of Gas and Electricity Markets.

In Australia, ETSA's distribution and asset-related revenues saw strong growth that resulted in higher earnings. In an effort to meet the increase in network capacity requirements and transmission code obligations, capital expenditure was increased by more than 50% over the previous year.

CitiPower and Powercor delivered impressive double-digit earnings growth in 2010. Capital expenditure also rose in the past year, the 30% increase was driven by greater network augmentation activities associated with higher customer demand and the advanced metering infrastructure programme.

In mainland China, the Dali and Laoting Wind Farms had their first full year of operation in 2010 and sent out 38% more electricity than in 2009. Being qualified for the Clean Development Mechanism (CDM) under the Kyoto Protocol, they secured successful registration of CDM credits.

The Jinwan Power Plant saw double-digit growth in units sold in 2010 while the output of the Zhuhai Power Plant and Siping Cogeneration Plant were slightly lower than 2009. The FGD plants for Zhuhai Power Plant Units 1 and 2 have been operating smoothly. At the neighbouring Jinwan Power Plant, the rate of sulphur dioxide removal efficiency exceeds 90%, fulfilling the current requirement for flue gas emissions. At the Siping Cogeneration Plant, besides the smooth operation of the existing No. 3 boiler FGD plant, another two FGD plants serving the No. 1 and No. 2 boilers were installed.

In New Zealand, Wellington Electricity recorded customer growth. Volume of electricity distributed was slightly lower than in 2009 due to the warmer weather in 2010.

In Canada, Stanley Power holds a 49.99% interest in TransAlta Cogeneration LP, which has stakes in six generating plants across Canada. In February 2011 Stanley Power announced the proposed increase in its interest in one of the generating plants, the 220MW Meridian co-generation plant in Saskatchewan from 24.99% to 100%, the increase in interest is expected to be completed in April 2011.

In Thailand, the Ratchaburi Power Plant recorded a successful year of operation. The company’s two combined cycle gas turbine blocks achieved full contract availability hours under the Power Purchase Agreement with the Electricity Generating Authority of Thailand.

Outlook

At Hongkong Electric, we support Hong Kong Government’s initiatives to combat climate change and are conscious of the need to reduce greenhouse gas emissions. Our focus going forward in respect of air quality standards and carbon levels will involve us in working with the Government on the future fuel mix for the Lamma Power Station. Higher fuel prices are expected to continue to apply pressure on fuel costs in 2011.

Outside Hong Kong, we will continue to pursue further growth for our shareholders by actively seeking out investment opportunities in power and utility-related businesses. After a decade of global expansion guided by determination and prudence, we have now established a solid base from our operations outside Hong Kong. We will build upon this foundation in the coming years with earnings from operations outside Hong Kong expected to continue to provide an increasing proportion of our overall Group earnings.

I would like to thank the board of directors and all the Group's employees for their hard work and dedication that has contributed to our success in the past year.

Fok Kin Ning, Canning
Chairman
Hong Kong, 2 March 2011

FINANCIAL REVIEW

Capital Expenditure, Liquidity and Financial Resources

Capital expenditure in Hong Kong during the year amounted to HK$2,431 million (2009: HK$2,751 million), which was primarily funded by cash from operations. Total external borrowings outstanding at year end were HK$25,773 million (2009: HK$12,247 million), comprising unsecured bank loans and debt securities in issue. In addition, the Group had undrawn committed bank facilities of HK$6,500 million (2009: HK$6,500 million) and bank deposits and cash of HK$5,839 million (2009: HK$5,093 million). Subsequent to the year end, a short term bank bridge facility equivalent to HK$5,409 million was repaid.

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 November 2010, Standard and Poor's affirmed the "A+" long term credit ratings of Power Assets Holdings Limited and The Hongkong Electric Company, Limited with a stable outlook. As at 31st December 2010, the net debt of the Group was HK$19,934 million (2009: HK$7,154 million) with a net debt-to-equity ratio of 36% (2009: 14%) and a net debt-to-total capital ratio of 24% (2009: 11%).

The profile of the Group's external borrowings as at 31st December 2010, after taking into account of interest rate and cross currency swaps, was as follows:-

(1) 49% were in Hong Kong dollars, 18% in Australian dollars and 33% in Sterling pounds;

(2) 70% were bank loans and 30% were capital market instruments;

(3) 33% were repayable within 1 year, 25% were repayable between 2 and 5 years and 42% were repayable beyond 5 years; Subsequent to the year end, a short term bank bridge facility equivalent to HK$5,409 million was repaid. The debt maturity profile after taking into account of such repayment was: 16% was repayable within 1 year, 48% were repayable between 2 and 5 years and 36% were repayable beyond 5 years; and

(4) 35% were in fixed rate and 65% were in 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.

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 2010, over 79% of the Group's transaction exposure was either denominated in United States dollars or hedged into Hong Kong or United States dollars. Where considered appropriate, currency exposure arising from investments outside Hong Kong is mitigated by financing those investments in local currency borrowings and by entering into forward foreign exchange contracts. 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 2010 amounted to HK$15,918 million (2009: HK$7,891 million).

Charges on Group Assets

At 31st December 2010, the Group's interest in two associates of HK$13,704 million (2009: HK$740 million for one associate) had been pledged as part of the security to secure financing facilities granted to those associates.

At 31st December 2010, the Group's interest in a jointly controlled entity of HK$3,259 million (2009: HK$2,991 million) had been pledged as part of the security to secure financing facilities granted to that jointly controlled entity.

Contingent Liabilities

As at 31st December 2010, the Group had given guarantees and indemnities totalling HK$2,126 million (2009: HK$1,642 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$13,200 million (2009: HK$4,212 million). Out of this amount, HK$13,190 million (2009: HK$4,202 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 the pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31st December 2010, excluding directors' emoluments, amounted to HK$828 million (2009: HK$798 million). As at 31st December 2010, the Group employed 1,862 (2009: 1,879) permanent employees. No share option scheme is in operation.

POWER ASSETS HOLDINGS LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2010
(Expressed in Hong Kong dollars)

	Note	**2010** **$ million**	2009 $ million
Turnover	3	**10,371**	10,395
Direct costs		**(3,938)**	(3,820)
		6,433	6,575
Other revenue and other net income	4	**1,063**	815
Other operating costs		**(814)**	(796)
Operating profit		**6,682**	6,594
Finance costs	5	**(391)**	(334)
Share of profits less losses of associates		**1,391**	898
Share of profits less losses of jointly controlled entities		**508**	632
Profit before taxation	6	**8,190**	7,790
Income tax:	7		
Current		**(799)**	(776)
Deferred		**(138)**	(143)
		(937)	(919)
Profit after taxation		**7,253**	6,871
Scheme of Control transfers to:	8		
Tariff Stabilisation Fund		**(58)**	(174)
Rate Reduction Reserve		**(1)**	-
		(59)	(174)
Profit attributable to equity shareholders of the Company			
Hong Kong operations		**4,659**	4,646
Operations outside Hong Kong		**2,535**	2,051
Profit for the year		**7,194**	6,697
Earnings per share			
Basic and diluted	9	**$3.37**	$3.14

Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 19.

POWER ASSETS HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2010
(Expressed in Hong Kong dollars)

	2010 **$ million**	2009 $ million
Profit for the year	**7,194**	6,697
Other comprehensive income for the year		
Exchange differences on translating operations outside Hong Kong, including associates and jointly controlled entities	**536**	1,163
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**53**	39
Reclassification adjustments for amounts transferred to the income statement		
- finance costs	**-**	5
Amounts transferred to the initial carrying amount of hedged items	**(2)**	4
Net deferred tax charged to other comprehensive income	**(13)**	(9)
	38	39
Defined benefit retirement schemes:		
Actuarial gains, net of nil tax	**434**	1,002
Share of other comprehensive income of associates:		
Other comprehensive income	**416**	589
Net deferred tax charged to other comprehensive income	**(122)**	(170)
	294	419
	1,302	2,623
Total comprehensive income for the year attributable to equity shareholders of the Company	**8,496**	9,320

POWER ASSETS HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER 2010
(Expressed in Hong Kong dollars)

	Note	2010 $ million	2009 $ million
Non-current assets			
Fixed assets			
- Property, plant and equipment		**43,533**	42,715
- Assets under construction		**2,238**	2,540
- Interests in leasehold land held for own use under finance leases		**2,153**	2,209
	10	**47,924**	47,464
Interest in associates	11	**29,472**	13,472
Interest in jointly controlled entities	12	**5,984**	5,793
Other non-current financial assets		**67**	67
Derivative financial instruments	17	**77**	31
Deferred tax assets		**-**	2
Employee retirement benefit assets		**842**	486
		84,366	67,315
Current assets			
Inventories		**747**	930
Trade and other receivables	13	**1,182**	1,059
Fuel Clause Recovery Account		**569**	552
Bank deposits and cash	14	**5,839**	5,093
		8,337	7,634
Current liabilities			
Trade and other payables	15	**(1,702)**	(1,600)
Bank overdrafts – unsecured	14	**(2)**	-
Current portion of bank loans and other borrowings	16	**(8,459)**	-
Current taxation		**(163)**	(236)
		(10,326)	(1,836)
Net current (liabilities)/assets		**(1,989)**	5,798
Total assets less current liabilities		**82,377**	73,113
Non-current liabilities			
Interest-bearing borrowings	16	**(17,312)**	(12,247)
Derivative financial instruments	17	**(132)**	(26)
Customers' deposits		**(1,748)**	(1,676)
Deferred tax liabilities		**(5,771)**	(5,622)
Employee retirement benefit liabilities		**(730)**	(899)
		(25,693)	(20,470)
Rate Reduction Reserve		**(4)**	(14)
Tariff Stabilisation Fund		**(543)**	(485)
Net assets		**56,137**	52,144
Capital and reserves			
Share capital	18	**2,134**	2,134
Reserves		**54,003**	50,010
Total equity attributable to equity shareholders of the Company		**56,137**	52,144

POWER ASSETS HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2010
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company						
$ million	**Share capital**	**Share premium**	**Exchange reserve**	**Hedging reserve**	**Revenue reserve**	**Proposed/ declared dividend**	**Total**
Balance at 1st January 2009	2,134	4,476	(609)	(481)	38,627	3,180	47,327
Changes in equity for 2009:							
Profit for the year	-	-	-	-	6,697	-	6,697
Other comprehensive income	-	-	1,163	365	1,095	-	2,623
Total comprehensive income	-	-	1,163	365	7,792	-	9,320
Final dividend in respect of the previous year approved and paid	-	-	-	-	-	(3,180)	(3,180)
Interim dividend paid (see note 19)	-	-	-	-	(1,323)	-	(1,323)
Proposed final dividend (see note 19)	-	-	-	-	(3,180)	3,180	-
Balance at 31st December 2009 and 1st January 2010	**2,134**	**4,476**	**554**	**(116)**	**41,916**	**3,180**	**52,144**
Changes in equity for 2010:							
Profit for the year	**-**	**-**	**-**	**-**	**7,194**	**-**	**7,194**
Other comprehensive income	**-**	**-**	**536**	**230**	**536**	**-**	**1,302**
Total comprehensive income	**-**	**-**	**536**	**230**	**7,730**	**-**	**8,496**
Final dividend in respect of the previous year approved and paid	**-**	**-**	**-**	**-**	**-**	**(3,180)**	**(3,180)**
Interim dividend paid (see note 19)	**-**	**-**	**-**	**-**	**(1,323)**	**-**	**(1,323)**
Proposed final dividend (see note 19)	**-**	**-**	**-**	**-**	**(3,180)**	**3,180**	**-**
Balance at 31st December 2010	**2,134**	**4,476**	**1,090**	**114**	**45,143**	**3,180**	**56,137**

POWER ASSETS HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2010
(Expressed in Hong Kong dollars)

	Note	**2010** **$ million**	2009 $ million
Operating activities			
Cash generated from operations	14(b)	**7,621**	7,884
Interest paid		**(457)**	(337)
Interest received		**758**	669
Rate Reduction Reserve rebated		**(11)**	-
Hong Kong Profits Tax paid		**(877)**	(755)
Tax paid for operations outside Hong Kong		**(6)**	(4)
Tax refunded for operations outside Hong Kong		**15**	31
Net cash generated from operating activities		**7,043**	7,488
Investing activities			
Purchase of fixed assets and capital stock		**(2,238)**	(2,427)
Decrease in bank deposits maturing in over three months when placed		**-**	1,827
Capitalised interest paid		**(52)**	(40)
Receipts from sale of fixed assets		**6**	3
Investments in associates		**(9,308)**	(468)
Investments in jointly controlled entities		**-**	(5,686)
Investments in available-for-sale equity securities		**-**	(1)
New loans to associates		**(4,652)**	(5)
Advance from associates		**81**	-
Repayment of amounts due from jointly controlled entities		**49**	689
Dividends received from associates		**791**	471
Dividends received from jointly controlled entities		**106**	-
Dividends received from available-for-sale equity securities		**33**	22
Net cash used in investing activities		**(15,184)**	(5,615)
Financing activities			
New bank loans and other borrowings		**15,743**	4,033
Repayment of bank loans and other borrowings		**(2,423)**	(3,440)
New customers' deposits		**305**	283
Repayment of customers' deposits		**(233)**	(241)
Dividends paid to equity shareholders of the Company		**(4,503)**	(4,503)
Net cash from/(used in) financing activities		**8,889**	(3,868)
Net increase/(decrease) in cash and cash equivalents		**748**	(1,995)
Cash and cash equivalents at 1st January	14(a)	**5,093**	7,135
Effect of foreign exchange rate changes		**(4)**	(47)
Cash and cash equivalents at 31st December	14(a)	**5,837**	5,093

Notes to Annual Results
(Expressed in Hong Kong dollars unless otherwise indicated)

1. Review of annual results

The annual results have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31st December 2010 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. Changes in accounting policies

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

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*
- HK (Int) 5, *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause*

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

The amendment to HKAS 39 and the issuance of HK (Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27 and HK(IFRIC) 17 has not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain of the Group’s leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1st January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

    - Transaction costs that the Group incurs in connection with a business combination, such as finder’s fees, legal fees, due diligence fees and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

    - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

    - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

    - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

    - In addition to the Group’s existing policy of measuring the non-controlling interests (previously known as the “minority interests”) in the acquiree at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

    In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1st January 2010:

    - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

    - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

  In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1st January 2010:

    - If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

    - If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

  Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1st January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

- As a result of the amendment to HKAS 17, *Leases*, arising from the "*Improvements to HKFRSs (2009)*" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate, with the exception of those interests which are registered and transferable ownership interests in land located in the Hong Kong Special Administrative Region and subject to the Government's land policy of renewal without payment of additional land premium. These leasehold interests will no longer be classified by the Group as operating leases as the Group considers that it is in a position economically similar to that of a purchaser. This change in accounting policy has no material impact on the current or previous periods as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

3. Turnover and segment information

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

$ million	Sales of electricity Hong Kong	Infrastructure investments Australia	United Kingdom	Mainland China	Others	Sub-total	All other activities	Total
	2009							
For the year ended 31st December								
Revenue								
Group turnover	10,367	-	-	-	-	-	28	10,395
Other revenue and other net income	23	-	-	22	-	22	14	59
Reportable segment revenue	10,390	-	-	22	-	22	42	10,454
Result								
Segment earnings	7,456	-	-	4	(1)	3	1	7,460
Depreciation and amortisation	(1,622)	-	-	-	-	-	-	(1,622)
Interest income	-	483	-	-	215	698	58	756
Operating profit	5,834	483	-	4	214	701	59	6,594
Finance costs	(92)	(242)	-	-	-	(242)	-	(334)
Share of profits less losses of associates and jointly controlled entities	-	394	350	631	154	1,529	1	1,530
Profit before taxation	5,742	635	350	635	368	1,988	60	7,790
Income tax	(952)	-	31	(2)	(2)	27	6	(919)
Profit after taxation	4,790	635	381	633	366	2,015	66	6,871
Scheme of Control transfers	(174)	-	-	-	-	-	-	(174)
Reportable segment profit	4,616	635	381	633	366	2,015	66	6,697
At 31st December								
Assets								
Fixed assets	47,463	-	-	-	-	-	1	47,464
Other assets	3,005	2	-	67	-	69	53	3,127
Interest in associates and jointly controlled entities	-	6,482	3,280	5,793	3,702	19,257	8	19,265
Bank deposits and cash	92	-	-	-	-	-	5,001	5,093
Reportable segment assets	50,560	6,484	3,280	5,860	3,702	19,326	5,063	74,949
Liabilities								
Segment liabilities	(3,900)	(49)	-	(6)	(1)	(56)	(245)	(4,201)
Current and deferred taxation	(5,858)	-	-	-	-	-	-	(5,858)
Interest-bearing borrowings	(8,047)	(4,200)	-	-	-	(4,200)	-	(12,247)
Rate Reduction Reserve	(14)	-	-	-	-	-	-	(14)
Tariff Stabilisation Fund	(485)	-	-	-	-	-	-	(485)
Reportable segment liabilities	(18,304)	(4,249)	-	(6)	(1)	(4,256)	(245)	(22,805)
For the year ended 31st December								
Other information								
Capital expenditure	2,751	-	-	-	-	-	-	2,751

4. Other revenue and other net income

	2010 **$ million**	2009 $ million
Interest income from financial assets not at fair value through profit or loss	**967**	756
Dividend income from unlisted available-for-sale equity securities	**33**	22
Foreign exchange gain on loans and receivables	**19**	3
Net profit on sale of fixed assets	**5**	2
Sundry income	**39**	32
	1,063	815

5. Finance costs

	2010 **$ million**	2009 $ million
Interest on overdrafts, bank loans and other borrowings repayable within 5 years	**370**	319
Interest on other borrowings repayable over 5 years	**81**	71
Less: Interest capitalised to fixed assets	**(43)**	(43)
Interest transferred to fuel cost	**(17)**	(13)
Total interest expense on financial liabilities not at fair value through profit or loss	**391**	334

Interest expenses have been capitalised at an average rate of approximately 1.7% per annum (2009: 1.7% per annum) for assets under construction.

6. Profit before taxation

	2010 **$ million**	2009 $ million
Profit before taxation is arrived at after charging/(crediting):		
Depreciation	**1,734**	1,564
Amortisation of leasehold land	**57**	58
Costs of inventories	**4,578**	4,093
Write down of inventories	**5**	13
Staff costs	**482**	462
Operating lease charges		
- hire of equipment	**-**	34
Fixed assets written off	**46**	35
Net gain on cash flow hedging instruments reclassified from equity		
- interest rate swaps	**-**	(5)
Auditors' remuneration		
- audit and audit related work		
- KPMG	**5**	5
- other auditors	**1**	1
- non-audit work		
- KPMG	**-**	2
- other auditors	**3**	3

7. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2010 **$ million**	2009 $ million
Current tax - Hong Kong Profits Tax		
Provision for the year	**797**	853
Under/(over)-provision in respect of prior years	**1**	(50)
	798	803
Current tax – operations outside Hong Kong		
Provision for the year	**12**	4
Tax credit for the year	**(11)**	(31)
	1	(27)
	799	776
Deferred tax		
Origination and reversal of temporary differences	**138**	143
	937	919

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 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:

	2010 **$ million**	2009 $ million
Profit before taxation	**8,190**	7,790
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**1,041**	1,034
Tax effect of non-deductible expenses	**29**	18
Tax effect of non-taxable income	**(132)**	(121)
Tax effect of recognition of previously unrecognised temporary differences	**-**	38
Tax effect on Rate Reduction Reserve rebated	**(2)**	-
Under/(over)-provision in respect of prior years	**1**	(50)
Actual tax expense	**937**	919

8. Scheme of Control transfers

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

(a) Tariff Stabilisation Fund

	2010 **$ million**	2009 $ million
At 1st January	**485**	311
Transfer from the income statement	**58**	174
At 31st December	**543**	485

(b) Rate Reduction Reserve

	2010 **$ million**	2009 $ million
At 1st January	**14**	14
Transfer from the income statement	**1**	-
Rebate to customers	**(11)**	-
At 31st December	**4**	14

9. Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $7,194 million (2009: $6,697 million) and 2,134,261,654 ordinary shares (2009: 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 2010 and 2009.

10. 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 finance leases	Total fixed assets
Cost:						
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
At 1st January 2010	**13,704**	**56,979**	**2,540**	**73,223**	**2,815**	**76,038**
Additions	**2**	**635**	**1,792**	**2,429**	**2**	**2,431**
Transfers between categories	**80**	**2,014**	**(2,094)**	**-**	**-**	**-**
Disposals	**(1)**	**(403)**	**-**	**(404)**	**(1)**	**(405)**
At 31st December 2010	**13,785**	**59,225**	**2,238**	**75,248**	**2,816**	**78,064**
Accumulated amortisation and depreciation:						
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
At 1st January 2010	**4,664**	**23,304**	**-**	**27,968**	**606**	**28,574**
Written back on disposals	**-**	**(336)**	**-**	**(336)**	**-**	**(336)**
Charge for the year	**242**	**1,603**	**-**	**1,845**	**57**	**1,902**
At 31st December 2010	**4,906**	**24,571**	**-**	**29,477**	**663**	**30,140**
Net book value:						
At 31st December 2010	**8,879**	**34,654**	**2,238**	**45,771**	**2,153**	**47,924**
At 31st December 2009	9,040	33,675	2,540	45,255	2,209	47,464

The above are mainly electricity-related fixed assets in respect of which financing costs capitalised during the year amounted to $43 million (2009: $43 million).

The Group's leasehold land at 31st December 2010 is held in Hong Kong and comprises long term and medium term leasehold land with carrying values of $42 million (2009: $42 million) and $2,111 million (2009: $2,167 million) respectively.

Depreciation charges for the year included $111 million (2009: $102 million), relating to assets utilised in development activities, have been capitalised.

11. Interest in associates

	2010 $ million	2009 $ million
Share of net assets	**17,117**	6,616
Loans to unlisted associates (see note below)	**11,958**	6,600
Amounts due from unlisted associates (see note below)	**397**	256
	29,472	13,472

With effect from 1st January 2010, investments in Huaneng Hongkong Electric Dali Wind Power Company Limited and Huaneng Laoting Wind Power Company Limited have been re-classified as associates (previously they were classified as jointly controlled entities) as a result of an amendment to the shareholders' agreement signed by the Group and the other investor. This amendment confirms that while the Group maintains significant influence over the investment, the other party has control over the management of the investment, including financial and operating policy decisions.

The loans to unlisted associates are unsecured, interest bearing at rates ranging from 10% per annum to 13.79% per annum (2009: 10.85% per annum to 13.79% per annum) and are not due within five years.

Included in the loans to unlisted associates are subordinated loans totalling $11,064 million (2009: $5,810 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates and they are treated as part of the investment in the associates.

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

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

At 31st December 2010, the Group's interest in two associates of $13,704 million (2009: $740 million for one associate) had been pledged as part of the security to secure financing facilities granted to those associates.

The financial guarantees issued by the Company in respect of banking facilities available to associates have been disclosed in note 21.

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

	2010 $ million	2009 $ million
Assets	**221,380**	112,143
Liabilities	**(177,005)**	(94,101)
Equity	**44,375**	18,042
Revenues	**31,451**	24,519
Profit	**4,047**	2,826

12. Interest in jointly controlled entities

	2010 **$ million**	2009 $ million
Share of net assets	**5,982**	5,742
Amounts due from unlisted jointly controlled entities (see note below)	**2**	51
	5,984	5,793

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 2010, the Group's interest in a jointly controlled entity of $3,259 million (2009: $2,991 million) had been pledged as part of the security to secure financing facilities granted to that jointly controlled entity.

The financial guarantees issued by the Group in respect of banking facilities available to jointly controlled entities have been disclosed in note 21.

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

	2010 **$ million**	2009 $ million
Assets	**17,504**	16,887
Liabilities	**(8,262)**	(7,626)
Equity	**9,242**	9,261
Revenues	**9,311**	8,586
Profit	**1,744**	1,794

13. Trade and other receivables

	2010 **$ million**	2009 $ million
Trade debtors (see note below)	**637**	616
Other receivables	**425**	402
	1,062	1,018
Derivative financial instruments		
- held as cash flow/fair value hedging instruments	**74**	13
Deposits and prepayments	**46**	28
	1,182	1,059

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 $370 million (2009: $375 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:

	2010 **$ million**	2009 $ million
Current	**582**	569
1 to 3 months past due	**37**	35
More than 3 months past due but less than 12 months past due	**18**	12
Total trade debtors	**637**	616

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 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.

14. Bank deposits and cash

(a) Bank deposits and cash comprise:

	2010 **$ million**	2009 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	**5,802**	4,993
Cash at bank and on hand	**37**	100
Cash and cash equivalents in the consolidated balance sheet	**5,839**	5,093
Bank overdrafts	**(2)**	-
Cash and cash equivalents in the consolidated cash flow statement	**5,837**	5,093

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

	Note	**2010 $ million**	2009 $ million
Profit before taxation		**8,190**	7,790
Adjustments for:			
Share of profits less losses of associates		**(1,391)**	(898)
Share of profits less losses of jointly controlled entities		**(508)**	(632)
Interest income	4	**(967)**	(756)
Dividend income from unlisted available-for-sale equity securities	4	**(33)**	(22)
Finance costs	5	**408**	347
Depreciation	6	**1,734**	1,564
Amortisation of leasehold land	6	**57**	58
Fixed assets written off	6	**46**	35
Net profit on sale of fixed assets	4	**(5)**	(2)
Exchange losses		**49**	36
Financial instrument revaluation gain		**(58)**	(2)
Changes in working capital:			
Decrease/(increase) in inventories		**206**	(271)
(Increase)/decrease in trade and other receivables		**(32)**	57
(Increase)/decrease in Fuel Clause Recovery Account		**(17)**	446
Increase in trade and other payables		**33**	256
Increase/decrease in net employee retirement benefit assets/liabilities		**(91)**	(122)
Cash generated from operations		**7,621**	7,884

15. Trade and other payables

	2010 $ million	2009 $ million
Creditors measured at amortised cost (see note below)	**1,702**	1,597
Derivative financial instruments		
- held as cash flow/fair value hedging instruments	**-**	3
	1,702	1,600

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

Creditors' ageing is analysed as follows:

	2010	2009
	$ million	$ million
Due within 1 month or on demand	**539**	709
Due after 1 month but within 3 months	**455**	325
Due after 3 months but within 12 months	**708**	563
	1,702	1,597

16. Non-current interest-bearing borrowings

	2010	2009
	$ million	$ million
Bank loans	**18,228**	9,192
Current portion (see note below)	**(8,459)**	-
	9,769	9,192
Hong Kong dollar notes (see note below)	**3,786**	3,055
United States dollar notes (see note below)	**3,757**	-
Total	**17,312**	12,247

As at 31st December 2010, the Group recorded net current liabilities of $1,989 million which included, as the current portion of bank loans, bridge loans totalling GBP700 million (equivalent to $8,414 million) for the acquisition of an associate, UK Power Networks Holdings Limited (see note 22(a)(ii)). The Group returned to a net current assets position upon repayment of GBP450 million of the bridge loans on 31st January 2011.

The Hong Kong dollar fixed rate notes bear interest at rates ranging between 3.28% to 4.55% per annum (2009: 3.28% to 4.55% per annum), while interest on the Hong Kong dollar floating rate notes is determined with reference to the Hong Kong Interbank Offered Rate.

The United States dollar fixed rate notes bear interest at 4.25% per annum (2009: nil).

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. As at 31st December 2010 and 2009, none of the covenants relating to drawn down facilities had been breached.

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

The borrowings are repayable as follows:

	2010 **$ million**	2009 $ million
After 1 year but within 2 years	**521**	4,200
After 2 years but within 5 years	**5,993**	6,023
After 5 years	**10,798**	2,024
	17,312	12,247

17. Derivative financial instruments

	2010 **$ million**	2009 $ million
Derivative financial instruments used for hedging:		
- Cross currency swaps	**(123)**	-
- Interest rate swaps	**40**	5
- Foreign exchange forward contracts	**102**	10
Total	**19**	15
Current portion of derivative financial instruments (see notes 13 and 15)	**(74)**	(10)
	(55)	5
Represented by:		
Derivative financial instruments assets	**77**	31
Derivative financial instruments liabilities	**(132)**	(26)
	(55)	5

18. Share capital

	Number of shares	**2010** **$ million**	2009 $ 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.

19. Dividends

	2010 **$ million**	2009 $ million
Interim dividend declared and paid of $0.62 per ordinary share (2009: $0.62 per ordinary share)	**1,323**	1,323
Final dividend proposed after the balance sheet date of $1.49 per ordinary share (2009: $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 (2009: 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.

20. Capital commitments

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

	2010 **$ million**	2009 $ million
Contracted for:		
Capital expenditure	**1,576**	1,367
Investment in associates	**465**	-
Investment in jointly controlled entities	**-**	37
	2,041	1,404
Authorised but not contracted for:		
Capital expenditure	**9,377**	10,303

21. Contingent liabilities

	2010 **$ million**	2009 $ million
Financial guarantees issued in respect of banking facilities available to (see note below):		
- Associates	**1,685**	1,229
- Jointly controlled entities	**-**	403
Other guarantees given in respect of:		
- Subsidiaries	**10**	10
- Associates	**431**	-
	2,126	1,642

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 is 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.

22. Material related party transactions

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

(a) Shareholder

(i) On 4th June 2010, 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 a 50% interest in a company which holds a 50% stake in Seabank Power Limited, an electricity-generating company located near Bristol in the United Kingdom. The consideration for the transaction was $1,234 million. The transaction constituted a connected transaction for the Company. The acquisition was completed on 10th June 2010.

(ii) On 30th July 2010, the Company, CKI and two independent entities proposed to enter into a shareholders' agreement to collectively offer to acquire from EDF Energy plc and CSW Investments a group of companies engaging in the business of electricity distribution in the United Kingdom. The shareholders' agreement and the acquisition were completed on 29th October 2010. The total consideration offered by the Group for the acquisition was approximately $13 billion. After the acquisition, the Company holds a 40% stake in UK Power Networks Holdings Limited, the investment holding company formed under the shareholders' agreement to own and manage the acquired electricity distribution business in the United Kingdom. The transaction constituted a connected transaction for the Company.

(iii) Outram Limited ("Outram"), a subsidiary of the Company, reimbursed CKI $33 million (2009: $23 million) being the actual costs incurred for providing the operation and management services to Outram and its subsidiaries for the year.

(b) Subsidiaries

Management fees and services fees recharged by the Company to subsidiaries amounted to $143 million (2009: $133 million) for the year. 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 $938 million (2009: $698 million) for the year. At 31st December 2010, the total outstanding interest-bearing loan balances due from associates were $11,958 million (2009: $6,600 million). The outstanding balances with associates are disclosed in note 11.

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's Directors, is as follows:

	2010 $ million	2009 $ million
Short-term employee benefits	**64**	60
Post-employment benefits	**5**	5
	69	65

Total remuneration is included in "staff costs" (see note 6). At 31st December 2010 and 2009, there was no amount due from the key management personnel.

OTHER INFORMATION

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.

Code on Corporate Governance Practices

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 2010.

Closure of Register of Members

The register of members will be closed from Wednesday, 11th May 2011 to Wednesday, 18th May 2011, 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 Annual General Meeting to be held on Wednesday, 18th May 2011 (or any adjournment thereof), all transfers accompanied by the relevant share certificates should be lodged with the Company's share 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 Monday, 9th May 2011.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Wednesday, 18th May 2011 at 12:00 noon. Notice of the Annual General Meeting will be published and sent to shareholders in the manner as required by the Listing Rules in due course.

Board Composition

As at the date of this announcement, the Directors of the Company are:

Executive Directors	: Mr. FOK Kin Ning, Canning (Chairman), Mr. TSO Kai Sum (Group Managing Director), Mrs. CHOW WOO Mo Fong, Susan (also Alternate Director to Mr. FOK Kin Ning, Canning and Mr. Frank John SIXT), Mr. Andrew John HUNTER, Mr. KAM Hing Lam (Mr. CHAN Loi Shun, Alternate Director to Mr. KAM Hing Lam), Mr. LI Tzar Kuoi, Victor, Mr. Neil Douglas MCGEE, Mr. Frank John SIXT, Mr. WAN Chi Tin and Mr. YUEN Sui See.
Non-executive Directors	: Mr. Ronald Joseph ARCULLI, Mr. LEE Lan Yee, Francis and Mr. George Colin MAGNUS.
Independent Non-executive Directors	: Mr. Holger KLUGE, , Mr. Ralph Raymond SHEA and Mr. WONG Chung Hin.