

## **NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**

*(Expressed in Hong Kong Dollars)*

### **1. Review of Unaudited Interim Financial Report**

This unaudited interim financial report has been reviewed by the Audit Committee.

### **2. Basis of Preparation**

This unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual audited financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual audited financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2008 annual audited financial statements. The condensed consolidated interim unaudited financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31st December 2008 that is included in this unaudited interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory audited financial statements for the year ended 31st December 2008 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17th March 2009.

### 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*
- 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*
- Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
- HKAS 23 (revised 2007), *Borrowing costs*

Certain of the changes to HKFRSs which are effective for the current accounting period comprise a number of minor amendments to a range of HKFRSs and the amendments to HKAS 23 and have had no material impact on the Group's unaudited interim financial report as the amendments were consistent with policies already adopted by the Group. The amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of the changes on the interim financial report 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.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses. 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 then in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this unaudited interim financial report and 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.

#### 4. Turnover and Segmental Reporting

The analyses of the principal activities of the operations of the Group during the financial period are as follows:

\$ million	2009			Total
	Sales of Electricity	Infrastructure Investments	All Other Segments	
<b>For the six months ended 30th June</b>				
<b>Revenue</b>				
Group turnover	4,700	—	18	4,718
Other revenue and net income	14	2	1	17
<b>Reportable segment revenue</b>	<b>4,714</b>	<b>2</b>	<b>19</b>	<b>4,735</b>
<b>Result</b>				
Segment earnings	3,274	(6)	27	3,295
Depreciation and amortization	(792)	—	—	(792)
Interest income	—	324	46	370
Finance costs	(43)	(109)	—	(152)
Operating profit	2,439	209	73	2,721
Share of profits less losses of associates/jointly controlled entities	—	608	1	609
Profit before taxation	2,439	817	74	3,330
Income tax	(407)	17	6	(384)
Profit after taxation	2,032	834	80	2,946
Scheme of Control transfers	(278)	—	—	(278)
<b>Reportable segment profit</b>	<b>1,754</b>	<b>834</b>	<b>80</b>	<b>2,668</b>
<b>At 30th June</b>				
<b>Reportable segment assets</b>	<b>49,245</b>	<b>17,843</b>	<b>4,151</b>	<b>71,239</b>
<b>Reportable segment liabilities</b>	<b>(18,990)</b>	<b>(3,945)</b>	<b>(340)</b>	<b>(23,275)</b>

#### 4. Turnover and Segmental Reporting (Continued)

\$ million	2008			Total
	Sales of Electricity	Infrastructure Investments	All Other Segments	
<b>For the six months ended 30th June</b>				
<b>Revenue</b>				
Group turnover	5,855	—	23	5,878
Other revenue and net income	14	7	13	34
<b>Reportable segment revenue</b>	<b>5,869</b>	<b>7</b>	<b>36</b>	<b>5,912</b>
<b>Result</b>				
Segment earnings	4,358	7	(6)	4,359
Depreciation and amortization	(1,013)	(1)	—	(1,014)
Interest income	—	308	196	504
Finance costs	(88)	(165)	—	(253)
Operating profit	3,257	149	190	3,596
Share of profits less losses of associates/jointly controlled entities	—	293	1	294
Profit before taxation	3,257	442	191	3,890
Income tax	(232)	6	(1)	(227)
Profit after taxation	3,025	448	190	3,663
Scheme of Control transfers	(492)	—	—	(492)
<b>Reportable segment profit</b>	<b>2,533</b>	<b>448</b>	<b>190</b>	<b>3,171</b>
<b>At 31st December</b>				
<b>Reportable segment assets</b>	<b>49,309</b>	<b>10,156</b>	<b>8,983</b>	<b>68,448</b>
<b>Reportable segment liabilities</b>	<b>(17,474)</b>	<b>(3,341)</b>	<b>(306)</b>	<b>(21,121)</b>

## 5. Profit before Taxation

	<b>Six months ended 30th June</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$ million</b>	<b>\$ million</b>
Profit before taxation is shown after charging/(crediting):		
Finance costs		
Interest on borrowings	181	305
Less: interest capitalised to fixed assets	(22)	(46)
interest transferred to fuel cost	(7)	(6)
	<b>152</b>	<b>253</b>
Depreciation		
Depreciation charges for the period	815	1,041
Less: depreciation capitalised	(52)	(56)
	<b>763</b>	<b>985</b>
Amortisation of leasehold land	29	29
Net profit on disposal of fixed assets	<b>1</b>	<b>1</b>

## 6. Income Tax

	<b>Six months ended 30th June</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$ million</b>	<b>\$ million</b>
<b>Current Tax</b>		
The Company and its subsidiaries — Hong Kong	334	475
— Overseas	(17)	(5)
	<b>317</b>	<b>470</b>
<b>Deferred Tax</b>		
The Company and its subsidiaries — Hong Kong		
Origination and reversal of temporary differences	67	67
Effect of decrease in tax rate on deferred tax balances at 1st January	—	(310)
	<b>67</b>	<b>(243)</b>
<b>Total</b>	<b>384</b>	<b>227</b>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the six months ended 30th June 2009. Taxation for overseas subsidiaries is similarly calculated using tax rates applicable in the relevant countries.

## 7. Scheme of Control Transfers

The Scheme of Control transfers are mid-year notional transfers. The actual Scheme of Control transfers can only be determined in accordance with the Scheme of Control at the year end.

## 8. Earnings per Share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$2,668 million (six months ended 30th June 2008: \$3,171 million) and 2,134,261,654 ordinary shares (2008: 2,134,261,654 ordinary shares) in issue during the interim period.

## 9. Fixed Assets

During the six months ended 30th June 2009, the Group acquired items of property, plant and machinery with a cost of \$727 million (six months ended 30th June 2008: \$714 million). Items of property, plant and machinery with a net book value of \$24 million were disposed of during the six months ended 30th June 2009 (six months ended 30th June 2008: \$18 million).

## 10. Trade and Other Receivables

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

	<b>30th June 2009 \$ million</b>	31st December 2008 \$ million
Current	<b>758</b>	625
1 to 3 months overdue	<b>20</b>	31
More than 3 months overdue but less than 12 months overdue	<b>6</b>	14
Trade debtors	<b>784</b>	670
Other receivables	<b>564</b>	444
	<b>1,348</b>	1,114
Other financial assets	<b>76</b>	—
Derivative financial instruments	<b>15</b>	2
Deposit and prepayments	<b>27</b>	31
	<b>1,466</b>	1,147

Electricity bills issued to domestic, small industrial, commercial and miscellaneous customers of electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, The Hongkong Electric Company, Limited is entitled to add a surcharge of 5% to the respective bills.

## 11. Bank Deposits and Cash

	<b>30th June 2009 \$ million</b>	31st December 2008 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed Cash at bank and in hand	4,019 <u>23</u>	7,104 <u>31</u>
Cash and cash equivalents for the purpose of cash flow statement	4,042	7,135
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	<u>86</u>	<u>1,827</u>
	<b><u>4,128</u></b>	<b><u>8,962</u></b>

## 12. Trade and Other Payables

	<b>30th June 2009 \$ million</b>	31st December 2008 \$ million
Due within 1 month or on demand	244	572
Due after 1 month but within 3 months	141	247
Due after 3 months but within 12 months	<u>503</u>	<u>342</u>
	888	1,161
Derivative financial instruments	<u>4</u>	<u>12</u>
	<b><u>892</u></b>	<b><u>1,173</u></b>

### 13. Share Capital

	<b>Number of Shares</b>	<b>30th June 2009 \$ million</b>	<b>31st December 2008 \$ million</b>
Authorised:			
Ordinary shares of \$1 each	<u>3,300,000,000</u>	<u>3,300</u>	<u>3,300</u>
Issued and fully paid:			
Ordinary shares of \$1 each	<u>2,134,261,654</u>	<u>2,134</u>	<u>2,134</u>

There were no movements in the share capital of the Company during the period.

### 14. Interim Dividend

The interim dividend declared by the Board of Directors is as follows:

	<b>Six months ended 30th June</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$ million</b>	<b>\$ million</b>
Interim dividend of HK\$0.62 per share (2008: HK\$0.62 per share)	<u>1,323</u>	<u>1,323</u>

## 15. Commitments

The Group's outstanding commitments not provided for in the interim financial report were as follows:

	<b>30th June 2009</b>	31st December 2008
	<b>\$ million</b>	\$ million
Contracted for:		
Capital expenditure	<b>1,408</b>	1,263
Investment in associates/jointly controlled entities	<b>37</b>	37
Others	<b>—</b>	1
	<b><u>1,445</u></b>	<u>1,301</u>
Authorised but not contracted for:		
Capital expenditure	<b><u>11,002</u></b>	<u>11,821</u>

## 16. Contingent Liabilities

	<b>30th June 2009</b>	31st December 2008
	<b>\$ million</b>	\$ million
Financial guarantees issued in respect of banking facilities available to		
Associates	<b>969</b>	836
Jointly controlled entities	<b>399</b>	206
Other guarantees and indemnities	<b>220</b>	220
	<b><u>1,588</u></b>	<u>1,262</u>

## 17. Material Related Party Transactions

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

### (a) Shareholder

On 5th February 2009, the Company entered into an agreement with Cheung Kong Infrastructure Holdings Limited, a substantial shareholder holding approximately 38.87% of the issued shares of the Company, to purchase the entire issued share capital of Outram Limited, which held a 45% equity interest in three 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.

### (b) Associates

Interest income received/receivable from associates in respect of the loans to associates amounted to \$308 million for the period (six months ended 30th June 2008: \$308 million). At 30th June 2009, the total outstanding interest bearing loan balances due from associates were \$6,022 million (at 31st December 2008: \$5,165 million).

### (c) Key Management Personnel Compensation

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

	Six months ended 30th June	
	2009	2008
	\$ million	\$ million
Short-term employee benefits	30	32
Post-employment benefits	2	2
	<u>32</u>	<u>34</u>