香港電燈集團有限公司
Hongkong Electric Holdings Ltd.

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Press Release
(9.3.2006)

2005 ANNUAL RESULTS

CHAIRMAN'S STATEMENT

The results of the Group for 2005 were mixed. In Hong Kong, the earnings from our Hong Kong operations were HK$5,508 million compared with HK$5,521 million in 2004. On the other hand, our strategy of investing internationally so as to decrease our reliance on Hong Kong earnings produced excellent results in 2005, with earnings of HK$3,054 million compared to HK$735 million in 2004.

This was the third year in succession that the electric utility in Hong Kong has not earned its permitted return under the scheme of control under which it operates. For 2005, the shortfall in permitted return together with the special subsidy paid to customers amounted to approximately HK$1 billion, bringing to more than HK$2 billion the total amount of its permitted return that the Company has foregone in the past 3 years in order to benefit customers by charging lower electricity tariffs than it is entitled to do. In addition, for the last several years the Company has not imposed additional tariffs to establish a development fund as would have been permitted under the scheme of control. In spite of all this, we have always maintained the highest standards of reliability and quality of electricity supply. In 2005, our customers once again enjoyed over 99.999% reliability in electricity supply. Considering the vital importance to Hong Kong of its role as an international financial and commercial centre and the fact that more than 50% of our customers live or work above the fifteenth floor, we believe that maintaining this high standard must continue to be our highest priority, and that it should not in any circumstance be put at risk.

Our operations outside Hong Kong reported an increase of over 90% in operating earnings before proceeds of disposition and non-cash tax adjustments, from HK$445 million in 2004 to HK$846 million in 2005. In addition, the Company also recorded a non-recurring gain of HK$1,560 million on the disposal of part of our interest in our Australian operations in December 2005 (2004: Nil) and non-cash tax adjustments of HK$648 million (2004: HK$290 million).

Results, Final Dividend and Special Dividend

The Group's audited consolidated net profit after tax for the year ended 31st December 2005 was HK$8,562 million (2004 as restated : HK$6,256 million), an increase of 37% . The Directors will recommend a final dividend of HK$1.01 per share and a special dividend of HK$0.73 per share. Together with the interim dividend of HK$0.58 per share, this will give a total dividend of HK$2.32 per share for the year (2004 : HK$1.77).

Hong Kong Operations

Unit sales growth in electricity for 2005 was 1.5%. Of the 10,755 million kWh of electricity sold, commercial sales made up 73.2%, domestic sales 22.7% and industrial sales 4.1%. Maximum demand in 2005 was 2,565 MW compared with 2,588 MW in 2004.

Our continuing program to lower emissions from the Lamma Power Station by reducing our reliance on coal-fired generation progressed well in 2005 as construction of our Lamma Power Station Extension for Unit 9, which will be our first gas fired unit, moved towards completion. We expect Unit 9 will be completed and ready to receive gas by mid 2006. During the year, we also added our first renewable energy source for Hong Kong with the construction of Hong Kong's first wind turbine on Lamma Island. The 800 kW turbine started to generate electricity in September 2005 and we are currently evaluating the commercial viability of building additional wind turbine units in the future.

The price of coal remained well above historic levels in 2005 providing challenges for us. We were able in part to mitigate higher coal costs by adjusting the varieties of coal we consume. We expect coal prices will remain volatile in 2006. In 2005, we continued with our improvement and refurbishment of our transmission and distribution system to ensure supply meets demand. The installation of the 275 kV cable circuit from Lamma Island to the Marsh Road switching station made good progress with the laying of the submarine cables across the east Lamma channel commencing in November and construction of the switching station commencing in December.

In 2005, we maintained our record of achieving a supply reliability rating of 99.999%, a mark continuously achieved since 1997. Our customers demonstrated their satisfaction with our service by making a record number of commendations in 2005.

We continued to participate in community and environmental activities in 2005. The Hongkong Electric volunteers' team, which now numbers over 700, undertook various community service activities in 2005. We also continued with our "Smart Power" campaign which aims to promote energy conservation and efficiency among students. During the year, close to 4,000 students from 23 primary schools took part in various activities under this program. In November 2005, we launched a new round of activities with the theme of renewable energy.

International Operations

Our Australian operations continued to perform well in 2005. Solid financial performance was achieved through a combination of increased electricity consumption, customer growth and a focus on operational efficiency. In December 2005, we sold a partial interest in our Australian businesses. This enabled us to realize a substantial part of the increase in value of our investment in the businesses while at the same time maintaining an operating interest in the businesses going forward. Non-recurring gain from this disposition was HK$1,560 million.

In June 2005, we completed the acquisition of a 19.9% stake in Northern Gas distribution networks. Northern Gas is one of eight gas distribution networks in the U.K. The business has already made a strong start in achieving both its operational and financial targets.

In Thailand financing arrangements for the construction of a 1,400 MW gas fired power station in Ratchaburi province have been concluded and construction work is currently scheduled to commence in 2006. The Group has a 25% interest in the project.

Future Development of the Electricity Market in Hong Kong

Hong Kong depends on a reliable and uninterrupted electricity supply to maintain its position as a leading financial and commercial centre and assure the safety and comfort for our dense urban population. For over 100 years since 1890, we have met Hong Kong's needs with an exceptional track record of success. Any proposals to change the existing arrangements for the electricity market in Hong Kong should only be made after very careful and extensive consideration and consultation, and with the agreement of the industry. We will be making a submission to the Government in respect of the stage II consultation paper outlining the Company's concerns regarding the arrangements proposed in that paper particularly as they relate to the permitted rate of return, the duration of the regulatory framework and changes to emission penalties. We will be stating in that submission as we have already publicly stated that certain of the arrangements as currently proposed in the consultation paper are entirely unacceptable to the Company. As we progress through this consultation process, we will continue to work with the Government on the many issues that need to be addressed in the hopes of achieving a reasonable commercial outcome that safeguards the vital interests of our consumers in continued security of supply.

The current high standard of reliability and security of electricity supply in Hong Kong is a fact that is often taken for granted. This should not be the case. In effect, the reliability and security of supply enjoyed by Hong Kong consumers reflects the success of the current scheme of control both in assuring the timely availability of long term investment capital necessary to sustain it, as well as in encouraging a prudent operating and cost structure to deliver it. Any change proposed to be made to the existing electricity supply arrangements must be such that Hong Kong can be absolutely certain that what has been achieved so well in terms of reliability and stability of electricity supply to date will not be placed in jeopardy in future.

Outlook

We expect Hong Kong's economy will remain robust in 2006. However, we also expect continued high coal and natural gas prices to provide challenges for our generating businesses going forward. In Hong Kong, we expect low growth in electricity sales in 2006, continuing the trend we have seen in 2005. Internationally, we will continue to look for suitable investment opportunities to further reduce our earnings reliance on Hong Kong.

On 1st November 2005, Mr. George Magnus retired as Chairman and as an executive director of the Company. Mr. Magnus was appointed an executive director of the Company in 1985 and as Chairman in 1993. I would like, on behalf of the Board, to express our deep appreciation for his valuable advice and contribution over the years. Going forward, I am glad that the Company will continue to benefit from his experience in his capacity as a non-executive director.

The Company's achievements in 2005 could not have been made without the contribution and skill of our employees and the guidance of the Board of Directors and I would like to express my gratitude to them for their efforts in 2005.

Canning Fok Kin-ning
Chairman
Hong Kong, 9th March 2006

FINANCIAL REVIEW

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure during the year amounted to HK$3,005 million, which was primarily funded by cash from operations. Total external borrowings outstanding at year-end were HK$10,645 million (2004 : HK$12,997 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. In addition, the Group has undrawn committed bank facilities of HK$3,465 million (2004 : HK$5,376 million) and available liquid funds of HK$4,561 million (2004 : HK$1,426 million). Gearing ratio (net debt/shareholders' funds) at 31st December 2005 was 15% (2004 : 31%).

Treasury Policies, Financing Activities and Capital Structure

We finance our operations and business expansion by a combination of internal resources, bank borrowings and debt issuance. We manage our financing activities to ensure that committed facilities are available for refinancing and business growth.

Capitalising on the liquidity in debt markets and the low interest rate environment, Hongkong Electric, through its subsidiary Hongkong Electric Finance Limited, issued HK$500 million 4.15% p.a. fixed rate notes due 2015 in May 2005. The issue was made out of the Medium Term Note Programme established in 2002.

In December 2005, the Group disposed of a 22.07% attributable interest in its Australian electricity distribution business. The disposal generated a A$948 million (HK$5,405 million) cash inflow for the Group, A$488 million (HK$2,781 million) of which was utilised to reduce borrowings associated with the investment in the distribution business.

At 31st December 2005, the profile of our external borrowings after taking into account currency and interest rate swaps was as follows:

(1) 68% in Hong Kong dollars and 32% in Australian dollars;

(2) 76% in bank loans, 23% in capital market instruments and 1% in suppliers' credits;

(3) 4% is repayable within 1 year, 87% is repayable between 2 to 5 years and 9% is repayable beyond 5 years;

(4) 65% in fixed rate or capped rate and 35% in floating rate.

Currency and interest rate risks are actively managed in accordance with our treasury policy. We use derivative financial instruments primarily for managing interest rate and foreign currency risks and do not engage in speculative transactions. Treasury transactions are only executed with counterparties with acceptable credit ratings to control credit risk exposure. Foreign currency transaction exposure is managed, utilising forward contracts and interest rate and currency swaps. As at 31st December 2005, approximately 80% of the Group's transaction exposure was either denominated in US dollars or hedged into Hong Kong or US dollars. Currency exposure arising from overseas investments is mitigated by financing those investments with local currency borrowings.

The Group's policy is to maintain a substantial portion of its debt in fixed or capped rate. Interest rate risk is managed by either securing fixed or floating rate borrowings or by using interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 31st December 2005 amounted to HK$10,210 million (2004 : HK$20,598 million).

Contingent Liabilities

As at 31st December 2005, the Company has issued guarantees in respect of development security of an associate amounting to HK$33 million (2004 : HK$35 million).

The Company has given guarantees and indemnities in respect of bank and other borrowing facilities available to subsidiaries and financial commitments of subsidiaries totalling HK$5,002 million (2004 : HK$11,136 million). Out of this amount, HK$4,781 million (2004 : HK$9,238 million), while being a contingent liability of the Company, is reflected in the Consolidated Balance Sheet of the Group.

A wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited, has given guarantees to third parties in respect of the value of leased equipment of HK$210 million (2004 : HK$210 million) at expiry of the lease.

Employees

The Group continues its policy of pay by performance and market pay rates are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31st December 2005, excluding directors' emoluments, amounted to HK$889 million (2004: HK$945 million). As at 31st December 2005, the Group employed 1,987 (2004: 2,045) permanent staff. No share option scheme is in operation.

Apart from well-established training schemes for university graduates, trainee technicians and apprentices, the Group also provides training for employees in language, computer knowledge and technology relevant to our industry. As well there are job-related courses to enhance the general skills and knowledge of our employees.

HONGKONG ELECTRIC HOLDINGS LIMITED

AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2005

	Note	**2005 HK$ million**	2004 HK$ million restated
Turnover	3	**11,622**	11,407
Direct costs		**(4,038)**	(3,999)
		7,584	7,408
Other revenue and net income		**1,059**	938
Other operating costs		**(888)**	(760)
Finance costs		**(588)**	(569)
Operating profit		**7,167**	7,017
Profit on disposal of interest in associates	4	**1,560**	-
Share of profits less losses of associates		**1,050**	419
Profit before taxation	5	**9,777**	7,436
Income tax:	6		
Current		**(1,007)**	(1,048)
Deferred		**(208)**	(132)
		(1,215)	(1,180)
Profit after taxation		**8,562**	6,256
Scheme of Control transfers From /(To) :			
Development Fund		**-**	-
Rate Reduction Reserve		**-**	-
		-	-
Profit attributable to equity shareholders			
Local activities		**5,508**	5,521
Overseas activities		**3,054**	735
Profit for the year		**8,562**	6,256
Dividends payable to equity shareholders of the Company attributable to the year:	7		
Interim dividend paid during the year		**1,238**	1,238
Final dividends proposed after the balance sheet date			
Ordinary		**2,156**	2,540
Special		**1,558**	-
		4,952	3,778
Earnings per share	8	**$4.01**	$2.93
Dividends per share	7		
Ordinary		**$1.59**	$1.77
Special		**0.73**	-
Total		**$2.32**	$1.77

HONGKONG ELECTRIC HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER 2005

	Note	**2005 HK$ million**	2004 HK$ million restated
Non-current assets			
Fixed assets			
- Property, plant and equipment		**38,294**	38,982
- Assets under construction		**5,524**	3,810
- Interests in leasehold land held for own use under operating leases		**2,440**	2,484
		46,258	45,276
Interest in associates		**5,780**	8,914
Other non-current financial assets		**1,682**	39
Derivative financial instruments		**29**	-
Deferred tax assets		**14**	-
Employee retirement benefit assets		**170**	296
		53,933	54,525
Current assets			
Inventories		**445**	466
Trade and other receivables	9	**1,090**	1,069
Fuel Clause Account		**1,079**	1,197
Cash and cash equivalents		**4,561**	1,426
		7,175	4,158
Current liabilities			
Trade and other payables	10	**(1,068)**	(1,282)
Bank overdrafts – unsecured		**(8)**	(5)
Current portion of bank loans and other borrowings		**(354)**	(1,400)
Current taxation		**(220)**	(229)
		(1,650)	(2,916)
Net current assets		**5,525**	1,242
Total assets less current liabilities		**59,458**	55,767
Non-current liabilities			
Interest-bearing borrowings		**(10,209)**	(10,832)
Deferred creditors and other payables		**(52)**	(569)
Derivative financial instruments		**(287)**	-
Customers' deposits		**(1,508)**	(1,455)
Deferred tax liabilities		**(5,382)**	(5,237)
Employee retirement benefit liabilities		**(335)**	(102)
		(17,773)	(18,195)
Rate Reduction Reserve		**-**	-
Development Fund		**-**	-
NET ASSETS		**41,685**	37,572
CAPITAL AND RESERVES			
Share capital		**2,134**	2,134
Reserves		**39,551**	35,438
Total equity attributable to equity shareholders of the Company		**41,685**	37,572

Notes to Annual Results

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 2005 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's 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 Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") that are effective for the accounting periods beginning on or after 1st January 2005.

In 2005, the Group has adopted all the HKFRSs pertinent to its operations. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

Except for the early adoption of the Amendment to HKAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(a) Restatement of Prior Periods and Opening Balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the Consolidated Profit and Loss Account and Consolidated Balance Sheet and other significant related disclosure items as previously reported for the year ended 31st December 2004.

Effect on the Consolidated Profit and Loss Account for the year end 31st December 2004

HK$ million	2004 (as previously reported)	Effect of New Policy (increase/(decrease) in profit for the year) HKAS 1 (note 2(c))	HKAS 17 (note 2(e))	HKAS 28 (note 2(f))	Sub-total	2004 (as restated)
Operating profit	7,017	-	-	-	-	7,017
Share of profits less losses of associates	314	129	-	(24)	105	419
Profit before taxation	7,331	129	-	(24)	105	7,436
Income tax:						
Current	(1,048)	-	-	-	-	(1,048)
Deferred	(3)	(129)	-	-	(129)	(132)
	(1,051)	(129)	-	-	(129)	(1,180)
Profit after taxation	6,280	-	-	(24)	(24)	6,256
Scheme of control transfers	-	-	-	-	-	-
Profit attributable to equity shareholders						
Local activities	5,521	-	-	-	-	5,521
Overseas activities	759	-	-	(24)	(24)	735
Profit for the year	6,280	-	-	(24)	(24)	6,256
Earnings per share ($)	2.94	-	-	(0.01)	(0.01)	2.93
Other significant disclosure items:						
Depreciation	(1,805)	-	55	-	55	(1,750)
Amortisation of leasehold land	-	-	(55)	-	(55)	(55)

Effect on Consolidated Balance Sheet at 31st December 2004

HK$ million	2004 (as previously reported)	Effect of New Policy (increase/(decrease) in net assets) HKAS 17 (note 2(e))	HKAS 28 (note 2(f))	Sub-total	2004 (as restated)
Non-current assets					
Fixed assets					
- Property, plant and equipment	41,308	(2,326)	-	(2,326)	38,982
- Assets under construction	3,968	(158)	-	(158)	3,810
- Interests in leasehold land held for own use under operating leases	-	2,484	-	2,484	2,484
	45,276	-	-	-	45,276
Interest in associates	9,198	-	(284)	(284)	8,914
Other non-current assets	335	-	-	-	335
	54,809	-	(284)	(284)	54,525
Current assets	4,158	-	-	-	4,158
Current liabilities	(2,916)	-	-	-	(2,916)
Net current assets	1,242	-	-	-	1,242
Total assets less current liabilities	56,051	-	(284)	(284)	55,767
Non-current liabilities	(18,195)	-	-	-	(18,195)
NET ASSETS	37,856	-	(284)	(284)	37,572
CAPITAL AND RESERVES					
Total equity attributable to equity shareholders of the Company					
Share capital	2,134	-	-	-	2,134
Share premium	4,476	-	-	-	4,476
Exchange reserve	428	-	(79)	(79)	349
Revenue reserve	28,278	-	(205)	(205)	28,073
Proposed dividend	2,540	-	-	-	2,540
	37,856	-	(284)	(284)	37,572

(b) Estimated Effect of Changes in Accounting Policies on the Current Period

The following tables provide estimates of the extent to which each of the line items in the Consolidated Profit and Loss Account and Consolidated Balance Sheet and other significant related disclosure items for the year ended 31st December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Estimated effect on the Consolidated Profit and Loss Account for the year end 31st December 2005

	Estimated Effect of New Policy (increase/(decrease) in profit for the year)					
HK$ million	HKAS 1 (note 2(c))	HKAS 17 (note 2(e))	HKAS 19 (note 2(i))	HKAS 28 (note 2(f))	HKAS 32 & 39 (note 2(g))	Total
Other operating costs	-	-	9	-	18	27
Finance costs	-	-	-	-	1	1
Operating profit	-	-	9	-	19	28
Share of profits less losses of associates	477	-	-	49	-	526
Profit before taxation	477	-	9	49	19	554
Income tax:						
Current	-	-	-	-	-	-
Deferred	(477)	-	(2)	-	-	(479)
	(477)	-	(2)	-	-	(479)
Profit after taxation	-	-	7	49	19	75
Scheme of control transfers	-	-	-	-	-	-
Profit attributable to equity shareholders						
Local activities	-	-	7	-	-	7
Overseas activities	-	-	-	49	19	68
Profit for the year	-	-	7	49	19	75
Earnings per share ($)	-	-	-	0.02	0.01	0.03
Other significant disclosure items:						
Staff costs	-	-	9	-	-	9
Depreciation	-	54	-	-	-	54
Amortisation of leasehold land	-	(54)	-	-	-	(54)

Estimated effect on the Consolidated Balance Sheet at 31st December 2005

HK$ million	HKAS 17 (note 2(e))	HKAS 19 (note 2(i))	HKAS 28 (note 2(f))	HKAS 32 & 39 (note 2(g))	Total
	Estimated Effect of New Policy (increase/(decrease) in net assets)				
Non-current assets					
Fixed assets					
- Property, plant and equipment	(2,266)	-	-	-	(2,266)
- Assets under construction	(174)	-	-	-	(174)
- Interests in leasehold land held for own use under operating leases	2,440	-	-	-	2,440
	-	-	-	-	-
Interest in associates	-	-	(220)	59	(161)
Derivative financial instruments	-	-	-	29	29
Employee retirement benefit assets	-	(204)	-	-	(204)
	-	(204)	(220)	88	(336)
Current assets					
Trade and other receivables	-	-	-	32	32
Current liabilities					
Trade and other payables	-	-	-	(4)	(4)
Current portion of bank loans and other borrowings	-	-	-	(2)	(2)
	-	-	-	(6)	(6)
Net current assets	-	-	-	26	26
Total assets less current liabilities	-	(204)	(220)	114	(310)
Non-current liabilities					
Interest-bearing borrowings	-	-	-	196	196
Derivative financial instruments	-	-	-	(287)	(287)
Deferred tax liabilities	-	75	-	-	75
Employee retirement benefit liabilities	-	(226)	-	-	(226)
	-	(151)	-	(91)	(242)
NET ASSETS	-	(355)	(220)	23	(552)
CAPITAL AND RESERVES					
Total equity attributable to equity shareholders of the Company					
Exchange reserve	-	-	(41)	-	(41)
Hedging reserve	-	-	-	2	2
Revenue reserve	-	(355)	(179)	21	(513)
	-	(355)	(220)	23	(552)

(c) Changes in Presentation of Shares of Associates' Taxation (HKAS 1, Presentation of Financial Statements)

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the Consolidated Profit and Loss Account. With effect from 1st January 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the Consolidated Profit and Loss Account before arriving at the Group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

(d) Amortisation of Positive and Negative Goodwill (HKFRS 3, Business Combinations and HKAS 36, Impairment of Assets)

In prior periods:

- positive or negative goodwill which arose prior to 1st January 2001 was taken directly to reserves at the time it arose, and was not recognised in the Profit and Loss Account until disposal or impairment of the acquired business;

- positive goodwill which arose on or after 1st January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indication of impairment; and

- negative goodwill which arose on or after 1st January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the Profit and Loss Account as those expected losses were incurred.

With effect from 1st January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1st January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been know as negative goodwill under the previous accounting policy), the excess is recognised immediately in the profit or loss as it arises.

The change in accounting policy relating to positive and negative goodwill had no effect to the Group's financial statements, as there were no positive or negative goodwill balances deferred as at 31st December 2004.

(e) Leasehold Land and Buildings (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With effect from 1st January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The adjustments for each consolidated financial statement line affected for the years ended 31st December 2004 and 2005 are set out in notes 2(a) and 2(b).

(f) Share of Losses of Associates (HKAS 28, Investments in Associates)

In prior years, when the Group's share of losses exceeded its interest in the associate, the Group's interest was reported at nil and recognition of further losses was discontinued.

With effect from 1st January 2005, in order to comply with HKAS 28, recognition of the share of associate's losses under equity method is broadened by including other long-term non-equity interests, which in substance form part of the net investment of an associate.

HKAS 28 has been applied retrospectively. The adjustments for each consolidated financial statement line affected for the years ended 31st December 2004 and 2005 are set out in notes 2(a) and 2(b).

(g) Financial Instruments (HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments: Recognition and measurement)

With effect from 1st January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments. Further details of the changes are as follows:

(i) Investments in Debt and Equity Securities

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were at fair value with changes in fair value recognised in profit or loss, with the exception of dated debt securities being held to maturity.

With effect from 1st January 2005 and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes, dated debt securities being held to maturity and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. Changes in the fair value of available-for-sale securities are recognised in equity, unless there is objective evidence that an individual investment has been impaired.

(ii) Derivative Financial Instruments

In prior years, derivative financial instruments entered into by management to hedge the interest rate risk of a recognised asset or liability or the foreign currency risk of a committed future transaction were recognised on an "accrual basis" with reference to the timing of recognition of the hedged transaction.

With effect from 1st January 2005, and in accordance with HKAS 39, all derivative financial instruments entered into by the Group are stated at fair value. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge are recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. Any other changes in fair value of the derivatives is recognised in profit or loss.

(iii) Description of Transitional Provisions and Effect of Adjustments

The changes in accounting policies relating to accounting for investments in debt and equity securities and derivatives were adopted by way of opening balance adjustments to certain reserves as at 1st January 2005. The adjustments included re-designation of other investments with a carrying value HK$39 million at 31st December 2004 as available-for-sale securities at 1st January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each consolidated financial statement line affected for the year ended 31st December 2005 are set out in note 2(b).

(h) Definition of Related Parties (HKAS 24, Related Party Disclosures)

As a result of the adoption of HKAS 24, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures made in the current period, as compared to those that would have been reported had SSAP 20, related party disclosures still been in effect.

(i) Actuarial Gains and Losses (Amendment to HKAS 19, Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures)

In prior years, cumulative unrecognised actuarial gains and losses, to the extent of the amount in excess of 10% of the greater of the present value of the defined benefit obligations and the fair value of scheme assets, were recognised in the profit or loss over the expected average remaining working lives of employees participating in the scheme. Otherwise, the actuarial gain or loss was not recognised.

The Group has early adopted the Amendment to HKAS 19 with effect from 1st January 2005. Amendment to HKAS 19 provides an option to recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in equity. The Group has elected to take the option to recognise all actuarial gains and losses in equity.

This change in accounting policy has been applied prospectively. The main reason for not applying Amendment to HKAS 19 retrospectively is that the management considered the impact is immaterial and is not practical to do so. The adjustments for each consolidated financial statement line affected for the year ended 31st December 2005 are set out in note 2(b).

3. Turnover and Segment Information

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

HK$ million	Sales of Electricity 2005	Sales of Electricity 2004	Infrastructure Investments 2005	Infrastructure Investments 2004 restated	Unallocated & Other Items 2005	Unallocated & Other Items 2004	Consolidated 2005	Consolidated 2004 restated
Revenue								
Group turnover	**11,575**	11,356	-	-	**47**	51	**11,622**	11,407
Other revenue	**47**	52	-	-	**110**	7	**157**	59
Segment revenue	**11,622**	11,408	-	-	**157**	58	**11,779**	11,466
Result								
Segment result	**6,783**	6,744	-	-	**70**	(37)	**6,853**	6,707
Interest income	-	-	**840**	848	**62**	31	**902**	879
Finance costs	**(128)**	(83)	**(460)**	(486)	-	-	**(588)**	(569)
Operating profit	**6,655**	6,661	**380**	362	**132**	(6)	**7,167**	7,017
Profit on disposal of interest in associates	-	-	**1,560**	-	-	-	**1,560**	-
Share of profits less losses of associates	-	-	**1,049**	417	**1**	2	**1,050**	419
Profit before taxation	**6,655**	6,661	**2,989**	779	**133**	(4)	**9,777**	7,436
Income tax	**(1,218)**	(1,180)	**(1)**	-	**4**	-	**(1,215)**	(1,180)
Profit after taxation	**5,437**	5,481	**2,988**	779	**137**	(4)	**8,562**	6,256
Scheme of Control transfers	-	-	-	-	-	-	-	-
Profit attributable to equity shareholders	**5,437**	5,481	**2,988**	779	**137**	(4)	**8,562**	6,256

(b) Geographical Segments

For the year ended 31st December

HK$ million	Hong Kong 2005	Hong Kong 2004	Australia 2005	Australia 2004 restated	Unallocated & Other Items 2005	Unallocated & Other Items 2004	Consolidated 2005	Consolidated 2004 restated
Revenue								
Group turnover	**11,607**	11,394	**-**	2	**15**	11	**11,622**	11,407
Other revenue	**53**	56	**-**	-	**104**	3	**157**	59
Segment revenue	**11,660**	11,450	**-**	2	**119**	14	**11,779**	11,466
Result								
Segment result	**6,787**	6,751	**13**	1	**53**	(45)	**6,853**	6,707
Interest income	**62**	31	**837**	846	**3**	2	**902**	879
Finance costs	**(128)**	(83)	**(460)**	(486)	**-**	-	**(588)**	(569)
Operating profit	**6,721**	6,699	**390**	361	**56**	(43)	**7,167**	7,017
Profit on disposal of interest in associates	**-**	-	**1,560**	-	**-**	-	**1,560**	-
Share of profits less losses of associates	**1**	2	**1,064**	435	**(15)**	(18)	**1,050**	419
Profit before taxation	**6,722**	6,701	**3,014**	796	**41**	(61)	**9,777**	7,436
Income tax	**(1,214)**	(1,180)	**-**	-	**(1)**	-	**(1,215)**	(1,180)
Profit after taxation	**5,508**	5,521	**3,014**	796	**40**	(61)	**8,562**	6,256
Scheme of Control transfers	**-**	-	**-**	-	**-**	-	**-**	-
Profit attributable to equity shareholders	**5,508**	5,521	**3,014**	796	**40**	(61)	**8,562**	6,256

4. Profit on Disposal of Interest in Associates

Profit on disposal of interest in associates represents a profit on the disposal of approximately 22.07% attributable interest in each of ETSA Utilities and CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd. in 2005.

5. Profit before Taxation

Profit before taxation is shown after charging/(crediting):

	2005 HK$ million	2004 HK$ million restated
Depreciation	**1,773**	1,750
Amortisation of leasehold land	**54**	55
Fixed assets written off	**21**	20
Profit on disposal of available-for-sale equity securities	**(21)**	-
Net profit on disposal of fixed assets	**(25)**	(30)
Share of associates' taxation	**(477)**	(92)

6. Income Tax

	2005 **HK$ million**	2004 HK$ million restated
Current Tax - Hong Kong Profits Tax		
Provision for the year	**1,006**	1,048
Current Tax - Overseas		
Provision for the year	**1**	-
Deferred Tax		
Origination and reversal of temporary differences	**208**	132
Total income tax expenses	**1,215**	1,180

Hong Kong Profits Tax has been provided for at the rate of 17.5% (2004 : 17.5%) based on the estimated assessable profit for the year. Overseas taxation has been provided for at the applicable rate on the estimated assessable profit.

7. Dividends

	2005 **HK$ million**	2004 HK$ million
Interim dividend declared and paid of 58 cents per ordinary share (2004 : 58 cents per ordinary share)	**1,238**	1,238
Final dividends proposed after the balance sheet date of:		
Ordinary - $1.01 per ordinary share (2004 : $1.19 per ordinary share)	**2,156**	2,540
Special - $0.73 per ordinary share (2004 : nil)	**1,558**	-
	4,952	3,778

The final dividends proposed after the balance sheet date are based on 2,134,261,654 ordinary shares (2004 : 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.

8. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to equity shareholders of the Company of HK$8,562 million (2004 restated : HK$6,256 million) and 2,134,261,654 ordinary shares (2004 : 2,134,261,654 ordinary shares) in issue throughout the year.

9. Trade and Other Receivables

	2005 HK$ million	2004 HK$ million
Demand Side Management account	-	46
Derivative financial instruments	32	-
Debtors (see note (a) below)	1,058	1,023
	1,090	1,069

(a) Debtors' ageing is analysed as follows:

	2005 HK$ million	2004 HK$ million
Within 1 month	555	528
1 to 3 months overdue	28	25
More than 3 months overdue but less than 12 months overdue	10	10
Total trade debtors (see note (b) below)	593	563
Deposits, prepayments and other receivables	465	460
	1,058	1,023

(b) 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.

10. Trade and Other Payables

	2005 HK$ million	2004 HK$ million
Creditors (see note below)	1,042	1,070
Current portion of deferred creditors	22	212
Derivative financial instruments	4	-
	1,068	1,282

Creditors' ageing is analysed as follows:

	2005 HK$ million	2004 HK$ million
Due within 1 month	358	440
Due after 1 month but within 3 months	170	236
Due after 3 months but within 12 months	485	366
	1,013	1,042
Other payables	29	28
	1,042	1,070

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

With the exception that Non-executive Directors are not appointed for a specific term, the Company has complied with the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31st December 2005. According to the Company's Articles of Association, the Non-executive Directors will retire from office by rotation and be re-elected once every three years.

Proposed Amendments to the Articles of Association

It is proposed that certain amendments be made to the Company's Articles of Association. A special resolution for approving the amendments will be proposed to the shareholders of the Company at the Annual General Meeting to be held on Thursday, 11th May 2006. Particulars of the proposed amendments are set out in the circular which will be sent to shareholders in the near future.

Book Closure

The register of members will be closed from Thursday, 4th May 2006 to Thursday, 11th May 2006, both days inclusive. To qualify for the final dividend and special dividend, all transfers accompanied by the relevant share certificates should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Wednesday, 3rd May 2006.

Board Composition

As at the date of this announcement, the Directors of the Company are Mr. FOK Kin Ning, Canning (Chairman), Mr. TSO Kai Sum (Group Managing Director), Mr. Andrew J. HUNTER, Mr. KAM Hing Lam, Mr. LEE Lan Yee, Francis, Mr. LI Tzar Kuoi, Victor, Mr. Neil Douglas MCGEE, Mr. Frank John SIXT and Mr. WAN Chi Tin as Executive Directors; Mr. Ronald Joseph ARCULLI, Mrs. CHOW WOO Mo Fong, Susan, Mr. George Colin MAGNUS and Mr. YEE Lup Yuen, Ewan as Non-executive Directors; and Mr. Holger KLUGE, Mr. Ralph Raymond SHEA and Mr. WONG Chung Hin as Independent Non-executive Directors.