Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 HK$M	2007 HK$M
Revenue	*3*	54,297	50,789
Expenses			
Purchases of electricity, gas and distribution services		(18,235)	(17,973)
Operating lease and lease service payments	*4*	(9,102)	(7,372)
Staff expenses		(1,755)	(1,900)
Fuel and other operating expenses		(8,570)	(7,712)
Depreciation and amortisation		(4,055)	(4,650)
		(41,717)	(39,607)
Other income	*5*	727	2,122
Operating profit	*6*	13,307	13,304
Finance costs	*7*	(4,245)	(5,041)
Finance income	*7*	124	160
Share of results, net of income tax			
jointly controlled entities	*15*	2,624	3,024
associated companies	*16*	(27)	1
Profit before income tax		11,783	11,448
Income tax expense	*8*	(1,349)	(837)
Profit for the year		10,434	10,611
Profit attributable to minority interests		(11)	(3)
Earnings attributable to shareholders	*9*	10,423	10,608
Dividends	*10*		
Interim dividends paid		3,757	3,757
Final dividend proposed		2,214	2,216
		5,971	5,973
Earnings per share, basic and diluted	*11*	HK$4.33	HK$4.40

The notes and disclosures on pages 146 to 204 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

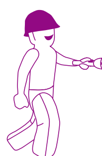
as at 31 December 2008

	Note	2008 HK$M	2007 HK$M
Non-current assets			
Fixed assets	*12(A)*	86,873	86,413
Leasehold land and land use rights	*12(B)*	2,250	2,196
Goodwill and other intangible assets	*13*	6,324	8,135
Interests in jointly controlled entities	*15*	17,791	17,684
Interests in associated companies	*16*	242	299
Finance lease receivables	*17*	2,387	3,130
Deferred tax assets	*24*	2,992	3,915
Fuel clause account	*25*	800	–
Derivative financial instruments [1, 2]	*18*	1,421	675
Other non-current assets		482	552
		121,562	122,999
Current assets			
Inventory – stores and fuel		662	667
Trade and other receivables [1]	*19*	8,239	7,121
Finance lease receivables	*17*	128	152
Fuel clause account	*25*	–	132
Derivative financial instruments [1, 2]	*18*	1,458	2,427
Bank balances, cash and other liquid funds	*20*	782	2,779
		11,269	13,278
Current liabilities			
Customers' deposits	*19(a)*	(3,722)	(3,589)
Trade and other payables [1]	*21*	(5,919)	(6,023)
Income tax payable		(366)	(237)
Bank loans and other borrowings [1]	*22*	(3,313)	(2,868)
Obligations under finance leases	*23*	(1,403)	(1,431)
Derivative financial instruments [1, 2]	*18*	(1,221)	(1,689)
Scheme of Control (SoC) reserve accounts	*26*	–	(2,300)
		(15,944)	(18,137)
Net current liabilities		(4,675)	(4,859)
Total assets less current liabilities		116,887	118,140

Consolidated Balance Sheet (continued)

as at 31 December 2008

	Note	2008 HK$M	2007 HK$M
Financed by:			
Equity			
Share capital	*27*	12,031	12,041
Share premium		1,164	1,164
Reserves	*28*		
Proposed dividends		2,214	2,216
Others		47,608	48,480
Shareholders' funds		63,017	63,901
Minority interests		105	95
		63,122	63,996
Non-current liabilities			
Bank loans and other borrowings [1]	*22*	23,383	25,492
Obligations under finance leases	*23*	20,362	20,785
Deferred tax liabilities	*24*	6,435	6,344
Derivative financial instruments [1, 2]	*18*	814	559
SoC reserve accounts	*26*	1,826	–
Other non-current liabilities		945	964
		53,765	54,144
Equity and non-current liabilities		116,887	118,140



[1] The risk exposures of these financial instruments are detailed in "Financial Risk Management" on pages 198 to 204.

[2] This year we have an expanded discussion on derivatives on pages 20 to 22.

W. E. Mocatta
Vice Chairman

Andrew Brandler
Chief Executive Officer

Peter P. W. Tse
Chief Financial Officer

Hong Kong, 26 February 2009

The notes and disclosures on pages 146 to 204 are an integral part of these consolidated financial statements.

Balance Sheet

as at 31 December 2008

	Note	2008 HK$M	2007 HK$M
Non-current assets			
Fixed assets	*12(A)*	42	22
Investments in subsidiaries	*14*	37,933	36,650
Advance to a subsidiary	*14*	39	41
Other non-current assets		2	5
		38,016	36,718
Current assets			
Trade and other receivables	*19*	55	9
Bank balances and cash		1	4
		56	13
Current liabilities			
Trade and other payables	*21*	(192)	(103)
Advances from subsidiaries	*31(C)*	(106)	(87)
Bank loans and other borrowings	*22*	(166)	–
		(464)	(190)
Net current liabilities		(408)	(177)
Total assets less current liabilities		37,608	36,541
Financed by:			
Equity			
Share capital	*27*	12,031	12,041
Share premium		1,164	1,164
Reserves			
Proposed dividends		2,214	2,216
Others		21,699	21,120
Shareholders' funds		37,108	36,541
Non-current liabilities			
Bank loans and other borrowings	*22*	500	–
Equity and non-current liabilities		37,608	36,541

W. E. Mocatta
Vice Chairman

Andrew Brandler
Chief Executive Officer

Peter P. W. Tse
Chief Financial Officer

Hong Kong, 26 February 2009

The notes and disclosures on pages 146 to 204 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

		Attributable to shareholders				
		Share Capital	Share Premium	Reserves	Minority Interests	Total
	Note	HK$M	HK$M	HK$M	HK$M	HK$M
Balance as at 1 January 2007		12,041	1,164	42,633	78	55,916
Net exchange gains	*28*	–	–	2,621	10	2,631
Cash flow hedges, net of tax	*28*	–	–	558	–	558
Net gains recognised directly in equity		–	–	3,179	10	3,189
Profit for the year		–	–	10,608	3	10,611
Total recognised income for the year		–	–	13,787	13	13,800
Dividends paid						
2006 final		–	–	(2,192)	–	(2,192)
2007 interim		–	–	(3,757)	–	(3,757)
Dividends paid to minority interests		–	–	–	(5)	(5)
Capital contribution from minority interests		–	–	–	9	9
Share of movements in reserves of jointly controlled entities	*28*	–	–	225	–	225
		–	–	(5,724)	4	(5,720)
Balance as at 31 December 2007		12,041	1,164	50,696	95	63,996
Balance as at 1 January 2008		12,041	1,164	50,696	95	63,996
Net exchange losses	*28*	–	–	(4,533)	(1)	(4,534)
Cash flow hedges, net of tax	*28*	–	–	114	–	114
Net losses recognised directly in equity		–	–	(4,419)	(1)	(4,420)
Profit for the year		–	–	10,423	11	10,434
Total recognised income for the year		–	–	6,004	10	6,014
Dividends paid						
2007 final		–	–	(2,216)	–	(2,216)
2008 interim		–	–	(3,757)	–	(3,757)
Repurchase of shares		(10)	–	(91)	–	(101)
Disposal of jointly controlled entities		–	–	(319)	–	(319)
Share of movements in reserves of jointly controlled entities	*28*	–	–	(495)	–	(495)
		(10)	–	(6,878)	–	(6,888)
Balance as at 31 December 2008		**12,031**	**1,164**	**49,822**	**105**	**63,122**

The notes and disclosures on pages 146 to 204 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

for the year ended 31 December 2008

	Share Capital HK$M	Share Premium HK$M	Capital Redemption Reserve HK$M	Retained Profits HK$M	Total HK$M
Balance as at 1 January 2007	12,041	1,164	2,482	19,913	35,600
Profit for the year	–	–	–	6,890	6,890
Dividends					
2006 final	–	–	–	(2,192)	(2,192)
2007 interim	–	–	–	(3,757)	(3,757)
Balance as at 31 December 2007	12,041	1,164	2,482	20,854[a]	36,541
Balance as at 1 January 2008	12,041	1,164	2,482	20,854	36,541
Profit for the year	–	–	–	6,641	6,641
Dividends					
2007 final	–	–	–	(2,216)	(2,216)
2008 interim	–	–	–	(3,757)	(3,757)
Repurchase of shares	(10)	–	10	(101)	(101)
Balance as at 31 December 2008	**12,031**	**1,164**	**2,492**	**21,421**[a]	**37,108**

Note (a): The proposed final dividend as at 31 December 2008 was HK$2,214 million (2007: HK$2,216 million) and the balance of retained profits after the proposed final dividend was HK$19,207 million (2007: HK$18,638 million).

As at 31 December 2008, distributable reserves of the Company amounted to HK$21,421 million (2007: HK$20,854 million).

The notes and disclosures on pages 146 to 204 are an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 HK$M	2008 HK$M	2007 HK$M	2007 HK$M
Operating activities					
Net cash inflow from operations	*29*	15,916		15,687	
Interest received		132		162	
Income tax paid		(810)		(1,026)	
Net cash inflow from operating activities			15,238		14,823
Investing activities					
Capital expenditure		(6,569)		(6,632)	
Capitalised interest paid		(388)		(295)	
Proceeds from disposal of fixed assets		175		93	
Additions of intangible assets		(168)		(86)	
Additions of other non-current assets		(106)		(106)	
Acquisition of subsidiaries		(321)		–	
Proceeds from sale of SEAGas		895		–	
Proceeds from asset swap with AGL		–		1,913	
Proceeds from transfer of Ho-Ping to OneEnergy		–		3,203	
Investments in and advances to jointly controlled entities		(1,347)		(300)	
Dividends received from jointly controlled entities		2,676		3,759	
Net cash (outflow) / inflow from investing activities			(5,153)		1,549
Net cash inflow before financing activities			10,085		16,372
Financing activities					
Proceeds from long-term borrowings		9,591		14,076	
Repayment of long-term borrowings		(11,083)		(16,342)	
Repayment of obligations under finance leases		(1,558)		(1,270)	
Increase / (decrease) in short-term borrowings		1,872		(1,126)	
Interest and other finance costs paid		(4,074)		(4,778)	
Repurchase of shares		(101)		–	
Dividends paid		(5,973)		(5,954)	
Net cash outflow from financing activities			(11,326)		(15,394)
Net (decrease) / increase in cash and cash equivalents			(1,241)		978
Cash and cash equivalents at beginning of year			2,160		1,094
Effect of exchange rate changes			(139)		88
Cash and cash equivalents at end of year			780		2,160
Analysis of balances of cash and cash equivalents					
Short-term investments			90		519
Deposits with banks			228		1,932
Cash at banks and on hand			464		328
Bank balances, cash and other liquid funds	*20*		782		2,779
Excluding cash restricted for specific purposes			(2)		(619)
			780		2,160

The notes and disclosures on pages 146 to 204 are an integral part of these consolidated financial statements.

Significant Accounting Policies

1. Basis of Preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) which are stated at fair value.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgments on pages 156 to 158.

2. Effect of New / Revised HKFRS

(A) Adoption of new / revised HKFRS effective 1 January 2008

The Group has adopted the following new / revised HKFRS standards and interpretations:

- HK(IFRIC)-Int 11 "HKFRS 2 – Group and Treasury Share Transactions",
- HK(IFRIC)-Int 12 "Service Concession Arrangements",
- HK(IFRIC)-Int 14 "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"; and
- Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement" and HKFRS 7 "Financial Instruments: Disclosures" – Reclassification of Financial Assets.

The above new / revised HKFRS standards and interpretations either are irrelevant or have no material effect on the Group's financial statements.

(B) New / revised HKFRS that have been issued but are not yet effective

The following new / revised HKFRS, potentially relevant to the Group's operations, have been issued and are mandatory for accounting periods beginning on or after 1 January 2009, but have not been early adopted by the Group:

- HKAS 1 (Revised) "Presentation of Financial Statements"
- HKAS 23 (Revised) "Borrowing Costs"
- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HKFRS 3 (Revised) "Business Combinations"
- HKFRS 8 "Operating Segments"
- HK(IFRIC)-Int 16 "Hedges of a Net Investment in a Foreign Operation"
- HK(IFRIC)-Int 17 "Distribution of Non-cash Assets to Owners"
- HKICPA's improvements to HKFRS published in October 2008

While the adoption of HKAS 27 (Revised) "Consolidated and Separate Financial Statements" and HKFRS 3 (Revised) "Business Combinations" may have effect on future business combinations, if any, and apart from certain presentational changes, the adoption of these new / revised HKFRS standards and interpretations will have no significant impact on the Group's financial statements.

3. Basis of Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries made up to 31 December and include the Group's interests in jointly controlled entities and associated companies on the basis set out in Policies No. 11 and 12, respectively.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries. The Group applies a

policy of treating transactions with minority interests as transactions with parties external to the Group. Purchases of minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries, jointly controlled entities and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities[1] denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, jointly controlled entities and associated companies that have a functional currency different from the Group's presentation currency (i.e. Hong Kong dollar), assets and liabilities for each balance sheet presented are translated at the year-end closing rate; whilst income and expenses for each income statement item are translated at average exchange rate for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised as a separate component of equity. When a foreign entity is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

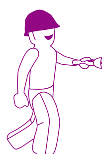
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing rate.

5. Segment Reporting

A geographical segment is a group of assets and operations engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format.

Segment assets consist primarily of fixed assets, intangible assets, receivables and other operating assets, and exclude investments in jointly controlled entities and associated companies and income tax assets. Segment liabilities comprise operating liabilities and exclude items such as income tax liabilities and borrowings. Segment revenue is based on the country in which the electricity is generated and / or services are rendered. Segment capital additions represent the total cost incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year.

Unallocated items comprise mainly corporate expenses, corporate assets, and the Company's liquid funds and borrowings.



[1] Monetary assets and liabilities are assets to be received and liabilities to be paid in fixed money amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is not sure how much you will receive if the fixed asset is to be sold.

6. Leases [1]

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease and the corresponding lease income / expense, e.g. up-front payments for leasehold land or land use rights, are amortised on a straight-line basis over the term of the lease to the income statement.

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. A fixed asset under a finance lease is depreciated over the shorter of its useful life or the lease term. The corresponding rental obligations, net of finance charges, are included as obligations under finance leases in current and non-current liabilities.

For a finance lease, each lease receipt / payment is allocated between the receivable / liability and finance income / charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt / payment is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable / liability for each period.

In the case of an electricity supply or a power purchase contractual arrangement, where the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use these assets, such a contractual arrangement is accounted for as containing a finance or an operating lease. Payments for services and the cost of inputs of the arrangement are excluded from the calculation of the minimum lease payments. In respect of the power purchase arrangement between CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO), the effective interest rate of the finance lease obligation is a variable rate akin to a price index which moves with reference to the return allowed under the Scheme of Control (SoC) Agreement and accordingly, the finance charge has been treated as contingent rent. Contingent rent is recognised in the income statement in the period in which it is incurred.

7. Related Parties [2]

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, jointly controlled entities, associated companies and key management personnel, where the individual or company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party. Parties are also considered to be related if they are under common control.

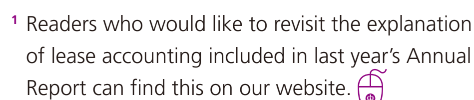
8. Revenue

Revenue primarily represents sales of electricity and gas, engineering and maintenance service fees, other electricity-related revenue such as temporary electricity supply works and reconnection fees and adjustments stipulated under the SoC. It is measured at the fair value of the consideration received or receivable, net of applicable tax, discounts and rebates.

Sales of electricity and gas are based on either actual and accrued consumption derived from meter readings or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

Lease service income comprises servicing income and fuel costs received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receipts on lease receivables and is recognised over the lease period using the effective interest method.

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



[1] Readers who would like to revisit the explanation of lease accounting included in last year's Annual Report can find this on our website.

[2] Related Parties ≠ Connected Parties

They sometimes overlap but should not be confused. Accounting standards define related parties, while the Listing Rules of the Hong Kong Stock Exchange define connected parties.

9. Employee Benefits

(A) Retirement benefits

The Group operates and / or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme and Mandatory Provident Fund (MPF) scheme administered by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices.

Contributions to the defined contribution plans are recognised as an expense in the income statement in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(B) Incentive bonus and employee leave entitlement

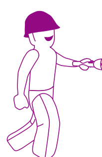
Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the balance sheet date, where there is a contractual obligation or past practice has created a constructive obligation.

10. Subsidiaries [1]

A subsidiary is an entity which is controlled by the Company through, directly or indirectly, controlling the composition of the board of directors, controlling more than half of the voting power or holding more than half of the issued share capital. Control represents the power to govern the financial and operating policies of that entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Where an entity in which the Company holds, directly or indirectly, more than half of the issued share capital, is excluded from consolidation on the grounds of lack of effective control, it would be accounted for as a jointly controlled entity or an associated company, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Investments in subsidiaries are carried on the balance sheet of the Company at cost together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, less provision for impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



[1] A quick guide to the classification of different entities:

Control → Subsidiary
Joint Control → Jointly Controlled Entity
Significant Influence → Associated Company

11. Jointly Controlled Entities

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interests in jointly controlled entities in the consolidated financial statements are initially recognised at cost and are subsequently accounted for by the equity method of accounting. The Group's share of its jointly controlled entities' post-acquisition results and gain or loss arising from dilution of interest in jointly controlled entities are recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated balance sheet, interests in jointly controlled entities comprise the Group's share of the net assets and its net advances made to the jointly controlled entities (where the advances are neither planned nor likely to be settled in the foreseeable future), plus goodwill identified on acquisition and net of accumulated impairment losses.

When the Group's shared losses in a jointly controlled entity equal or exceed its interest therein, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

12. Associated Companies

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Interests in associated companies in the consolidated financial statements are initially recognised at cost and are subsequently accounted for by the equity method of accounting. The Group's share of its associated companies' post-acquisition results is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated balance sheet, interests in associated companies comprise the Group's share of the net assets and its net advances made to the associated companies (where the advances are neither planned nor likely to be settled in the foreseeable future), plus goodwill identified on acquisition and net of accumulated impairment losses.

When the Group's shared losses in an associated company equal or exceed its interest therein, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated companies.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

13. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset. Cost may also include transfer from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Fixed assets employed for the electricity business in Hong Kong, also referred to as SoC fixed assets, represent a major portion of the assets of the Group. Depreciation of fixed assets and amortisation of leasehold land is based on the rates which reflect the pattern in which the assets' economic benefits are consumed. During the year, CLP Power Hong Kong reviewed the useful lives of certain fixed assets and considered conditions justified to extend the depreciation period of the following fixed assets categories with effect from 1 January 2008:

	Original useful lives	Revised useful lives
Buildings and civil structures other than at power stations	35 years	50 years
Overhead lines (132 kV and above)	35 years	–
Overhead lines (below 132 kV)	30 years	–
Overhead lines (33 kV and above)	–	50 years
Overhead lines (below 33 kV)	–	45 years
Cables (132 kV and above)	30 years	55 years
Cables (below 132 kV)	30 years	60 years
Switchgear and transformers	35 years	50 years

(i) In respect of the fixed assets and leasehold land commissioned before 1 January 2008, the net book values as at 31 December 2007 are being written off uniformly over the remainder of their useful lives as set out in (iii) below.

(ii) Fixed assets and leasehold land acquired on or after 1 January 2008 are depreciated / amortised on a straight-line basis over the useful lives as set out in (iii) below commencing from the date of commissioning.

(iii) Useful lives of fixed assets and leasehold land

Leasehold land	unexpired term of the lease
Cable tunnels	100 years
Buildings and civil structures at power stations	35 years
Other buildings and civil structures	50 years
Overhead lines (33 kV and above)	50 years
Overhead lines (below 33 kV)	45 years
Cables (132 kV and above)	55 years
Cables (below 132 kV)	60 years
Switchgear and transformers	50 years
Generating plant	25 years
Substation miscellaneous	25 years
Meters	15 years
System control equipment, furniture, tools, communication and office equipment	10 years
Computers and office automation equipment other than those forming part of the generating plant	5 years
Motor vehicles and marine craft	5 years
Refurbished or improved assets	Remaining original life plus any life extension

The change in the estimates of the assets' useful lives has resulted in an estimated decrease in depreciation charges of HK$820 million for each of 2008 and 2009.

Fixed assets used for the non-SoC business, primarily relating to the electricity business located outside Hong Kong, are also depreciated on a straight-line basis. Their estimated useful lives are similar to those of the SoC fixed assets and are set out as follows:

Buildings	30 – 40 years
Generating plant	17 – 31 years
Switchgear and transformers	17 – 45 years
Gas storage plant	25 years
Other equipment	10 – 30 years
Computers, furniture and fittings and office equipment	3 – 10 years
Motor vehicles	3 – 10 years
Leasehold land	unexpired term of the lease
Land use rights	unexpired term of the lease
Freehold land	not depreciable

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

For plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

14. Intangible Assets

(A) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity or associated company at the date of acquisition. It is capitalised in the balance sheet as a separate asset if it relates to the acquisition of a subsidiary. Goodwill is included within interests in jointly controlled entities or associated companies if arising from an acquisition of these respective entities and is tested for impairment as part of the overall balance. Goodwill is tested for impairment annually or whenever there is an indication that it may be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units which are expected to benefit from the business combination in which the goodwill arose.

(B) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life of 6 – 14 years and carried at cost less accumulated amortisation and accumulated impairment losses. An intangible asset with an indefinite useful life is tested for impairment annually or whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses.

15. Impairment of Non-Financial Assets

Assets that have an indefinite useful life [1] are not subject to amortisation. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and in any case, at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

An impairment loss recognised in prior years for an asset other than goodwill is reversed when there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.

16. Derivative Financial Instruments and Hedging Activities [2]

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges, which are hedges of the fair value of recognised assets or liabilities or firm commitments (e.g. fixed interest rate loans, foreign currency trade receivables) or cash flow hedges, which are hedges of highly probable forecast transactions (e.g. floating interest rate loans, future purchase of fuels denominated in U.S. dollar).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(A) Fair value hedges

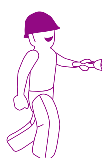
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, which will offset any changes in the fair value recorded in the income statement of the corresponding hedged asset or liability that are attributable to the hedged risk and achieve the overall hedging result.

(B) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged items affect earnings. Such transfer from equity will offset the effect on earnings of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.



[1] Indefinite useful life ≠ Infinite useful life

An indefinite useful life only means that there is no foreseeable limit to the period over which an asset is expected to generate cash flows to the Group. It does not necessarily mean that it will generate such cash flows forever.

[2] You can read more on derivatives and hedging on pages 20 to 22.

(C) Derivatives not qualifying for hedge accounting or held for trading purposes

Certain derivative financial instruments do not qualify for hedge accounting or are held for trading purposes. Changes in the fair value of these derivative financial instruments are recognised immediately in the income statement.

The Group enters into sale and purchase transactions for commodities within the ordinary course of business. Transactions that take the form of contracts that are within the scope of HKAS 39 are fair valued at each balance sheet date. Contracts that were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected sale, purchase or usage requirements are not within the scope of HKAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion shall be separated from its host contract and measured as if it were a stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

17. Inventory

Inventory comprises stores and fuel which are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores and gas, and on the first-in, first-out basis for oil and naphtha. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

18. Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the income statement.

19. Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

20. Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

21. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to the income statement or cost of the qualifying assets over the period of the borrowings using the effective interest method.

Borrowing costs are charged to the income statement in the year in which they are incurred, except to the extent that they are capitalised when they are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

22. Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, jointly controlled entities and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

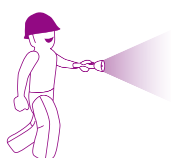
Deferred tax is also provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

23. Provisions and Contingent Liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. [1]

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. [2]



[1] What is the difference between a legal obligation and a constructive obligation?

A legal obligation derives from a contract, legislation or the operation of law.
A constructive obligation arises from an established pattern of past practices or published policies which create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

[2] Here is a quick guide on how to account for contingencies:

Probable to happen → Recognise a provision
Possible → Disclose only
Remote → Do nothing

Critical Accounting Estimates and Judgments

In preparing the consolidated financial statements, management is required to exercise significant judgments in the selection and application of accounting principles, as well as in making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

1. Australia Carbon Pollution Reduction Scheme

Recent developments in climate change policy in Australia pose potentially significant financial risks to the Group's business in Australia.

The Garnaut Climate Change Review was commissioned by the Australian Federal Government to examine the impact of climate change on the Australian economy and to recommend medium to long-term policies and policy frameworks. The Garnaut Climate Change Review presented its Final Report (the "Garnaut Report" [1]) to the Prime Minister of Australia and the eight states and territories on 30 September 2008. The terms of reference for the Garnaut Report are publicly available.[1] However, the Garnaut Report does not represent policy decisions of the Government although it did advocate an emissions trading scheme ("ETS") as a mechanism to address the approach to carbon reduction.

In July 2008 the Australian Government initiated its consultation on its proposed climate change policy with the release of a Green Paper on the Carbon Pollution Reduction Scheme ("CPRS"). The aim of this Green Paper was to allow people both inside and outside Parliament to debate the subject and give feedback on its suggestions.

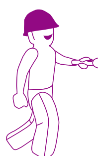
Following a review of the public submissions on the Green Paper, the Government released its White Paper (the "White Paper" [2]) on the CPRS on 15 December 2008. This White Paper forms the basis for a Bill to be put before Parliament and allows the Government an opportunity to gather feedback on its final proposed policies before it formally presents them as a Bill.

The White Paper advocates the introduction of a CPRS with an effective start date of 1 July 2010. The CPRS is proposed to be a cap and trade scheme, where aggregate emissions are capped at a level that is consistent with the environmental objective. The level of the Scheme cap determines the environmental contribution of the Scheme: the lower the cap, the more abatement (reduction in emissions) required. The number of tradable carbon pollution permits ("permits") is the Scheme cap – if the cap were to limit emissions to 100 million tonnes of carbon dioxide equivalent (CO2-e) in a particular year, 100 million emissions permits would be issued for that year. Entities responsible for emissions sources covered by the CPRS will be obliged to surrender a permit for each tonne of CO2-e that they have emitted during the compliance period.

The White Paper recognises that some coal-fired electricity generators are unlikely to be able to pass on their full carbon costs, because they are constrained by competing generators with lower emissions intensity. As a result, the introduction of a CPRS may have a significant impact on TRUenergy's business, in particular on the Yallourn brown coal-fired generation business. It may result in a significant impairment of the business, due to either a reduction in the useful life of the asset or a reduction in the earnings due to a combination of reduced output and increased costs not fully offset by higher electricity prices.

In recognition of this impact on the most emissions intensive electricity generators, the White Paper proposes to provide a once-and-for-all allocation of permits to such generators under the Electricity Sector Adjustment Scheme ("ESAS"). Assistance is to be targeted at the most emissions intensive generators as they are unlikely to be able to pass on the full costs of the permits they must buy.

In the White Paper, the Government estimated the total value of the permits allocated in the ESAS as A$3.5 billion [3] (HK$19 billion). This was based on an assumed carbon price starting at A$25 per tonne, consistent with its modelled scenario of a 5% cut on 2000 emission levels by 2020. However there remains significant uncertainty over the expected carbon price path with the first CPRS emissions caps not being finalised until 2010 and ongoing international negotiations, the outcome of which are likely to dictate Australian carbon prices. Assuming legislation is passed in line with the terms and conditions



[1] Refer to web site: http://www.garnautreview.org.au/domino/Web_Notes/Garnaut/garnautweb.nsf
[2] Refer to Australian Government web site: http://www.climatechange.gov.au/whitepaper/
[3] In 2008/09 Australian dollars

of the White Paper, these permits will be distributed to eligible companies over the first five years of the scheme (mid 2010 through mid 2015). The amount of assistance applicable to companies and assets will be determined prior to the start date of the CPRS. The Australian Government will allocate assistance through ESAS to coal-fired electricity generators according to a methodology that weighs assistance by the historical energy output of each generator and the extent by which the ESAS regulator's estimate of the emissions intensity of each generator exceeds the Government's threshold level of emissions intensity. However, to ensure that assistance does not lead to windfall gains, a review will be held in 2013 to determine whether generators in receipt of ESAS assistance are likely to earn windfall profits, taking into account actual and forecast net revenues, compared to those predicted when assistance was originally estimated.

As at 31 December 2008, the CPRS remained in White Paper form (legislation had not been passed). Draft legislation is expected to be released in March 2009 and legislation is expected to be passed into law in the latter part of 2009. The final legislation may be significantly different to the guidance included in the White Paper. When legislation is passed, the final terms and conditions of the CPRS will become binding law.

There remains significant uncertainty regarding the timing and structure of the CPRS. As such, the introduction of the CPRS presents an unquantifiable but potentially material market risk to the Group. At 31 December 2008, no impact of the CPRS has been reflected in the Group's financial statements (including impairment model cash flows, and assumptions on discount rate, asset useful lives, outage rates and capital expenditure) on the basis that there is currently significant uncertainty in relation to the likely structure, timing and impact of the CPRS.

The carrying amount of the Yallourn power station assets, which comprise a single cash generating unit, was A$1,682 million or HK$9,036 million (2007: A$1,734 million or HK$11,906 million). Other parts of the Group may also be impacted adversely or favourably.

2. Asset Impairment

The Group has made substantial investments in tangible long-lived assets and equity investments. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment of goodwill annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. In 2008, after reviewing the business environment as well as the Group's objectives and past performance of the investments (including the three months of operations under the current SoC), management concluded that there was no material impairment loss for Yallourn (please also refer to item 1 above), SoC fixed assets of HK$71,899 million (2007: HK$69,711 million), goodwill of HK$5,205 million (2007: HK$6,648 million) and other long-lived assets. As the latest annual impairment models indicated that headrooms existed for the relevant assets, management believed that any reasonable changes in the assumptions used in the models would not affect management's view on impairment at 2008 year end.

3. Deferred Tax

As at 31 December 2008, a deferred tax asset of HK$3,979 million (2007: HK$5,600 million) in relation to unused tax losses was recognised in the consolidated balance sheet. Estimating the deferred tax asset arising from tax losses requires a process that involves determining appropriate tax provisions, forecasting future years' taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in the income statement for the period in which such a reversal takes place. The Group's deferred tax asset arising from tax losses is from our Australian business. The current financial models indicate that the tax losses can be utilised in the future, and with the existence of headrooms in the models, management believed that any reasonable changes in the model assumptions would not affect management's view as at the close of 2008. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

4. SoC-related Accounts [1]

As stipulated in the current SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities in the financial statements of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement to customers such that the SoC reserve account balances of HK$1,826 million (2007: HK$2,300 million) meet the definition of a liability.

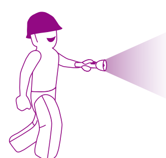
The new SoC provides a cost charging mechanism for CLP Power Hong Kong to charge an amount for the decommissioning liabilities account for the settlement of future asset decommissioning costs. The Group considers that such charging mechanism for decommissioning costs under the SoC does not result in additional legal and constructive liability for asset decommissioning for CLP Power Hong Kong. The balance of the asset decommissioning liabilities of HK$34 million (2007: nil) through this charging mechanism under the SoC represents a liability to the Group.

5. Lease Accounting

The application of HKFRS-Int 4 "Determining whether an Arrangement contains a Lease" has resulted in finance lease accounting being applied to CLP Power Hong Kong as lessee (for its Electricity Supply Contract with CAPCO), whilst being applied to Gujarat Paguthan Energy Corporation Private Limited (GPEC), Ho-Ping Power Company (Ho-Ping), Electricity Generating Public Company Limited (EGCO) and BLCP Power Limited (BLCP) as lessors (for the Power Purchase Agreements with their respective off-takers). To apply finance lease accounting, a number of assumptions in the lease models have been made, such as the determination of minimum lease payments, implicit interest rates and residual values of the power plants at the end of contract periods. For the power purchase arrangement between CLP Power Hong Kong and CAPCO, in determining the minimum lease payments, the assumption has been made that the return contained in the lease is a variable rate return which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. Any future changes to these assumptions will affect the value of the lease assets and liabilities recognised and the corresponding lease income and expenses in the Group's financial statements.

6. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 3 Fair Value Estimation on page 204.



[1] Features of the current SoC are summarised on pages 205 and 206.

1. General Information

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements. The Company is a limited liability company incorporated and listed in Hong Kong. The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are the generation and supply of electricity in Hong Kong, Australia and India, and investment holding of power projects in the Chinese mainland, Southeast Asia and Taiwan.

The financial operations of the Company's major subsidiary, CLP Power Hong Kong, and its jointly controlled entity, CAPCO, are governed by a SoC entered with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The SoC Agreement which took effect from 1 October 1993 expired on 30 September 2008 (1993 SoC). A new SoC Agreement immediately became effective 1 October 2008 (2008 SoC). The main features of these SoC agreements are summarised on pages 205 and 206.

These financial statements have been approved for issue by the Board of Directors on 26 February 2009.

2. Segment Information

Accounting Policy No. 5

The Group operates, through its subsidiaries, jointly controlled entities and associated companies, in five major geographical regions – Hong Kong, Australia, the Chinese mainland, India, and Southeast Asia & Taiwan. As substantially all the principal activities of the Group are for the generation and supply of electricity and these businesses are managed and operated on an integrated basis in each region, neither a business analysis nor a separate disclosure on the generation and supply businesses is presented.

Information about the Group's operations by geographical region is as follows.

2. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2008							
Revenue	30,471	19,432	169	4,197	24	4	**54,297**
Segment results	10,839	2,022	282	528	(13)	(351)	**13,307**
Share of results, net of income tax							
jointly controlled entities	1,581	21	889[a]	–	133	–	**2,624**
associated companies	–	(27)	–	–	–	–	**(27)**
Profit / (loss) before net finance costs and income tax	12,420	2,016	1,171	528	120	(351)	**15,904**
Finance costs							**(4,245)**
Finance income							**124**
Profit before income tax							**11,783**
Income tax expense							**(1,349)**
Profit for the year							**10,434**
Profit attributable to minority interests							**(11)**
Earnings attributable to shareholders							**10,423**
Capital additions	5,465	1,757	258	424	–	24	**7,928**
Depreciation and amortisation	2,944	1,047	51	9	–	4	**4,055**
Impairment charge / (reversal)	2	122	(55)	62	–	–	**131**
As at 31 December 2008							
Segment assets							
Owned and leased fixed assets	71,869	13,001	1,588	373	–	42	**86,873**
Other segment assets	6,892	11,476	652	5,746	121	46	**24,933**
Interests in							
jointly controlled entities	7,014	864	7,540	–	2,373	–	**17,791**
associated companies	–	242	–	–	–	–	**242**
Deferred tax assets	–	2,925	67	–	–	–	**2,992**
Consolidated total assets	85,775	28,508	9,847	6,119	2,494	88	**132,831**
Segment liabilities							
Obligations under finance leases	21,752	13	–	–	–	–	**21,765**
Other segment liabilities	9,594	3,917	62	678	14	182	**14,447**
Bank loans and other borrowings	14,848	9,087	824	1,271	–	666	**26,696**
Current and deferred tax liabilities	6,210	10	57	524	–	–	**6,801**
Consolidated total liabilities	52,404	13,027	943	2,473	14	848	**69,709**

2. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2007							
Revenue	29,909	18,018	124	2,687	50	1	50,789
Segment results	11,444	811	(87)	352	1,062	(278)	13,304
Share of results, net of income tax							
jointly controlled entities	1,492	27	1,112[(a)]	–	393	–	3,024
associated companies	–	1	–	–	–	–	1
Profit / (loss) before net finance costs and income tax	12,936	839	1,025	352	1,455	(278)	16,329
Finance costs							(5,041)
Finance income							160
Profit before income tax							11,448
Income tax expense							(837)
Profit for the year							10,611
Profit attributable to minority interests							(3)
Earnings attributable to shareholders							10,608
Capital additions	5,342	2,878	189	1	–	16	8,426
Depreciation and amortisation	3,637	969	39	1	–	4	4,650
Impairment charge	1	288	1	63	–	–	353
As at 31 December 2007							
Segment assets							
Owned and leased fixed assets	69,697	15,833	858	2	–	23	86,413
Other segment assets	5,299	15,656	452	5,734	31	794	27,966
Interests in							
jointly controlled entities	6,757	1,423	7,042	–	2,462	–	17,684
associated companies	–	299	–	–	–	–	299
Deferred tax assets	–	3,845	70	–	–	–	3,915
Consolidated total assets	81,753	37,056	8,422	5,736	2,493	817	136,277
Segment liabilities							
Obligations under finance leases	22,116	100	–	–	–	–	22,216
Other segment liabilities	9,322	4,972	47	617	4	162	15,124
Bank loans and other borrowings	13,613	13,375	404	968	–	–	28,360
Current and deferred tax liabilities	5,959	–	136	485	1	–	6,581
Consolidated total liabilities	51,010	18,447	587	2,070	5	162	72,281

Note (a): Out of the HK$889 million (2007: HK$1,112 million), a major portion was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

3. Revenue

Accounting Policy No. 8

An analysis of the Group's revenue is as follows:

	2008 HK$M	2007 HK$M
Sales of electricity	44,249	42,860
Lease service income [(a)]	3,754	2,212
Finance lease income	428	475
Sales of gas	5,093	4,288
Other revenue	966	601
	54,490	50,436
Transfer for SoC [(b)]	(193)	353
	54,297	50,789

Notes:

(a) In accordance with HKFRS-Int 4, servicing income and fuel costs received from lessees with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

(b) Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the 2008 SoC – previously the Development Fund under the 1993 SoC (Note 26). In any period, the amount of deduction from or addition to these funds is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in the income statement.

4. Operating Lease and Lease Service Payments

Accounting Policy No. 6

In accordance with HKFRS-Int 4, fuel and servicing charges paid to lessors with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service payments.

5. Other Income

	2008 HK$M	2007 HK$M
Gain on sale of SEAGas [(a)]	502	–
Gain on deemed disposal from CSEC Guohua restructuring [(b)]	225	–
Gain on transfer of Ho-Ping to OneEnergy	–	1,030
Gain on asset swap with AGL	–	1,092
	727	2,122

Notes:

(a) In June 2008, TRUenergy sold its entire 33 1/3% interest in SEAGas, a jointly controlled entity in Australia, which owns and operates a gas pipeline between Victoria and South Australia, for a total consideration of A$119 million (HK$895 million), thereby realising a gain of HK$502 million (after tax gain of HK$432 million).

(b) During 2008, CSEC Guohua International Power Company Limited (formerly known as "CLP Guohua Power Company Limited") (CSEC Guohua) underwent a restructuring with CLP's effective interest in CSEC Guohua reduced from 49% to 24.7%, and a gain on deemed disposal amounting to HK$225 million was recognised. A subsequent capital injection by CLP raised CLP's interest in CSEC Guohua to 27% at the balance sheet date.

6. Operating Profit

Operating profit is stated after charging / (crediting) the following:

	2008 HK$M	2007 HK$M
Charging		
Staff costs		
Salaries and other costs	1,619	1,752
Retirement benefits costs [(a)]	136	148
Auditors' remuneration		
Audit	25	28
Permissible non-audit services [(b)]	13	21
Operating lease expenditure on the agreement with Ecogen	254	246
Net loss on disposal of fixed assets	140	211
Initial outsourcing costs of TRUenergy	–	653
Coal mine subsidence of TRUenergy	84	180
Net fair value loss / (gain) on derivative financial instruments		
Cash flow hedges, transfer from equity to fuel and other operating expenses	213	(4)
Transactions not qualifying as hedges	(6)	(391)
Net exchange loss	146	54
Crediting		
Net rental income from properties	(13)	(12)
Insurance recovery relating to coal mine subsidence of TRUenergy	(266)	–

Notes:

(a) The retirement benefit plans for staff employed by Group companies in Hong Kong are regarded as defined contribution schemes. The current scheme, named CLP Group Provident Fund Scheme (GPFS), provides benefits linked to contributions and investment returns on the scheme. Contributions to defined contribution schemes, including GPFS and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$198 million (2007: HK$181 million), of which HK$103 million (2007: HK$63 million) was capitalised.

Staff employed by subsidiaries outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK$37 million (2007: HK$68 million). The Group's financial obligations to these arrangements are not material.

(b) Permissible non-audit services comprise primarily accounting / tax advisory services for business development.

7. Finance Costs and Income

Accounting Policy No. 21

	2008 HK$M	2007 HK$M
Finance costs:		
Interest expenses on		
bank loans and overdrafts	831	919
other borrowings		
– wholly repayable within five years	120	121
– not wholly repayable within five years	527	539
finance charges under finance leases [(a)]	2,930	3,422
Tariff Stabilisation Fund / Development Fund [(b)]	132	202
customers' deposits, fuel clause over-recovery and others	10	89
Other finance charges	100	46
Fair value loss / (gain) on derivative financial instruments		
cash flow hedges, transfer from equity	5	(11)
fair value hedges	(151)	(70)
Loss on hedged items in fair value hedges	121	87
Other net exchange gain	–	(1)
	4,625	5,343
Less: amount capitalised [(c)]	(380)	(302)
	4,245	5,041
Finance income:		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	124	160

Notes:

(a) Finance charges under finance leases primarily relate to contingent rent in respect of the power purchase arrangement between CLP Power Hong Kong and CAPCO accounted for as finance lease in accordance with HKFRS-Int 4.

(b) CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge at one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the current SoC effective 1 October 2008, and a charge at 8% per annum on the average balance of the Development Fund under the previous SoC up to 30 September 2008 (Note 26).

(c) Finance costs have been capitalised at an average interest rate of 3.86% (2007: 4.69%) per annum for CLP Power Hong Kong and 6.74% (2007: 6.5%) per annum for TRUenergy.

8. Income Tax Expense

Accounting Policy No. 22

Income tax in the consolidated income statement represents the income tax of the Company and subsidiaries and is analysed below:

	2008 HK$M	2007 HK$M
Current income tax		
Hong Kong	817	790
Outside Hong Kong	127	64
	944	854
Deferred tax		
Hong Kong (note)	68	304
Outside Hong Kong	337	(321)
	405	(17)
	1,349	837

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2008 HK$M	2007 HK$M
Profit before income tax	11,783	11,448
Less: Share of results in jointly controlled entities and associated companies, net of income tax	(2,597)	(3,025)
	9,186	8,423
Calculated at an income tax rate of 16.5% (2007: 17.5%)	1,516	1,474
Effect of different income tax rates in other countries	185	33
Change in Hong Kong profits tax rate (note)	(327)	–
Income not subject to tax	(43)	(190)
Expenses not deductible for tax purposes	72	91
Transfers to/(from) SoC reserve accounts not subject to tax (Note 26)	54	(26)
Tariff rebates deductible for tax purposes	(122)	(157)
Under/(over)-provision in prior years	27	(13)
Utilisation of previously unrecognised tax losses	(19)	(1)
Tax losses not recognised	6	5
Reversal of temporary differences owing to sale of TIPS	–	(379)
Income tax expense	1,349	837

Note: Including a write-back of deferred tax liabilities of HK$327 million (2007: nil) as the Hong Kong profits tax rate has been reduced from 17.5% to 16.5% for the fiscal year 2008/09.

9. Earnings Attributable to Shareholders

Earnings attributable to shareholders amounted to HK$10,423 million (2007: HK$10,608 million). Of this amount, HK$6,641 million (2007: HK$6,890 million) has been dealt with in the financial statements of the Company.

10. Dividends

	2008		2007	
	HK$ per share	HK$M	HK$ per share	HK$M
Interim dividends paid	**1.56**	**3,757**	1.56	3,757
Final dividend proposed	**0.92**	**2,214**	0.92	2,216
	2.48	**5,971**	2.48	5,973

At the Board meeting held on 26 February 2009, the Directors recommended a final dividend of HK$0.92 per share (2007: HK$0.92 per share). Such dividends are to be proposed at the Annual General Meeting on 28 April 2009 and are not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2008.

11. Earnings per Share

The earnings per share are computed as follows:

	2008	2007
Earnings attributable to shareholders (HK$M)	**10,423**	10,608
Weighted average number of shares in issue (thousand shares)	**2,407,873**	2,408,246
Earnings per share (HK$)	**4.33**	4.40

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2008 (2007: nil).

12. Fixed Assets, Leasehold Land and Land Use Rights

Accounting Policy No. 13

Fixed assets, leasehold land and land use rights totalled HK$89,123 million (2007: HK$88,609 million). Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Freehold Land and Buildings		Plant, Machinery and Equipment		
	Owned HK$M	Leased[(a)] HK$M	Owned HK$M	Leased[(a)] HK$M	Total HK$M
Cost	9,136	9,597	78,686	38,173	135,592
Accumulated depreciation and impairment	(2,195)	(4,578)	(27,034)	(18,367)	(52,174)
Net book value, as at 1 January 2007	6,941	5,019	51,652	19,806	83,418
Net book value, as at 1 January 2007	6,941	5,019	51,652	19,806	83,418
Additions	726	70	6,925	535	8,256
Transfers and disposals	(49)	(5)	(195)	(80)	(329)
Disposal of subsidiaries	–	–	(77)	(2,037)	(2,114)
Depreciation	(222)	(261)	(2,863)	(1,049)	(4,395)
Impairment charge	(32)	–	(135)	–	(167)
Exchange differences	78	–	1,520	146	1,744
Net book value, as at 31 December 2007	7,442	4,823	56,827	17,321	86,413
Cost	9,898	9,659	87,225	35,976	142,758
Accumulated depreciation and impairment	(2,456)	(4,836)	(30,398)	(18,655)	(56,345)
Net book value, as at 31 December 2007	7,442	4,823	56,827	17,321	86,413
Net book value, as at 1 January 2008	7,442	4,823	56,827	17,321	86,413
Acquisition of subsidiaries	453	–	94	–	547
Additions	656	73	5,870	1,045	7,644
Transfers and disposals	(60)	(16)	(172)	(126)	(374)
Depreciation	(160)	(265)	(2,288)	(1,066)	(3,779)
Exchange differences	(39)	–	(3,531)	(8)	(3,578)
Net book value, as at 31 December 2008	**8,292**	**4,615**	**56,800**	**17,166**	**86,873**
Cost	10,891	9,692	86,989	36,692	144,264
Accumulated depreciation and impairment	(2,599)	(5,077)	(30,189)	(19,526)	(57,391)
Net book value, as at 31 December 2008	**8,292**	**4,615**	**56,800**	**17,166**	**86,873**

12. Fixed Assets, Leasehold Land and Land Use Rights (continued)

(A) Fixed Assets (continued)

Included in fixed assets is plant under construction of the book value of HK$7,503 million (2007: HK$8,324 million).

Note (a): The leased assets include:

(i) CAPCO's operational plant and associated fixed assets, which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties. This arrangement has been accounted for as a finance lease in accordance with HKFRS-Int 4. The net book value of these leased fixed assets amounted to HK$21,752 million as at 31 December 2008 (2007: HK$22,116 million); and

(ii) Leased generating plants for our electricity business in Australia held under agreements which are treated as finance leases. The net book value of these leased assets as at 31 December 2008 was HK$29 million (2007: HK$28 million).

Company

The net book value of fixed assets of the Company was HK$42 million (2007: HK$22 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$24 million (2007: HK$15 million) and HK$4 million (2007: HK$3 million) respectively.

(B) Leasehold Land and Land Use Rights

	2008 HK$M	2007 HK$M
Net book value, as at 1 January	2,196	2,235
Acquisition of a subsidiary	6	–
Additions	116	15
Transfers and disposals	(19)	–
Amortisation	(54)	(57)
Exchange differences	5	3
Net book value, as at 31 December	**2,250**	2,196
Cost	2,521	2,412
Accumulated amortisation	(271)	(216)
Net book value, as at 31 December	**2,250**	2,196

The tenure of the leasehold land and land use rights of the Group is as follows:

	2008 HK$M	2007 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	135	156
On medium-term leases (10–50 years)	2,009	1,984
	2,144	2,140
Held outside Hong Kong:		
On medium-term leases (10–50 years)	106	56
	2,250	2,196

13. Goodwill and Other Intangible Assets

Accounting Policy No. 14

	Goodwill HK$M	Other Intangible Assets HK$M	Total HK$M
Cost	5,954	1,615	7,569
Accumulated amortisation	–	(243)	(243)
Net carrying value, as at 1 January 2007	5,954	1,372	7,326
Net carrying value, as at 1 January 2007	5,954	1,372	7,326
Additions	–	155	155
Amortisation	–	(198)	(198)
Exchange differences	694	158	852
Net carrying value, as at 31 December 2007	6,648	1,487	8,135
Cost	6,648	1,966	8,614
Accumulated amortisation	–	(479)	(479)
Net carrying value, as at 31 December 2007	6,648	1,487	8,135
Net carrying value, as at 1 January 2008	6,648	1,487	8,135
Acquisition of subsidiaries	3	–	3
Additions	–	168	168
Amortisation	–	(222)	(222)
Exchange differences	(1,446)	(314)	(1,760)
Net carrying value, as at 31 December 2008	**5,205**	**1,119**	**6,324**
Cost	5,205	1,674	6,879
Accumulated amortisation	–	(555)	(555)
Net carrying value, as at 31 December 2008	**5,205**	**1,119**	**6,324**

Goodwill predominantly arose from the previous acquisition of the Merchant Energy Business (MEB) in Australia. In accordance with its accounting policies, the Group has assessed the recoverable amount of goodwill for the MEB cash generating unit and determined that such goodwill has not been impaired. The recoverable amount has been determined by a value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a period of five years and a pre-tax discount rate based on MEB's weighted average cost of capital. This discount rate of 10.52% (2007: 11.56%) used reflects specific risks relating to the MEB business. The cash flow projections have taken into account the information derived from statistical data on population growth, energy usage rates and also Consumer Price Index (CPI) in Australia. These assumptions used are based on management's past experience of the specific market, and references to external sources of information. Cash flows beyond the five-year period are extrapolated using estimated growth rates that do not exceed the long-term average growth rate for the industry in Australia.

Other intangible assets mainly include contracted customers and a lease arrangement under the long-term hedge agreement with Ecogen arising from the acquisition of MEB in May 2005.

14. Investments in and Advances to Subsidiaries

Accounting Policy No. 10

	2008 HK$M	2007 HK$M
Unlisted shares, at cost	23,612	23,607
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	14,421	13,143
	37,933	36,650

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 31(C)). These advances are considered equity in nature.

Apart from the above advances to subsidiaries which are considered equity in nature, the Company has also made an advance to CLP Engineering Limited of HK$39 million (2007: HK$41 million), which is interest-free and due on or after 30 June 2010 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

The table below lists the principal subsidiaries of the Group at 31 December 2008:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2008	Place of Incorporation / Operation	Principal Activity
CLP Power Hong Kong Limited	2,488,320,000 ordinary shares of HK$5 each	100	Hong Kong	Generation and Supply of Electricity
Hong Kong Nuclear Investment Company Limited	300,000 ordinary shares of HK$1,000 each	100	Hong Kong / Chinese mainland	Power Projects Investment Holding
CLP Engineering Limited	2,720 ordinary shares of HK$10,000 each	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands / International and Chinese mainland	Power Projects Investment Holding
CLP Power China Limited	192,000,000 ordinary shares of US$1 each	100*	British Virgin Islands / Chinese mainland	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100*	British Virgin Islands / International	Power Projects Investment Holding
CLP Properties Limited	15,000,000 ordinary shares of HK$10 each	100	Hong Kong	Property Investment Holding
CLP Research Institute Limited	1 ordinary share of US$1 each	100	British Virgin Islands / Hong Kong	Research and Development

14. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2008	Place of Incorporation / Operation	Principal Activity
TRUenergy Holdings Pty Ltd	5 ordinary shares of A$1 each; 5,336,760 redeemable preference shares of A$100 each	100*	Australia	Energy Business Investment Holding
TRUenergy Yallourn Pty Ltd	15 ordinary shares of A$1 each	100*	Australia	Generation and Supply of Electricity
TRUenergy Pty Ltd	1,331,686,988 ordinary shares of A$1 each	100*	Australia	Retailing of Electricity and Gas
Gujarat Paguthan Energy Corporation Private Limited	726,254,742 shares of Rs.10 each	100*	India	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited**	RMB69,098,976	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited**	RMB249,430,049	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited**	US$13,266,667	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited**	RMB141,475,383	84.9*	Chinese mainland	Generation of Electricity

* Indirectly held

** Registered as Sino-Foreign Cooperative Joint Ventures under the People's Republic of China (PRC) law

15. Interests in Jointly Controlled Entities

Accounting Policy No. 11

	2008 HK$M	2007 HK$M
Share of net assets other than goodwill	10,601	10,292
Goodwill	273	768
Advances	6,917	6,546
Special loan	–	78
	17,791	17,684

Advances to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms except for an advance of HK$76 million (2007: nil) to Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) which is repayable on certain conditions. These advances are considered equity in nature.

The Group's interests in jointly controlled entities are analysed as follows:

		2008				2007			
		Share of Net Assets Other Than Goodwill HK$M	Goodwill HK$M	Advances HK$M	Total HK$M	Share of Net Assets Other Than Goodwill HK$M	Goodwill HK$M	Advances and Special Loan HK$M	Total HK$M
CAPCO	(A)	220	–	6,520	6,740	187	–	6,287[(a)]	6,474
GNPJVC	(B)	1,877	–	–	1,877	2,297	–	–	2,297
OneEnergy Limited	(C)	2,365	–	–	2,365	2,454	–	–	2,454
CSEC Guohua	(D)	2,029	80	–	2,109	1,298	134	–	1,432
Shandong Zhonghua Power Company, Limited	(E)	1,039	–	–	1,039	1,122	–	–	1,122
CLP Guangxi Fangchenggang Power Company Limited	(F)	976	–	–	976	947	–	–	947
Roaring 40s	(G)	613	175	76	864	676	224	–	900
Guizhou CLP Power Company Limited	(F)	522	–	–	522	524	–	–	524
PSDC	(H)	12	–	319	331	5	–	333	338
Others	(I)	948	18	2	968	782	410	4	1,196
		10,601	273	6,917	17,791	10,292	768	6,624	17,684

Note (a): Included a special loan of HK$78 million in 2007.

15. Interests in Jointly Controlled Entities (continued)

The Group's share of net assets, capital commitments and contingent liabilities of the jointly controlled entities as at 31 December and its share of profit for the year then ended are as follows:

	2008 HK$M	2007 HK$M
Non-current assets	34,771	31,729
Current assets	6,401	6,538
Current liabilities	(8,032)	(6,642)
Non-current liabilities	(21,238)	(19,919)
Minority interests	(1,028)	(646)
Net assets	10,874	11,060
Income	13,268	11,529
Expenses	(10,215)	(7,885)
Profit before income tax	3,053	3,644
Income tax expense	(382)	(530)
Minority interests	(47)	(90)
Share of profit for the year	2,624	3,024
Capital commitments	5,214	9,498
Contingent liabilities	57	55

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 30. There are no contingent liabilities relating to the Group's interest in these entities (2007: nil).

Details of the jointly controlled entities are summarised below:

(A) CAPCO is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited (EMEL) and is incorporated in Hong Kong. Its principal activity is the generation of electricity for the sole supply to CLP Power Hong Kong. While CAPCO owns the power generation assets, CLP Power Hong Kong builds and operates all CAPCO's power stations and is the sole off-taker. In accordance with HKFRS-Int 4, such arrangement is considered as a finance lease and the power generation assets are accounted for as leased fixed assets on the Group's balance sheet (Note 12).

Under the terms of the revised CAPCO Deed of Subordination, in the event of the winding up of CAPCO, CLP Power Hong Kong's advances to it would be subordinated to certain loans of CAPCO. CLP Power Hong Kong's advances to CAPCO may be withdrawn only to the extent that the shareholders' funds exceed two-thirds of the aggregate principal amount outstanding of the said loans. In this context the shareholders' funds represent the sum of the issued share capital, shareholders' advances, special advances, deferred tax, retained profits and any proposed dividend.

The advances to CAPCO in 2007 included a special loan of HK$78 million and such loan was fully repaid on 30 September 2008.

15. Interests in Jointly Controlled Entities (continued)

An extract of the financial statements of CAPCO for the year ended 31 December is set out as follows:

	2008 HK$M	2007 HK$M
Results for the year		
Income	12,122	10,910
Profit after income tax	3,681	3,596
Group's share of profit after income tax	1,476	1,472
Net assets (note)		
Non-current assets	25,912	24,207
Current assets	3,637	2,747
Current liabilities	(6,378)	(5,565)
Deferred tax	(2,875)	(2,735)
Non-current liabilities	(3,452)	(2,596)
	16,844	16,058

Note: The amounts exclude the special loan and advances from shareholders.

(B) GNPJVC is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited and is incorporated in the Chinese mainland. This company constructed and operates the Guangdong Daya Bay Nuclear Power Station and its principal activity is the generation of electricity for supply to Hong Kong and Guangdong Province.

An extract of the management financial statements of GNPJVC for the year ended 31 December is set out as follows:

	2008 HK$M	2007 HK$M
Results for the year		
Income	7,116	6,920
Profit after income tax	3,320	2,891
Group's share of profit after income tax	830	723
Net assets		
Non-current assets	8,158	9,633
Current assets	7,192	6,417
Current liabilities	(1,917)	(1,338)
Non-current liabilities	(5,928)	(5,525)
	7,505	9,187

15. Interests in Jointly Controlled Entities (continued)

(C) OneEnergy Limited, a company incorporated in Cayman Islands, is a 50:50 jointly controlled entity owned by Mitsubishi Corporation of Japan and the Group. This company operates as an investment vehicle in the Southeast Asia and Taiwan markets and currently owns a 22.4% interest in EGCO, Thailand and 40% interest in Ho-Ping, Taiwan.

An extract of the management financial statements of OneEnergy Limited for the year ended 31 December is set out as follows:

	2008 HK$M	2007 HK$M
Results for the year		
Income	–	–
Profit after income tax	235	575
Group's share of profit after income tax	117	287
Net assets		
Non-current assets	4,156	4,416
Current assets	604	510
Current liabilities	(29)	(17)
	4,731	4,909

(D) CSEC Guohua, the joint stock company with 73% (2007: 51%) owned by China Shenhua Energy Company Limited and 27% (2007: 49%) by the Group, is incorporated in the Chinese mainland. It holds interests in five coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin, Sanhe Power Station in Hebei, Zhungeer Power Station in Inner-Mongolia and Suizhong Power Station in Liaoning, with a combined capacity of 7,620MW. All generators are in operation except for unit 3 and unit 4 generators of Suizhong Power Station, totalling 2,000MW, which are still under construction.

(E) Shandong Zhonghua Power Company, Limited is 29.4% owned by the Group and is incorporated in the Chinese mainland. This company owns four coal-fired power stations, namely Shiheng I, Shiheng II, Heze II and Liaocheng, with a combined installed capacity of 3,060MW. All power generated is for supply to the Shandong power grid.

(F) CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) is 70% owned by the Group and is incorporated in the Chinese mainland. This company owns and operates a 1,260MW coal-fired power station in Guangxi. All power generated is for supply to the Guangxi power grid.

Guizhou CLP Power Company Limited (Guizhou CLP Power) is 70% owned by the Group and is incorporated in the Chinese mainland. This company constructed and operates a coal-fired power station, Anshun II Power Station, in Guizhou with an installed capacity of 600MW. All power generated is for supply to the Guizhou power grid.

Under the joint venture agreements, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and Guizhou CLP Power and hence, the Group's interests are accounted for as jointly controlled entities.

(G) Roaring 40s is 50% owned by the Group and is incorporated in Australia. This company develops renewable energy business in Australia and elsewhere in the Asia-Pacific region, and owns a number of wind farms.

(H) PSDC is 49% owned by the Group and is incorporated in Hong Kong. This company has the right to use 50% of the capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Guangdong Province until 2034.

15. Interests in Jointly Controlled Entities (continued)

(l) The Group's other investments include the following key projects:

- 50% interest in two joint ventures undertaken with a subsidiary of Cheung Kong (Holdings) Limited in Hong Kong to develop the Hok Un site (named Laguna Verde) and to provide second mortgage financing to purchasers of Laguna Verde. The joint venture only holds a commercial complex with 270,000 sq. ft. for leasing to tenants after the sale of all residential units; and
- 49% interest in CLP Guohua Shenmu, which is incorporated in the Chinese mainland and holds an interest in a coal-fired power station, Shenmu Power Station, with an installed capacity of 200MW.

16. Interests in Associated Companies

Accounting Policy No. 12

The Group's interests in associated companies are analysed as follows:

	2008 HK$M	2007 HK$M
Solar Systems Pty Ltd	221	275
Others	21	24
	242	299

The Group indirectly holds a 20% interest in Solar Systems Pty Ltd, an unlisted company incorporated in Australia whose principal activity is research, development and manufacture relating to solar energy generation technology.

Summarised financial information in respect of the Group's associated companies is set out below:

	2008 HK$M	2007 HK$M
Total assets	1,349	1,699
Total liabilities	(360)	(269)
Net assets	989	1,430
Group's share of associated company's net assets	242	299
Income	2,985	3,356
(Loss) / profit after income tax	(144)	2
Group's share of (loss) / profit after income tax	(27)	1

As at 31 December 2008, the Group's share of capital commitment of its associated companies was HK$13 million (2007: nil). There are no contingent liabilities relating to the Group's interests in the associated companies (2007: nil).

17. Finance Lease Receivables [1]

Accounting Policy No. 6

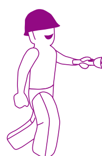
	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Amounts receivable under finance leases:				
Within one year	464	590	128	152
After one year but within five years	1,747	2,213	578	669
Over five years	2,987	4,256	1,809	2,461
	5,198	7,059	2,515	3,282
Less: unearned finance income	(2,683)	(3,777)		
Present value of minimum lease payments receivable	2,515	3,282		
Analysed as:				
Current (recoverable within 12 months)			128	152
Non-current (recoverable after 12 months)			2,387	3,130
			2,515	3,282

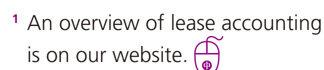
The carrying amounts of the finance lease receivables are denominated in the following currencies:

	2008 HK$M	2007 HK$M
Indian rupees	1,957	2,548
Sterling pound	337	490
Euro	221	244
	2,515	3,282

The finance lease receivables, accounted for as finance lease in accordance with HKFRS-Int 4, relate to the 20-year power purchase agreement under which GPEC sells all of its electricity output to its off-taker, Gujarat Urja Vikas Nigam Ltd. (GUVNL). The effective interest rate implicit in the finance lease is approximately 13.4% for both 2007 and 2008.

The carrying amounts of the finance lease receivables approximate their fair values.





[1] An overview of lease accounting is on our website.

18. Derivative Financial Instruments [1]

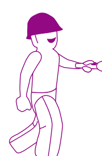
Accounting Policy No. 16

	2008		2007	
	Assets [2] HK$M	Liabilities [2] HK$M	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	677	34	145	170
Cross currency & interest rate swap	–	49	–	–
Interest rate swaps	–	485	400	64
Energy contracts	696	427	750	789
Fair value hedge				
Cross currency & interest rate swap	252	5	132	36
Held for trading or not qualifying as hedges				
Forward foreign exchange contracts	356	303	12	11
Energy contracts	898	732	1,663	1,178
	2,879	2,035	3,102	2,248
Analysed as:				
Current	1,458	1,221	2,427	1,689
Non-current	1,421	814	675	559
	2,879	2,035	3,102	2,248

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	2008 HK$M	2007 HK$M
Forward foreign exchange contracts	62,127	41,425
Interest rate swaps / cross currency & interest rate swaps	15,175	16,531
Energy contracts	18,236	32,080

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.



[1] Have a look at how derivatives and hedging work on pages 20 to 22.

[2] Derivative assets – the amounts we would receive if the positions were closed out at year end.
Derivative liabilities – the amounts we would pay if the positions were closed out at year end.

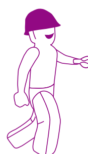
18. Derivative Financial Instruments (continued)

The net fair value and remaining terms of the derivative financial instruments are set out below: [1]

	2008 HK$M	2007 HK$M
Forward foreign exchange contracts		
Within one year	131	(36)
Between one and two years	211	31
Between two to five years	354	(19)
	696	(24)
Interest rate swaps / cross currency & interest rate swaps		
Within one year	(197)	(57)
Between one and two years	(98)	22
Between two to five years	8	467
	(287)	432
Energy contracts		
Within one year	214	657
Between one and two years	78	(148)
Between two to five years	143	(63)
	435	446
	844	854

Derivative financial instruments qualifying as cash flow hedges at 31 December 2008 have a maturity of up to five years (2007: five years) from the balance sheet date.

The maturities of the derivative financial instruments used for hedging will correlate to the timing of the cash flows associated with the corresponding hedged items. As for the energy contracts that are hedges of anticipated future purchases and sales of electricity (cash flow hedge), any unrealised gains or losses on the contracts will be recognised in the measurement of the underlying purchases or sales. The unrealised gains or losses are deferred in equity in the hedging reserve and re-classified to the income statement, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.



[1] See page 31 for more information on the movements of derivatives during the year.

19. Trade and Other Receivables

Accounting Policy No. 18

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Trade receivables [a]	5,655	5,473	–	–
Deposits and prepayments	2,085	1,598	10	8
Dividend receivables from jointly controlled entities [b]	452	5	–	–
Current accounts with jointly controlled entities [b]	47	45	–	–
Current accounts with subsidiaries [b]	–	–	45	1
	8,239	7,121	55	9

Trade and other receivables attributed to overseas subsidiaries amounted to HK$5,263 million (2007: HK$4,450 million). GPEC has obtained payment for some of its receivables from GUVNL through bill discounting with recourse and the transactions have been accounted for as collateralised borrowings (Note 22).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Notes:

(a) Trade receivables

39% (2007: 40%) and 37% (2007: 45%) of the gross trade receivables relate to the sales of electricity in Hong Kong and sales of electricity and gas in Australia respectively. There is no significant concentration of credit risk with respect to these trade receivables as their customer bases are widely dispersed in different sectors and industries. The trade receivables in currencies other than Hong Kong dollars are denominated in the functional currencies of the respective overseas entities.

The Group has established credit policies for customers in each of its core businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within two weeks after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. As at 31 December 2008, such cash deposits amounted to HK$3,722 million (2007: HK$3,584 million) and the bank guarantees stood at HK$932 million (2007: HK$954 million). The customer deposits are repayable on demand, bear interest at the HSBC bank savings rate and their carrying value approximates their fair value. Impairment provisions on trade receivables are recognised on an individual basis once a receivable is more than 90 days overdue and are calculated by reference to the historical past due recovery pattern together with any customer deposits held. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from about 30 to 60 days. For TRUenergy in Australia, the individually impaired receivables relate primarily to known insolvencies, final bills outstanding and balances aged over 91 days.

The ageing analysis of the trade receivables as at 31 December is as follows:

	2008				2007			
	Not impaired HK$M	Impaired HK$M	Provision for impairment HK$M	Total HK$M	Not impaired HK$M	Impaired HK$M	Provision for impairment HK$M	Total HK$M
Not yet due	5,173	28	(3)	5,198	4,876	36	(17)	4,895
Overdue								
1 – 30 days	285	23	(23)	285	278	25	(14)	289
31 – 90 days	58	75	(36)	97	118	44	(28)	134
Over 90 days	2	268	(195)	75	20	355	(220)	155
	5,518	394	(257)	5,655	5,292	460	(279)	5,473

As at 31 December 2008, trade receivables of HK$345 million (2007: HK$416 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default.

19. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment of trade receivables are as follows:

	2008 HK$M	2007 HK$M
Balance at 1 January	279	214
Provision for impairment of receivables	189	186
Receivables written off during the year as uncollectible	(99)	(145)
Unused amounts reversed	(58)	–
Exchange differences	(54)	24
Balance at 31 December	257	279

(b) The amounts receivable from jointly controlled entities and subsidiaries are unsecured, interest-free and have no fixed repayment terms.

20. Bank Balances, Cash and Other Liquid Funds

Accounting Policy No. 19

	2008 HK$M	2007 HK$M
Trust fund for unclaimed dividends [(a)]	–	4
Trust accounts under TRAA [(b)]	2	615
Cash restricted for specific purposes	2	619
Short-term investments and bank deposits	318	1,841
Bank balances and cash	462	319
	782	2,779

Notes:

(a) As part of the restructuring arrangements in relation to the transfer of HK$10,116,789,910 from the share premium account to distributable reserves approved by the court in 2002, a trust fund was set up to cover unclaimed dividends. The Company has an obligation to pay such dividends until they can be forfeited after six years from the date they were declared.

(b) Pursuant to a Trust and Retention Account Agreement (TRAA) between GPEC and its lenders, GPEC allocates monthly receipts from its off-taker, GUVNL to various trust accounts for fuel, operating and major maintenance expenses and debt service payments. These amounts are placed by GPEC on short-term deposits or investments prior to being applied for the designated purposes. At the end of December 2008, there was a shortfall of HK$282 million in the required restricted cash balances. The shortfall was a result of slower cash payments from GUVNL, and the unexpected requirement to purchase naphtha as fuel by GPEC as instructed by GUVNL. GPEC has communicated the shortfall as required under TRAA to the lenders, and has not received any notice of default from the lenders. Funding from the Company and working capital facilities with local banks were arranged, and the shortfall was rectified on 3 February 2009. The relevant long-term bank loans of HK$203 million have been reclassified as current liabilities in the financial statements.

The average effective interest rate on the Group's bank balances, cash and other liquid funds is 3.0% (2007: 4.8%).

The Group's bank balances, cash and other liquid funds denominated in the functional currencies of the respective overseas entities amounted to HK$477 million (2007: HK$1,800 million). Of these, HK$338 million (2007: HK$866 million) was denominated in Australian dollars and HK$55 million (2007: HK$900 million) in Indian rupees.

21. Trade and Other Payables

Accounting Policy No. 20

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Trade payables [(a)]	2,113	2,772	–	–
Other payables and accruals	2,376	2,503	172	93
Current accounts with jointly controlled entities [(b)]	1,430	748	1	–
Current accounts with subsidiaries [(b)]	–	–	19	10
	5,919	6,023	192	103

Notes:

(a) The ageing analysis of the trade payables as at 31 December is as follows:

	2008 HK$M	2007 HK$M
Below 30 days (including amount not yet due)	2,099	2,762
31 – 90 days	9	3
Over 90 days	5	7
	2,113	2,772

As of 31 December 2008, HK$180 million (2007: HK$260 million) of the trade payables were denominated in a currency other than the functional currency of the corresponding entities of the Group.

(b) The amounts payable to jointly controlled entities and subsidiaries are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,212 million (2007: HK$507 million) is due to CAPCO.

22. Bank Loans and Other Borrowings

Accounting Policy No. 21

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Current				
Short-term bank loans	2,600	606	166	–
Long-term bank loans	713	2,262	–	–
	3,313	2,868	166	–
Non-current				
Long-term bank loans	11,323	13,260	500	–
Other long-term borrowings				
MTN programme (USD) due 2012	2,578	2,455	–	–
MTN programme (HKD) due 2013 to 2015 (note)	3,340	3,000	–	–
MTN programme (HKD) due 2016	1,000	1,000	–	–
MTN programme (HKD) due 2017	1,000	1,000	–	–
MTN programme (HKD) due 2023 (note)	400	–	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012	3,474	4,435	–	–
EPN and MTN programme (AUD) due 2015	268	342	–	–
	23,383	25,492	500	–
Total borrowings	26,696	28,360	666	–

Note: CLP Power Hong Kong issued fixed-rate bonds during the year, with HK$340 million due 2015 and HK$400 million due 2023, under the MTN Programme set up by its wholly-owned subsidiary CLP Power Hong Kong Financing Limited.

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK$1,373 million (2007: HK$879 million). Of these, HK$891 million (2007: HK$475 million) were related to GPEC, HK$402 million (2007: HK$340 million) related to subsidiaries in Huaiji and HK$80 million (2007: HK$64 million) related to CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing).

Bank loans for GPEC are secured by fixed and floating charges over its immoveable and moveable properties with carrying amounts of HK$1,642 million (2007: HK$1,848 million). Bank loans for Huaiji and Boxing are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights at HK$815 million (2007: HK$802 million) for Huaiji and HK$113 million (2007: HK$61 million) for Boxing. Collateralised borrowings for GPEC are secured by trade receivables, the carrying amounts of which were HK$422 million (2007: HK$248 million).

Bank loans and other borrowings totalling HK$11,182 million (2007: HK$14,747 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

22. Bank Loans and Other Borrowings (continued)

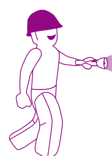
As at 31 December 2008, the Group's bank loans and other borrowings were repayable as follows: [1]

	Bank Loans		Other Borrowings		Total	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Within one year	3,313	2,868	–	–	3,313	2,868
Between one and two years	3,043	3,885	–	–	3,043	3,885
Between two to five years	7,859	9,128	7,052	6,890	14,911	16,018
Over five years	421	247	5,008	5,342	5,429	5,589
	14,636	16,128	12,060	12,232	26,696	28,360

Of the Company's borrowings, HK$166 million is repayable within one year and HK$500 million is between one and two years (2007: nil).

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Hong Kong dollar and foreign currency hedged into Hong Kong dollar	15,514	13,613	666	–
Australian dollar	9,087	13,375	–	–
Indian rupees and foreign currency hedged into Indian rupees	1,271	968	–	–
Other currencies	824	404	–	–
	26,696	28,360	666	–



[1] Another presentation of the Group's liquidity risk is set out on pages 202 and 203.

22. Bank Loans and Other Borrowings (continued)

The exposure of the Group's and the Company's borrowings to interest rate changes and the contractual repricing dates are as follows:

Group

	Floating Interest Rate HK$M	Fixed Interest Rate Maturing in				Total HK$M
		1 year or less HK$M	1 to 2 years HK$M	2 to 5 years HK$M	Over 5 years HK$M	
As at 31 December 2008						
Total borrowings	**16,579**	**39**	**29**	**5,309**	**4,740**	**26,696**
Effect of interest rate swaps	**(6,210)**	**–**	**3,159**	**3,051**	**–**	**–**
	10,369	**39**	**3,188**	**8,360**	**4,740**	**26,696**
As at 31 December 2007						
Total borrowings	18,564	49	49	4,698	5,000	28,360
Effect of interest rate swaps	(6,733)	–	–	6,733	–	–
	11,831	49	49	11,431	5,000	28,360

As at 31 December 2008, all of the Company's borrowings bear floating interest rate (2007: nil).

As disclosed above, the loans and borrowings of the Group are predominantly in Hong Kong dollar or Australian dollar. The effective interest rates at the balance sheet date were as follows:

	2008 HK$	2008 A$	2007 HK$	2007 A$
Fixed rate loans and loans swapped to fixed rates	**3.9% – 5.0%**	**6.3% – 6.6%**	4.2% – 5.0%	6.2% – 6.6%
Variable rate loans and loans swapped from fixed rates	**0.3% – 4.6%**	**4.9% – 5.3%**	3.3% – 5.7%	7.7% – 7.8%

The carrying amounts of loans and borrowings approximate their fair values. The fair value of long-term borrowings is determined using the expected future payments discounted at market interest rates prevailing at the year end.

As at 31 December 2008, the Group had undrawn bank loan and overdraft facilities of HK$14,538 million (2007: HK$15,248 million).

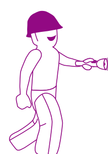
23. Obligations under Finance Leases [1]

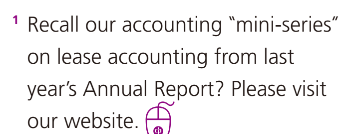
Accounting Policy No. 6

The Group's obligations under finance leases arise predominantly from the power purchase arrangement with CAPCO in respect of the operational generating plant and associated fixed assets of the Hong Kong electricity business. CAPCO's power purchase arrangement is accounted for as a finance lease in accordance with HKFRS-Int 4.

	Minimum Lease Payments	
	2008 HK$M	2007 HK$M
Amounts payable under finance leases:		
Within one year	**1,403**	1,431
After one year but within two years	**1,399**	1,342
After two years but within five years	**4,183**	4,003
Over five years	**14,780**	15,440
	21,765	22,216
Analysed as:		
Amount due for settlement within 12 months	**1,403**	1,431
Amount due for settlement after 12 months	**20,362**	20,785
	21,765	22,216

The effective interest rate of the finance lease obligations is a variable rate which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. For 2008, the interest rate was 9.99% to 15% (2007: 13.5% to 15%). The finance charges associated with the finance leases were charged to the income statement in the period in which they were actually incurred. The carrying amounts of the finance lease obligations approximate their fair values.





[1] Recall our accounting "mini-series" on lease accounting from last year's Annual Report? Please visit our website.

24. Deferred Tax

Accounting Policy No. 22

Deferred tax is calculated in full on temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date in the respective jurisdictions.

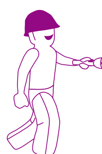
Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately in the consolidated balance sheet:

	2008 HK$M	2007 HK$M
Deferred tax assets [1]	**2,992**	3,915
Deferred tax liabilities [1]	**(6,435)**	(6,344)
	(3,443)	(2,429)

Most of the deferred tax balances are to be recovered or settled after more than 12 months.

The gross movement on the deferred tax account is as follows:

	2008 HK$M	2007 HK$M
As at 1 January	**(2,429)**	(2,749)
Disposal of subsidiaries	**49**	(59)
(Charged) / credited to income statement	**(405)**	17
Credited / (charged) directly to equity	**52**	(193)
Withholding tax	**–**	224
Exchange differences	**(710)**	331
As at 31 December	**(3,443)**	(2,429)



[1] Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

24. Deferred Tax (continued)

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred tax assets (prior to offset)

	Tax Losses		Accruals and Provisions		Others		Total	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
As at 1 January	5,600	4,790	280	297	640	468	6,520	5,555
Disposal of subsidiaries	–	–	–	(59)	–	–	–	(59)
(Charged) / credited to income statement	(501)	240	19	30	5	113	(477)	383
Credited / (charged) directly to equity	–	–	103	(19)	–	–	103	(19)
Exchange differences	(1,120)	570	(65)	31	(139)	59	(1,324)	660
As at 31 December (note)	3,979	5,600	337	280	506	640	4,822	6,520

Note: The deferred tax asset arising from tax losses is mainly related to the electricity business in Australia. There is no expiry on the tax losses recognised. In accordance with the Group's accounting policy, this asset is subject to impairment review. Current financial projections indicate it is probable that future taxable profits will be available against which the unused tax losses can be utilised. However, any significant adverse change to the business environment in the future may affect the financial projections, resulting in reduced future taxable profits. Should such circumstances arise, it may be necessary for this deferred tax asset to be impaired with the impairment being charged to the income statement. Apart from the tax losses in Australia, there are no significant unused tax losses not recognised.

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others		Total	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
As at 1 January	(6,445)	(6,436)	(280)	(394)	(410)	(279)	(372)	(331)	(1,442)	(864)	(8,949)	(8,304)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	49	–	49	–
(Charged) / credited to income statement	(98)	94	(14)	(80)	(34)	(94)	34	(7)	184	(279)	72	(366)
Charged directly to equity	–	–	–	–	–	–	–	–	(51)	(174)	(51)	(174)
Withholding tax	–	–	–	219	–	–	–	–	–	5	–	224
Exchange differences	161	(103)	44	(25)	96	(37)	74	(34)	239	(130)	614	(329)
As at 31 December	(6,382)	(6,445)	(250)	(280)	(348)	(410)	(264)	(372)	(1,021)	(1,442)	(8,265)	(8,949)

25. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to the customers. The variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, whilst interest is credited to customers at prime rate on the amount over-recovered. The carrying amount of fuel clause account approximates its fair value.

26. SoC Reserve Accounts

The Tariff Stabilisation Fund under the 2008 SoC, Development Fund under the 1993 SoC and Rate Reduction Reserve of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2008 HK$M	2007 HK$M
Development Fund (A)	–	2,117
Tariff Stabilisation Fund (A)	1,756	–
Rate Reduction Reserve (B)	70	183
	1,826	2,300

The Tariff Stabilisation Fund is to replace the Development Fund and operates in the same manner as the Development Fund. Their combined movements during the year are shown as follows:

	2008 HK$M	2007 HK$M
(A) Tariff Stabilisation Fund / Development Fund		
As at 1 January	2,117	2,932
Transfer under SoC:		
– transfer from / (to) income statement (Note 3)	193	(353)
– charge for asset decommissioning [(a)]	(60)	–
Special rebate to customers [(b)]	(494)	(462)
As at 31 December	1,756	2,117

26. SoC Reserve Accounts (continued)

	2008 HK$M	2007 HK$M
(B) Rate Reduction Reserve		
As at 1 January	183	414
Interest expense charged to income statement (Note 7)	132	202
Special rebate to customers [(b)]	1	(94)
Rebate to customers [(c)]	(246)	(339)
As at 31 December	70	183

The carrying amounts of the SoC reserve accounts approximate their fair values.

Notes:

(a) Under the 2008 SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the balance sheets of the SoC Companies.

(b) A special rebate of HK¢2.1 per unit was made to customers during the period from 1 January 2008 to 30 September 2008 from Development Fund (2007: HK¢1.8 per unit, of which HK¢1.5 per unit was funded from Development Fund and HK¢0.3 per unit from Rate Reduction Reserve).

(c) A rebate of HK¢0.8 per unit (2007: HK¢1.1 per unit) was made to customers during the year.

27. Share Capital

	Number of Shares of HK$5 Each	Amount HK$M
Authorised:		
At 31 December 2008 and 2007	3,000,000,000	15,000
Issued and fully-paid:		
At 1 January 2008	2,408,245,900	12,041
Repurchase of shares (note)	(2,102,500)	(10)
At 31 December 2008	2,406,143,400	12,031

Note: The Company acquired 2,102,500 of its own shares through purchases on the Hong Kong Stock Exchange in October 2008. The total amount paid to acquire the shares was HK$101,974,750. All the shares repurchased were subsequently cancelled. An amount equal to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve (Note 28).

There was no movement in the share capital of the Company during 2007.

28. Reserves

	Capital Redemption Reserve[a] HK$M	Translation & Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance as at 1 January 2007	2,482	690	825	38,636	42,633
Exchange differences on translation of:					
subsidiaries	–	2,220	–	–	2,220
jointly controlled entities	–	400	–	–	400
associated companies	–	1	–	–	1
Net exchange gains not recognised in income statement	–	2,621	–	–	2,621
Cash flow hedges, net of tax					
Net fair value gains	–	681	–	–	681
Transfer to income statement	–	(36)	–	–	(36)
Transfer to assets	–	78	–	–	78
Tax on above movements	–	(173)	–	–	(173)
Translation difference	–	8	–	–	8
	–	558	–	–	558
Capital redemption by a subsidiary	–	(62)	62	–	–
Revaluation reserve realised upon depreciation	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	13	(13)	–
Earnings attributable to shareholders	–	–	–	10,608	10,608
Dividends paid					
2006 final	–	–	–	(2,192)	(2,192)
2007 interim	–	–	–	(3,757)	(3,757)
Share of movements in reserves of jointly controlled entities	–	–	225	–	225
Balance as at 31 December 2007	2,482	3,807	1,122	43,285[b]	50,696

28. Reserves (continued)

	Capital Redemption Reserve[a] HK$M	Translation & Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance as at 1 January 2008	2,482	3,807	1,122	43,285	50,696
Exchange differences on translation of:					
subsidiaries	–	(4,740)	–	–	(4,740)
jointly controlled entities	–	267	–	–	267
associated companies	–	(60)	–	–	(60)
Net exchange losses not recognised in income statement	–	(4,533)	–	–	(4,533)
Cash flow hedges, net of tax					
Net fair value losses	–	(79)	–	–	(79)
Transfer to income statement	–	220	–	–	220
Transfer to assets	–	14	–	–	14
Tax on above movements	–	(16)	–	–	(16)
Translation difference	–	(25)	–	–	(25)
	–	114	–	–	114
Revaluation reserve realised upon depreciation	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	12	(12)	–
Earnings attributable to shareholders	–	–	–	10,423	10,423
Dividends paid					
2007 final	–	–	–	(2,216)	(2,216)
2008 interim	–	–	–	(3,757)	(3,757)
Repurchase of shares	10	–	–	(101)	(91)
Disposal of jointly controlled entities	–	(319)	(74)	74	(319)
Share of movements in reserves of jointly controlled entities	–	–	(495)	–	(495)
Balance as at 31 December 2008	**2,492**	**(931)**	**562**	**47,699**[b]	**49,822**

Notes:

(a) Capital redemption reserve represents the nominal value of the shares repurchased which was paid out of the distributable reserves of the Company.

(b) After the proposed final dividends of HK$2,214 million (2007: HK$2,216 million), the balance of retained profits at 31 December 2008 was HK$45,485 million (2007: HK$41,069 million).

29. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before income tax to net cash inflow from operations:

	2008 HK$M	2007 HK$M
Profit before income tax	11,783	11,448
Adjustments for:		
Finance costs	4,245	5,041
Finance income	(124)	(160)
Share of results in jointly controlled entities and associated companies, net of income tax	(2,597)	(3,025)
Depreciation and amortisation	4,055	4,650
Impairment charge	131	353
Net loss on disposal of fixed assets	140	211
Gain on sale of SEAGas	(502)	–
Gain on deemed disposal from CSEC Guohua restructuring	(225)	–
Gain on transfer of Ho-Ping to OneEnergy	–	(1,030)
Gain on asset swap with AGL	–	(1,092)
Fair value loss on borrowings under fair value hedges and net exchange difference	168	49
SoC items		
increase in customers' deposits	138	172
decrease in fuel clause account	(653)	(436)
rebate to customers under SoC	(246)	(339)
special rebate	(493)	(556)
transfer for SoC	193	(353)
	(1,061)	(1,512)
(Increase)/decrease in trade and other receivables and others	(1,836)	4
Decrease/(increase) in cash restricted for specific purposes	617	(100)
Decrease/(increase) in finance lease receivables	145	(52)
Decrease in derivative financial instruments	199	40
Increase in trade and other payables	124	260
Increase in current accounts due to jointly controlled entities	654	602
Net cash inflow from operations	15,916	15,687

30. Commitments

(A) Capital expenditure on fixed assets, leasehold land and land use rights authorised but not brought into the financial statements is as follows:

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Contracted but not provided for	4,008	5,361	4	1
Authorised but not contracted for	17,952	6,917	47	6
	21,960	12,278	51	7

30. Commitments (continued)

(B) The Group has entered into a number of joint venture arrangements to develop power projects in the Chinese mainland. Equity contributions required and made by the Group under each project are summarised below:

Project Name	Total Equity Contributions Required	Amount Contributed as at 31 December 2008	Remaining Balance to be Contributed	Expected Year for Last Contribution
Fangchenggang power project	RMB966 million	RMB900 million (HK$894 million)	RMB66 million (HK$75 million)	2009
Jiangbian hydro power project	RMB335 million	RMB139 million (HK$142 million)	RMB196 million (HK$222 million)	2009
CSEC Guohua's power project	RMB729 million	RMB437 million (HK$496 million)	RMB292 million (HK$332 million)	2009

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008 HK$M	2007 HK$M
Within one year	563	700
Later than one year but not later than five years	2,014	2,309
Over five years	6,826	7,660
	9,403	10,669

Of the above amount, HK$7,113 million (2007: HK$7,488 million) was related to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,125 million (2007: HK$2,953 million) was related to the 20-year Master Hedge Agreement between TRUenergy and Ecogen. Under the latter Agreement, TRUenergy has the right to call upon electricity from the power stations at predetermined charging rates over the life of the Agreement. Other non-cancellable operating leases are for leases of various offices and equipment.

(D) CLP Power Hong Kong has a commitment to provide all the necessary shareholder's advances to CAPCO for financing the installation of emissions control facilities at Castle Peak "B" Power Station. The funding commitment is contingent upon the serving of advance notice from EMEL to CLP Power Hong Kong with the effective date falling within the period from 2 October 2008 to three months after the commissioning of the first unit of the emissions control facilities. The maximum shareholder's advances, if requested, are estimated to be HK$5,530 million (2007: HK$5,364 million) and expected to occur in 2011.

(E) The Group has entered into a Share Transfer Agreement with the China Guangdong Nuclear Power Corporation and Guangdong Nuclear Investment Corporation to purchase 32% of CGNPC Wind Power Company, Limited. The consideration is RMB1,047 million (HK$1,189 million) and is payable following PRC Government approval which is expected in 2009.

31. Related Party Transactions

Accounting Policy No. 7

Below are the more significant transactions with related parties for the year ended 31 December:

(A) Purchases of electricity and gas from jointly controlled entities and associated companies

(i) Details of electricity supply contracts relating to the electricity business in Hong Kong with jointly controlled entities are shown below:

	2008 HK$M	2007 HK$M
Lease and lease service payment to CAPCO (a)	13,506	12,025
Purchases of nuclear electricity from GNPS (b)	5,031	4,971
Pumped storage service fee to PSDC (c)	363	353
	18,900	17,349

(a) Under the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is obliged to purchase all of CAPCO's generating capacity. The Electricity Supply Contract provides that the price paid by CLP Power Hong Kong to CAPCO is sufficient to cover all of CAPCO's operating expenses under the SoC, including fuel cost, depreciation, interest expenses and current and deferred taxes, as well as CAPCO's share of the return permitted under the SoC.

Pursuant to the requirements of HKFRS-Int 4 and HKAS 17, the electricity supply arrangement was assessed to contain leases and service elements. The payment made to CAPCO pursuant to the contract has been allocated to the different leases and service elements according to the requirements of the standards.

(b) Under the off-take and resale contracts, CLP Power Hong Kong is obliged to purchase the Group's 25% equity share of the output from Guangdong Daya Bay Nuclear Power Station (GNPS) and an additional 45% of such output from Guangdong Nuclear Investment Company, Limited. The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the power purchase agreements is determined by a formula based on GNPS's operating costs and a calculation of profits by reference to shareholders' funds and the capacity factor for that year.

(c) Under a capacity purchase contract, PSDC has the right to use 50% of the 1,200MW capacity of Phase 1 of the Guangzhou Pumped Storage Power Station. CLP Power Hong Kong has entered into a contract with PSDC to make use of this capacity. The price paid by CLP Power Hong Kong to PSDC is sufficient to cover all of PSDC's operating expenses and net return. PSDC's net return is based on a percentage of its net fixed assets in a manner analogous to the SoC, subject to a minimum return level.

(ii) Gascor Pty Ltd (Gascor), an associated company, is a party to a gas supply contract in Victoria with Esso Australia Resources Pty Ltd (Esso) and BHP Billiton Petroleum (Bass Strait) Pty Ltd (BHP). The contract terms between Gascor and Esso/BHP are effectively replicated in the Master Agreement between TRUenergy and Gascor. TRUenergy purchases gas at the wholesale market price from Gascor, which in turn obtains the gas from Esso and BHP. The amount paid to Gascor in 2008 was HK$889 million (2007: HK$1,008 million).

Amounts due to the related parties as at 31 December 2008 are disclosed in Note 21.

31. Related Party Transactions (continued)

(B) Rendering of services to jointly controlled entities

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the year amounted to HK$1,100 million (2007: HK$1,023 million) and a portion of the charges which is accounted for as operating expenses by CAPCO is covered under the Electricity Supply Contract referred to in (A)(i)(a) above.

Amounts due from the related parties as at 31 December 2008 are disclosed in Note 19. No provision has been made for the amounts owed by the related parties.

(C) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$14,421 million (2007: HK$13,143 million) made to its subsidiaries (Note 14), HK$13,921 million (2007: HK$11,856 million) was advanced to CLP Power Asia Limited to fund investments in power projects in Australia, the Chinese mainland, Southeast Asia and Taiwan. Movements of the advance account to CLP Power Asia Limited are as follows:

	2008 HK$M	2007 HK$M
Balance as at 1 January	11,856	16,616
Amounts advanced	2,382	766
Amounts repaid	(317)	(5,526)
Balance as at 31 December	13,921	11,856

The Company also has advances from subsidiaries, which are unsecured, interest-free and have no fixed repayment terms. The total amount of advances from subsidiaries amounted to HK$106 million (2007: HK$87 million), of which HK$95 million (2007: HK$86 million) was from CLP Properties Group.

(D) The loan and advances made to jointly controlled entities totalled HK$6,917 million (2007: HK$6,624 million) (Note 15). Of these, HK$6,520 million (2007: HK$6,209 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO. Details are as follows:

	2008 HK$M	2007 HK$M
Balance as at 1 January	6,209	6,755
Amounts advanced	2,638	1,985
Amounts repaid	(2,283)	(2,554)
Exchange differences	(44)	23
Balance as at 31 December	6,520	6,209

As at 31 December 2008, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2007: nil).

31. Related Party Transactions (continued)

(E) Emoluments of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. It comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include the Executive Directors and eight (2007: seven) senior management personnel. The total remuneration of the key management personnel is shown below:

	2008 HK$M	2007 HK$M
Fees	7	7
Base compensation, allowances and benefits in kind	42	37
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	12	7
Performance bonus		
Annual incentive	37	34
Long-term incentive	8	13
Provident fund contributions	5	5
	111	103

As at 31 December 2008, the CLP Holdings' Board was composed of 17 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year 2008 totalled HK$43 million (2007: HK$45 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included two Directors (2007: two Directors), two (2007: three) senior management personnel and a former senior staff. The total remuneration of these five highest paid individuals amounted to HK$69 million (2007: HK$60 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in sections 4, 5, 6 and 8 (as highlighted in green) of the Remuneration Report on pages 123 to 125, 128 and 129 respectively. These sections form the "auditable" part of the Remuneration Report and are part of the financial statements.

32. Contingent Liabilities

Accounting Policy No. 23

Under the original power purchase agreement between GPEC and its off-taker GUVNL, GUVNL was required to make a "deemed generation incentive" payment to GPEC when the plant availability was above 68.5% (70% as revised subsequently). GUVNL has been making such payments since December 1997. In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the "deemed generation incentive" payment should not be paid for the period when the plant was declared with its availability on "naphtha" as fuel rather than on "gas". GUVNL's contention is based on a 1995 Government of India notification which disallowed "deemed generation incentive" for naphtha-based power plants. The total amount of the claim plus interest amounts to about HK$1,157 million.

On 18 February 2009, the GERC made an adjudication on GUVNL's claim. On the substantive issue, the GERC decided that the "deemed generation incentive" was not payable when GPEC's plant was declared with its availability on naphtha. However, the GERC also decided that GUVNL's claim in respect of deemed generation payments up to 14 September 2002 was time barred under the Limitations Act of India. Hence, the total amount of the claim allowed by the GERC was reduced to HK$414 million.

GPEC intends to appeal the decision of the GERC and to seek a stay order against enforcement of the decision pending the outcome of that appeal. On the basis of legal advice obtained, the Directors are of the opinion that GPEC has a strong case. In consequence, no provision has been made in the financial statements at this stage in respect of this matter.

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and energy price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and wholesale market energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. Other than certain energy trading activities engaged by subsidiaries of TRUenergy Holdings Pty Ltd (TRUenergy), all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominately the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those respective companies. Overseas subsidiaries, jointly controlled entities and associated companies conduct their risk management activities in accordance with the policies approved by their respective Boards. Group Treasury identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and cash management.

(A) Market risk

(i) Foreign exchange risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Australian dollars and Indian rupees. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its U.S. dollar-denominated debts, nuclear power purchase off-take commitments and other fuel-related payments.

The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions and recognised liabilities which are denominated in a currency that is not the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

Under the SoC, CLP Power Hong Kong is allowed to pass-through foreign exchange gains and losses arising from future commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollars, thus retaining no significant foreign exchange risk. As a measure of additional prudence, CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its U.S. dollar debt repayment obligations for the full tenor and a significant portion of its U.S. dollar obligations on fuel and nuclear power purchases for up to five years, provided that the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK$7.8 : US$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs.

For CLP Power Hong Kong, exchange rate fluctuations will have no ultimate impact on the income statement on the basis that all foreign exchange gains and losses are recoverable under the Scheme of Control. At the balance sheet date, the fair value movement of the derivative financial instruments in a cash flow hedge relationship is recorded in equity and to the extent that the Hong Kong dollar had weakened / strengthened by 0.6% (2007: 0.6%) against the U.S. dollar, with all other variables held constant, the impact would have been an increase / decrease of HK$252 million (2007: HK$181 million) to equity. This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in the income statement, the amount is recoverable under the SoC.

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks. The Group closely monitors translation risk using Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. As of 31 December 2008, the Group's net investment subject to translation exposure was approximately HK$28 billion (2007: HK$30 billion), arising mainly from our investments in Australia, India and the Chinese mainland. This means that, for each 1%

1. Financial Risk Factors (continued)

(A) Market risk (continued)

(i) Foreign exchange risk (continued)

(2007: 1%) average foreign currency movement, our translation exposure will vary by about HK$280 million (2007: HK$300 million). We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Certain investments have also incorporated indexation in their project agreements to reduce earnings impact from foreign exchange fluctuations.

Apart from CLP Power Hong Kong, most foreign exchange exposures of the Company and other Group entities are hedged and / or their transactions are predominantly conducted through the functional currency of the respective entity. Therefore, the sensitivity to foreign exchange rate for these entities is not considered as significant and is not presented.

(ii) Energy price risk

TRUenergy sells and purchases electricity to / from the Australian National Electricity Market. Although TRUenergy has a vertically integrated business structure, generation loads and retail customer demands do not exactly offset each other and therefore, hedging contracts (forward contracts and energy price swaps) are entered into to cover the differences between forecast generation loads and retail customer demands. These contracts fix the price of electricity within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price.

In addition to its physical market position, TRUenergy enters into financial transactions and other contractual commitments for energy trading purposes. This activity does create exposures which are actively monitored and managed.

TRUenergy manages such exposures through an established risk management framework consisting of policies to place appropriate limits on overall energy market exposures, delegations of authority on trading, pre-defined product lists, regular reporting of exposures, and segregation of duties. The corporate governance process also includes the oversight by a Risk Management Committee which acts on behalf of TRUenergy's Board.

TRUenergy measures the risk of the fluctuation of the spot market price using VaR analysis and stress testing analysis. VaR is a risk measurement technique that uses probability analyses to calculate the market risk of a portfolio using historical volatility and correlation over a defined holding period. As the VaR calculation is based on historical data, there is no guarantee that it will accurately predict the future. TRUenergy's VaR is determined using a variance-covariance methodology including all long (generation and bought contract) and short (retail and sold contract) positions measured over a four years' time horizon. The distribution of value of these positions will vary according to the variability of market prices. This is measured by using historical price distribution and correlations over a holding period of four weeks at a 95% confidence level.

The VaR for TRUenergy's energy contracts portfolio as at 31 December 2008 was HK$149 million (2007: HK$629 million). The change reflects a decrease in the size of TRUenergy's net positions as well as a reduction in market volatility estimates. During 2008, the VaR ranged between a low of HK$123 million (2007: HK$384 million) and a high of HK$528 million (2007: HK$782 million).

Analyses below show the effect on profit after tax and equity if market prices were 15% (2007: 15%) higher or lower with all other variables held constant. Concurrent movements in market prices and parallel shifts in the yield curves are assumed. A sensitivity of 15% (2007: 15%) has been selected based on historical data relating to the level of volatility in the electricity commodity prices. The sensitivity assumed does not reflect the Group's expectations as to the future movement in commodity prices.

1. Financial Risk Factors (continued)

(A) Market risk (continued)

(ii) Energy price risk (continued)

	2008 HK$M	2007 HK$M
If market prices were 15% (2007: 15%) higher with all other variables held constant		
Post-tax profit for the year	40	111
Equity – hedging reserve	(335)	(102)
If market prices were 15% (2007: 15%) lower with all other variables held constant		
Post-tax profit for the year	(40)	(109)
Equity – hedging reserve	335	102

The Group enters into trading and non-trading forward electricity contracts in accordance with the Group's risk management policies. In accordance with these risk management policies, the Group is able to enter into held-for-trading contracts that are considered to be economic hedges against future retail and generation activities. It should be noted that while mark-to-market gains and losses on economic hedges are recognised in earnings in the period in which they occur, they will offset the impact of price movements on future profits relating to retail and generation activities occurring at the time of settlement.

(iii) Interest-rate risk

The Group's interest-rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk whilst borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group manages its interest-rate risk by using fixed rate borrowings and interest rate swaps which have the economic effect of converting borrowings from floating rates to fixed rates.

The appropriate level of the fixed / floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed / floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications. As at 31 December 2008, 61% (2007: 58%) of the Group's borrowings was at fixed rates.

The sensitivity analysis below presents the effects on the Group's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) and equity (as a result of change in the fair value of cash flow hedges of borrowings). Such amounts accumulated in equity are transferred to the income statement in the periods when the hedged items affect profit or loss, and offset one another in the income statement.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the balance sheet date. For floating-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. The sensitivity to interest rate used is considered reasonable given the market forecasts available at the balance sheet date and under the economic environments in which the Group operates, with all other variables held constant.

1. Financial Risk Factors (continued)

(A) Market risk (continued)

(iii) Interest-rate risk (continued)

	2008 HK$M	2007 HK$M
Hong Kong dollar		
If interest rates were 0.5% (2007: 0.5%) higher		
Post-tax profit for the year	(25)	(25)
Equity – hedging reserve	40	37
If interest rates were 0.5% (2007: 0.5%) lower		
Post-tax profit for the year	25	25
Equity – hedging reserve	(40)	(37)
Australian dollar		
If interest rates were 1% (2007: 0.5%) higher		
Post-tax profit for the year	(15)	(15)
Equity – hedging reserve	120	78
If interest rates were 1% (2007: 0.5%) lower		
Post-tax profit for the year	15	15
Equity – hedging reserve	(120)	(78)

The Company's sensitivity to interest rate is not significant and therefore is not presented.

(B) Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity and / or gas in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has policies in place to monitor the financial viability of counterparties. CLP Power Hong Kong has established a credit policy to allow electricity sale customers to settle their bills within two weeks after issue. To limit the credit risk exposure, CLP Power Hong Kong also has a policy to require cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days determined from time to time by reference to the usage of the customers. For TRUenergy, receivables are due for settlement no more than 30 days after issue and collectibility is reviewed on an ongoing basis.

GPEC, our subsidiary in India, sells all of its electricity output to GUVNL through a 20-year power purchase agreement (PPA). With management's close monitoring of outstanding receivables and the implementation of an amended PPA in recent years, the position of overdue and disputed receivables has improved significantly.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counterparties with acceptable credit quality in conformance to the Group treasury policies to minimise credit exposure. Acceptable credit ratings from reputable credit rating agencies and scrutiny of financials for non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will

1. Financial Risk Factors (continued)

(B) Credit risk (continued)

be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, jointly controlled entities and associated companies without recourse to the Company.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the each financial asset, including trade and other receivables and derivative financial instruments, as reported on the balance sheet.

(C) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available to meet future funding requirements.

Management also monitors rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

The table below analyses the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities (both net settled and gross settled), which are based on contractual undiscounted cash flows:

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
As at 31 December 2008					
Non-derivative financial liabilities					
Bank loans	3,516	3,624	7,865	590	15,595
Other borrowings	588	586	7,860	5,496	14,530
Obligations under finance leases	1,404	1,399	4,184	14,782	21,769
Customers' deposits	3,722	–	–	–	3,722
Trade and other payables	5,919	–	–	–	5,919
SoC reserve accounts	–	–	–	1,826	1,826
	15,149	5,609	19,909	22,694	63,361
Derivative financial instruments liabilities					
Net settled:					
Interest rate swaps	188	189	121	–	498
Energy contracts	674	352	128	–	1,154
Gross settled:					
Forward foreign exchange contracts	12,874	12,778	31,384	–	57,036
Cross currency & interest rate swaps	90	71	3,102	–	3,263
	13,826	13,390	34,735	–	61,951

1. Financial Risk Factors (continued)

(C) Liquidity risk (continued)

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
As at 31 December 2007					
Non-derivative financial liabilities					
Bank loans	3,819	4,673	10,148	292	18,932
Other borrowings	712	723	8,845	5,936	16,216
Obligations under finance leases	1,432	1,342	4,005	15,447	22,226
Customers' deposits	3,589	–	–	–	3,589
Trade and other payables	6,023	–	–	–	6,023
SoC reserve accounts	2,300	–	–	–	2,300
	17,875	6,738	22,998	21,675	69,286
Derivative financial instruments liabilities					
Net settled:					
Forward foreign exchange contracts	10	–	–	–	10
Interest rate swaps	23	27	19	–	69
Energy contracts	–	162	77	–	239
Gross settled:					
Forward foreign exchange contracts	9,353	8,173	23,394	–	40,920
Cross currency & interest rate swaps	103	95	2,616	–	2,814
	9,489	8,457	26,106	–	44,052

As at 31 December 2008, the maturity profile of the Company's bank loans, included in the Group amounts shown above, was HK$176 million repayable within one year and HK$503 million within one to two years (2007: nil).

2. Accounting for Derivative Financial Instruments and Hedging Activities

These are covered under the Significant Accounting Policy No.16 on pages 153 and 154.

3. Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at each balance sheet date. A discounted cash flow method is used to determine the fair value of long-term borrowings. The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the balance sheet date. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

The carrying values of the current financial assets and current financial liabilities approximate their fair values.

4. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2007 and 2008.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios at 31 December 2008 and 2007 were as follows:

	2008 HK$M	2007 HK$M
Total debt [(a)]	**26,696**	28,360
Net debt [(b)]	**25,914**	25,581
Total equity	**63,122**	63,996
Total capital (based on total debt) [(c)]	**89,818**	92,356
Total capital (based on net debt) [(d)]	**89,036**	89,577
Total debt to total capital ratio (%)	**29.7**	30.7
Net debt to total capital ratio (%)	**29.1**	28.6

The decrease in total debt to total capital ratio in 2008 is primarily the result of the translation of Australian dollar denominated loan balances at a lower exchange rate prevailing at 2008 year end. The increase in net debt to total capital ratio is mainly due to the reduction in bank balances, cash and other liquid funds.

Certain entities of the Group are subject to certain loan covenants. For both 2008 and 2007, these entities have fully complied with those imposed loan covenants, apart from the obligation under TRAA as described in Note 20 to the financial statements.

Notes:

(a) Total debt equals to bank loans and other borrowings.

(b) Net debt equals to total debt less bank balances, cash and other liquid funds.

(c) Total capital (based on total debt) equals to total debt plus total equity.

(d) Total capital (based on net debt) equals to net debt plus total equity.