

■ SCHEME OF CONTROL STATEMENT

CLP POWER HONG KONG LIMITED (“CLP POWER”)

OVERVIEW

In Hong Kong, CLP Power operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (“CAPCO”), which is 40% owned by CLP Power and 60% owned by ExxonMobil Energy Limited (formerly known as Exxon Energy Limited). CLP Power builds and operates CAPCO’s power stations under contract and is the sole customer for CAPCO’s electricity which CLP Power transmits and distributes to its customers in Kowloon and the New Territories. CLP Power owns the transmission and distribution network.

Since 1963, the electricity-related operations of CLP Power and CAPCO (“the SOC Companies”) have been governed by a Scheme of Control Agreement (“SOC”) with the Government. The SOC specifies the SOC Companies’ obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Government to monitor their financial affairs and operating performance. In return, CLP Power is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SOC Companies. The current agreement, which took effect from 1 October 1993, covers the period to 30 September 2008. During this period, each of the SOC Companies and the Government has the right during the year ended 30 September 1998 and the year ending 31 December 2003 to request modification of the SOC, subject to agreement being reached by all parties.

PERMITTED AND NET RETURN

The permitted and net return that the SOC Companies are allowed under the SOC are calculated as follows:

- The annual permitted return is 13.5% of the SOC Companies’ average net fixed assets relating to the electricity business in Hong Kong; plus a further 1.5% on the average net fixed assets financed by shareholders’ investments and acquired after 30 September 1978.
- Any difference between the permitted return and the profit for SOC operations is transferred to or from a development fund. The development fund does not form part of distributable shareholders’ funds and is, in effect, a liability owing to customers carried in CLP Power’s books.
- Four charges are deducted from the permitted return. First, shareholders of the SOC Companies pay interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets. Second, shareholders of CLP Power pay a charge of 8% per annum on the average balance of the development fund. This charge is credited to a rate reduction reserve in CLP Power’s books and is applied as rebates to customers. By a Supplemental Agreement which took effect from 1 October 1998, two more charges have been introduced. Third, shareholders of the SOC Companies pay an excess capacity adjustment of 13.5% on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure. This excess capacity adjustment will only apply to additional generating units installed after CAPCO’s Black Point units 7 and 8 are commissioned. Fourth, shareholders of CLP Power pay interest up to 8% per annum on the increase in average balance of the customers’ deposits in excess of the balance as at 30 September 1998.
- The net return is the permitted return less the deductions. The rate of return on average net fixed assets of the SOC Companies for the year ended 31 December 2000 was 11.87%, whilst the annualised rate of net return for the 15-months ended 31 December 1999 was 11.93%.

The net return is divided between the SOC Companies in accordance with the provisions of the agreements between the companies. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SOC and the net return were calculated solely on the basis of its own accounts. In the year 2000, 57% of the net return was allocated to CLP Power and 43% to CAPCO. If the actual profit for the SOC, when added to the amount available for transfer from the development fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown below are in accordance with the SOC and the agreements between the SOC Companies. The calculations are extracted from the audited accounts of CLP Power for the year ended 31 December 2000, upon which the auditors have expressed an unqualified opinion.

	12 months ended 31 December 2000 HK\$M	3 months ended 31 December 1999 HK\$M	12 months ended 30 September 1999 HK\$M
SCHEME OF CONTROL REVENUE	24,224	5,658	22,984
EXPENSES			
Operating costs	2,636	646	2,452
Fuel	2,912	715	2,885
Purchases of nuclear electricity	4,587	764	4,071
Non-recurring expenses			
– Compensation under employees' departure scheme	99	–	18
– Special tax rebate to customers	–	–	91
Depreciation	2,803	691	2,669
Operating interest	1,163	301	1,172
Taxation	1,418	378	1,341
	15,618	3,495	14,699
PROFIT AFTER TAXATION	8,606	2,163	8,285
Interest on increase in customers' deposits	10	1	2
Interest on long-term financing	1,170	300	1,179
Adjustment required under the Scheme of Control (including share of profit on sale of electricity to the Chinese mainland attributable to the SOC Companies)	(16)	(4)	(21)
PROFIT FOR SCHEME OF CONTROL	9,770	2,460	9,445
Transfer to development fund	(1,386)	(375)	(1,122)
PERMITTED RETURN	8,384	2,085	8,323
DEDUCT INTEREST			
On increase in customers' deposits	10	1	2
On long-term financing as above	1,170	300	1,179
On development fund transferred to rate reduction reserve	280	66	224
	1,460	367	1,405
NET RETURN	6,924	1,718	6,918
Divisible as follows:			
CLP Power	3,955	960	3,803
CAPCO	2,969	758	3,115
	6,924	1,718	6,918
CLP Power's share of net return			
CLP Power	3,955	960	3,803
Interest in CAPCO	1,192	304	1,250
	5,147	1,264	5,053