1. Significant Accounting Policies

A. Basis of Preparation

Other than noted in Note 1(B) below, the accounts have been prepared under the historical cost convention, in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

On 1 January 2002, the Group adopted Statement of Standard Accounting Practice (SSAP) No. 34 "Employee Benefits". The effect of this new policy on the accounts and the transition treatment are explained in Note 1(N) — Employee Benefits.

B. Scheme of Control (SoC)

The financial operations of the Company's major subsidiary company, CLP Power Hong Kong Limited (CLP Power), and its jointly controlled entity, Castle Peak Power Company Limited (CAPCO), are governed by an SoC Agreement entered into with the Government of the Hong Kong Special Administrative Region. Their accounts are prepared in conformity with Hong Kong generally accepted accounting principles, modified as necessary to comply with the terms of the SoC, the main features of which are summarised on page 134. The only such modification which is significant to the Group's accounts is in respect of deferred taxation.

In accordance with the SoC, the charge for taxation fully recognises deferred taxation arising from timing differences attributable to accelerated depreciation allowances. No provision is made for other timing differences as these are immaterial. It is unlikely that a liability will crystallise in respect of accelerated depreciation allowances in the foreseeable future. Accordingly, the above policy does not comply with the ruling SSAP No. 12 "Accounting for Deferred Tax" issued by the Hong Kong Society of Accountants, which states that deferred taxation should not be provided in these circumstances.

Under the arrangement of the SoC, this departure from ruling SSAP No. 12 does not have any effect on earnings or total deferred liabilities. The departure has the effect of reducing the transfer under the SoC for the year 2002 by HK$330 million (2001: HK$281 million).

C. Basis of Consolidation

The consolidated accounts of the Group incorporate the accounts of the Company and its subsidiary companies made up to the balance sheet date and include the Group's interests in jointly controlled entities and associated companies on the basis set out in Notes 1(E) and 1(F) below respectively. Goodwill arising on consolidation represents the excess of purchase consideration over the fair value ascribed to the separable net assets of the entity or company acquired and is amortised on a straight-line basis over its estimated useful economic life.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

1. Significant Accounting Policies (continued)

D. Subsidiary Companies

A subsidiary company is a company which is controlled by the Company and in which the Company has an interest, directly or indirectly, in more than 50% of the issued equity as defined in the Hong Kong Companies Ordinance. Control represents the power to govern the financial and operating policies of that company. Investments in subsidiary companies are carried in the balance sheet of the Company at cost less provision for impairment. Provisions for investments in and advances to subsidiary companies are made when the subsidiary company carries net assets lower than the respective CLP Holdings' cost of investment and the diminution is considered not to be recoverable in the near future. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

E. 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.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

F. Associated Companies

An associated company is a company, not being a subsidiary company or jointly controlled entity, in which the Group holds equity share capital for the long term and can exercise significant influence in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

G. Turnover

Turnover represents sale of electricity, other electricity-related revenue, property income, supply and maintenance services. Sale of electricity is based on actual and accrued consumption derived from meters read during the year. Other revenue is recognised when services are rendered or sales are completed.

1. Significant Accounting Policies (continued)

H. Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Major renewals and improvements which will result in future economic benefits, in excess of the originally assessed standard of performance of the existing assets, are capitalised, while maintenance and repair costs are charged to the profit and loss account in the year in which they are incurred.

Depreciation of fixed assets used for the electricity-related business in Hong Kong is based on the rates authorised under the SoC. During the 1998 SoC interim review, agreement was reached with the Government to extend the useful life of overhead lines (132kV and above) from 30 years to 35 years. As a result, the net book value of these overhead lines as at 30 September 1998 was written off uniformly over the remainder of their extended useful lives.

Except for the above, the following bases apply to fixed assets other than land which is not depreciated in accordance with the SoC. The cost will be written off uniformly over the useful lives of the assets commencing from the date of commissioning.

Buildings	33 years
Overhead lines (132kV and above)	35 years
Overhead lines (below 132kV) and cables	30 years
Generating plant, switchgear and transformers	25 years
Meters, 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	5 years

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 profit and loss account.

I. Impairment of Long-Lived Assets

The Group reviews the carrying amounts of long-lived assets and goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the assets exceeds the recoverable amount.

J. Properties under Development

Properties under development comprise land cost and development expenses including professional charges and are stated at the lower of cost and net realisation value. The income from the sale of development properties is recognised only when the property or any portion thereof contracted for sale is completed and the relevant occupation permit is issued.

1. Significant Accounting Policies (continued)

K. Investments in Securities

(i) Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value which is other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

(ii) Investment securities

Investment securities are stated at cost less any provision for impairment. Impairment is assessed in accordance with other long-lived assets.

(iii) Fixed-income securities

Fixed-income securities, which are intended to be held for an identified long-term purpose, are accounted for using the benchmark treatment and classified as investment securities. Investment securities are stated at cost less any provision for impairment.

(iv) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses from the change in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

L. Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange prevailing at the balance sheet date or at the relevant forward contract rates where applicable. Exchange differences are included in the profit and loss account. Transactions during the year are converted into Hong Kong dollars at the rates of exchange ruling at the dates of transactions.

The accounts of subsidiary companies, jointly controlled entities or associated companies denominated in foreign currencies are translated into Hong Kong dollars using the year end rates of exchange for balance sheet items and the average rates of exchange for the year for the profit and loss account. Exchange differences are dealt with as a movement in reserves.

1. Significant Accounting Policies (continued)

M. Borrowing Costs

Borrowing costs include interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are charged to the profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to complete.

N. Employee Benefits

The Group has classified its two retirement benefit schemes, which are established under trust with the assets held separately from those of the Group in trustee-administered funds, as defined benefit schemes.

Retirement benefit costs are assessed using the projected unit credit method. Under this method the regular cost of providing retirement benefits is spread over the service lives of employees in accordance with the advice of qualified actuaries who carry out periodic valuations of the two schemes. The retirement benefit obligation is measured based upon the estimated future cash outflows, discounted by reference to market yields on high quality corporate bonds which have a similar term as the related liabilities. Plan assets are measured at fair value. Actuarial gains and losses are recognised over the average remaining service lives of employees. The surplus of plan assets over the present value of benefit obligations, if recognised, is restricted to the present value of economic benefits available to the Group. This is a change in accounting policy, as in previous years the cost of providing retirement benefits was charged to the profit and loss account to the extent of contributions paid to the funds. This change in accounting policy has not impacted the prior year profit and loss account, as contributions paid during 2001 were in line with the charge required under SSAP No. 34.

Pursuant to the requirements of SSAP No. 34, the Group has recognised an asset in respect of the pension surplus at 31 December 2001 as a prior year adjustment (Note 8).

O. Related Parties

Related parties are individuals and companies, 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. Parties are also considered to be related if they are subject to common control or common significant influence.

P. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current financial year.

2. Turnover and Segment Information

An analysis of the Group's turnover, contribution to operating profit and profit before financing and taxation for the year, by principal activities, is as follows:–

	Turnover		Operating Profit/ (Loss) (A)		Profit/(Loss) Before Financing and Taxation (B)	
	2002 HK$M	2001 HK$M	**2002 HK$M**	2001 HK$M	**2002 HK$M**	2001 HK$M
SoC business	**25,844**	24,806	**7,147**	6,419	**8,719**	7,910
Power projects outside Hong Kong	**35**	17	**(214)**	(211)	**1,299**	706
Telecom business	**71**	9	**(175)**	(192)	**(182)**	(192)
Other businesses	**184**	167	**195**	37	**461**	1,791
Unallocated Group expenses	**—**	—	**(117)**	(105)	**(117)**	(105)
	26,134	24,999	**6,836**	5,948	**10,180**	10,110

Other than those in relation to the SoC business, none of the other segment assets exceeded 10% of the operating assets attributable to all business segments.

(A) Operating Profit/(Loss) is stated before taking into account the Group's share of the results of jointly controlled entities and associated companies.

(B) Profit/(Loss) Before Financing and Taxation is stated after taking into account the Group's share of the results of jointly controlled entities and associated companies.

2. Turnover and Segment Information (continued)

The Group operates, through its subsidiary companies, jointly controlled entities and associated companies, in three major geographical regions — Hong Kong, the Chinese mainland and the Asia-Pacific region. Information about the Group's operations by geographical regions is as follows:–

2002	**Hong Kong HK$M**	**Chinese Mainland HK$M**	**Asia-Pacific Region HK$M**	**Unallocated Items HK$M**	**Total HK$M**
Turnover	25,118	977	36	3	**26,134**
Segment results	7,119	(70)	(96)	(117)	**6,836**
Hok Un redevelopment profit	282	—	—	—	**282**
Share of profits/(losses) of jointly controlled entities	1,531	1,112	333	—	**2,976**
Share of profits/(losses) of associated companies	(7)	—	93	—	**86**
Profit/(Loss) before financing and taxation	8,925	1,042	330	(117)	**10,180**
Finance costs					**(189)**
Finance income					**33**
Taxation					**(1,302)**
Profit after taxation					**8,722**
Transfers under SoC					**(1,643)**
Earnings for the year					**7,079**
Capital expenditure (Note (a))	4,923	19	186	6	**5,134**
Depreciation	1,710	35	2	2	**1,749**
Amortisation of goodwill and cost of investment	9	48	35	—	**92**
Impairment charges	97	—	—	—	**97**
At 31 December 2002					
Segment assets	38,161	752	1,012	44	**39,969**
Investments in jointly controlled entities	6,232	6,328	6,295	—	**18,855**
Investments in associated companies	150	—	1,298	—	**1,448**
Cash and cash equivalents	—	—	—	516	**516**
Consolidated total assets	44,543	7,080	8,605	560	**60,788**
Segment liabilities	10,658	48	29	52	**10,787**
Total borrowings					**9,297**
Tax liabilities					**3,917**
Consolidated total liabilities					**24,001**

Note (a): Includes additions of fixed assets and other segment assets.

2. Turnover and Segment Information (continued)

2001	Hong Kong HK$M	Chinese Mainland HK$M	Asia-Pacific Region HK$M	Unallocated Items HK$M	Total HK$M
Turnover	24,273	706	18	2	24,999
Segment results	6,239	(69)	(110)	(112)	5,948
Hok Un redevelopment profit	1,752	—	—	—	1,752
Share of profits/(losses) of jointly controlled entities	1,474	1,137	(272)	—	2,339
Share of profit of associated company	—	—	71	—	71
Profit/(Loss) before financing and taxation	9,465	1,068	(311)	(112)	10,110
Finance costs					(187)
Finance income					29
Taxation					(1,189)
Profit after taxation					8,763
Transfers under SoC					(1,506)
Earnings for the year					7,257
Capital expenditure (Note (a))	4,618	35	86	2	4,741
Depreciation	1,586	35	2	1	1,624
Amortisation of goodwill and cost of investment	2	46	15	—	63
At 31 December 2001					
Segment assets	35,205	760	1,124	37	37,126
Investments in jointly controlled entities	6,764	6,181	2,841	—	15,786
Investment in associated company	—	—	1,230	—	1,230
Cash and cash equivalents	—	—	—	80	80
Consolidated total assets	41,969	6,941	5,195	117	54,222
Segment liabilities	9,850	27	18	35	9,930
Total borrowings					5,567
Tax liabilities					3,557
Consolidated total liabilities					19,054

Note (a): Includes additions of fixed assets and other segment assets.

3. Operating Profit

	2002 HK$M	2001 HK$M
Operating profit is stated after charging/(crediting) the following:		
Charging		
Staff costs (A)		
Salaries and other costs	**1,275**	1,276
Retirement benefits costs		
— defined benefit costs (Note 8)	**85**	101
— defined contribution plan (Mandatory Provident Fund)	**2**	1
Loss on disposal of fixed assets	**79**	107
Auditors' remuneration	**4**	3
Impairment loss and write back	**70**	—
Loss on curtailment of employee retirement benefit plan (Note 8)	**83**	—
Crediting		
Other net exchange gains	**(6)**	(9)
Net rental income from properties	**(16)**	(18)
Capital gains on disposal of other properties	**(8)**	(52)
Gain on disposal of staff quarters at Ho Man Tin Hill Road	**(313)**	—

(A) Staff costs include amounts recharged to jointly controlled entities for services provided and amounts allocated to project development costs (Note 32).

4. Finance Costs and Income

	2002 HK$M	2001 HK$M
Finance costs:		
Interest on bank loans and overdrafts	**127**	63
Interest on other loans		
wholly repayable within five years	**166**	165
not wholly repayable within five years	**62**	—
Interest on customers' deposits and others	**23**	86
Finance charges	**36**	11
Exchange gains	**(22)**	(4)
	392	321
Less: amount capitalised within fixed assets	**(203)**	(134)
	189	187
Capitalisation rate (%)	**51.8**	41.7
Finance income:		
Net interest income from investment securities	**11**	6
Interest income on bank deposits	**5**	23
Interest income on advance to a jointly controlled entity	**17**	—
	33	29

5. Hok Un Redevelopment Profit/Property Disposal Gain

			2002 HK$M	2001 HK$M
(A)	Property disposal gain	(Note (a))	**313**	—
(B)	Hok Un redevelopment profit:	(Note (b))		
	Share of profit before taxation		**282**	1,751
	Reversal of provision		**—**	1
			282	1,752
	Taxation		**(49)**	(284)
	Share of profit after taxation		**233**	1,468
			546	1,468

Note (a): The Group recorded a capital gain from disposal of a site which was formerly used as staff quarters in Ho Man Tin Hill.

Note (b): During the year, the Group recorded its share of profit arising from the sale of further units of Phases 4 and 5 and car parking spaces at Laguna Verde.

6. Directors' Remuneration

The CLP Holdings' Board is currently composed of 13 Non-executive Directors and three Executive Directors.

Non-Executive Directors' Remuneration

The fees paid to the Non-executive Directors are set at levels in line with market practice as a result of regular independent reviews and benchmarked with comparable Hong Kong listed companies. The levels of remuneration for Directors have remained unchanged since 1995. In the year ended 31 December 2002, the fees paid to each of the Non-executive Directors were as follows:–

	HK$
Chairman	**225,000**
Vice-Chairmen	**150,000**
Non-executive Directors	**100,000**
Additional fee for Directors serving on the Audit Committee	**50,000**

The total amount of fees paid to the five (2001: four) Independent Non-executive Directors during the year was HK$589,167 (2001: HK$439,671).

Executive Directors' and Senior Management Remuneration

There are three key components of Executive Directors' and Senior Management remuneration:

(A) Base Compensation

Base compensation is reviewed annually taking into consideration the competitive market position, market practice and individual performance. For the Executive Directors and members of Senior Management, base compensation accounts for approximately 50% to 80% of total remuneration.

6. Directors' Remuneration (continued)

(B) Incentive Bonus

The levels of the incentive bonus are set by the Human Resources & Remuneration Committee, which comprises solely Non-executive Directors.

Annual Incentive

The annual incentive payout depends upon the performance of the CLP Group, the business units, the functions and the individuals concerned. Key measures include achievement of financial goals and operational performance targets. For the Executive Directors and members of Senior Management, the annual incentive target accounts for 15% to 40% of total remuneration.

Individuals who attain target performance are awarded a pre-set Annual Incentive amount. The actual payout ranges from zero to two times the pre-set amount, subject to performance.

Long-term Incentive

The Executive Directors and members of Senior Management are also eligible to take part in the Long-term Incentive Plan — the "Phantom Share Plan", which accounts for 5% to 10% of their total remuneration at target performance.

The Phantom Share Plan is designed to align the interests of the Executive Directors and other Senior Management with those of the Shareholders by an award that is pegged to the creation of Shareholder value. A three-year financial target is set every year to drive towards higher performance and to ensure that such performance is sustained over the long-term.

Individuals who attain target performance are awarded a pre-set award payout. The actual award ranges from zero to one and a half times the pre-set amount, subject to performance. The award is further adjusted to reflect the share price performance of CLP Holdings, with dividends reinvested, over the same three-year period. Subject to certain vesting conditions, the award is payable in the first quarter of the 4th year. The first award will be payable in 2004.

(C) Pension Arrangements

The Executive Directors and members of Senior Management are eligible to join the defined contribution section of the Group's retirement fund. The Group's contribution to the retirement fund amounts to a maximum of 12.5% of base compensation.

Early retirement/termination compensation is not part of the remuneration arrangements for the Executive Directors or Senior Management, but may be payable, where appropriate, upon approval by the Chairman of the Human Resources and Remuneration Committee.

The Group does not have, and has never had, a share option scheme.

6. Directors' Remuneration (continued)

The total remuneration of the Directors is shown below:

		2002 HK$M	2001 HK$M
Fees		**2**	2
Base compensation, allowances and benefits in kind		**13**	12
Performance bonus	(Note (a))	**10**	7
Provident fund contributions		**2**	1
Early retirement compensation	(Note (b))	**10**	—
		37	22

The Directors' remuneration is within the following bands:

		Number of Individuals 2002	2001
HK$nil – HK$1,000,000		**13**	13
HK$1,000,001 – HK$1,500,000	(Note (c))	**—**	1
HK$2,000,001 – HK$2,500,000	(Note (c))	**—**	1
HK$5,000,001 – HK$5,500,000		**1**	—
HK$8,000,001 – HK$8,500,000		**1**	1
HK$9,000,001 – HK$9,500,000		**1**	1
HK$13,000,001 – HK$13,500,000	(Note (b))	**1**	—

The remuneration details of the current Executive Directors are shown below:

	Base Compensation, Allowances & Benefits HK$M	Performance Bonus (Note (a)) HK$M	Provident Fund Contribution HK$M	Total HK$M
2002				
Group Managing Director & CEO	4.7	3.7	0.6	**9.0**
Executive Director & CFO	4.3	3.5	0.5	**8.3**
Director & Company Secretary	3.2	1.7	0.4	**5.3**
	12.2	8.9	1.5	**22.6**
2001				
Group Managing Director & CEO	5.3	3.1	0.6	9.0
Executive Director & CFO	4.4	3.2	0.5	8.1
Director & Company Secretary (Note (c))	1.0	0.2	0.1	1.3
	10.7	6.5	1.2	18.4

6. Directors' Remuneration (continued)

Note (a): Performance bonus for the Executive Directors for years 2002 and 2001 consists of annual incentives only. Long-term incentives, as explained above, only vest and become payable once the relevant vesting conditions have been satisfied. The first payments will be payable in 2004.

Accruals have been made in the performance bonus for year 2002. These accruals represent the difference between an executive director's entitlement to the 2002 annual bonus at the target level of performance which will be payable in 2003, and the interim bonus already paid in 2002 as part of the arrangements for transition to a performance-based senior management compensation structure.

Note (b): Early retirement compensation was paid to a former Executive Director.

Note (c): For the Executive Director who served for part of year 2001, the director's remuneration only includes remuneration for the period he served as director.

7. Senior Management Remuneration

The eight highest paid individuals in the Group during the year included three (2001: two) who served as Directors for the full year and one (2001: two) who served as a Director for part of the year. The details of the remuneration of these eight individuals were:

		2002 HK$M	2001 HK$M
Base compensation, allowances and benefits in kind		**25**	28
Performance bonus	(Note (a))	**18**	14
Provident fund contributions		**4**	3
Early retirement/termination compensation	(Note (b))	**21**	—
		68	45

Of the remuneration, HK$22 million (2001: HK$10 million) has been charged to the SoC operation.

The remuneration paid to these eight individuals is within the following bands:

		Number of Individuals	
		2002	2001
HK$3,500,001 – HK$4,000,000		**—**	3
HK$4,000,001 – HK$4,500,000		**—**	1
HK$5,000,001 – HK$5,500,000		**1**	1
HK$6,000,001 – HK$6,500,000		**2**	—
HK$6,500,001 – HK$7,000,000		**—**	1
HK$7,500,001 – HK$8,000,000	(Note (b))	**1**	—
HK$8,000,001 – HK$8,500,000		**1**	1
HK$9,000,001 – HK$9,500,000		**1**	1
HK$11,500,001 – HK$12,000,000	(Note (b))	**1**	—
HK$13,000,001 – HK$13,500,000	(Note (b))	**1**	—

Note (a): Performance bonus for the Executive Directors and members of Senior Management for years 2002 and 2001 consists of annual incentives only. Long-term incentives, as explained above, only vest and become payable once the relevant vesting conditions have been satisfied. The first payment will be payable in 2004.

Accruals have been made in the performance bonus for the Executive Directors and members of Senior Management for year 2002. These accruals represent the difference between the individual's entitlement to the 2002 annual bonus at the target level of performance which will be payable in 2003, and the interim bonus already paid in 2002 as part of the arrangements for transition to a performance-based senior management compensation structure.

Note (b): Early retirement/termination compensation was paid to three individuals, including one former Executive Director.

8. Retirement Benefits

(A) The Group currently operates two retirement funds, one for professional and general staff, and the other for industrial staff. Both funds are established under trust with the assets of the funds held separately from those of the Group by an independent trustee, and are Mandatory Provident Fund (MPF) exempted schemes under the Occupational Retirement Schemes Ordinance. Commencing 1 December 2000, the Group also participates in a master trust MPF scheme operated by an independent service provider.

The fund for professional and general staff consists of three programmes: the defined benefit programme, the segregated fund programme and the defined contribution programme (introduced on 1 December 2000). The defined benefit programme provides benefits that are linked to final pay and requires member contributions of 5% of base compensation. Both the defined contribution programme and the segregated fund programme provide benefits linked to contributions and investments thereon. The defined contribution programme further provides members with a guarantee that benefits will not be less than mandatory company contributions to a basic MPF scheme. The defined contribution programme requires member contributions of at least 2.5% of base compensation, whereas members are not required to contribute under the segregated fund programme. The defined benefit programme and the segregated fund programme have been closed to new employees since 1 December 2000. Furthermore, all remaining members in the defined benefit programme have been transferred to the defined contribution programme upon business close on 31 December 2002.

The fund for industrial staff consists of two programmes: the defined benefit programme and the defined contribution programme (introduced on 1 December 2000). The defined benefit programme provides benefits that are linked to final pay and does not require member contributions. The defined contribution programme provides benefits linked to contributions and investments thereon and provides members with a guarantee that benefits will not be less than mandatory company contributions to a basic MPF scheme. The defined contribution programme requires members to contribute at least 2.5% of base compensation (waived for existing members who opted to join the defined contribution programme at inception). The defined benefit programme has been closed to new employees since 1 December 2000. Furthermore, all remaining members in the defined benefit programme have been transferred to the defined contribution programme upon business close on 31 December 2002.

8. Retirement Benefits (continued)

The Group's total retirement benefit costs for the year ended 31 December 2002, including contribution to a master trust MPF scheme, were HK$134 million (2001, including contribution to a master trust MPF scheme: HK$157 million). The latest valuations of the retirement funds were carried out as of 31 December 2001 by Mr. Aaron Wong, Principal Consulting Actuary, of Watson Wyatt Hong Kong Limited, using the projected unit credit method. These valuations showed that the ratio of net assets available for benefits to aggregate past service liabilities was 123% and 145% for professional & general staff fund and the industrial staff fund respectively.

(B) On 1 January 2002, the Group adopted SSAP No. 34 "Employee Benefits". Retirement benefit costs are assessed using the projected unit credit method. Under this method the regular cost of providing retirement benefits is spread over the service lives of employees in accordance with the advice of qualified actuaries who carry out periodic valuations of the two funds. This is a change in accounting policy, as in previous years the cost of providing retirement benefits was charged to the profit and loss account to the extent of contributions paid to the funds. The effect of this change in policy has been to increase shareholders' funds at 1 January 2002 and 1 January 2001 by HK$1,194 million. This change in accounting policy has not impacted the prior year profit and loss account as contributions paid during 2001 were in line with the charge required under SSAP No. 34.

The retirement benefit obligation is measured based upon the estimated future cash outflows, discounted by reference to market yields on high quality corporate bonds which have a similar term as the related liabilities. Plan assets are measured at fair value. Actuarial gains and losses are recognised over the average remaining service lives of employees. The surplus of plan assets over the present value of benefit obligations (the "surplus"), if recognised, has to be restricted to the present value of economic benefits available to the Group, as required by SSAP No. 34.

In the second half of year 2000, to prepare for the transfer of the majority of the members in the defined benefit programme to the new defined contribution programme on 1 December 2000, a large portion of the plan investments were converted to cash. At that time, the Group also announced that those members (about 1% of total members) remaining with the defined benefit programme would be transferred to the defined contribution programme or MPF upon implementation of the revised remuneration scheme within the next two to three years. Before the transfer of the remaining members and relevant approvals, the defined benefit programme could not be wound up to enable economic benefits to become available to the Group. Consequently, the directors were of the opinion that material economic benefits associated with the surplus would not be available to the Group and hence no asset was recognised in the 30 June 2002 interim report.

8. Retirement Benefits (continued)

In the second half of year 2002, the Group announced the implementation of a revised remuneration scheme for implementation by stages commencing from January 2003 and, in accordance with the plan developed in 2000, transferred the remaining members in the defined benefit programme to the defined contribution programme upon business close on 31 December 2002. At the same time, the Group obtained the relevant approvals in principle to enable the winding up of the defined benefit programmes. In accordance with the Trustee Deeds, upon winding up the retirement benefit schemes, any surplus assets after meeting the obligation to the members will be returned to the Group. It therefore became clear that the surplus was indeed available to the Group upon the completion of a routine administrative process involving the transfer of defined benefit members to the defined contribution programme and the winding up of the existing schemes; the economic benefits associated with the surplus therefore accrued to the Group at both 30 June 2002 and 31 December 2001. Accordingly, the recognition of an asset in respect of the pension surplus at 31 December 2001 has been recorded as a prior year adjustment as required by the transitional rules of SSAP No. 34. This treatment differs from that recognised in our 2002 interim report as a result of the unavailability of further information regarding the economic benefits available to the Group at 31 December 2001 as set out above.

On 31 December 2002, the remaining members in the defined benefit programme were transferred to the defined contribution programme. This represented a curtailment of the defined benefit programme. Accordingly, all actuarial losses of HK$83 million arising during the year have been recognised in the profit and loss account.

The amounts recognised in the balance sheet, which are limited to the present value of economic benefits available to the Group and the Company, are determined as follows:–

	Group		Company	
	2002 HK$M	2001 HK$M	**2002 HK$M**	2001 HK$M
Fair value of plan assets	**5,757**	5,810	**154**	159
Present value of funded obligations	**(4,619)**	(4,616)	**(125)**	(130)
Net retirement benefit plan assets as at 31 December	**1,138**	1,194	**29**	29

The plan assets include the Company's ordinary shares with a fair value of HK$297 million.

8. Retirement Benefits (continued)

The amounts recognised in the profit and loss account were as follows:–

	Group	
	2002 HK$M	2001 HK$M
Current service cost	**162**	157
Interest cost	**295**	324
Expected return on plan assets	**(326)**	(325)
Total expenses before curtailment	**131**	156
Less: amount capitalised	**(46)**	(55)
Total, included in staff costs (Note 3)	**85**	101
Loss on curtailment of the schemes	**83**	—
Total costs	**168**	101

Movement in the asset recognised in the balance sheet:–

	Group	
	2002 HK$M	2001 HK$M
Fund plan assets surplus at 1 January	**1,194**	1,194
Expenses recognised before curtailment	**(131)**	(156)
Loss on curtailment of the schemes	**(83)**	—
Contributions paid	**158**	156
Fund plan assets surplus at 31 December (Note (a))	**1,138**	1,194

The principal actuarial assumptions used were as follows:–

	2002 %	2001 %
Discount rate	**6.5**	7.0
Expected rate of return on plan assets	**5.6**	5.6
Expected rate of future base compensation increases	**4.0**	4.0

Note (a): The net asset recognised in the balance sheet of the Group at 1 January 2001 is derived from the net asset of HK$1,194 million at 31 December 2001 adjusted by the expense of HK$156 million and contributions paid of HK$156 million for 2001.

9. Taxation

	2002 HK$M	2001 HK$M
Taxation in the consolidated profit and loss account represents:		
Current taxation		
On SoC profit — Hong Kong		
Subsidiary company		
— current year	**516**	520
— provision written back	**—**	(269)
Jointly controlled entity	**256**	260
	772	511
On Non-SoC profit		
Subsidiary companies		
— Hong Kong	**253**	247
— outside Hong Kong	**8**	7
Jointly controlled entities		
— Hong Kong	**5**	3
— outside Hong Kong	**135**	115
Associated companies		
— outside Hong Kong	**2**	—
	403	372
	1,175	883
Deferred taxation		
On SoC profit — Hong Kong		
Subsidiary company	**330**	281
Jointly controlled entity	**(10)**	(22)
	320	259
On Non-SoC profit		
Jointly controlled entity — Hong Kong	**(193)**	47
	127	306
	1,302	1,189

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. Taxation on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

10. Transfers under Scheme of Control (SoC)

The financial operations of CLP Power are governed by an SoC Agreement. In accordance with this Agreement, transfers required under the SoC are shown below:–

	2002 HK$M	2001 HK$M
Transfers under SoC		
To Development Fund (A)	**(1,420)**	(1,201)
From special provision account (B)	**96**	—
To rate reduction reserve (C)	**(319)**	(305)
	(1,643)	(1,506)

Movements on the Development Fund, special provision account and rate reduction reserve of CLP Power are as follows:–

		2002 HK$M	2001 HK$M
(A)	Development Fund		
	Balance at beginning of year	**3,177**	2,923
	Transfer from profit and loss account	**1,420**	1,201
	One-off rebate	**(558)**	(340)
	Business relief rebate	**(41)**	—
	Special rebates to customers	**(626)**	(607)
	Balance at end of year	**3,372**	3,177

CLP Power provided each customer as at 31 December 2002 with a one-off rebate determined on the basis of HK¢1.5 per unit of electricity consumption during 2002, with a minimum rebate of HK$250 for each residential customer and HK$700 for each non-residential customer. The one-off rebate was funded by the Development Fund (HK$558 million), the rate reduction reserve (HK$101 million) and the fuel clause account (HK$223 million). In addition, a business relief rebate of HK¢0.2 per unit (2001: nil) amounting to HK$41 million was made to non-residential customers in 2002. The rebate was charged directly to the Development Fund.

In year 2001, CLP Power provided each customer with a rebate of HK$220 which was charged to the Development Fund (HK$340 million) and the rate reduction reserve (HK$99 million).

The special rebate of HK¢2.2 per unit (2001: HK¢2.2 per unit) made to customers during the year amounted to HK$626 million (2001: HK$607 million).

10. Transfers under SoC (continued)

		2002 HK$M	2001 HK$M
(B)	Special provision account		
	Balance at beginning of year	**766**	766
	Transfer to profit and loss account	**(96)**	—
	Balance at end of year	**670**	766

CLP Power and its jointly controlled generating company, Castle Peak Power Company Limited, agreed with the Government in December 1999 to further defer construction of units 7 & 8 of the Black Point Power Station. It was also agreed that a total of HK$803 million be set aside from the Development Fund to a special provision account to which the deferral premium incurred will be charged. The deferral premium is a contractual obligation that corresponds to additional costs incurred by the vendors for delayed delivery of the two generating units. During the year, HK$96 million (2001: nil) of deferral premium was charged to the special provision account.

		2002 HK$M	2001 HK$M
(C)	Rate reduction reserve		
	Balance at beginning of year	**411**	371
	Transfer from profit and loss account	**319**	305
	One-off rebate	**(101)**	(99)
	Rebates to customers	**(171)**	(166)
	Balance at end of year	**458**	411

A rebate of HK¢0.6 per unit (2001: HK¢0.6 per unit) was made to customers during the year.

11. Earnings

Of the consolidated earnings of HK$7,079 million (2001: HK$7,257 million), HK$7,607 million (2001: HK$7,352 million) has been dealt with in the accounts of the Company.

12. Non-SoC Operating Earnings

	2002 HK$M	2001 HK$M
Income from power projects outside Hong Kong	**1,150**	576
Sales to the Chinese mainland	**64**	44
Telecom business	**(182)**	(192)
Other businesses	**(142)**	33
	890	461

13. Dividends

	2002 HK$ per share	2002 HK$M	2001 HK$ per share	2001 HK$M
Interim dividends paid	**1.14**	**2,746**	1.05	2,605
Final dividend	**0.51**	**1,228**	0.44	1,059
Special final dividend	**0.23**	**554**	0.61	1,469
	1.88	**4,528**	2.10	5,133

At the Board meeting held on 24 February 2003 the directors recommended a final dividend of HK$0.51 per share and a special final dividend of HK$0.23 per share. The proposed dividends are not reflected as dividends payable in these accounts, but as a separate component of the shareholders' funds for the year ended 31 December 2002.

14. Earnings Per Share

The prescribed figure for earnings per share which includes the Hok Un redevelopment profit/property disposal gain (Note 5) is computed as follows:–

	2002	2001
Earnings for the year (HK$M)	**7,079**	7,257
Weighted average number of shares in issue (thousand shares)	**2,408,783**	2,486,583
Earnings per share (HK$)	**2.94**	2.92

To enable investors to understand better the Group's results, an additional earnings per share figure, excluding the Hok Un redevelopment profit/property disposal gain, is provided below:

	2002 HK$M	2001 HK$M
Earnings for the year	**7,079**	7,257
Less: Hok Un redevelopment profit/property disposal gain	**(546)**	(1,468)
Earnings excluding Hok Un redevelopment profit/property disposal gain	**6,533**	5,789
Earnings per share excluding Hok Un redevelopment profit/property disposal gain (HK$)	**2.71**	2.33

Fully diluted earnings per share is not included as the Company does not have any diluting equity instruments as at 31 December 2002.

15. Fixed Assets

Group

	Land HK$M	Buildings HK$M	Plant, Machinery and Equipment HK$M	Total HK$M
Cost				
At 1 January 2002	2,085	5,000	40,628	47,713
Additions	98	823	4,014	4,935
Transfers and disposals	(26)	(84)	(459)	(569)
At 31 December 2002	2,157	5,739	44,183	52,079
Accumulated depreciation				
At 1 January 2002	—	1,271	12,865	14,136
Charge for the year	—	134	1,615	1,749
Transfers and disposals	—	(69)	(318)	(387)
Impairment charge	—	—	31	31
At 31 December 2002	—	1,336	14,193	15,529
Net book value				
At 31 December 2002	**2,157**	**4,403**	**29,990**	**36,550**
At 31 December 2001	2,085	3,729	27,763	33,577

Included in fixed assets is equipment awaiting installation and plant under construction, the book values of which at 31 December 2002 were HK$356 million and HK$5,926 million respectively (2001: HK$372 million and HK$5,233 million respectively) for the Group.

The tenure of the land of the Group is as follows:–

	2002 HK$M	2001 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	**176**	128
On medium-term leases (10–50 years)	**1,979**	1,955
On short-term leases (less than 10 years)	**2**	2
	2,157	2,085

Company

The fixed assets of the Company were HK$8 million (2001: HK$4 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$6 million and HK$2 million respectively.

16. Investments in Subsidiary Companies

	2002 HK$M	2001 HK$M
Unlisted shares, at cost	**23,673**	24,153
Provisions for impairment losses	**(100)**	(100)
Advances to subsidiary companies, less provisions	**10,592**	7,028
Advances from subsidiary companies	**(33)**	(40)
	34,132	31,041

The advances to/from subsidiary companies are unsecured, interest free and have no fixed repayment terms except:

(i) an advance to CLP Properties Group of HK$11 million (2001: nil), which is repayable on demand and bears average interest of 2.03% per annum; and

(ii) an advance from CLP Properties Group of HK$14 million (2001: HK$23 million), which is repayable on demand and bears interest of 1.75% (2001: 1.75%) per annum.

The table below lists the principal subsidiary companies of the Group.

Name	Issued Share Capital	Percentage of Issued Capital Directly Held in 2002 and 2001	Place of Incorporation/ Operation	Principal Activity
CLP Power Hong Kong Limited	2,488,320,000 shares of HK$5 each	100	Hong Kong	Generation and Supply of Electricity
Hong Kong Nuclear Investment Company Limited	300,000 shares of HK$1,000 each	100	Hong Kong/ Chinese mainland	Power Project Investment Holding
CLP Engineering Limited	410 shares of HK$10,000 each	100	Hong Kong	Engineering Services
CLP Power China Limited	192,000,000 shares of US$1 each	100	British Virgin Islands/ Chinese mainland	Power Projects Investment Holding
CLP Power International Limited	192,000 shares of US$1,000 each	100	British Virgin Islands/ International	Power Projects Investment Holding
CLP Properties Limited	15,000,000 shares of HK$10 each	100	Hong Kong	Property Investment Holding
CLP Telecommunications Limited	10,000,000 shares of HK$10 each	100	Hong Kong	Telecommunications Business
CLP Enterprises Limited	1 share of US$1	100	British Virgin Islands/ Hong Kong and Chinese mainland	Energy-related Investment Holding
CLP Research Institute Limited	1 share of US$1	100	British Virgin Islands/ Hong Kong	Research and Development

17. Investments in Jointly Controlled Entities

The table below lists the share of net assets of the jointly controlled entities of the Group.

	2002 HK$M	2001 HK$M
Castle Peak Power Company Limited (A)		
Share of net assets	**175**	186
Advances	**4,856**	4,268
Special loan	**78**	78
	5,109	4,532
Guangdong Nuclear Power Joint Venture Company, Limited (B)		
Share of net assets	**3,071**	3,095
CLP Powergen joint venture — Gujarat Paguthan Energy Corporation Private Limited (C)		
Share of net assets other than goodwill	**2,486**	—
Unamortised goodwill on acquisition	**274**	—
	2,760	—
CLP Powergen joint venture — Yallourn Energy Pty Limited (D)		
Share of net assets	**2,073**	1,789
Advances	**221**	40
	2,294	1,829
Hok Un joint venture (E)		
Share of net assets	**825**	1,872
Advances	**—**	60
	825	1,932
Shandong Zhonghua Power Company Limited (F)		
Share of net assets	**1,367**	1,390
Ho-Ping Power Company (G)		
Share of net assets other than goodwill	**982**	759
Unamortised goodwill on acquisition	**242**	249
	1,224	1,008
CLP Guohua Power Company Limited (H)		
Share of net assets other than goodwill	**895**	792
Unamortised goodwill on acquisition	**121**	129
	1,016	921
Hong Kong Pumped Storage Development Company, Limited (I)		
Share of net assets	**12**	11
Advances	**300**	290
	312	301
Others (J)		
Share of net assets other than goodwill	**535**	456
Unamortised goodwill on acquisition	**67**	77
Advances	**313**	245
Impairment charge	**(38)**	—
	877	778
	18,855	15,786

17. Investments in Jointly Controlled Entities (continued)

The purchased goodwill of jointly controlled entities is being amortised on a straight-line basis over its estimated useful economic life. Movement of goodwill is shown as below:

	2002 HK$M	2001 HK$M
Gross Amount	**463**	261
Accumulated amortisation	**(8)**	—
Balance at beginning of year	**455**	261
Addition for the year	**282**	214
Amortisation for the year	**(34)**	(8)
Exchange differences	**1**	(12)
Gross Amount	**746**	463
Accumulated amortisation	**(42)**	(8)
Balance at end of year	**704**	455

(A) Castle Peak Power Company Limited (CAPCO) is 40% owned by CLP Power and 60% owned by ExxonMobil Energy Limited and is incorporated in Hong Kong. Its principal activity is the generation of electricity for the sole supply to CLP Power. While CAPCO owns the power generation assets, CLP Power builds and operates all CAPCO's power stations and is the sole offtaker.

Under the terms of the revised CAPCO Deed of Subordination, in the event of the winding up of CAPCO, CLP Power's advances to it would be subordinated to certain loans of CAPCO. CLP Power'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 taxation, retained profits and any proposed dividend.

The Special Loan to CAPCO is non-interest bearing and repayable in full on 30 September 2008.

17. Investments in Jointly Controlled Entities (continued)

In view of the significance of this investment, an extract of the accounts of CAPCO for the years ended 31 December is set out as follows:–

	2002 HK$M	2001 HK$M
Results for the year		
Turnover	**10,262**	9,864
Profit before taxation	**3,917**	3,716
Group's share of profit before taxation for the year	**1,572**	1,491
Net assets as at year end		
Fixed assets	**26,836**	27,433
Current assets	**1,392**	1,333
Current liabilities	**(5,164)**	(4,253)
Deferred taxation	**(2,706)**	(2,731)
Long-term liabilities	**(7,733)**	(10,591)
	12,625	11,191

(B) Guangdong Nuclear Power Joint Venture Company, Limited (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.

In view of the significance of this investment, an extract of the management accounts of GNPJVC, after making adjustment to conform with the Group's significant accounting policies, for the years ended 31 December is set out as follows:–

	2002 HK$M	2001 HK$M
Results for the year		
Turnover	**7,146**	7,111
Profit before taxation	**3,028**	3,056
Group's share of profit before taxation for the year	**757**	764
Net assets as at year end		
Fixed assets	**17,646**	19,302
Current assets	**3,404**	3,389
Current liabilities	**(2,166)**	(2,690)
Long-term liabilities	**(6,599)**	(7,623)
	12,285	12,378

17. Investments in Jointly Controlled Entities (continued)

(C) On 20 February 2002, the Group acquired an 80% interest in a newly formed joint venture company (with the remaining 20% held by Powergen) which during the period acquired a 100% equity interest in Gujarat Paguthan Energy Corporation Private Limited, India (GPEC). GPEC owns a combined cycle 655MW power station in Gujarat, India. GPEC has entered into a 20-year (1998–2018) power purchase agreement with Gujarat Electricity Board (GEB). The total cost of acquisition of the Group's effective equity interest of 80% in GPEC was HK$2,249 million, including cash consideration of HK$2,218 million. Purchased goodwill was HK$286 million at the time of acquisition. This goodwill is being amortised over the remaining term of the power purchase agreement.

Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activity of the joint venture. Hence, the Group's interest is accounted for as jointly controlled entity.

In view of the significance of this investment, an extract of the management accounts of GPEC, after making adjustment to conform with the Group's significant accounting policies, for the period since acquisition to 31 December 2002 is set out as follows:–

	2002 HK$M	2001 HK$M
Results for the period from acquisition to 31 December 2002		
Turnover	**1,106**	—
Profit before taxation	**220**	—
Group's share of profit before taxation for the period	**176**	—
Net assets as at year end		
Non-current assets	**3,458**	—
Current assets	**2,151**	—
Current liabilities	**(416)**	—
Long-term liabilities	**(2,085)**	—
	3,108	—

GPEC's Contingent Liabilities

1. GPEC has obtained payment for some of its receivables from GEB through bill discounting with recourse. The potential effect on the Group as at 31 December 2002 if these financing arrangements are not settled by GEB is HK$254 million. There is no recourse to the CLP Group beyond GPEC from these arrangements and to date there has been no incident where recourse to GPEC has been necessary.

2. Under an arrangement with a fuel supplier, bills if not settled by GEB are with recourse to GPEC. There is no recourse to the CLP Group beyond GPEC. The potential effect on the Group if recourse to GPEC is applied due to this arrangement, as at 31 December 2002, is HK$91 million.

17. Investments in Jointly Controlled Entities (continued)

(D) The Group owns an 80% interest in two joint venture companies, CLP Powergen Sdn Bhd and CLP Powergen Funding Ltd, incorporated in Malaysia and British Virgin Islands respectively. In February 2001, these joint venture companies completed the acquisition of a 92% interest in Yallourn Energy Pty Limited (Yallourn Energy), which owns a 1,450MW coal-fired plant and dedicated coal mine in Victoria, Australia. Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activity of the joint venture companies. Hence, the Group's interests are accounted for as jointly controlled entities.

In view of the significance of this investment, an extract of the management accounts of Yallourn Energy, after making adjustment to conform with the Group's significant accounting policies, for the period from acquisition to 31 December 2001 and for the year ended 31 December 2002 is set out as follows:–

	2002 HK$M	2001 HK$M
Turnover	**1,486**	715
Profit/(Loss) before taxation	**116**	(347)
Group's share of profit/(loss) before taxation for the year	**86**	(256)
Net assets as at year end		
Non-current assets	**8,633**	8,183
Current assets	**579**	466
Current liabilities	**(428)**	(628)
Long-term liabilities	**(5,968)**	(5,589)
	2,816	2,432

(E) The Group entered into a joint venture agreement with a wholly-owned subsidiary company of Cheung Kong (Holdings) Limited in 1991 to develop the Hok Un site at Hung Hom (named Laguna Verde). Under the agreement, the Group has the right to share 50% of profits arising from the project, with a minimum overall profit guaranteed by the subsidiary company of Cheung Kong (Holdings) Limited which also provides all the necessary funding.

In 1999, the joint venture acquired additional Plot Ratio from the Government. Under a separate agreement with the subsidiary company of Cheung Kong (Holdings) Limited, the Group shares 50% of the net proceeds of sale from this additional gross floor area and bears 50% of associated land premium, development and marketing costs.

17. Investments in Jointly Controlled Entities (continued)

(F) Shandong Zhonghua Power Company Limited is 29.4% owned by the Group and is incorporated in the Chinese mainland. This company owns four power stations totalling 3,000MW. Two of the power stations, Shiheng I and Shiheng II are in operation, Liaocheng is under construction and Heze II is entering the final stage of commissioning. All power generated is for supply to the Shandong Grid.

(G) The Group has an interest in 40% of the issued share capital of Ho-Ping Power Company (Ho-Ping), a company which is incorporated in Taiwan. This company has constructed, owns and operates a coal-fired power station and an associated 53km of 345kV transmission line at Ho-Ping in eastern Taiwan. Unit 1 and Unit 2 of the plant commenced operation in June and September 2002 respectively. All power generated is supplied to Taiwan Power Company (Taipower), the government-owned utility of Taiwan. Goodwill associated with the acquisition of Ho-Ping is being amortised over a period of 25 years as the directors are of the opinion that it is appropriate to amortise goodwill over the term of the power purchase agreement signed with Taipower. The goodwill is tested for impairment annually in accordance with the requirements of SSAP No. 30.

(H) CLP Guohua Power Company Limited, the joint stock company owned 51% by Beijing Guohua Electric Power Corporation and 49% by the Group, is incorporated in the Chinese mainland. It holds interests in three coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin and Sanhe Power Station in Hebei, with a combined installed capacity of 2,100MW, of which the joint stock company owns 1,285 equity MW. Goodwill is being amortised over 20 years from the date of acquisition.

(I) Hong Kong Pumped Storage Development Company, Limited is 49% owned by CLP Power and is incorporated in Hong Kong. This company has the right to use 50% of the capacity of Phase I of the Guangzhou Pumped Storage Power Station (GPSPS) in Guangdong Province until 2034.

(J) The Group's other investments include:–

- 41.5% interest in a number of hydro power projects in Huaiji County, Guangdong Province;
- 50% interest in a joint venture undertaken with a subsidiary company of Cheung Kong (Holdings) Limited in Hong Kong to provide second mortgage financing to purchasers of Laguna Verde;
- 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;
- 40% (2001: 27.3%) interest in Precision Marketing Inc., which provides customer database management services in Hong Kong, Taiwan and the Chinese mainland;

17. Investments in Jointly Controlled Entities (continued)

— 80% interest in CLP Powergen Southeast Asia Limited incorporated in Hong Kong, which acquired a 50% interest in BLCP Power Limited (BLCP) in Thailand in December 2001. BLCP entered into a 25-year Power Purchase Agreement with Electricity Generating Authority of Thailand Limited in 1997 to build, own and operate a 1,434MW coal-fired power station in Thailand. This project is under development and construction has not yet commenced. The Group had an effective interest of 40% in the BLCP joint venture. Under the joint venture agreement, none of the parties has unilateral control over the economic activity of BLCP;

— 70% interest in Guizhou CLP Power, which is incorporated in the Chinese mainland and holds an interest in a coal-fired power station in Guizhou — Anshun II Power Station which is under construction and with an installed capacity of 600MW. Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activity of the joint venture company. Hence, the Group's interest is accounted for as jointly controlled entity; and

— 40% interest in Ho-Ping Power Services Corporation owned by the Group. Its principal activity is to provide operation and maintenance services to Ho-Ping Power Company.

Goodwill on the above investments is being amortised over 10 to 18 years from the date of acquisition.

The advances to jointly controlled entities are unsecured and have no fixed repayment terms whilst the terms of repayment of an advance to the CLP Powergen joint venture in Yallourn Energy, are effectively subject to the associated terms under the senior debt documents and the subordinated notes documents of Yallourn Energy as a borrower. The advances to jointly controlled entities are interest free except for

(i) an advance of HK$298 million (2001: HK$245 million) to a joint venture undertaken with a subsidiary company of Cheung Kong (Holdings) Limited, out of which HK$25 million bears interest based on Hong Kong prime rate; and

(ii) an advance of HK$221 million (2001: HK$40 million) to the CLP Powergen joint venture which bears interest at a fixed margin over the Australian Bank Bill Swap Rates.

18. Investments in Associated Companies

	2002 HK$M	2001 HK$M
Electricity Generating Public Company Limited (EGCO) (A)		
Share of net assets other than goodwill	**1,133**	1,055
Unamortised goodwill on acquisition	**165**	175
	1,298	1,230
PowerCom Network Hong Kong Limited (PowerCom) (B)		
Share of net losses other than goodwill	**(2)**	—
Unamortised goodwill on acquisition	**152**	—
	150	—
	1,448	1,230

The purchased goodwill of associated companies is being amortised on the straight-line basis over its estimated useful economic life of 10 to 16 years. Movement of goodwill is shown as below:

	2002 HK$M	2001 HK$M
Gross Amount	**1,212**	1,205
Accumulated amortisation	**(1,037)**	(1,022)
Balance at beginning of year	**175**	183
Addition for the year	**157**	9
Amortisation for the year	**(19)**	(15)
Exchange differences	**4**	(2)
Gross Amount	**1,373**	1,212
Accumulated amortisation	**(1,056)**	(1,037)
Balance at end of year	**317**	175

(A) EGCO is 22.4% (2001: 22.4%) owned by the Group and is incorporated and listed in Thailand. Its principal activity is the generation of electricity for supply to the Electricity Generating Authority of Thailand. The Group has nominated 4 directors to the EGCO Board out of the total of 13 Board members. The market value as at 31 December 2002 was HK$800 million (2001: HK$766 million).

In 2002, the directors reviewed the carrying value of the investment in EGCO. Based on value in use, it was concluded that no additional impairment is required for the investment.

18. Investments in Associated Companies (continued)

(B) On 21 August 2002, the Group and Cheung Kong Enterprises jointly invested in PowerCom with interests of 19% and 81% respectively. The Group has transferred its retail telecom business and a number of employees into PowerCom. Beside transferring retail operations to PowerCom, the Group has paid HK$100 million and transferred assets at net book value totalling HK$57 million to acquire its interest in PowerCom. PowerCom will launch a service to provide broadband Internet access to customers, using powerline telecommunication technology. Because the Group holds equity share capital for the long term and can exercise significant influence over PowerCom's management, the investment is accounted for as an associated company. The goodwill arising on acquisition is being amortised over 10 years.

19. Investment Securities

	2002 HK$M	2001 HK$M
Equity securities listed in Hong Kong (A)	**14**	—
Equity securities listed outside Hong Kong (B)	**—**	643
Unlisted shares (C)	**4**	4
Held-to-maturity securities (D)	**264**	79
Fixed-income securities	**5**	5
	287	731

(A) The Group acquired 41.8 million shares (representing a 5.23% shareholding) of DataSys Technology Holdings Limited, a listed company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, at a price of HK$0.34 per share in June 2002. The market value as at 31 December 2002 was HK$16 million at a price of HK$0.39 per share.

(B) The Group holds a 5% interest in YTL Power International Berhad (YTL Power), a listed company in Malaysia. During the year, the Group reclassified the investment in YTL Power from long-term investment to other investments under current assets (Note 21).

(C) The Group acquired a 6.4% shareholding in StorageBank Inc., an unlisted company in Taiwan which provides storage systems, backup and disaster recovery of computer systems.

(D) In 2001, the Group acquired A$20 million of floating rates notes issued by Mezzco Pty Ltd. Mezzco Pty Ltd. is a wholly owned subsidiary company of AusPower Holdings Pty Ltd., which is the immediate holding company of Yallourn Energy Pty Ltd. During the year, an additional A$40 million of the floating rate notes were acquired. On 7 January 2003, the Group purchased additional notes from a third party totalling A$100 million. The Group holds 100% of the notes after this transaction.

20. Deposits, Bank Balances and Cash

	2002 HK$M	2001 HK$M
Trust fund for unclaimed dividends	**25**	—
Deposits, bank balances and cash	**491**	80
	516	80

During the year, two trust funds were created for the balances of unclaimed dividends and trade creditors for the purpose of the Share Premium Reduction of the Company (Note 26). The liabilities to those trade creditors were discharged and the respective trust fund was returned to the Company accordingly.

21. Other Investments

	2002 HK$M	2001 HK$M
Equity securities listed outside Hong Kong, at market value	**671**	—

During the year, the directors changed their intention regarding their shareholding in YTL Power. Accordingly, it was reclassified from investment securities held for the long-term (Note 19(B)) to other investments within current assets and valued at its market price of HK$671 million (Market value at 2001: HK$587 million). As a result, a gain of HK$27 million was recognised representing the partial reversal of a previously recognised impairment.

22. Trade and Other Receivables

	2002 HK$M	2001 HK$M
Group		
Trade receivables (ageing analysis is shown below)	**605**	966
Deposits and prepayments	**601**	573
Current accounts with jointly controlled entities	**50**	42
	1,256	1,581
Company		
Debtors, deposits and prepayments	**6**	4
Current accounts with subsidiary companies	**1**	9
	7	13

CLP Power's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within 13 to 15 working days after issue. Customers' receivable balances are secured by cash deposits or bank guarantees.

22. Trade and Other Receivables (continued)

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

	2002 HK$M	2001 HK$M
Below 30 days	**573**	937
31–60 days	**17**	16
61–90 days	**6**	5
Over 90 days	**9**	8
	605	966

The bad debts written-off during the year were HK$5 million (2001: HK$6 million).

23. Fuel Clause Account

Costs of fuel consumed by CLP Power are 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 on the account (inclusive of interest) represents amounts over-recovered and is an amount due to customers of CLP Power.

24. Trade and Other Payables

	2002 HK$M	2001 HK$M
Group		
Trade payables (ageing analysis is shown below)	**1,404**	1,344
Other payables	**637**	426
Current accounts with jointly controlled entities	**1,050**	908
	3,091	2,678
Company		
Creditors	**53**	36
Current accounts with subsidiary companies	**8**	—
	61	36

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

	2002 HK$M	2001 HK$M
Below 30 days	**1,341**	1,318
31–60 days	**5**	10
61–90 days	**1**	—
Over 90 days	**57**	16
	1,404	1,344

25. Share Capital

	Number of Shares of HK$5 Each	Amount HK$M
Authorised:		
At 31 December 2001 and 2002	**3,000,000,000**	**15,000**
Issued and fully-paid:		
At 1 January 2002	2,421,486,400	12,107
Shares repurchased during the year	(13,240,500)	(66)
At 31 December 2002	**2,408,245,900**	**12,041**

During the year, the Company repurchased a total of 13,240,500 of its own shares on The Stock Exchange of Hong Kong Limited, all of which have been cancelled, as follows:–

Month/Year	Number of Shares Repurchased	Purchase Price Per Share Highest HK$	Purchase Price Per Share Lowest HK$	Aggregate Purchase Price HK$M
January 2002	13,240,500	30.00	29.50	396
		Total expenses on shares repurchased		1
				397

26. Share Premium

During the year, CLP Holdings undertook a restructuring of its balance sheet by the reduction of the Share Premium account. Following approval by shareholders at the Extraordinary General Meeting in April 2002 and confirmation from the High Court, the reduction of the Share Premium account became effective on 7 June 2002. As a result, HK$10,116,789,910 was transferred from the Share Premium account to the Retained Profits of the Company on the same day.

27. Bank Overdrafts, Bank Loans and Other Borrowings

	Group		Company	
	2002 HK$M	2001 HK$M	**2002 HK$M**	2001 HK$M
Total facilities available				
Bank overdrafts	**499**	497	**—**	—
Bank loans	**12,033**	8,300	**7,000**	4,699
US Dollar Notes due 2006 (US$300 million)	**2,340**	2,340	**—**	—
US Dollar Medium Term Notes due 2012 (US$300 million)	**2,340**	—	**—**	—
	17,212	11,137	**7,000**	4,699

27. Bank Overdrafts, Bank Loans and Other Borrowings (continued)

	Group		Company	
	2002 HK$M	2001 HK$M	**2002 HK$M**	2001 HK$M
Utilised at 31 December				
Bank overdrafts	**—**	—	**—**	—
Bank loans	**4,617**	3,227	**2,113**	960
US Dollar Notes due 2006	**2,340**	2,340	**—**	—
US Dollar Medium Term Notes due 2012	**2,340**	—	**—**	—
	9,297	5,567	**2,113**	960
Short-term loans	**567**	1,343	**11**	960
Current portion of long-term loans and borrowings	**3**	156	**—**	—
	570	1,499	**11**	960
Long-term loans and borrowings, repayable				
within one year	**3**	156	**—**	—
between one and two years	**2**	3	**—**	—
between two and five years	**6,385**	4,065	**2,102**	—
after five years	**2,340**	—	**—**	—
	8,730	4,224	**2,102**	—
Less current portion of long-term loans and borrowings	**(3)**	(156)	**—**	—
	8,727	4,068	**2,102**	—
	9,297	5,567	**2,113**	960

The total borrowings of HK$9,297 million at 31 December 2002 (2001: HK$5,567 million) comprised the following:–

(i) fixed rate bank loan of HK$6 million (2001: HK$17 million) with interest rate at 5.42% (2001: 5.40% to 7.77%) per annum;

(ii) US Dollar Notes of HK$2,340 million (2001: HK$2,340 million) with a coupon rate of 7.5% (2001: 7.5%) per annum, this liability was fully swapped into Hong Kong Dollars, at an average fixed rate of 7.07% per annum;

(iii) US Dollar Medium Term Notes of HK$2,340 million (2001: nil) with a coupon rate of 6.25% per annum; this liability was fully swapped into Hong Kong Dollars, with HK$1,000 million further swapped into 5-year fixed rate of 6.12% per annum and the balance kept at variable rate; and

(iv) other variable rate bank loans of HK$4,611 million (2001: HK$3,210 million).

28. Deferred Taxation

	2002 HK$M	2001 HK$M
Balance at beginning of year	**3,391**	3,110
Charge for the year	**330**	281
Balance at end of year	**3,721**	3,391

Deferred taxation arose from timing differences attributable to accelerated depreciation allowances, which are unlikely to reverse in the foreseeable future.

29. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before taxation to cash generated from operations:–

	2002 HK$M	2001 HK$M
Profit before taxation	**10,024**	9,952
Adjustments for:–		
Operating interests	**184**	180
Finance income	**(33)**	(29)
Hok Un redevelopment profit	**(282)**	(1,752)
Share of profits less losses of jointly controlled entities	**(2,976)**	(2,339)
Share of profits less losses of associated companies	**(86)**	(71)
Exchange gain	**(28)**	—
Impairment loss on investments in jointly controlled entities	**38**	—
Impairment loss on long-lived assets	**59**	—
Unrealised investment loss on retirement benefit plan assets	**83**	—
Depreciation	**1,749**	1,624
Loss on disposal of fixed assets	**79**	107
Capital gain arising from disposal of properties	**(321)**	(52)
Dividend income from investment	**(34)**	(17)
Mark-to-market gain on other investment	**(27)**	—
Operating profit before working capital changes	**8,429**	7,603
Increase in customers' deposits	**234**	271
Decrease in fuel clause account	**258**	473
Increase in debtors and prepayments	**(589)**	(408)
Increase in retirement benefit plan assets	**(27)**	—
Increase in creditors	**248**	114
Increase in current accounts due to jointly controlled entities	**134**	27
Rebates to customers under SoC	**(171)**	(166)
Business relief rebate	**(41)**	—
Special rebate	**(626)**	(607)
Cash generated from operations	**7,849**	7,307

30. Commitments

(A) Capital expenditure authorised but not brought into the accounts is as follows:–

	Group		Company	
	2002 HK$M	2001 HK$M	**2002 HK$M**	2001 HK$M
Contracted but not provided for	**3,056**	2,746	**—**	2
Authorised but not contracted for	**8,402**	8,573	**1**	1
	11,458	11,319	**1**	3

(B) In respect of the investment in the Anshun II Power Project in Guizhou, the Group is required to contribute share capital of RMB440 million (approximately HK$414 million). The amount already paid at the end of December 2002 was RMB154 million (approximately HK$145 million). The remainder of the share capital will be paid by instalments within one and a half years from the joint venture's incorporation date of 9 September 2002.

(C) Under a Sale and Purchase Agreement executed in November 2002, the Group is committed to pay a total consideration of HK$897 million to acquire from Powergen the remaining interests in GPEC, Yallourn Energy and BLCP. In respect of GPEC and Yallourn Energy, completion of these acquisitions is subject to certain consents from lenders and relevant regulatory authorities. Upon completion of the deal, the Group will own effective interests of 100% in GPEC, 92% in Yallourn Energy and 50% in BLCP. Up to 31 December 2002, no payment has been made. The acquisition of the additional interest (10%) in BLCP was completed in January 2003 for a consideration of HK$39 million.

31. Contingent Liabilities

(A) China Energy Investment Company Limited (CEIC), a wholly-owned subsidiary company of the Group, is a shareholder of the Shandong Zhonghua Power Company Limited formed to develop, own and operate the Shiheng I, Shiheng II, Heze II and Liaocheng Power Stations totalling 3,000MW in the Shandong Province of the Chinese mainland. As part of the security package for the project, the Company has provided a Letter of Support to the finance parties to procure that CEIC will perform its contractual obligations.

The contingent financial liabilities at 31 December 2002 to be assumed by the Company, in respect of the performance by CEIC of its contractual obligations, are estimated to be as follows:–

	2002 **HK$M**	2001 HK$M
Sponsor support for completion	**702**	702
Liability under engineering, procurement and construction contracts for Heze II and Liaocheng Power Stations	**2,472**	2,472
Dividend escrow	**618**	436
	3,792	3,610

(B) The refinancing of Yallourn Energy Pty Limited (Yallourn Energy) was completed on 27 February 2001. Pursuant to the relevant loan agreements, all the relevant shareholders of AusPower Holdings Pty Limited, the immediate holding company of Yallourn Energy, agreed to provide the lenders with contingent equity support on a pro rata basis up to the sum of A$200 million in respect of a senior debt facility and up to the sum of A$15 million in respect of a subordinated notes facility. The contribution of contingent equity depends on certain minimum requirements regarding the availability of cash flows for debt service within five years from 27 February 2001. As at 31 December 2002, CLP Group's 73.6% share of the contingent equity support is approximately A$158 million. As stated in Note 19(D), in 7 January 2003, the Group purchased all the subordinated notes.

The Directors are of the opinion that no provision is required to be made in the financial statements in respect of the matters described in (A) and (B) above.

32. Related Party Transactions

In the normal course of business the Group undertakes on an arms-length basis a wide variety of transactions with related parties. The more significant of such transactions during the year ended 31 December 2002 are described below.

	2002 HK$M	2001 HK$M
Purchases of electricity from CAPCO (A)	**10,191**	9,815
Purchases of nuclear electricity (B)	**4,976**	5,013
Pumped storage service fee (C)	**419**	424

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

(B) Under the offtake and resale contracts, CLP Power is obligated 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 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, Hong Kong Pumped Storage Development Company, Limited (PSDC) has the right to use 50% of the 1,200MW capacity of Phase 1 of the Guangzhou Pumped Storage Power Station. CLP Power has entered into a contract with PSDC to make use of this capacity. The price paid by CLP Power 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.

33. Financial Assistance and Guarantees to Affiliated Companies

The Company has obtained a waiver from The Stock Exchange of Hong Kong Limited under Paragraph 3.10 of Practice Note 19 of the Listing Rules from disclosing a proforma combined balance sheet of affiliated companies. Affiliated companies include the Group's jointly controlled entities and associated companies. Instead, in accordance with Practice Note 19, the Company discloses the following alternative information in relation to the affiliated companies as at 31 December 2002. This information has been extracted from the relevant audited accounts or management accounts of all affiliated companies.

	2002 HK$M	2001 HK$M
The Group's share of total indebtedness of affiliated companies analysed as follows:–		
Bank borrowings	**18,468**	17,697
Other borrowings including loans from shareholders	**3,074**	3,050
	21,542	20,747
The Group's share of contingent liabilities of affiliated companies	**667**	255
The Group's share of capital commitments of affiliated companies		
Contracted but not provided for	**1,934**	2,454
Authorised but not contracted for	**2,943**	1,792
	4,877	4,246