

## NEW ACCOUNTING PRONOUNCEMENTS

During the year, the Hong Kong Society of Accountants ("HKSA") has issued two new accounting standards and one interpretation that impact the Group's consolidated financial statements for the year 2000. They are Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting", SSAP No. 26 "Segment Reporting" and Interpretation 9 "Accounting for Pre-operating Costs".

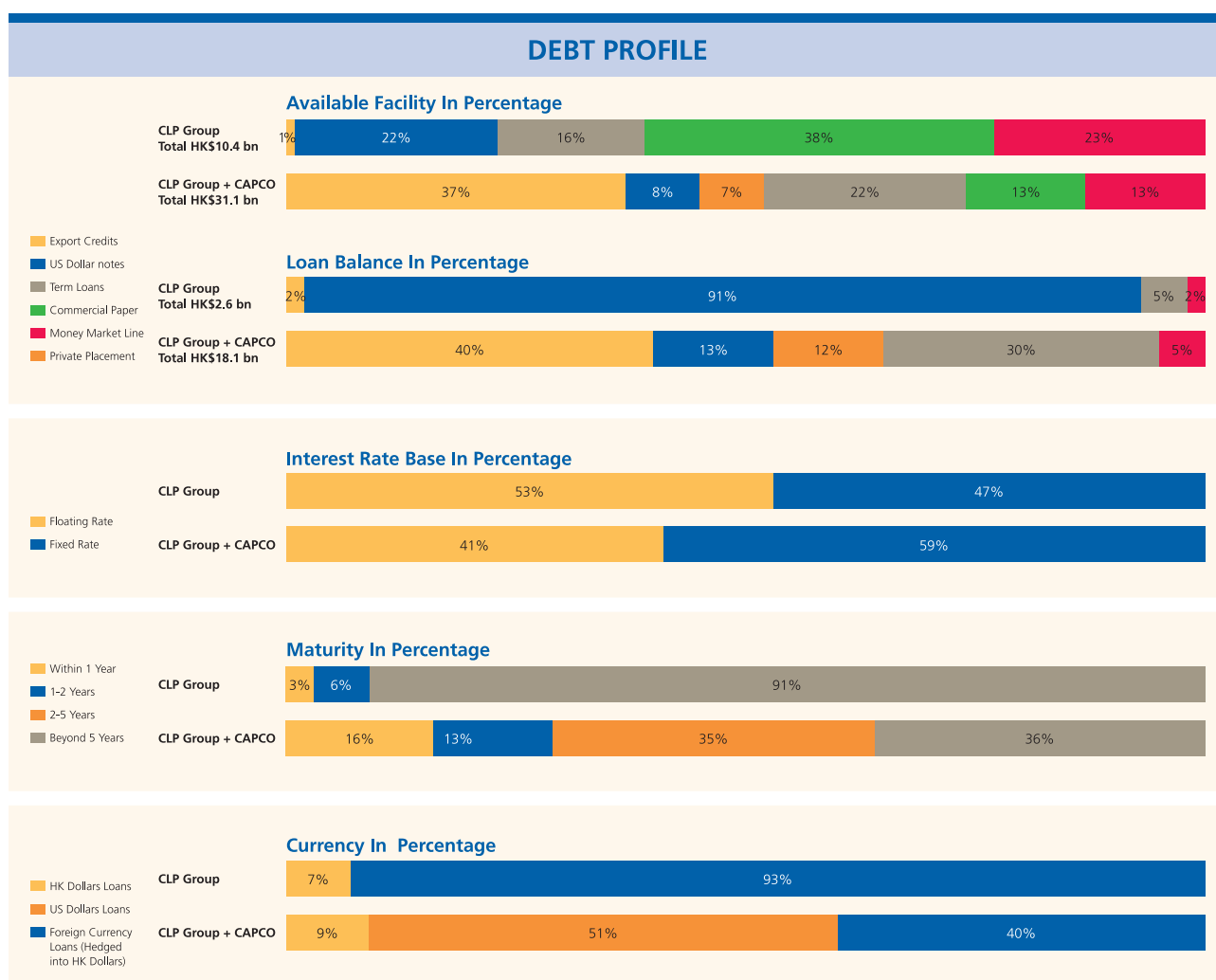
CLP continues to monitor and adopts, as far as practicable, the best practice in reporting standards and disclosure in its financial statements. CLP is one of the few listed companies in Hong Kong to have its interim financial statements reviewed

by external auditors and the Audit Committee of the Board. The financial statements for the year 2000 provide additional disclosure on segment information earlier than required in SSAP No. 26. CLP's accounting treatment on goodwill established in 1998 has already complied with SSAP No. 30 "Business Combinations" issued by HKSA in January 2001.

## FINANCING

The capital expenditure programmes of CLP Power and its associated generating companies incorporated in Hong Kong are funded by bank loans (many of which are long-term loans made or supported by export credit agencies), issuance of debt securities and cash flow from operations.

The charts below show the type, interest rate, maturity and currency profiles of borrowings at 31 December 2000:



## CREDIT RATING

In August 2000, Moody's Investors Service ("Moody's") upgraded the short-term foreign currency rating of CLP Power from 'P-2' to 'P-1', following upgrade of Hong Kong's foreign currency ceiling to 'P-1' and reflecting that CLP Power's rating is constrained by Hong Kong's sovereign rating. In late 2000, CLP Holdings successfully applied for credit ratings from Standard & Poor's ("S&P") and Moody's. CLP Holdings was assigned long-term local currency rating of 'A+' / 'Aa2', long-term foreign currency rating of 'A' / 'A3' and short-term rating of 'A-1' / 'P-1' by S&P and Moody's respectively. The ratings reflect the Company's strong financial profile supported by a highly stable cashflow. On 9 February 2001, S&P upgraded the long-term foreign currency rating of CLP Holdings and CLP Power both from 'A' to 'A+' after raising the long-term foreign currency sovereign credit rating of Hong Kong to 'A+'.

	CLP Holdings		CLP Power	
	S&P	Moody's	S&P	Moody's
Long-term Rating				
Foreign currency	A+	A3	A+	A3
Local currency	A+	Aa2	A+	Aa1
Short-term Rating				
Foreign currency	A-1	P-1	A-1	P-1
Local currency	A-1	-	A-1	-

Our premier credit ratings can facilitate and enhance our position in various local and overseas business activities, including fund raising, investment and new business opportunities of the Group.

## OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Group uses forward foreign exchange contracts and currency swaps to manage its foreign currency exposure with an objective to minimise the impact of exchange rate fluctuation on earnings and tariff charges to customers. Foreign currency exposures are mainly obligations related to loan repayments and purchases of goods and services. The Group's policy is to hedge only existing quantifiable

transactions, and speculation is strictly prohibited. All hedging transactions are with counterparties with acceptable credit ratings. A limit is assigned to each counterparty for monitoring the credit exposure.

During the year, the Group has swapped its HK\$2,340 million USD Notes due 2006 into HK dollars and has taken the opportunities to purchase forward US dollars at rates below the official pegged rate, i.e. HK\$7.80 to US\$1.00, to hedge the Group's US dollar exposure on other loan interest/ repayments, fuel-related payments and other projected expenditures. As at 31 December 2000, the Group had outstanding forward foreign exchange contracts and currency swaps amounting to HK\$30.3 billion (at 31 December 1999: HK\$0.6 billion). US dollar forward foreign exchange contracts and currency swaps accounted for about 93% of them. Fair values for these off-balance sheet financial instruments, which represent the amount we would receive to close out the transactions at 31 December 2000, were HK\$105 million. The maturity profile of the outstanding forward foreign exchange contracts and currency swaps is shown in the chart below:



The Group has no significant operating lease commitments or sale and leaseback arrangements.

## SUPPLEMENTARY INFORMATION FOR AMERICAN DEPOSITARY RECEIPTS (“ADR”) HOLDERS

The Company's financial statements are prepared in accordance with Hong Kong (HK) generally accepted accounting principles (GAAP) modified as necessary to comply with the Scheme of Control. HK GAAP differs in certain material respects from United States (US) GAAP. The following is a summary of the estimated material adjustments to consolidated profit attributable to ordinary shareholders and shareholders' equity which would be required if US GAAP were to be applied instead of HK GAAP (as modified).

### A. Pension Costs

Under HK GAAP, the periodic charge to the Company's financial statements for costs arising from a defined benefit retirement scheme is represented by the Company's contributions to the scheme in a given period, determined by the Company with reference to independent actuarial valuations. Statement No. 87 of the Financial Accounting Standards Board in the United States requires that the net periodic pension cost related to the employer's liability under a defined benefit retirement scheme is determined by reference to changes in the actuarial valuation of the pension obligations of the scheme, the fair value of the scheme's assets, amortisation of the amount of unfunded or overfunded projected benefit obligations at the time the accounting standard is adopted and amortisation of additional projected benefits arising as a result of changes to the scheme.

### B. Foreign Exchange Gain and Loss

The accounting treatment prescribed by the Scheme of Control Agreement requires that unrealised exchange differences arising from long-term borrowings, suppliers' credits, shareholders advances and forward currency contracts are deferred. Under US GAAP these should be generally included in the income statement in the period in which the underlying exchange rates change, except for forward currency contracts accounted for as hedges of firm identifiable foreign currency commitments and

gains/losses attributable to intercompany transactions that are of a long-term investment nature.

### C. Depreciation of Leasehold Land

The Scheme of Control Agreement provides that leasehold land should be capitalised at unamortised cost. US GAAP requires that such an asset be amortised over its expected useful life.

### D. Taxation

The Scheme of Control Agreement requires that the Company make full provision for deferred taxation arising from timing differences attributable to accelerated tax depreciation allowances using a deferral method. Under this method, deferred tax is computed at those tax rates current when the timing differences arise, with no adjustments made subsequently if tax rates change. US GAAP requires that such provisions be made using the liability method, whereby deferred tax is calculated at the rate of tax that it is estimated will be applicable when the timing differences reverse.

### E. Development Costs

Previously, development expenditure was deferred because its recovery could reasonably be regarded as assured. During the year, a new HK accounting pronouncement was issued which states that pre-operating costs, which do not generally give rise to an asset, should be recognised as an expense in the period in which they are incurred. The relevant amounts, which had been capitalised in the accounts, were written off as expenses in the year. Under US GAAP, all development costs should be charged to expense when incurred.

### F. Proposed Dividends

Prior to revision of HK GAAP in January 2001, proposed dividends on ordinary shares, as recommended by the board of directors at the time of board approval of the financial statements, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, dividends are recorded in the period in which they are declared.



## NET INCOME AND SHAREHOLDERS' EQUITY

The estimated effect of the significant adjustments to the net income and shareholders' equity in accordance with US GAAP is summarised below:

### Differences between HK GAAP and US GAAP : Net income

	12 months ended 31 December 2000 HK\$M	15 months ended 31 December 1999 HK\$M
Profit for the year in accordance with HK GAAP*	5,768	8,329
Adjustments required under US GAAP:		
Difference in periodic pension cost	269	411
Exchange gain	14	4
Tax effect of above adjustments	(45)	(66)
Depreciation on leasehold land	(33)	(36)
Reversal of provision and amortisation of development costs	98	(4)
Net income for the year in accordance with US GAAP	<b>6,071</b>	8,638

### Differences between HK GAAP and US GAAP : Shareholders' equity

	31 December 2000 HK\$M	31 December 1999 HK\$M
Shareholders' equity in accordance with HK GAAP*	31,818	30,910
Cumulative adjustments required under US GAAP:		
Difference in periodic pension cost	983	714
Exchange gain	15	1
Tax effect of above adjustments	(160)	(115)
Depreciation on leasehold land	(350)	(317)
Deferred tax accounting	137	137
Reversal of provision and amortisation of development costs	-	(98)
Proposed final dividend	1,602	1,561
Shareholders' equity in accordance with US GAAP	<b>34,045</b>	32,793

\* As appropriately modified to comply with Scheme of Control Agreement