

■ NOTES TO THE ACCOUNTS

1. CHANGE OF FINANCIAL YEAR END

In 1999, the financial year end of the Group was changed from 30 September to 31 December. Accordingly, comparative figures in the profit and loss account, statement of recognised gains and losses, cash flow statement and related notes for the 15-month period ended 31 December 1999 are not directly comparable with the current 12-month financial year. The accounts for the 12 months ended 31 December 1999 are included to provide shareholders with additional information to appraise the financial results and position of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Preparation

Other than noted in Note 2(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.

B. Scheme of Control

The financial operations of the Group's major subsidiary, CLP Power Hong Kong Limited ("CLP Power"), and its associated generating company, Castle Peak Power Company Limited ("CAPCO"), are governed by a Scheme of Control 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 Scheme of Control, the main features of which are summarised on page 88. The only such modification which is significant to the Group's accounts is in respect of deferred taxation.

In accordance with the Scheme of Control, 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 and, accordingly, the above policy does not comply with the Statement of Standard Accounting Practice 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.

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 company on the basis set out in Notes 2(E) and 2(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 the straight-line basis over its estimated useful economic life.

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 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. The results of subsidiaries 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 Company

An associated company is a company, not being a subsidiary or jointly controlled entity, in which the Group holds not more than 50% of the 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 company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

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.

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 normally charged to the profit and loss account in the year in which they are incurred.

Depreciation of fixed assets is based on the rates authorised under the Scheme of Control. During the 1998 Scheme of Control 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 is written off uniformly over the remainder of their extended useful lives.

H. Fixed Assets and Depreciation *(continued)*

Except for the above, the following bases apply to fixed assets other than land which is not depreciated in accordance with the Scheme of Control. 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 (132 kV and above)	35 years
Overhead lines (below 132 kV) 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 Company 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.

K. Investments in Securities

(i) Investment securities

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

(ii) Fixed-income securities and money market instruments

Fixed-income securities and money market instruments are carried at fair value at the balance sheet date, with the net unrealised gains or losses arising from the changes in fair value recognised in the profit and loss account. Profits or losses on disposal of these investments, representing the difference between the 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 subsidiaries, jointly controlled entities or associated company denominated in foreign currencies are translated into Hong Kong dollars using the year end rates of exchange for the 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.

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. 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.

O. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current financial year. In particular, the comparatives have been adjusted or extended to take into account the requirements of Statement of Standard Accounting Practice No. 26, Segment Reporting, issued by the Hong Kong Society of Accountants.

3. TURNOVER AND SEGMENT INFORMATION

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

	Turnover			Operating Profits/(Losses)		
	12 months ended 31 December 2000 HK\$M	12 months ended 31 December 1999 HK\$M	15 months ended 31 December 1999 HK\$M	12 months ended 31 December 2000 HK\$M	12 months ended 31 December 1999 HK\$M	15 months ended 31 December 1999 HK\$M
Sales of electricity	24,224	23,168	28,642	6,630	6,056	7,808
Public lighting & engineering services	171	283	337	13	14	16
Property income	38	55	56	9	46	51
Development expenditure	18	–	–	(255)	(173)	(147)
Impairment loss on investment securities	–	–	–	(130)	–	–
Unallocated Group expenses	–	–	–	(76)	(84)	(106)
	24,451	23,506	29,035	6,191	5,859	7,622

3. TURNOVER AND SEGMENT INFORMATION *(continued)*

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

The Group operates, through its subsidiaries, jointly controlled entities and associate, in three major geographical regions - Hong Kong, Chinese mainland and Asia-Pacific region (other than the Chinese mainland). Information about the Group's operations by geographical regions is as follows:

12 months ended 31 December 2000	Hong Kong HK\$M	Chinese Mainland HK\$M	Asia-Pacific Region HK\$M	Unallocated Items HK\$M	Total HK\$M
Turnover	23,843	588	18	2	24,451
Segment result	6,537	(48)	(78)	(90)	6,321
Impairment loss on investment securities	–	–	(130)	–	(130)
Operating profit / (loss)	6,537	(48)	(208)	(90)	6,191
Hok Un redevelopment profit	1,357	–	–	–	1,357
Share of profits / (losses) of other jointly controlled entities	1,421	806	(11)	–	2,216
Impairment loss on investment in associated company	–	–	(900)	–	(900)
Share of profit of associated company	–	–	5	–	5
Profit / (loss) before financing and taxation	9,315	758	(1,114)	(90)	8,869
Finance costs					(204)
Finance income					110
Taxation					(1,378)
Profit after taxation					7,397
Transfers under Scheme of Control					(1,629)
Earnings for the year					5,768
Capital expenditure	3,379	21	1	1	3,402
Depreciation	1,467	4	2	1	1,474
Amortisation of goodwill and cost of investment	–	32	37	–	69
At 31 December 2000					
Segment assets	31,369	706	401	10	32,486
Investments in jointly controlled entities	6,315	4,766	929	–	12,010
Investment in associated company	–	–	1,173	–	1,173
Investment securities	–	–	643	–	643
Cash and cash equivalents	–	–	–	2,172	2,172
Consolidated total assets	37,684	5,472	3,146	2,182	48,484
Segment liabilities	8,626	12	38	1,634	10,310
Total borrowings	–	–	–	2,578	2,578
Tax liabilities	–	–	–	3,778	3,778
Consolidated total liabilities	8,626	12	38	7,990	16,666

3. TURNOVER AND SEGMENT INFORMATION (continued)

12 months ended 31 December 1999	Hong Kong HK\$M	Chinese Mainland HK\$M	Asia-Pacific Region HK\$M	Unallocated Items HK\$M	Total HK\$M
Turnover	23,145	357	–	4	23,506
Segment result	6,098	(72)	(83)	(84)	5,859
Hok Un redevelopment profit	596	–	–	–	596
Share of profits / (losses) of other jointly controlled entities	1,451	780	(1)	–	2,230
Share of loss of associated company	–	–	(6)	–	(6)
Profit / (loss) before financing and taxation	8,145	708	(90)	(84)	8,679
Finance costs					(181)
Finance income					599
Taxation					(1,160)
Profit after taxation					7,937
Transfers under Scheme of Control					(1,276)
Earnings for the year					6,661
Capital expenditure	2,702	7	6	1	2,716
Depreciation	1,367	4	2	1	1,374
Amortisation of goodwill and cost of investment	–	26	96	–	122
15 months ended 31 December 1999					
Turnover	28,582	450	–	3	29,035
Segment result	7,854	(76)	(50)	(106)	7,622
Hok Un redevelopment profit	626	–	–	–	626
Share of profits / (losses) of other jointly controlled entities	1,823	911	(2)	–	2,732
Share of profit of associated company	–	–	7	–	7
Profit / (loss) before financing and taxation	10,303	835	(45)	(106)	10,987
Finance costs					(247)
Finance income					859
Taxation					(1,483)
Profit after taxation					10,116
Transfers under Scheme of Control					(1,787)
Earnings for the period					8,329
Capital expenditure	3,131	7	9	1	3,148
Depreciation	1,697	4	2	1	1,704
Amortisation of goodwill and cost of investment	–	33	120	–	153
At 31 December 1999					
Segment assets	30,228	702	34	31	30,995
Investments in jointly controlled entities	6,123	4,378	353	–	10,854
Investment in associated company	–	–	2,156	–	2,156
Investment securities	–	–	773	–	773
Cash and cash equivalents	–	–	–	918	918
Consolidated total assets	36,351	5,080	3,316	949	45,696
Segment liabilities	7,251	12	9	1,589	8,861
Total borrowings	–	–	–	2,778	2,778
Tax liabilities	–	–	–	3,147	3,147
Consolidated total liabilities	7,251	12	9	7,514	14,786



4. OPERATING PROFIT

	12 months ended 31 December 2000 HK\$M	12 months ended 31 December 1999 HK\$M	15 months ended 31 December 1999 HK\$M
Operating profit is stated after charging / (crediting) the following:			
Charging			
Depreciation			
Buildings	115	117	144
Plant, machinery and equipment	1,359	1,257	1,560
	1,474	1,374	1,704
Retirement benefit costs (Note 10)	93	105	131
Auditors' remuneration	3	3	3
Other exchange loss	3	7	6
Crediting			
Reversal of provision of development costs for project achieving financial close	-	(2)	(51)
Net rental income	(17)	(16)	(16)

5. FINANCE COSTS AND INCOME

	12 months ended 31 December 2000 HK\$M	12 months ended 31 December 1999 HK\$M	15 months ended 31 December 1999 HK\$M
Finance costs:			
Interest on bank loans and overdrafts	24	20	26
Interest on other loans not wholly repayable within five years	177	176	220
Interest on customers' deposits and others	52	41	52
Finance charges	11	8	23
Exchange losses	10	7	7
Less: amount capitalised within fixed assets	(70)	(71)	(81)
	204	181	247
Finance income:			
Net interest income on fixed-income securities and money market instruments	11	194	305
Interest income on bank deposits	99	405	554
	110	599	859