Notes to the Condensed Interim Accounts

1. Basis of Preparation and Accounting Policies

(A) The unaudited condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (SSAP) No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies used in the preparation of the unaudited condensed interim accounts are consistent with those set out in the 2002 Annual Report except that the Group has changed its accounting policy for taxation following the adoption of SSAP No. 12 (Revised) "Income Taxes", which became effective from 1 January 2003. The change to the Group's accounting policies and the effect of adopting this new policy are set out below:

Deferred Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary difference arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Previously, the Group accounted for deferred tax in the SoC business on a full provision basis in respect of timing differences attributable to accelerated depreciation at the taxation rate in force in the year in which the difference arose. In the non-SoC businesses, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the new SSAP No. 12 (Revised) represents a change in accounting policy which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

The main effects of the adoption of the new SSAP No. 12 (Revised) on the Group arise from revaluation of assets on acquisition, withholding taxation on retained earnings of overseas investments, and losses carried forward.

The deferred tax liabilities at 31 December 2002 have been reduced by HK$111 million (2001: HK$112 million) with corresponding adjustments to i) increase the share of net asset value of jointly controlled entities by HK$557 million (2001: HK$427 million), ii) reduce positive goodwill and create negative goodwill on jointly controlled entities by HK$56 million and HK$396 million, respectively, (2001: increase HK$9 million and create HK$369 million), iii) increase other payables by HK$115 million (2001: HK$115 million) and iv) increase retained earnings by HK$101 million (2001: HK$64 million). The impact of the SSAP No. 12 (Revised) on the profit and loss account for the period ended 30 June 2003 has been a reduction in reported net profit of HK$50 million.

1. Basis of Preparation and Accounting Policies (continued)

(B) Pursuant to an agreement entered into with Powergen UK plc in November 2002 to acquire all of its remaining interests in BLCP Power Limited in Thailand (BLCP), Yallourn Energy Pty Limited in Australia (Yallourn Energy) and Gujarat Paguthan Energy Corporation Private Limited in India (GPEC), the acquisitions of these additional interests were completed on 10 January 2003, 16 April 2003 and 11 June 2003 respectively. After these acquisitions, the Group owns 50% of BLCP, 92% of Yallourn Energy and 100% of GPEC. BLCP remains as a jointly controlled entity. The Group gained control of Yallourn Energy and GPEC from the date when the additional interest acquisitions were completed. As a result, the description of some accounting policies of the Group has been expanded to reflect consolidation of Yallourn Energy and GPEC into the Group as shown below:

i) Turnover

Turnover represents sale of electricity, other electricity-related revenue, property income, supply and maintenance services. Sale of electricity is based on either actual and accrued consumption derived from meters read or amount billed in accordance with the terms of the contractual agreements where applicable during the period. Other revenue is recognised when services are rendered or sales are completed.

ii) Fixed Assets and Depreciation

Depreciation of fixed assets are accounted according to the following range of useful lives:

Description	**Years**
SoC fixed assets	
Buildings	33
Overhead line (132 kV and above)	35
Overhead line (below 132 kV) and cables	30
Generating plant, switchgear and transformer	25
Meters, system control equipment, furniture, tools, communication and office equipment	10
Computers and office automation equipment other than those forming part of the generating plant	5
Motor vehicles	5
Non-SoC fixed assets	
Buildings	30 – 32
Generating plant, switchgear and transformers	17 – 32
Office equipment	2 – 7
Motor vehicles	3 – 8
Mining machine and equipment	10 – 30
Freehold land is not depreciated	

2. Turnover and Segment Information

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

6 months ended 30 June	Turnover		Operating Profit/(Loss) (A)		Profit/(Loss) Before Financing and Taxation (B)	
	2003 HK$M	2002 HK$M	2003 HK$M	2002 HK$M	2003 HK$M	2002 HK$M
SoC business	**11,333**	11,692	**2,609**	3,118	**3,436**	3,901
Power projects outside Hong Kong	**470**	–	**47**	(91)	**995**	709
Other businesses	**68**	112	**(11)**	(78)	**41**	81
Unallocated Group expenses	**–**	–	**(59)**	(59)	**(59)**	(59)
	11,871	11,804	**2,586**	2,890	**4,413**	4,632

(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.

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 destination is as follows:

6 months ended 30 June 2003	Hong Kong HK$M	Chinese Mainland HK$M	Asia-Pacific Region HK$M	Unallocated Items HK$M	Total HK$M
Turnover	10,922	479	470	–	**11,871**
Segment results	2,575	(31)	101	(59)	**2,586**
Hok Un redevelopment profit	63	–	–	–	**63**
Share of profits less losses of jointly controlled entities	814	672	225	–	**1,711**
Share of profits less losses of associated companies	(9)	–	62	–	**53**
Profit/(Loss) before financing and taxation	3,443	641	388	(59)	**4,413**
Finance costs					**(223)**
Finance income					**35**
Taxation					**(728)**
Profit after taxation					**3,497**
Transfers under SoC					**217**
Earnings for the period					**3,714**
Amortisation of goodwill and cost of investment	9	17	6	–	**32**

2. Turnover and Segment Information (continued)

6 months ended 30 June 2002	Hong Kong HK$M	Chinese Mainland HK$M	Asia-Pacific Region HK$M	Unallocated Items HK$M	Total HK$M
Turnover	11,285	518	1	–	11,804
Segment results	3,014	(26)	(39)	(59)	2,890
Hok Un redevelopment profit	163	–	–	–	163
Share of profits less losses of jointly controlled entities	764	537	194	–	1,495
Share of profit of associated company	–	–	84	–	84
Profit/(loss) before financing and taxation	3,941	511	239	(59)	4,632
Finance costs					(88)
Finance income					11
Taxation					(684)
Profit after taxation					3,871
Transfers under SoC					(440)
Earnings for the period					3,431
Amortisation of goodwill and cost of investment	2	22	2	–	26

3. Purchases of Electricity

This represents the purchases of electricity for the Hong Kong SoC business. Further details are shown below:

	6 months ended 30 June 2003 HK$M	6 months ended 30 June 2002 HK$M
Purchases of electricity from CAPCO	**4,962**	5,105
Purchases of nuclear electricity	**2,029**	1,784
Pumped storage service fee	**121**	204
	7,112	7,093

4. Yallourn Energy and GPEC

The operating profit of existing operations and the post-acquisition operating profit of Yallourn Energy and GPEC are analysed as follows:

	6 months ended 30 June 2003		
	Existing HK$M	Acquisitions HK$M	Total HK$M
TURNOVER	**11,401**	**470**	**11,871**
Expenses			
Purchases of electricity	**(7,112)**	**–**	**(7,112)**
Staff expenses	**(501)**	**(24)**	**(525)**
Fuel	**–**	**(71)**	**(71)**
Other net operating costs	**(462)**	**(110)**	**(572)**
Depreciation	**(928)**	**(77)**	**(1,005)**
Operating profit	**2,398**	**188**	**2,586**

5. Operating Profit

	6 months ended 30 June	
	2003 HK$M	2002 HK$M
Operating profit is stated after charging/(crediting) the following:		
Charging		
Staff costs (A)		
Salaries and other costs	**687**	610
Retirement benefits costs	**54**	49
Loss on disposal of fixed assets	**44**	25
Impairment loss on other investments	**12**	–
Amortisation of positive goodwill and cost of investment	**42**	33
Crediting		
Net rental income from properties	**(8)**	(8)
Capital gains on disposal of properties	**–**	(5)
Investment gain on realisation of retirement benefit plan asset	**(17)**	–
Exchange gain	**(13)**	(20)
Amortisation of negative goodwill	**(10)**	(7)

(A) Staff costs include amounts recharged to jointly controlled entities for services provided.

6. Finance Costs and Income

	6 months ended 30 June 2003 HK$M	2002 HK$M
Finance costs:		
Interest on bank loans and overdrafts	**177**	55
Interest on other loans		
wholly repayable within five years	**82**	82
not wholly repayable within five years	**46**	14
Interest on customers' deposits and others	**13**	10
Finance charges	**13**	30
Exchange loss on foreign currency loan	**12**	–
	343	191
Less amount capitalised within fixed assets	**(120)**	(103)
	223	88
Finance income:		
Net interest income from investment securities (Note (A))	**20**	4
Interest income on bank deposits	**15**	7
	35	11

Note:

(A) The net interest income relates to interest income of 100% (A$160 million) of the floating rate notes issued by Mezzco Pty Ltd. This is a wholly-owned subsidiary company of AusPower Holdings Pty Ltd., which is the immediate holding company of Yallourn Energy. This interest income relates to the period during which Yallourn Energy was accounted for as a jointly controlled entity.

7. Taxation

	6 months ended 30 June 2003 HK$M	2002 HK$M
Company and subsidiary companies		
– Hong Kong		
current	**247**	512
deferred	**163**	105
– outside Hong Kong		
current	**4**	–
deferred	**20**	–
	434	617
Share of jointly controlled entities		
– Hong Kong		
current	**143**	130
deferred	**(16)**	(159)
– outside Hong Kong		
current	**125**	69
deferred	**30**	16
	282	56
Share of associated companies		
– outside Hong Kong		
current	**12**	11
	728	684

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. Taxation on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

8. Non-Scheme of Control Operating Earnings

	6 months ended 30 June 2003 HK$M	2002 HK$M
Income from power projects outside Hong Kong	**706**	618
Chinese mainland	**516**	391
Asia-Pacific Region	**190**	227
Sales to the Chinese mainland	**30**	35
Other businesses	**(26)**	(85)
	710	568

9. Dividends

	6 months ended 30 June			
	2003		2002	
	HK$ per share	HK$M	HK$ per share	HK$M
First interim dividend paid	**0.41**	**987**	0.38	915
Second interim dividend	**0.41**	**987**	0.38	915
	0.82	**1,974**	0.76	1,830

At the Board meeting held on 4 August 2003 the directors declared a second interim dividend of HK$0.41 per share. The second interim dividend is not reflected as dividends payable in these accounts, but as a separate component of the shareholders' funds for the period ended 30 June 2003.

10. Earnings per Share

The earnings per share is based on earnings of HK$3,714 million (2002: HK$3,431 million) and the number of shares in issue of 2,408,245,900 shares (2002: 2,409,329,601 weighted average number of shares in issue). To enable investors to understand better the Group's results, an additional earnings per share figure has been calculated excluding the Hok Un redevelopment profit of HK$51 million (2002: HK$134 million).

Fully diluted earnings per share is not included as the Company does not have any diluting equity instruments as at 30 June 2003.

11. Fixed Assets

	Land and Buildings HK$M	Plant, Machinery and Equipment HK$M	Total HK$M
Net book amount at 1 January 2003	6,560	29,990	36,550
Acquisition of subsidiaries	359	12,145	12,504
Additions	490	1,902	2,392
Transfers and disposals	(2)	(45)	(47)
Depreciation	(72)	(933)	(1,005)
Translation difference	19	880	899
Net book amount at 30 June 2003	**7,354**	**43,939**	**51,293**

The fixed assets employed for the SoC business at 30 June 2003 amounted to HK$37,604 million (December 2002: HK$36,273 million).

12. Goodwill

	30 June 2003			31 December 2002
	Positive Goodwill HK$M	Negative Goodwill HK$M	Total HK$M	Total HK$M
Gross Amount:				
Balance at beginning of period	–	–	–	–
Transfer from jointly controlled entities	289	–	289	–
Adjustment on adoption of SSAP No. 12	(69)	(419)	(488)	–
Balance after transfer, restated	220	(419)	(199)	–
Fair value adjustment	(46)	–	(46)	–
Acquisition of subsidiaries	–	(457)	(457)	–
Translation difference	9	(99)	(90)	–
Balance at end of period	183	(975)	(792)	–
Accumulated Amortisation:				
Balance at beginning of period	–	–	–	–
Transfer from jointly controlled entities	(15)	–	(15)	–
Adjustment on adoption of SSAP No. 12	4	23	27	–
Balance after transfer, restated	(11)	23	12	–
(Charge)/credit for the period	(4)	10	6	–
Translation difference	–	6	6	–
Balance at end of period	(15)	39	24	–
Net carrying value	168	(936)	(768)	–

The goodwill arises due to the acquisition of additional interests in Yallourn Energy and GPEC and consequently the reclassification of goodwill on these companies from jointly controlled entities to goodwill in the consolidated balance sheet during the period ended 30 June 2003.

13. Investments in Jointly Controlled Entities

	30 June 2003 HK$M	31 December 2002 HK$M
Investments in:		
Castle Peak Power Company Limited	5,280	5,109
Guangdong Nuclear Power Joint Venture Company, Limited	2,707	3,071
CLP Powergen joint ventures		
– Yallourn Energy Pty Limited, Australia (A)	–	2,425
– Gujarat Paguthan Energy Corporation Private Limited, India (GPEC) (B)	–	2,807
Hok Un Joint Venture	738	825
Shandong Zhonghua Power Company Limited	1,322	1,373
Ho-Ping Power Company Limited	1,322	1,210
CLP Guohua Power Company Limited	1,035	966
Hong Kong Pumped Storage Development Company, Limited	315	312
Other jointly controlled entities	974	884
	13,693	18,982

The amount of investments in the above jointly controlled entities include loan and advances as follows:

	30 June 2003 HK$M	31 December 2002 HK$M
Castle Peak Power Company Limited	4,984	4,934
CLP Powergen joint ventures		
– Yallourn Energy Pty Limited, Australia	–	221
Hong Kong Pumped Storage Development Company, Limited	296	300
Other jointly controlled entities	311	313
	5,591	5,768

(A) On 16 April 2003, the Group acquired Powergen UK plc's (Powergen) remaining interest (18.4%) in Yallourn Energy for a consideration of HK$508 million. The Group's total interest in Yallourn Energy increased to 92% and the participation of Powergen in the operation and management of Yallourn Energy ceased. As a result, Yallourn Energy has been consolidated from that date.

(B) On 11 June 2003, the Group acquired Powergen's remaining interest (20%) in GPEC for a consideration of HK$328 million. On this date, GPEC became a wholly-owned subsidiary company of the Group and the participation of Powergen in the operation and management of GPEC ceased. As a result, GPEC has been consolidated from that date.

14. Investments in Associated Companies

	30 June 2003 HK$M	31 December 2002 HK$M
Electricity Generating Public Company Limited (market value HK$1,236 million, 2002: HK$800 million)	**1,346**	1,276
PowerCom Network Hong Kong Limited	**141**	150
	1,487	1,426

15. Investment Securities

	30 June 2003 HK$M	31 December 2002 HK$M
Equity securities listed in Hong Kong	**14**	14
Unlisted shares	**4**	4
Held-to-maturity securities (A)	**–**	264
Fixed-income securities	**8**	5
	26	287

(A) The Group holds 100% (A$160 million) of the floating rate notes issued by Mezzco Pty Ltd. This is a wholly-owned subsidiary company of AusPower Holdings Pty Ltd., which is the immediate holding company of Yallourn Energy. During the period, the Group acquired an additional interest in Yallourn Energy and has subsequently consolidated both Yallourn Energy and Mezzco Pty Ltd. For the consolidated accounts, the Group's investment in the floating rates notes was eliminated against the liability of Mezzco Pty Ltd.

16. (A) Deferred Tax Assets

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

	30 June 2003 HK$M	31 December 2002 HK$M
At 1 January	–	–
Acquisition of subsidiaries	808	–
Charged to profit and loss account	(9)	–
Translation difference	73	–
	872	–

Analysis of Deferred Tax Assets

	Provisions HK$M	Tax losses HK$M	Accelerated tax depreciation HK$M	Others HK$M	Total HK$M
At 1 January 2003	–	–	–	–	–
(Charged)/credited to profit and loss account	1	44	(68)	14	(9)
Acquisition of subsidiaries	70	2,909	(2,194)	23	808
Translation difference	3	279	(205)	(4)	73
At 30 June 2003	74	3,232	(2,467)	33	872

No comparative figures are shown because all the deferred tax assets are related to Yallourn Energy and GPEC which are consolidated in 2003 and not in 2002.

(B) Deferred Tax Liabilities

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

	30 June 2003 HK$M	31 December 2002 HK$M
At 1 January	3,610	3,279
Acquisition of subsidiaries	222	–
Charge for the period	174	331
Taxation adjustment due to change in tax rate	337	–
Translation difference	5	–
	4,348	3,610

The deferred tax liabilities are due to temporary difference caused by accelerated tax depreciation of HK$4,110 million (December 2002: HK$3,610 million) and tax on dividend distribution of HK$238 million (December 2002: nil).

17. Employee Retirement Benefit Plan Assets

Prior to 25 June 2003, the Group operated two retirement schemes, one for professional and general staff and the other for industrial staff employed by Group Companies in Hong Kong. To streamline operations and enhance administration efficiency, the Group decided to wind up the two retirement schemes and established the new CLP Group Provident Fund Scheme (GPFS) on 25 June 2003. All the members in the old schemes automatically become members of the GPFS. The transfer is based on the principle that there is no change in benefits (past and future) for members.

Pursuant to the Deeds of Termination dated 30 April 2003, the two old retirement schemes were terminated on 24 June 2003. In accordance with their Trust Deeds, upon winding up of the retirement schemes, any surplus assets after meeting the obligation to the members are to be returned to the Group. The surplus assets realised were HK$1,155 million.

18. Deposits, Bank Balances and Cash

	30 June 2003 HK$M	31 December 2002 HK$M
Trust fund for unclaimed dividends	24	25
Deposits, bank balances and cash	548	491
	572	516

19. Other Investments

	30 June 2003 HK$M	31 December 2002 HK$M
Investment in YTL Power, at fair value	659	671

The investment in YTL Power is carried at fair value. On 23 July 2003, the Group reached an agreement to sell the shares at MYR 2.75 per share. Since this offer was made prior to 30 June 2003, the directors have therefore used this sales price as the fair value.

20. Trade and Other Receivables

	30 June 2003 HK$M	31 December 2002 HK$M
Trade receivables (ageing analysis is shown below)	3,229	605
Dividend receivable from jointly controlled entities	384	–
Deposits and prepayments	1,179	601
Current accounts with jointly controlled entities	78	50
	4,870	1,256

The Group has established credit policies for customers in each of its core businesses. The average credit period granted for trade receivables ranges from 13 to 60 days.

20. Trade and Other Receivables (continued)

The ageing analysis of the trade receivables is as follows:

	30 June 2003 HK$M	31 December 2002 HK$M
Below 30 days	2,672	573
31 – 60 days	38	17
61 – 90 days	159	6
Over 90 days	360	9
	3,229	605

21. Trade and Other Payables

	30 June 2003 HK$M	31 December 2002 HK$M
Trade payables (ageing analysis is shown below)	1,272	1,404
Other payables	1,465	752
Current accounts with jointly controlled entities	1,072	1,050
	3,809	3,206

The ageing analysis of the trade payables is as follows:

	30 June 2003 HK$M	31 December 2002 HK$M
Below 30 days	1,204	1,341
31 – 60 days	2	5
61 – 90 days	–	1
Over 90 days	66	57
	1,272	1,404

22. Bank Overdrafts, Bank Loans and Other Borrowings

	30 June 2003 HK$M	31 December 2002 HK$M
Total facilities available	**26,647**	17,212
Facilities utilised		
Bank loans	**13,397**	4,617
Other borrowings	**5,180**	4,680
	18,577	9,297
Short-term loans	**1,305**	567
Current portion of long-term loans and borrowings	**454**	3
	1,759	570
Long-term loans and borrowings, repayable		
within one year	**454**	3
between one and two years	**631**	2
between two and five years	**10,510**	6,385
after five years	**5,677**	2,340
	17,272	8,730
Less current portion of long-term loans and borrowings	**(454)**	(3)
	16,818	8,727
	18,577	9,297

Borrowings at 30 June 2003 include HK$7,458 million in respect of Yallourn Energy and GPEC, which became subsidiary companies during the period.

Of the total facilities available at 30 June 2003, HK$23,658 million are committed (December 2002: HK$14,224 million).

23. Scheme of Control Reserve Accounts

The Scheme of Control reserve accounts comprise the Development Fund, special provision account and rate reduction reserve of CLP Power as follows:

	30 June 2003 HK$M	31 December 2002 HK$M
Development Fund (A)	**2,799**	3,372
Special provision account (B)	**568**	670
Rate reduction reserve (C)	**527**	458
	3,894	4,500

(A) Development Fund

	30 June 2003 HK$M	31 December 2002 HK$M
Balance at beginning of period/year	**3,372**	3,177
Transfer (to)/from profit and loss account	**(263)**	1,420
One-off rebate	**(8)**	(558)
Business relief rebate	**(19)**	(41)
Special rebates to customers	**(283)**	(626)
Balance at end of period/year	**2,799**	3,372

A special rebate of HK¢2.2 per unit (2002: HK¢2.2 per unit) was made to customers during the period. In addition, a business relief rebate of HK¢0.2 per unit (2002: HK¢0.2 per unit) was made to non-residential customers.

23. Scheme of Control Reserve Accounts (continued)

(B) Special Provision Account

	30 June 2003 HK$M	31 December 2002 HK$M
Balance at beginning of period/year	**670**	766
Transfer to profit and loss account	**(102)**	(96)
Balance at end of period/year	**568**	670

CLP Power Hong Kong Limited (CLP Power) and its jointly controlled generating company, Castle Peak Power Company Limited (CAPCO), 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 would 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. Under the arrangement, there is no permitted return to be earned on the deferral premium.

(C) Rate Reduction Reserve

	30 June 2003 HK$M	31 December 2002 HK$M
Balance at beginning of period/year	**458**	411
Transfer from profit and loss account	**148**	319
One-off rebate	**(2)**	(101)
Rebates to customers	**(77)**	(171)
Balance at end of period/year	**527**	458

A rebate of HK¢0.6 per unit (2002: HK¢0.6 per unit) was made to customers during the period.

24. Notes to the Condensed Consolidated Cash Flow Statement

(a) Reconciliation of profit before taxation to cash generated from operations

	6 months ended 30 June	
	2003	2002
	HK$M	HK$M
Profit before taxation	**4,225**	4,555
Adjustments for:		
Operating interests	**198**	64
Finance income	**(35)**	(11)
Hok Un redevelopment profit	**(63)**	(163)
Share of profits less losses of other jointly controlled entities	**(1,711)**	(1,495)
Share of profits less losses of associated companies	**(53)**	(84)
Exchange gain	**(27)**	(20)
Depreciation	**1,005**	842
Loss on disposal of fixed assets	**44**	25
Impairment loss on other investments	**12**	–
Capital gains on disposal of properties	**–**	(5)
Investment gain on realisation of retirement benefit plan asset	**(17)**	–
Hong Kong SoC items:		
Increase in customers' deposits	**78**	110
Increase in fuel clause account	**427**	118
One-off rebate	**(1,286)**	(439)
Rebates to customers under Scheme of Control	**(77)**	(77)
Business relief rebate	**(19)**	(19)
Special rebate	**(283)**	(282)
	(1,160)	(589)
Operating profit before working capital changes	**2,418**	3,119
Decrease/(Increase) in debtors and prepayments	**808**	(638)
(Decrease)/Increase in creditors	**(420)**	337
(Decrease)/Increase in current accounts due to jointly controlled entities	**(6)**	94
Cash generated from operations	**2,800**	2,912

24. Notes to the Condensed Consolidated Cash Flow Statement (continued)

(b) Acquisition of Yallourn Energy and GPEC

	At acquisition 2003 HK$M	2002 HK$M
Cash and cash equivalents	**482**	–
Accounts receivable	**1,460**	–
Other current assets	**940**	–
Property, plant and equipment, net of depreciation	**12,419**	–
Land	**85**	–
Deferred tax assets	**808**	–
Current liabilities	**(1,339)**	–
Long-term loans	**(6,726)**	–
Deferred tax liabilities	**(222)**	–
Long-term liabilities	**(1,209)**	–
Minority interest	**(227)**	–
Net assets previously recorded as jointly controlled entities	**(5,178)**	–
Fair value of net assets acquired	**1,293**	–
Goodwill attributable to subsidiary undertakings	**(457)**	–
Total consideration paid	**836**	–
Cash and cash equivalents of subsidiary undertaking	**(482)**	–
Net cash outflow from acquisition of subsidiary undertakings	**354**	–

25. Commitments

(A) Capital expenditure on fixed assets authorised but not brought into the unaudited condensed interim accounts are as follows:

	30 June 2003 HK$M	31 December 2002 HK$M
Contracted but not provided for	**3,032**	3,056
Authorised but not contracted for	**7,205**	8,402
	10,237	11,458

(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 up to June 2003 was RMB154 million (approximately HK$145 million). The remainder of the share capital will be paid by April 2004.

26. Contingent Liabilities

(A) China Energy Investment Company Limited (CEIC), a wholly-owned subsidiary company of the Group, is a shareholder of Shandong Zhonghua Power Company Limited, a company formed to develop, own and operate the Shiheng I, Shiheng II, Heze II and Liaocheng Power Stations totalling 3,000 MW 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 30 June 2003 to be assumed by the Group for performance of its contractual obligations relating to the Shandong joint venture are estimated to be HK$3,923 million (at 31 December 2002: HK$3,792 million).

(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. 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 30 June 2003, CLP Group's 92% share of the contingent equity support is approximately A$184 million after acquiring Powergen remaining stake in the investment, see Note 13(A).

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.

27. 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 period ended 30 June are described below:

	6 months ended 30 June	
	2003 HK$M	2002 HK$M
Purchases of electricity from CAPCO (A)	**4,962**	5,105
Purchases of nuclear electricity (B)	**2,029**	1,784
Pumped storage service fee (C)	**121**	204
	7,112	7,093

(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 Scheme of Control.

(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) at Daya Bay 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.

27. Related Party Transactions (continued)

(C) Under a capacity purchase contract, Hong Kong Pumped Storage Development Co., Ltd. (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 Scheme of Control.

28. Statement of the Indebtedness, Contingent Liabilities and Capital Commitments – Affiliated Companies

The Company has obtained a waiver from the Stock Exchange of Hong Kong 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 30 June 2003. This information has been extracted from the relevant management accounts of all affiliated companies.

	30 June 2003 HK$M	31 December 2002 HK$M
The Group's share of total indebtedness of affiliated companies analysed as follows:		
Bank borrowings	14,497	18,468
Other borrowings including loans from shareholders	1,709	3,074
	16,206	21,542
The Group's share of contingent liabilities of affiliated companies	125	667
The Group's share of capital commitments of affiliated companies		
Contracted but not provided for	2,013	1,934
Authorised but not contracted for	1,312	2,943
	3,325	4,877

The significant reduction in bank borrowings and other borrowings including loans from shareholders is mainly due to the exclusion at 30 June 2003 of borrowings of Yallourn Energy and GPEC which were consolidated into the Group balance sheet as both were reclassified from jointly controlled entities to subsidiary companies.