Notes to the Accounts

1. General Information

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated accounts whilst its jointly controlled entities and associated companies are collectively referred to as affiliated companies. The principal activity of the Company is investment holding whilst the principal activities of the subsidiaries are the generation and supply of electricity in Hong Kong, Australia and India, and investment holding of power projects in the Chinese mainland and other countries in the Asia-Pacific region. During the year, the Group acquired control of (a) the merchant energy business division (MEB) of SPI Australia Group in Australia and (b) the Huaiji hydro power project in Guangdong, the Chinese mainland. Details of the acquisitions are described in Note 5.

The financial operations of the Company's major subsidiary, CLP Power Hong Kong Limited (CLP Power Hong Kong), and its jointly controlled entity, Castle Peak Power Company Limited (CAPCO), are governed by a Scheme of Control (SoC) Agreement entered into with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as SoC business. The main features of the current SoC are summarised on page 190.

The current SoC Agreement will expire on 30 September 2008. The Hong Kong Government is in the process of formulating a framework for the post-2008 regulatory regime. The final post-2008 regulatory framework will be subject to negotiation and agreement between CLP Power Hong Kong and the Government. The Group considers that there will not be any impairment to the fixed and other assets recognised under the existing SoC.

The accounts have been approved for issue by the Board of Directors on 28 February 2006.

2. Significant Accounting Policies

(A) Basis of Preparation

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) which are stated at fair value.

The preparation of the accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, are disclosed in Note 4.

2. Significant Accounting Policies (continued)

(A) Basis of Preparation (continued)

(i) Adoption of new/revised HKFRSs which are effective for accounting periods commencing on or after 1 January 2005:

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, with the 2004 comparatives amended in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of above HKFRSs has the following impact on the Group's accounting policies:

(a) HKASs 2, 7, 10, 12, 14, 18, 19, 21, 23, 27, 28, 34, 37, 38 and HKFRS 2 have no material effect on the Group's policies; and HKASs 8, 16, 24, 31 and 33 have affected certain disclosure in the accounts.

2. Significant Accounting Policies (continued)

(A) Basis of Preparation (continued)

(i) Adoption of new/revised HKFRSs which are effective for accounting periods commencing on or after 1 January 2005: (continued)

(b) HKAS 1 "Presentation of Financial Statements"

HKAS 1 has affected certain presentation and disclosures in the accounts. Major changes relate to the presentation of (i) share of profit from Hok Un joint venture and transfers under the SoC arrangement, which had been shown separately on the profit and loss account and (ii) share of results of affiliated companies which previously represented the Group's share of affiliated companies' profits or losses before taxation. The adoption of HKAS 1 has also affected the presentation of minority interest.

Pursuant to the provision of HKAS 1 which prohibits presentation of any items of income and expense as extraordinary items, the Group has reclassified (i) the share of profit from Hok Un as part of the share of results from jointly controlled entities, (ii) the transfers from/to Development Fund and special provision account as adjustments to revenue (Note 6) and (iii) the transfer to Rate Reduction Reserve as part of the finance costs (Note 9). The Group's share of results of the affiliated companies has also been presented on an after taxation basis and the minority interest presented within equity, as prescribed under HKAS 1. These changes have no effect on earnings.

(c) HKAS 17 "Leases" and HK-Int 4 "Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases"

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to leasehold land and land use rights. In prior years, leasehold land and land use rights were accounted for as fixed assets and carried at cost less accumulated depreciation and accumulated impairment. Pursuant to the requirements under HKAS 17, leasehold land and land use rights are to be accounted for as operating leases. The upfront prepayments are amortised over the period of the leases or when there is impairment, the impairment is expensed in the profit and loss account. The Group has also made reference to the guidance provided under HK-Int 4 in the adoption of HKAS 17 to the Group's land leases in Hong Kong.

The retrospective application of HKAS 17 and HK-Int 4 has resulted in a reclassification of unamortised lease premium for land from fixed assets to leasehold land and land use rights accounts, with a decrease in fixed assets and a corresponding increase in leasehold land and land use rights of HK$2,240 million at 31 December 2004. There was no impact to the opening balance of retained profits, nor to the profit and loss account.

(d) HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement"

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Apart from the accounting for derivative instruments which is described below, HKAS 39 requires that where an entity sells a portfolio of receivables with recourse, that portfolio should be accounted for as a collateralised borrowing, since it does not qualify for derecognition. In the past, the Group followed the principles under the replaced accounting standard SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets" and disclosed such type of transaction as a contingent liability.

Prior to 1 January 2005, derivative instruments of the Group were not recorded on the balance sheet based on the then prevailing accounting standards. In accordance with the provisions of HKAS 39, however, a derivative or embedded derivative is initially recognised at fair value on the date a derivative contract or hybrid contract is entered into and is subsequently re-measured at its fair value.

The Group has also re-assessed the classification of the SoC reserves as a liability on the balance sheet under HKAS 32 and continues to consider that they meet the definition of a liability. Consequently, no adjustment to, or reclassification of, these balances is required as a result of the introduction of HKAS 32.

2. Significant Accounting Policies (continued)

(A) Basis of Preparation (continued)

(i) Adoption of new/revised HKFRSs which are effective for accounting periods commencing on or after 1 January 2005: (continued)

(d) HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" (continued)

The Group has adopted HKAS 32 and HKAS 39 prospectively. For receivables sold with recourse, the change in the accounting policy has resulted in an increase in receivables and a corresponding increase in borrowings of HK$653 million on 1 January 2005. The Group also identified derivatives embedded in contracts. Recognition of such embedded derivatives has resulted in an increase in receivables and a corresponding increase in the balance of the retained profits as at 1 January 2005 of HK$157 million.

The Group further recognised financial and energy derivatives at fair value in the balance sheet on 1 January 2005 which amounted to a net liability of HK$1,199 million. The corresponding adjustments were to (i) decrease the Group's share of net assets of affiliated companies by HK$110 million, (ii) increase the carrying amount of hedged borrowings by HK$249 million, (iii) increase the deferred tax assets and liabilities by HK$29 million and HK$7 million respectively, (iv) increase the other assets and liabilities by HK$1,368 million and HK$5 million respectively, and (v) decrease the reserves by HK$173 million.

The adjustments made to the balance sheet as at 31 December 2005 as a result of the adoption of HKAS 32 and HKAS 39 were to recognise derivative instruments (a net liability) of HK$16 million and corresponding (i) decrease in the Group's share of net assets of affiliated companies of HK$78 million, (ii) increase in borrowings of HK$362 million, (iii) decrease in deferred tax assets of HK$51 million, (iv) increase in other assets of HK$528 million, and (v) increase in reserves of HK$21 million.

(e) HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets"

Until 31 December 2004, goodwill was amortised on a straight-line basis over its estimated useful life and assessed for impairment whenever events or changes in circumstances indicated that its carrying amount might not be recoverable. The adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005 and now tests for impairment annually and when there are indications of impairment. Pursuant to its transitional provisions, the Group also (i) eliminated the accumulated amortisation of goodwill of HK$5 million on 1 January 2005 with a corresponding decrease in the cost of goodwill and (ii) derecognised the unamortised negative goodwill of HK$1,046 million, with a corresponding adjustment to the balance of retained profits on 1 January 2005. No impairment loss has been recognised in 2005.

(ii) Effects of new/revised HKFRSs that have been issued but are not yet effective:

The HKICPA has issued a few new/revised HKFRSs that are effective for accounting periods commencing on or after 1 January 2006. The Group has started considering the potential impact of these HKFRSs. Based on the preliminary assessment, the Group believes that except for HKFRS-Interpretation 4 (HKFRS-Int 4) "Determining whether an Arrangement contains a Lease", the adoption of other HKFRSs, if applicable, will affect disclosure only and will not result in substantial changes to the Group's accounting policies. The Group has not early adopted these new/revised HKFRSs in the accounts for the year ended 31 December 2005.

In February 2005, the HKICPA issued HKFRS-Int 4 which provides guidance for determining whether a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments are, or contain, leases that should be accounted for in accordance with HKAS 17 "Leases". The interpretation addressed the issues on how to determine whether an arrangement is, or contains a lease as defined in HKAS 17; when the assessment or a reassessment should be made; and how the payments for the lease should be separated from payments for any other elements in the arrangement. The interpretation is effective for accounting periods beginning on or after 1 January 2006.

2. Significant Accounting Policies (continued)

(A) Basis of Preparation (continued)

(ii) Effects of new/revised HKFRSs that have been issued but are not yet effective: (continued)

A preliminary assessment of the Group's existing electricity purchase arrangements is being carried out under the guidance provided by HKFRS-Int 4. Based on the criteria under HKFRS-Int 4, the Electricity Supply Contract between CLP Power Hong Kong and CAPCO may contain a lease. Should the lease be classified as financing in nature, assets under finance lease and finance lease obligations would have to be recognised in the balance sheet. The Group will be continuing with the assessment of the impact and the identification of any leases contained under other arrangements.

(B) Basis of Consolidation

The consolidated accounts of the Group incorporate the accounts of the Company and its subsidiaries made up to 31 December and include the Group's interests in jointly controlled entities and associated companies on the basis set out in Note 2(D) and Note 2(E) below, respectively.

The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

All significant inter-company transactions and balances within the Group are eliminated on consolidation. Accounting policies of subsidiaries and affiliated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(C) Subsidiaries

A subsidiary is an entity which is controlled by the Company, through directly or indirectly, controlling the composition of the board of directors, controlling more than half of the voting power or holding more than half of the issued share capital. Control represents the power to govern the financial and operating policies of that entity. Where an entity in which the Company holds, directly or indirectly, more than half of the issued share capital, but is excluded from consolidation on the grounds of lack of effective control, it would be accounted for as a jointly controlled entity or an associated company, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Interests in subsidiaries are carried on the balance sheet of the Company at cost together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, less provision for impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. Significant Accounting Policies (continued)

(D) 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.

Interests in jointly controlled entities in the consolidated accounts are accounted for by the equity method of accounting. The Group's share of its jointly controlled entities' post-acquisition results is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated balance sheet, interests in jointly controlled entities comprise the Group's share of the net assets of and its net advances made to the jointly controlled entities (where the advances are neither planned nor likely to be settled in the foreseeable future), plus goodwill identified on acquisition and net of accumulated impairment losses.

(E) Associated Companies

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Interests in associated companies in the consolidated accounts are accounted for by the equity method of accounting. The Group's share of its associated companies' post-acquisition results is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated balance sheet, interests in associated companies comprises the Group's share of the net assets of and its net advances made to the associated companies (where the advances are neither planned nor likely to be settled in the foreseeable future), plus goodwill identified on acquisition and net of accumulated impairment losses.

(F) Foreign Currency Translation

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying net investment hedges.

For subsidiaries, jointly controlled entities and associated companies that have a functional currency different from the Group's presentation currency (i.e. Hong Kong dollars), assets and liabilities for each balance sheet presented are translated at the year-end closing rate; whilst income and expenses for each profit and loss account are translated at average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing rate.

2. Significant Accounting Policies (continued)

(G) Segment Reporting

A geographical segment is a group of assets and operations engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format.

Segment assets consist primarily of fixed assets, intangible assets, receivables and other operating assets, and exclude investments in affiliated companies and tax assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and borrowings. Segment revenue is based on the country in which the electricity is generated and/or services are rendered. Segment capital additions represent the total cost incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year.

Unallocated items comprise mainly corporate assets, liquid funds and borrowings that are managed by corporate office and corporate expenses.

(H) Revenue

Revenue represents primarily sales of electricity and gas, engineering and maintenance service fees, other electricity-related revenue such as temporary electricity supply works and reconnection fees and adjustments stipulated under SoC. It is measured at fair value of the consideration received or receivable, net of applicable tax, discounts and/or rebates.

Sales of electricity and gas are based on either actual and accrued consumption derived from meter readings or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

(I) Fixed Assets and Leased Assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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. Additions represent new or replacement of specific components of an asset. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fixed assets employed for the electricity business in Hong Kong, also referred to as SoC fixed assets, represent a major portion of the assets of the Group. Depreciation of these assets is on a straight-line basis using the rates authorised under the SoC which reflect the pattern in which the assets' economic benefits are consumed:

Buildings	35 years
Cable tunnels	100 years
Overhead lines (132kV and above)	35 years
Overhead lines (below 132kV) and cables	30 years
Generating plant	25 years
Switchgear and transformers	35 years
Meters	15 years
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

Under SoC, leasehold land is considered as one class of fixed assets on which permitted return is earned and is amortised over the unexpired terms of the leases.

2. Significant Accounting Policies (continued)

(I) Fixed Assets and Leased Assets (continued)

Fixed assets used for the non-SoC business, which are primarily for the electricity business located outside Hong Kong, are also depreciated on a straight-line basis. Their estimated useful lives are similar to those of the SoC fixed assets and are set out as follows:

Buildings	30 – 40 years
Generating plant	17 – 31 years
Switchgear and transformers	17 – 45 years
Gas storage plant	25 years
Other equipment	10 – 30 years
Furniture and fittings	5 – 10 years
Computers and office equipment	3 – 7 years
Motor vehicles	3 – 10 years
Leasehold land	unexpired terms of the leases
Land use rights	30 years
Freehold land	not depreciable

For plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use.

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease, e.g. up-front payments for leasehold land or land use rights, are amortised on a straight-line basis over the term of the lease to the profit and loss account.

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. A fixed asset under finance lease is depreciated over the shorter of its useful life or the lease term.

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.

(J) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, jointly controlled entity or associated company at the date of acquisition. It is capitalised in the balance sheet as a separate asset if it relates to acquisition of subsidiary or included within interests in jointly controlled entities or associated companies if arising from acquisition of these respective entities. Goodwill is tested for impairment annually or whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses.

(ii) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life and carried at cost less accumulated amortisation and accumulated impairment losses. An intangible asset with an indefinite useful life is tested for impairment annually or whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses.

2. Significant Accounting Policies (continued)

(K) Derivative Instruments

Prior to financial year 2005

The Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement" prospectively from 1 January 2005. Derivative instruments were not recognised at fair value, nor were the gains or losses relating to the fair value change in these instruments being accounted for prior to 2005.

Adjustments on transition date: 1 January 2005

At the date of transition, fair value of derivative instruments is recognised with the corresponding adjustments taken to retained profits or hedging reserve, depending on whether the criteria for hedge accounting are satisfied at the transition date.

Starting financial year 2005

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitment (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. Movements on the hedging reserve in equity are shown in Note 27.

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are transferred to the profit and loss account in the periods when the hedged item affects earnings. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

2. Significant Accounting Policies (continued)

(K) Derivative Instruments (continued)

(iii) Derivatives not qualifying for hedge accounting or are held for trading purposes

Certain derivative instruments do not qualify for hedge accounting or are entered into for trading purposes. Changes in the fair value of these derivative instruments are recognised immediately in the profit and loss account.

The Group enters into sale and purchase transactions for commodities within the ordinary course of business. Transactions that take the form of contracts that are within the scope of HKAS 39 are fair valued at each balance sheet date. Contracts that were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected sale, purchase or usage requirements are not within the scope of HKAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion shall be separated from its host contract and measured as if it were a stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

(L) Inventories

Inventories comprise stores and fuel and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores. For fuel, the cost is measured on the first-in, first-out basis for oil and naphtha and weighted average basis for gas. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(M) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(N) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(O) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and in any case, at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

An impairment loss recognised in prior years for an asset other than goodwill is reversed when there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.

2. Significant Accounting Policies (continued)

(P) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to the profit and loss account or cost of the qualifying assets over the period of the borrowings using the effective interest method.

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 when they are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(Q) 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 accounts. Deferred taxation is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 also provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(R) Provisions and Contingent Liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

2. Significant Accounting Policies (continued)

(S) Employee Benefits

(i) Retirement benefits

The Group operates and/or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme and Mandatory Provident Fund (MPF) scheme administrated by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans.

Contributions to the defined contribution plans are recognised as an expense in the profit and loss account in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(ii) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the balance sheet date.

(T) 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.

(U) Comparatives

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

3. Financial Risk Management

(A) Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and wholesale market energy price fluctuations on the Group's financial performance. The Group uses different derivative instruments to manage its exposure in these areas. Other than certain energy trading activities engaged by subsidiaries of CLP Australia Holdings Pty Ltd (CLP Australia), all derivative instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominately the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance & General Committee of those respective companies. Overseas subsidiaries and affiliated companies conduct their risk management activities in accordance with the policies approved by their respective Boards. Group Treasury identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and cash management.

3. Financial Risk Management (continued)

(A) Financial Risk Factors (continued)

(i) Market risk

(a) Foreign exchange risk

The Group's foreign currency exposures primarily arise from investments outside Hong Kong and CLP Power Hong Kong's significant foreign currency obligations relating to its U.S. dollar-denominated debts, nuclear power purchase off-take commitments and other fuel-related payments.

The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions and recognised liabilities which are denominated in a currency that is not their functional currency. Hedging is only considered for firm commitments and highly probable forecast transactions. In order to mitigate the potential impact of foreign currency movement on electricity tariff in Hong Kong, CLP Power Hong Kong hedges all its U.S. dollar debt repayment obligations for the full tenor and a significant portion of its U.S. dollar obligations on fuel purchases for up to five years, provided that the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK$7.8: US$1.

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks. The Group does not hedge the translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. The non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Certain investments have also incorporated direct and indirect indexation in their project agreements to reduce earnings impact from foreign exchange fluctuation.

(b) Wholesale market energy price risk

CLP Australia sells and purchases electricity to/from the Australia's National Electricity Market. Hedging contracts are entered into to cover forecasted generation loads and retail customer demands, despite its vertically integrated business structure which has been achieved since the acquisition of the MEB in May 2005. These contracts fix the price of electricity within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price.

In addition to its physical market position, CLP Australia enters into financial transactions and other contractual commitments for energy trading purposes. This activity does create exposures which are being actively monitored and managed.

CLP Australia manages such exposure through an established risk management framework consisting of policies to place appropriate limits on overall energy market exposures, delegations of authority on trading, pre-defined product lists, regular reporting of exposures, and segregation of duties. The corporate governance process also includes the oversight by a Risk Management Committee which acts on behalf of CLP Australia's Board.

3. Financial Risk Management (continued)

(A) Financial Risk Factors (continued)

(ii) Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity and/or gas in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has policies in place to monitor the financial viability of counterparties. CLP Power Hong Kong has established the credit policy to allow electricity sale customers to settle their bills within 15 to 17 days after issue. To limit the credit risk exposure, CLP Power Hong Kong also has the policy to require deposits from customers for an amount not exceeding the highest expected charge for 60 days determined from time to time by reference to the usage of the customers. For CLP Australia, receivables are due for settlement no more than 30 days after issue and collectibility is reviewed on an ongoing basis.

Gujarat Paguthan Energy Corporation Private Limited (GPEC), our subsidiary in India, sells all of its electricity output to Gujarat Urja Vikas Nigam Ltd (GUVNL, formerly known as Gujarat Electricity Board) through a 20-year power purchase agreement (PPA). The position of overdue and disputed receivables has improved significantly following the application of bond proceeds by GUVNL to settle overdue receivables in 2004 and the implementation of an amended PPA in recent years.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counter-parties with acceptable credit ratings to minimise credit exposure. The Group further assigns mark-to-market limits to its financial counter-parties and monitors potential exposures to all counter-parties. All derivatives transactions are entered into at the sole credit of the respective subsidiaries and affiliated companies without recourse to the Company.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available.

(iv) Interest-rate risk

The Group's interest-rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk whilst borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group manages its interest-rate risk by using fixed rate borrowings and interest rate swaps which have the economic effect of converting borrowings from floating rates to fixed rates.

The appropriate level of the fixed/floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed/floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications. As at 31 December 2005, 54% of the Group's borrowings were at fixed rates.

(B) Accounting for Derivative Instruments and Hedging Activities

These are covered under the Significant Accounting Policies Note 2(K).

3. Financial Risk Management (continued)

(C) Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at each balance sheet date. Discounted cash flow method is used to determine fair value for long-term borrowings. The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the balance sheet date. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

The nominal values less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

4. Critical Accounting Estimates and Judgements

In preparing the consolidated accounts, management is required to exercise significant judgements in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgements and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

(A) Asset Impairment

The Group has made substantial investments in tangible long-lived assets and equity investments outside Hong Kong. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment of goodwill annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. In 2005, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management concluded that there was no impairment loss for goodwill and other long-lived assets.

(B) Deferred Taxation

As at 31 December 2005, deferred tax asset of HK$3,815 million in relation to unused tax losses has been recognised in the consolidated balance sheet. Estimating the amount for deferred tax asset arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in the profit and loss account for the period in which such a reversal takes place. The Group's deferred tax asset arising from tax losses is from our Australian business. While the current financial models indicate that the tax losses can be utilised in the future, any changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset.

4. Critical Accounting Estimates and Judgements (continued)

(C) SoC-related Accounts

As stipulated in the SoC Agreement, the balance in the Development Fund shall represent a liability in the accounts of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. In addition, an interest charge of 8% per annum on the Development Fund balance is to be accrued to the Rate Reduction Reserve account. CLP Power Hong Kong also has the obligation to maintain the fuel clause account, which represents the difference between an agreed standard cost of fuel and the actual fuel costs.

The Group has re-assessed the classification of the Development Fund, the Rate Reduction Reserve and the fuel clause account. The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement such that these account balances meet the definition of a liability. As a result, the Group recognises, in accordance with the SoC Agreement, income from sales of electricity as revenue except to the extent that the sales in the current period give rise to liabilities. This classification is based on the existing SoC arrangement which expires in 2008. Should there be any change to the terms of the existing SoC, a reclassification may be required.

5. Business Combinations

(A) Acquisition of Merchant Energy Business in Australia

The Group completed the acquisition of the MEB of SPI Australia Group, a wholly-owned subsidiary of Singapore Power Limited (Singapore Power) in two phases; with completion of the acquisition of a 100% interest in the energy retail and generation business on 31 May 2005 and a 33$^{1}/_{3}$% interest in SEAGas partnership on 28 August 2005, as the latter was subject to the consents from other SEAGas partners.

The MEB is one of the largest energy retailers in Australia and sells gas and electricity to over 1.1 million customers across Victoria, New South Wales, South Australia and Queensland. In addition, it owns a 1,280MW gas-fired power station at Torrens Island, South Australia, an interest in a long-term hedge contract for up to 966MW, a gas storage facility and a 33$^{1}/_{3}$% interest in SEAGas which owns and operates a natural gas transmission pipeline between Victoria and South Australia.

5. Business Combinations (continued)

(A) Acquisition of Merchant Energy Business in Australia (continued)

Details of the net assets acquired and goodwill are as follows:

(i) Assets and liabilities arising from the acquisition:

	Fair Value HK$M	Carrying Amount HK$M
Fixed assets (Note 15(A))	**2,988**	**3,299**
Intangible assets (Note 16)	**1,360**	**3,300**[(a)]
Interests in affiliated companies	**615**	**282**
Derivative instruments, net	**320**	**320**
Trade and other receivables	**1,549**	**1,549**
Bank balances, cash and other liquid funds (Note 30(B))	**645**	**645**
Trade and other payables	**(905)**	**(844)**
Total borrowings	**(15)**	**(15)**
Deferred tax liabilities, net (Note 25)	**(788)**	**(806)**
Other net assets	**271**	**185**
Fair value of net assets acquired	**6,040**	**7,915**

Note (a): The carrying amount included goodwill arising from restructuring of the MEB by SPI Australia Group prior to the acquisition by the CLP Group. This was written down to a fair value of zero upon acquisition.

(ii) Goodwill arising from the acquisition:

	HK$M
Purchase consideration:	
– cash paid	**13,013**
– direct costs relating to the acquisition	**48**
Total purchase consideration	**13,061**
Fair value of net assets acquired (as shown above)	**(6,040)**
Goodwill (Note 16)	**7,021**

The MEB, when combined with the Group's existing TRUenergy Yallourn Pty Ltd (Yallourn, formerly known as Yallourn Energy Pty Limited), has created a diversified energy business across retail and generation. The above goodwill is primarily attributable to the non-contracted customer base of the retail business and significant synergies expected to arise after the acquisition.

5. Business Combinations (continued)

(A) Acquisition of Merchant Energy Business in Australia (continued)

The above figures are different from those disclosed in the Interim Accounts primarily attributable to (i) the completion of the acquisition of 33 1/3% interest in SEAGas and (ii) changes in recognition and measurement of some contractual arrangements and intangible assets. Impacts to the accounts are summarised below:

(i) The Group completed the acquisition of SEAGas in August 2005 for a total cash consideration of A$195 million, with SEAGas being classified as a jointly controlled entity of the Group.

(ii) The Group critically reviewed the accounting treatment of certain key transactions of the MEB, including the lease arrangement under the long-term hedge agreement with Ecogen Energy Pty Ltd (Ecogen, which owns 966MW gas-fired generation facilities in Victoria) and fair valuation methodology of electricity caps and options, during the second half of 2005. The Group had also performed a review to identify any intangible assets acquired. These changes in treatment and measurement as well as reclassification of certain assets and liabilities to conform with the Group policies have been reflected in the accounts, with the most significant impact being on fixed assets, intangible assets and total borrowings as a result of the reclassification of the long-term hedge agreement from being a finance lease to an operating lease (Note 31(C)).

The acquired business contributed revenue of HK$6,065 million and earnings of HK$38 million to the Group for the period from 1 June 2005 to 31 December 2005.

(B) Additional Interest in Huaiji Project

The Group's interest in Huaiji project increased from 41.5% to 75.0% following the acquisition of the interest held by Sun Hung Kai China Development Fund Limited on 30 June 2005 and completion of a shareholding restructuring on 3 November 2005. The Group then acquired control of Huaiji; and accordingly Huaiji was reclassified from a jointly controlled entity to a subsidiary of the Group. The project comprises 8 small hydro power stations that are in operation and one under construction in Huaiji County, Guangdong, amounting to a total of 98MW.

5. Business Combinations (continued)

(B) Additional Interest in Huaiji Project (continued)

Details of the net assets acquired and goodwill are as follows:

(i) Assets and liabilities arising from the acquisition:

	Fair Value HK$M	Carrying Amount[a] HK$M
Fixed assets (Note 15(A))	**662**	**487**
Leasehold land and land use rights (Note 15(B))	**43**	**21**
Deferred tax assets (Note 25)	**6**	**36**
Trade and other receivables	**79**	**79**
Bank balances, cash and other liquid funds (Note 30(B))	**30**	**30**
Trade and other payables	**(85)**	**(85)**
Total borrowings	**(228)**	**(228)**
Other net liabilities	**(51)**	**(51)**
Net assets	**456**	**289**
Net assets previously recorded as jointly controlled entity	**(191)**	
Minority interest (25%)	**(112)**	
Fair value of net assets acquired	**153**	

Note (a): After adjustments for receivables due from the joint venture partner given up upon restructuring.

(ii) Goodwill arising from the acquisition:

	HK$M
Purchase consideration:	
– cash paid	**53**
– non-cash consideration[a]	**100**
Total purchase consideration	**153**
Fair value of net assets acquired (as shown above)	**(153)**
Goodwill	**–**

Note (a): Non-cash consideration mainly represents the Group's share of Huaiji's receivables due from the joint venture partner given up upon restructuring.

The acquired business contributed revenue of HK$17 million and an operating loss of HK$2 million to the Group for the period from 1 November 2005 to 31 December 2005.

(C) If the above two acquisitions had occurred on 1 January 2005, the combined Group revenue and earnings would have been HK$42,703 million and HK$11,526 million respectively.

6. Revenue

An analysis of the Group revenue, which incorporates the revenue of the MEB and Huaiji after each became a subsidiary of the Group in 2005, is as follows:

	2005 HK$M	2004 HK$M
Sales of electricity	**36,894**	30,464
Sales of gas	**1,801**	–
Other revenue	**416**	320
	39,111	30,784
Transfer to Development Fund (A)	**(527)**	(219)
Transfer from special provision account	**–**	176
	38,584	30,741

(A) Pursuant to the SoC Agreement, if the gross tariff revenue in Hong Kong in any year exceeds or is less than the total of the operating costs, permitted return and taxation charges, such excess shall be added to, or such deficiency shall be deducted from, the Development Fund (Note 29).

7. Segment Information

The Group operates, through its subsidiaries, jointly controlled entities and associated companies, in four major geographical regions – Hong Kong, Australia, the Chinese mainland and other countries in Asia. Information about the Group's operations by geographical regions is as follows:

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	Other Countries in Asia HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2005						
Revenue	28,516	8,045	17	2,004	2	**38,584**
Segment results	7,729	643	(132)	593	(138)	**8,695**
Share of results, net of tax						
jointly controlled entities	1,779	16	1,102[(a)]	202	–	**3,099**
associated companies	–	–	–	140	–	**140**
Profit/(Loss) before financing and taxation	9,508	659	970	935	(138)	**11,934**
Finance costs						**(1,613)**
Finance income						**124**
Taxation						**922**
Minority interest						**1**
Earnings for the year						**11,368**
Capital additions	4,852	750	2	35	1	**5,640**
Depreciation and amortisation	2,020	663	7	204	2	**2,896**
Impairment charge	–	–	–	–	–	**–**
As at 31 December 2005						
Segment assets	47,948	26,570	916	5,629	145	**81,208**
Interests in						
jointly controlled entities	7,138	1,093	6,888	1,400	–	**16,519**
associated companies	–	5	–	1,636	–	**1,641**
Tax assets	–	2,504	33	–	–	**2,537**
Consolidated total assets	55,086	30,172	7,837	8,665	145	**101,905**
Segment liabilities	11,287	4,284	150	598	77	**16,396**
Total borrowings	–	11,108	228	1,236	16,819	**29,391**
Tax liabilities	5,442	133	27	246	–	**5,848**
Consolidated total liabilities	16,729	15,525	405	2,080	16,896	**51,635**

Note (a): Out of the HK$1,102 million, HK$760 million was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

7. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	Other Countries in Asia HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2004						
Revenue	26,923	2,000	–	1,814	4	30,741
Segment results	7,155	770	(181)	474	(157)	8,061
Share of results, net of tax						
jointly controlled entities	1,697	–	1,014[(a)]	186	–	2,897
associated companies	(2)	–	–	190	–	188
Profit/(Loss) before financing and taxation	8,850	770	833	850	(157)	11,146
Finance costs						(1,299)
Finance income						63
Taxation						(1,296)
Earnings for the year						8,614
Capital additions	5,282	511	7	17	6	5,823
Depreciation and amortisation	1,875	425	2	181	2	2,485
Impairment charges	11	–	15	–	–	26
As at 31 December 2004						
Segment assets	44,374	12,317	215	6,007	205	63,118
Interests in						
jointly controlled entities	6,894	–	6,643	1,461	–	14,998
associated companies	–	–	–	1,640	–	1,640
Tax assets	–	1,043	–	–	–	1,043
Consolidated total assets	51,268	13,360	6,858	9,108	205	80,799
Segment liabilities	10,731	971	60	511	66	12,339
Total borrowings	–	6,106	–	1,397	11,271	18,774
Tax liabilities	5,067	103	–	317	–	5,487
Consolidated total liabilities	15,798	7,180	60	2,225	11,337	36,600

Note (a): Out of the HK$1,014 million, HK$727 million was attributed to investments in GNPJVC and PSDC, whose generating facilities serve Hong Kong.

No business analysis is shown as substantially all the principal activities of the Group are for the generation and supply of electricity. These businesses are managed and operated on an integrated basis in each region. It is therefore not considered appropriate to disclose the generation and supply businesses separately.

8. Operating Profit

Operating profit is stated after charging/(crediting) the following:

	2005 HK$M	2004 HK$M
Charging		
Staff costs (A)		
Salaries and other costs	**1,769**	1,564
Retirement benefits costs (B)	**155**	138
Auditors' remuneration (C)		
Audit	**17**	9
Permissible non-audit services	**17**	5
Lease expenditure for long-term hedge agreement with Ecogen	**125**	–
Net loss on disposal of fixed assets	**103**	212
Other net exchange loss/(gain)	**30**	(48)
Crediting		
Other net fair value (gain)/loss on derivative instruments		
Cash flow hedges, transfer from equity	**(58)**	–
Transactions not qualifying as hedges	**96**	–
Net rental income from properties	**(14)**	(14)
Capital gains on disposal of properties	**(128)**	(214)
Net (gain)/loss on disposal of other assets	**(37)**	38

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

(B) The retirement benefit plans for staff employed by Group companies in Hong Kong are regarded as defined contribution schemes. The current scheme, named CLP Group Provident Fund Scheme (GPFS) and established on 25 June 2003, provides benefits linked to contributions and investment returns on the scheme. Contributions to defined contribution schemes, including GPFS and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$182 million (2004: HK$184 million), of which HK$64 million (2004: HK$61 million) was capitalised.

Staff employed by subsidiaries outside Hong Kong are covered by appropriate local arrangements. Total contributions amounted to HK$37 million (2004: HK$15 million). The Group's financial obligations to these arrangements are not material.

(C) Audit fees for 2005 include the fees of HK$6 million for the newly acquired entities under the MEB in Australia.

Permissible non-audit services comprise primarily the due diligence and accounting/tax advisory services to business developments and U.S. compliance review services. Total service fees amounted to HK$20 million (2004: HK$5 million), of which HK$3 million (2004: nil) was capitalised as part of acquisition cost.

9. Finance Costs and Income

	2005 HK$M	2004 HK$M
Finance costs:		
Interest expenses on		
bank loans and overdrafts	**905**	713
other borrowings		
– wholly repayable within five years	**166**	166
– not wholly repayable within five years	**261**	152
Development Fund and special provision account (A)	**274**	253
customers' deposits and others	**69**	55
Finance charges	**62**	117
Fair value loss on financial instruments		
Cash flow hedges, transfer from equity	**174**	–
Hedging costs and net exchange difference	**(1)**	104
	1,910	1,560
Less: amount capitalised (B)	**(297)**	(261)
	1,613	1,299
Finance income:		
Interest income on		
short-term investments and bank deposits	**122**	62
advance to a jointly controlled entity	**2**	1
	124	63

(A) In accordance with the provisions of the SoC Agreement, CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its accounts, a charge of 8% per annum on the sum of the average balances of the Development Fund and special provision account (Note 29).

(B) Finance costs have been capitalised at the average interest rate of 4.70% per annum for CLP Power Hong Kong and 6.38% per annum for Yallourn.

10. Share of Results of Affiliated Companies

The share of results of affiliated companies is determined based upon the accounts of the respective affiliated companies, after making adjustments to conform with the Group's significant accounting policies, for the year ended 31 December.

11. Taxation

Taxation in the consolidated profit and loss account represents the taxation of the Company and subsidiaries and is analysed below:

	2005 HK$M	2004 HK$M
Current income tax		
Hong Kong	**1,009**	869
Outside Hong Kong	**53**	29
	1,062	898
Deferred income tax		
Hong Kong	**364**	399
Outside Hong Kong, excluding tax consolidation benefit	**(344)**	(1)
	20	398
Tax consolidation benefit from Australia (A)	**(2,004)**	–
	(1,984)	398
	(922)	1,296

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2005 HK$M	2004 HK$M
Profit before taxation (excluding share of results of affiliated companies)	**7,206**	6,825
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**1,261**	1,194
Effect of different taxation rates in other countries	**(189)**	(81)
Income not subject to taxation	**(30)**	(41)
Expenses not deductible for taxation purposes	**36**	19
Transfers from/to SoC reserve accounts not subject to taxation (Note 29)	**140**	52
Tariff rebates deductible for taxation purposes	**(61)**	(32)
(Over)/Under-provision in prior years	**(114)**	78
Tax losses not recognised	**45**	86
Withholding/dividend distribution tax	**(6)**	21
	1,082	1,296
Tax benefit arising from tax consolidation adjustments (A)	**(2,004)**	–
Tax (revenue)/charge	**(922)**	1,296

11. Taxation (continued)

(A) During the year, CLP Australia Holdings Pty Ltd (CLP Australia Holdings) formed a tax consolidated group whereby CLP Australia Holdings and its Australian-resident wholly-owned subsidiaries are treated as a single entity for income tax purposes. Pursuant to the relevant rules, CLP Australia Holdings reset the tax cost base of certain depreciable assets of its group, resulting in the adjustment of deferred tax balances and recognition of a one-time tax benefit of HK$2,004 million in 2005. The reset will result in additional tax depreciation available over the lives of the assets. This will also have the effect of deferring the utilisation of the deferred tax asset of HK$3,815 million (Note 25) arising from tax losses in Australia recognised by the Group. In accordance with the Group's accounting policy, the deferred tax asset will be subject to impairment review. Current financial projections indicate it is probable that future taxable profits will be available against which the unused tax losses can be utilised. However, any significant adverse change to the business environment in the future may affect the financial projections, resulting in reduced future taxable profits. Should such circumstances arise, it may be necessary for some or all of this deferred tax asset to be impaired with the impairment being charged to the profit and loss account.

12. Earnings Attributable to Shareholders

Of the Group earnings of HK$11,368 million (2004: HK$8,614 million), HK$7,602 million (2004: HK$6,350 million) has been dealt with in the accounts of the Company.

The following analysis of earnings is outside the requirements of HKFRSs and is included to give further information to investors on the source of Group earnings:

	2005		2004	
	HK$M	**HK$M**	HK$M	HK$M
Earnings from electricity business in Hong Kong (page 191)		**7,047**		6,788
Electricity sales to Chinese mainland from Hong Kong	**120**		90	
Generating facilities in Chinese mainland serving Hong Kong (GNPJVC and PSDC)	**760**		727	
Other power projects in Chinese mainland	**205**		106	
Energy business in Australia	**200**		118	
Power projects in other countries in Asia	**910**		706	
Group non-energy activities	**144**		(76)	
		2,339		1,671
Unallocated net finance costs		**(151)**		(61)
Unallocated Group expenses		**(138)**		(157)
Total operating earnings		**9,097**		8,241
Hok Un redevelopment profit/property disposal gain (A)		**267**		373
Tax consolidation benefit from Australia (Note 11)		**2,004**		–
Earnings attributable to shareholders		**11,368**		8,614

12. Earnings Attributable to Shareholders (continued)

(A) Breakdown of the Hok Un redevelopment profit/property disposal gain is as follows:

	2005 HK$M	2004 HK$M
Property disposal gain	**–**	214
Hok Un redevelopment profit[(a)]		
Share of profit before taxation	**304**	187
Taxation	**(37)**	(28)
Share of profit after taxation	**267**	159
	267	373

Note (a): Represents the Group's share of profit arising from the sale of the remaining units of Phases 4 and 5 and car parking spaces.

13. Dividends

	2005		2004	
	HK$ per share	**HK$M**	HK$ per share	HK$M
Interim dividends paid	**1.44**	**3,468**	1.35	3,251
Final dividend proposed	**0.83**	**1,999**	0.73	1,758
Special final dividend proposed	**0.11**	**265**	0.15	361
	2.38	**5,732**	2.23	5,370

At the Board meeting held on 28 February 2006, the Directors recommended a final dividend of HK$0.83 per share and a special final dividend of HK$0.11 per share. Such dividends are to be proposed at the Annual General Meeting on 25 April 2006 and are not reflected as dividends payable in the accounts, but as a separate component of the shareholders' funds for the year ended 31 December 2005.

14. Earnings per Share

The prescribed figure for earnings per share includes (a) the Hok Un redevelopment profit/property disposal gain (Note 12(A)) and (b) the tax consolidation benefit from Australia (Note 11) and is computed as follows:

	2005	2004
Earnings for the year (HK$M)	**11,368**	8,614
Weighted average number of shares in issue (thousand shares)	**2,408,246**	2,408,246
Earnings per share (HK$)	**4.72**	3.58

To enable investors to understand better the Group's results, additional earnings per share figures, excluding the Hok Un redevelopment profit/property disposal gain and/or one-off tax consolidation benefit from Australia, are provided below:

	2005 HK$M	2004 HK$M
Earnings for the year	**11,368**	8,614
Less: Tax consolidation benefit from Australia	**(2,004)**	–
	9,364	8,614
Less: Hok Un redevelopment profit/property disposal gain	**(267)**	(373)
Earnings excluding Hok Un redevelopment profit/property disposal gain and tax consolidation benefit from Australia	**9,097**	8,241
Earnings per share (HK$)		
– Including Hok Un redevelopment profit/property disposal gain but excluding tax consolidation benefit from Australia	**3.89**	3.58
– Excluding Hok Un redevelopment profit/property disposal gain and tax consolidation benefit from Australia	**3.78**	3.42

Basic and fully diluted earnings per share are the same as the Company did not have any diluting equity instruments for the year ended 31 December 2005 (2004: nil).

15. Fixed Assets, Leasehold Land and Land Use Rights

Fixed assets, leasehold land and land use rights totalled HK$63,049 million (2004: HK$57,748 million). The SoC Agreement considers leasehold land as one class of fixed assets on which permitted return is earned. When employed for the SoC business, they are collectively referred to as SoC fixed assets and amounted to HK$45,099 million as at 31 December 2005 (2004: HK$42,415 million). Capital expenditure on fixed assets and leasehold land incurred during the year for the SoC business totalled HK$4,849 million (2004: HK$5,278 million).

Fixed assets, leasehold land and land use rights that were attributed to overseas subsidiaries totalled HK$17,840 million (2004: HK$15,147 million).

Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Freehold Land and Buildings		**Plant, Machinery and Equipment** (i)		**Total**	
	2005 HK$M	2004 HK$M	**2005 HK$M**	2004 HK$M	**2005 HK$M**	2004 HK$M
Net book value, as at 1 January						
– as previously reported	**–**	7,756	**–**	46,401	**–**	54,157
– reclassification of leasehold land (Note 2)	**–**	(2,229)	**–**	–	**–**	(2,229)
– as currently reported	**6,002**	–	**49,506**	–	**55,508**	–
	6,002	5,527	**49,506**	46,401	**55,508**	51,928
Acquisition of subsidiaries (Note 5)	**533**	–	**3,117**	–	**3,650**	–
Additions	**564**	703	**5,074**	5,059	**5,638**	5,762
Transfers and disposals	**(75)**	(74)	**(143)**	(228)	**(218)**	(302)
Depreciation charge	**(183)**	(170)	**(2,598)**	(2,309)	**(2,781)**	(2,479)
Exchange differences	**(23)**	16	**(959)**	583	**(982)**	599
Net book value, as at 31 December	**6,818**	6,002	**53,997**	49,506	**60,815**	55,508
Cost	**8,913**	7,739	**79,432**	71,901	**88,345**	79,640
Accumulated depreciation	**(2,095)**	(1,737)	**(25,435)**	(22,395)	**(27,530)**	(24,132)
Net book value, as at 31 December	**6,818**	6,002	**53,997**	49,506	**60,815**	55,508

(i) Plant, machinery and equipment included leased assets of HK$1,845 million (2004: nil). This primarily relates to the Torrens Island Power Station (TIPS) in Australia, which is under a long-term lease from the South Australia (SA) Government for 99 years from 6 June 2000. Under the lease arrangement, substantially all ownership risks and benefits of TIPS have been passed to TRUenergy SA Generation Pty Ltd. All payments under the lease had been paid at inception, and the plant site will be restored and returned to the SA Government at the end of the lease.

Included in fixed assets is plant under construction, the book value of which as at 31 December 2005 was HK$7,423 million (2004: HK$7,121 million) for the Group.

Company

The net book value of fixed assets of the Company was HK$8 million (2004: HK$10 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$1 million and HK$2 million respectively.

15. Fixed Assets, Leasehold Land and Land Use Rights (continued)

(B) Leasehold Land and Land Use Rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value is analysed as follows:

	2005 HK$M	2004 HK$M
Net book value, as at 1 January		
– as previously reported	–	–
– reclassification of leasehold land (Note 2)	–	2,229
– as currently reported	2,240	–
	2,240	2,229
Acquisition of a subsidiary (Note 5(B))	43	–
Additions	2	61
Transfers and disposals	(2)	–
Amortisation charge	(49)	(50)
Net book value, as at 31 December	2,234	2,240
Cost	2,340	2,290
Accumulated amortisation	(106)	(50)
Net book value, as at 31 December	2,234	2,240

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

	2005 HK$M	2004 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	150	152
On medium-term leases (10 - 50 years)	2,039	2,085
On short-term leases (less than 10 years)	1	2
	2,190	2,239
Held outside Hong Kong:		
On long-term leases (over 50 years)	1	1
On medium-term leases (10 - 50 years)	43	–
	44	1
	2,234	2,240

16. Goodwill and Other Intangible Assets

	Goodwill HK$M	Negative Goodwill HK$M	Net Balance HK$M	Other Intangible Assets HK$M	Total HK$M
As at 31 December 2005					
Net carrying value, at beginning of year					
– as previously reported	24	(1,046)	(1,022)	–	(1,022)
– derecognition of negative goodwill (Note 2)	–	1,046	1,046	–	1,046
– as restated	24	–	24	–	24
Acquisition of a subsidiary (Note 5)	7,021	–	7,021	1,360	8,381
Amortisation charge	–	–	–	(66)	(66)
Exchange differences	(328)	–	(328)	(62)	(390)
Net carrying value, at end of year	**6,717**	**–**	**6,717**	**1,232**	**7,949**
Cost	6,717	–	6,717	1,296	8,013
Accumulated amortisation	–	–	–	(64)	(64)
Net carrying value, at end of year	**6,717**	**–**	**6,717**	**1,232**	**7,949**
As at 31 December 2004					
Net carrying value, at beginning of year	25	(1,042)	(1,017)	–	(1,017)
Acquisition of remaining interest in a subsidiary	–	(21)	(21)	–	(21)
Fair value adjustments	–	11	11	–	11
Amortisation (charge)/credit	(2)	46	44	–	44
Exchange differences	1	(40)	(39)	–	(39)
Net carrying value, at end of year	24	(1,046)	(1,022)	–	(1,022)
Cost	29	(1,164)	(1,135)	–	(1,135)
Accumulated amortisation	(5)	118	113	–	113
Net carrying value, at end of year	24	(1,046)	(1,022)	–	(1,022)

Other intangible assets include contracted customers and a lease arrangement under the long-term hedge agreement with Ecogen which arose from the acquisition of the MEB at the end of May 2005. MEB is considered as a cash-generating unit of the Group for 2005.

Contracted customers and the lease premium are amortised on a straight-line basis over a period of 6 and 14 years respectively.

17. Interests in and Advances to Subsidiaries

	2005 HK$M	2004 HK$M
Unlisted shares, at cost	**23,590**	23,590
Provision for impairment losses	**(100)**	(100)
Advances to subsidiaries, less provisions (A)	**17,311**	12,046
	40,801	35,536

(A) The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms. These advances are considered as quasi-equity loans to the subsidiaries (Note 32(C)).

The Company has also made an advance to CLP Engineering Limited of HK$41 million (2004: HK$41 million), which is interest-free and due on or after 30 June 2007 upon demand. This advance is classified as a long-term receivable in the Company's accounts.

The table below lists the principal subsidiaries of the Group:

Name	Issued Share Capital/ Registered Capital	% of Issued Capital Held at 31 December 2005	Place of Incorporation/ Operation	Principal Activity
CLP Power Hong Kong Limited	2,488,320,000 ordinary shares of HK$5 each	100	Hong Kong	Generation and Supply of Electricity
Hong Kong Nuclear Investment Company Limited	300,000 ordinary shares of HK$1,000 each	100	Hong Kong/ Chinese mainland	Power Project Investment Holding
CLP Engineering Limited	410 ordinary shares of HK$10,000 each	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands/ International and Chinese mainland	Power Projects Investment Holding
CLP Power China Limited	192,000,000 ordinary shares of US$1 each	100*	British Virgin Islands/ Chinese mainland	Power Projects Investment Holding
CLP Power International Limited	192,000 ordinary shares of US$1,000 each	100*	British Virgin Islands/ International	Power Projects Investment Holding
CLP Properties Limited	15,000,000 ordinary shares of HK$10 each	100	Hong Kong	Property Investment Holding
CLP Research Institute Limited	1 ordinary share of US$1	100	British Virgin Islands/ Hong Kong	Research and Development

17. Interests in and Advances to Subsidiaries (continued)

Name	Issued Share Capital/ Registered Capital	% of Issued Capital Held at 31 December 2005	Place of Incorporation/ Operation	Principal Activity
CLP Australia Holdings Pty Ltd	5 ordinary shares of A$1 each; 5,336,760 redeemable preference shares of A$100 each	100*	Australia	Energy Business Investment Holding
TRUenergy Yallourn Pty Ltd (formerly known as Yallourn Energy Pty Limited)	15 ordinary shares of A$1 each	100*	Australia	Generation and Supply of Electricity
TRUenergy Pty Ltd	131,686,988 ordinary shares of A$1 each	100*	Australia	Retailing of Electricity and Gas
Gujarat Paguthan Energy Corporation Private Limited	735,225,326 shares of Rs.10 each	100*	India	Generation and Supply of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited	RMB69,098,976	75*	Chinese mainland	Generation and Supply of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited	RMB249,430,049	75*	Chinese mainland	Generation and Supply of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited	RMB110,031,366	75*	Chinese mainland	Generation and Supply of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited	RMB141,475,383	75*	Chinese mainland	Generation and Supply of Electricity

* Indirectly held

18. Interests in Jointly Controlled Entities

The table below lists the Group's interests in jointly controlled entities:

	2005 HK$M	2004 HK$M
Castle Peak Power Company Limited (A)		
Share of net assets	**188**	181
Advances	**6,427**	6,037
Special loan	**78**	78
	6,693	6,296
Guangdong Nuclear Power Joint Venture Company, Limited (B)		
Share of net assets	**3,077**	3,050
Ho-Ping Power Company (C)		
Share of net assets other than goodwill	**1,114**	1,083
Goodwill	**234**	243
	1,348	1,326
CLP Guohua Power Company Limited (D)		
Share of net assets other than goodwill	**1,175**	1,104
Goodwill	**118**	118
	1,293	1,222
Shandong Zhonghua Power Company, Ltd. (E)		
Share of net assets	**1,091**	1,132
Guizhou CLP Power Company Limited (F)		
Share of net assets	**466**	466
CLP Guangxi Fangchenggang Power Company Limited (G)		
Share of net assets	**424**	–
Hok Un joint venture (H)		
Share of net assets	**400**	343
Hong Kong Pumped Storage Development Company, Limited (I)		
Share of net assets	**11**	11
Advances	**317**	313
	328	324
Others (J)		
Share of net assets other than goodwill	**819**	525
Goodwill	**537**	61
Advances	**43**	253
	1,399	839
	16,519	14,998

18. Interests in Jointly Controlled Entities (continued)

The advances to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms except for an advance of HK$43 million (2004: HK$253 million) to a joint venture undertaken with a subsidiary of Cheung Kong (Holdings) Limited, of which HK$43 million (2004: HK$50 million) bears interest of 3.5% (2004: 2.0%) per annum. These advances are considered as quasi-equity loans.

The Group's share of net assets, capital commitments and contingent liabilities of the jointly controlled entities as at 31 December and its share of profits after taxation for the year then ended are as follows:

	2005 HK$M	2004 HK$M
Non-current assets	**29,591**	29,220
Current assets	**4,938**	4,004
Current liabilities	**(3,845)**	(3,880)
Non-current liabilities	**(21,030)**	(21,027)
Net assets as at year end	**9,654**	8,317
Revenue	**10,943**	9,840
Expenses	**(7,321)**	(6,472)
Share of profits before taxation	**3,622**	3,368
Taxation	**(523)**	(471)
Share of profits after taxation for the year	**3,099**	2,897
Capital commitments as at year end	**9,406**	3,902
Contingent liabilities as at year end	**385**	625

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 31. There are no contingent liabilities relating to the Group's interest in these entities.

18. Interests in Jointly Controlled Entities (continued)

Details of the jointly controlled entities are summarised below:

(A) Castle Peak Power Company Limited (CAPCO) is 40% owned by CLP Power Hong Kong 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 Hong Kong. While CAPCO owns the power generation assets, CLP Power Hong Kong builds and operates all CAPCO's power stations and is the sole off-taker.

Under the terms of the revised CAPCO Deed of Subordination, in the event of the winding up of CAPCO, CLP Power Hong Kong's advances to it would be subordinated to certain loans of CAPCO. CLP Power Hong Kong'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 unsecured, at the deemed interest rate of 7.87% payable semi-annually and repayable in full on 30 September 2008.

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

	2005 HK$M	2004 HK$M
Results for the year		
Revenue	**11,780**	11,025
Profit before taxation	**4,442**	4,420
Group's share of profit before taxation	**1,782**	1,773
Net assets[(a)] as at year end		
Non-current assets	**26,886**	27,542
Current assets	**1,714**	1,516
Current liabilities	**(4,155)**	(3,915)
Deferred taxation	**(2,811)**	(2,847)
Other non-current liabilities	**(5,030)**	(6,684)
	16,604	15,612

Note (a): The amounts exclude the special loan and advances from shareholders.

18. Interests in Jointly Controlled Entities (continued)

(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 adjustments to conform with the Group's significant accounting policies, for the year ended 31 December is set out as follows:

	2005 HK$M	2004 HK$M
Results for the year		
Revenue	**7,076**	6,700
Profit before taxation	**3,120**	2,956
Group's share of profit before taxation	**780**	739
Net assets as at year end		
Non-current assets	**12,853**	14,600
Current assets	**6,951**	5,411
Current liabilities	**(1,418)**	(1,530)
Other non-current liabilities	**(6,078)**	(6,281)
	12,308	12,200

(C) 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 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.

(D) CLP Guohua Power Company Limited, the joint stock company with 51% owned by China Shenhua Energy Company Limited (formerly owned 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.

(E) Shandong Zhonghua Power Company, Ltd. is 29.4% owned by the Group and is incorporated in the Chinese mainland. This company owns four power stations (namely Shiheng I, Shiheng II, Heze II and Liaocheng) totalling 3,000MW. All power generated is for supply to the Shandong power grid.

18. Interests in Jointly Controlled Entities (continued)

(F) Guizhou CLP Power Company Limited (Guizhou CLP Power) is 70% owned by the Group and is incorporated in the Chinese mainland. This company constructed and operates a coal-fired power station, Anshun II Power Station, in Guizhou with an installed capacity of 600MW. The plant commenced commercial operations of Unit 1 and Unit 2 in March and November 2004 respectively. All power generated is for supply to the Guizhou power grid.

Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activity of Guizhou CLP Power; and hence, the Group's interest is accounted for as a jointly controlled entity. In view of the significant shareholding in this investment, an extract of the management accounts of Guizhou CLP Power, after making adjustments to conform with the Group's significant accounting policies, for the year ended 31 December is set out as follows:

	2005 HK$M	2004 HK$M
Results for the year		
Revenue	**718**	604
Profit before taxation	**61**	81
Group's share of profit before taxation	**42**	57
Net assets as at year end		
Fixed assets	**2,161**	2,240
Current assets	**351**	295
Current liabilities	**(190)**	(153)
Other non-current liabilities	**(1,657)**	(1,717)
	665	665

(G) CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) is 70% owned by the Group and is incorporated in the Chinese mainland. This company owns and will operate a 1,200MW coal-fired power station currently under construction in Guangxi. Unit 1 is targeted for commissioning by the end of 2007. Power generated is substantially for supply to the Guangxi power grid.

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

(H) The Group entered into a joint venture agreement with a wholly-owned subsidiary 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 the profits arising from the project, with a minimum overall profit guaranteed by the subsidiary of Cheung Kong (Holdings) Limited which also provides all the necessary funding.

In 1999, the joint venture obtained an additional Plot Ratio from the Hong Kong Government. Under a separate agreement with the subsidiary 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 the associated land premium, development and marketing costs.

Over 99% of the residential units at Laguna Verde had been sold by the end of 2005.

(I) Hong Kong Pumped Storage Development Company, Limited is 49% owned by the Group and is incorporated in Hong Kong. This company has the right to use 50% of the capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Guangdong Province until 2034.

18. Interests in Jointly Controlled Entities (continued)

(J) The Group's other investments include the following key projects:

- 50% interest in a joint venture undertaken with a subsidiary 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;
- 50% interest in BLCP Power Limited, which owns and will operate a 1,434MW coal-fired power station currently under construction in Thailand;
- 33⅓% interest in SEAGas Partnership, which is incorporated in Australia and owns and operates a gas pipeline from Port Campbell in Western Victoria to Adelaide in South Australia; and
- 50% interest in Roaring 40s Renewable Energy joint venture, which owns two wind farms in Australia and provides a platform to develop renewable energy business in Australia and elsewhere in the Asia-Pacific region.

19. Interests in Associated Companies

	2005 HK$M	2004 HK$M
Electricity Generating Public Company Limited (A)		
Share of net assets other than goodwill	**1,494**	1,489
Goodwill	**142**	151
	1,636	1,640
Gascor Pty Ltd (B)		
Share of net assets	**5**	–
	1,641	1,640

(A) Electricity Generating Public Company Limited (EGCO) is 22.4% (2004: 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 15 Board members. The market value as at 31 December 2005 was HK$1,892 million (2004: HK$1,769 million).

(B) The Group, through its acquisition of the MEB in Australia, indirectly holds 1/3 interest in Gascor Pty Ltd, a company incorporated in Australia whose principal activity is to manage the gas sales agreement between Victoria's main gas wholesaler and retailers.

The Group's share of results of the associated companies is as follows:

	2005 HK$M	2004 HK$M
Share of profits before taxation	**185**	236
Taxation	**(45)**	(48)
Share of profits after taxation	**140**	188

The Group did not have any loans or advances made to associated companies. In addition, there are no contingent liabilities relating to the Group's interest in these companies.

20. Derivative Instruments

	2005		2004	
	Assets HK$M	**Liabilities HK$M**	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	**39**	**332**	–	–
Interest rate swaps/cross currency & interest rate swaps	**9**	**48**	–	–
Energy contracts	**291**	**258**	–	–
Fair value hedge				
Cross currency & interest rate swap	**129**	**–**	–	–
Held for trading or not qualifying as hedges				
Forward foreign exchange contracts	**2**	**20**	–	–
Interest rate swaps	**–**	**13**	–	–
Energy contracts	**1,092**	**907**	–	–
	1,562	**1,578**	–	–
Less: current portion	**(1,302)**	**(1,134)**	–	–
Non-current portion of derivative instruments	**260**	**444**	–	–

Derivative instruments qualifying as cash flow hedges as at 31 December 2005 have a maturity of between now to 8 years from the balance sheet date.

2004 comparative figures are not provided as HKAS 39 "Financial Instruments: Recognition and Measurement" prescribes the recognition of derivatives at fair value in the balance sheet to take effect prospectively from 1 January 2005.

21. Trade and Other Receivables

	2005 HK$M	2004 HK$M
Group		
Trade receivables (aging analysis is shown below)	**4,541**	2,376
Deposits and prepayments	**872**	986
Dividend receivable from a jointly controlled entity	**87**	196
Current accounts with jointly controlled entities	**5**	6
	5,505	3,564
Company		
Debtors, deposits and prepayments	**7**	6
Current accounts with subsidiaries	**1**	3
	8	9

The Group has established credit policies for customers in each of its core businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within 15 to 17 days after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from 30 to 60 days.

The aging analysis of the trade receivables, after provisions, as at 31 December is as follows:

	2005 HK$M	2004 HK$M
Below 30 days (including amount not yet due)	**4,350**	2,332
31 – 60 days	**68**	15
61 – 90 days	**43**	7
Over 90 days	**80**	22
	4,541	2,376

About 86% of the gross trade receivables relate to the sales of electricity and/or gas in Hong Kong and Australia. There is no significant concentration of credit risk with respect to these trade receivables as their customer bases are widely dispersed in different sectors and industries.

The Group made a net reversal of the impairment provision for trade receivables of HK$94 million in 2005 (2004: a net provision of HK$26 million). Such provision or reversal has been included within the "fuel and other operating costs" in the consolidated profit and loss account.

Trade and other receivables attributed to overseas subsidiaries amounted to HK$3,257 million (2004: HK$1,610 million). GPEC has obtained payment for some of its receivables from GUVNL through bill discounting with recourse and the transactions have been accounted for as collateralised borrowings (Note 24).

22. Bank Balances, Cash and Other Liquid Funds

	2005 HK$M	2004 HK$M
Trust fund for unclaimed dividends (A)	**12**	16
Trust accounts under TRAA (B)	**556**	549
Short-term investments and bank deposits	**1,305**	1,857
Bank balances and cash	**168**	98
	2,041	2,520

(A) As part of the restructuring arrangements in relation to the transfer of HK$10,116,789,910 from the share premium account to distributable reserves approved by the court in 2002, a trust fund was set up to cover unclaimed dividends. The Company has an obligation to pay such dividends until they can be forfeited after 6 years from the date they were declared.

(B) Pursuant to a Trust and Retention Account Agreement (TRAA) between GPEC and its lenders, GPEC allocates monthly receipts from its off-taker, GUVNL, to various trust accounts for fuel, operating and major maintenance expenses and debt service payments. These amounts are placed by GPEC on short-term deposits or investments prior to being applied for the designated purposes.

23. Trade and Other Payables

	2005 HK$M	2004 HK$M
Group		
Trade payables (aging analysis is shown below)	**3,116**	2,064
Other payables and accruals	**1,395**	1,053
Current accounts with jointly controlled entities (A)	**1,127**	1,099
Amount due to a jointly controlled entity (B)	**441**	–
	6,079	4,216
Company		
Creditors	**77**	66
Current accounts with subsidiaries	**1**	18
	78	84

(A) Of the amount due to the jointly controlled entities, HK$912 million (2004: HK$914 million) was due to CAPCO.

(B) The amount represents the unpaid portion of the subscription price to Roaring 40s Renewable Energy Pty Ltd. Pursuant to the Subscription Agreement, the Group is obliged to pay share capital of A$117 million by 2008. The first contribution of A$40 million (approximately HK$236 million) was made in October 2005; with the outstanding amount to be repayable on demand and bearing interest of 6.11%.

23. Trade and Other Payables (continued)

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

	2005 HK$M	2004 HK$M
Below 30 days (including amount not yet due)	**3,082**	2,043
31 – 60 days	**–**	2
61 – 90 days	**2**	4
Over 90 days	**32**	15
	3,116	2,064

24. Bank Loans and Other Borrowings

	Group		Company	
	2005 HK$M	2004 HK$M	**2005 HK$M**	2004 HK$M
Current				
Short-term loans	**867**	422	**185**	–
Long-term bank loans	**301**	756	**–**	–
Other long-term borrowings				
USD Yankee notes due 2006	**2,340**	–	**–**	–
	3,508	1,178	**185**	–
Non-current				
Long-term bank loans (A, B)	**16,447**	10,916	**5,106**	2,206
Other long-term borrowings				
USD Yankee notes due 2006	**–**	2,340	**–**	–
MTN programme (USD) due 2012	**2,485**	2,340	**–**	–
MTN programme (HKD) due 2013 to 2015 (B)	**3,000**	2,000	**–**	–
EPN and MTN programme (AUD) due 2012 (A)	**3,667**	–	**–**	–
EPN and MTN programme (AUD) due 2015 (A)	**284**	–	**–**	–
	25,883	17,596	**5,106**	2,206
Total borrowings	**29,391**	18,774	**5,291**	2,206

(A) The Company arranged a HK$6.0 billion medium term loan facility in April 2005 and its indirect wholly-owned subsidiary in Australia, CLP Australia Finance Pty Ltd (CLP Australia Finance), arranged a A$2.2 billion corporate loan facility and a A$250 million working capital facility in May 2005. Part of these unsecured loan facilities were used to fund the acquisition of the MEB and working capital requirements for the business in Australia and to refinance the existing facilities of Yallourn. In November 2005, CLP Australia Finance issued a total of A$700 million notes under its A$2.0 billion EPN and Medium Term Note (MTN) Programme to refinance a portion of the existing A$2.2 billion loan facility. The issues consisted of 7-year fixed and floating rate notes due in 2012 of A$325 million each and 10-year floating rate notes due in 2015 of A$50 million.

24. Bank Loans and Other Borrowings (continued)

(B) CLP Power Hong Kong arranged a total of HK$4.0 billion of notes issues and bank loan facilities during the year to support the capital requirements of the electricity business in Hong Kong. In January and June 2005, it issued two tranches of fixed-rate notes due in 2015 of HK$500 million each under the MTN Programme set up by its wholly-owned subsidiary CLP Power Hong Kong Financing Limited.

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK$803 million (2004: HK$6,618 million). Of these, HK$575 million and HK$228 million as at 31 December 2005 were related to GPEC and Huaiji respectively whilst HK$512 million and HK$6,106 million as at 31 December 2004 were related to GPEC and Yallourn respectively. Yallourn's secured bank loans were refinanced in May 2005. Bank loans for GPEC are secured by fixed and floating charges over its assets whilst for Huaiji, they are secured by fixed assets and land use rights. Collateralised borrowings for GPEC are secured by trade receivables (Note 21). Bank loans totalling HK$12,572 million (2004: HK$7,503 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

As at 31 December 2005, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2005 HK$M	2004 HK$M	**2005 HK$M**	2004 HK$M	**2005 HK$M**	2004 HK$M
Within one year	**1,168**	1,178	**2,340**	–	**3,508**	1,178
Between one and two years	**2,440**	2,973	**–**	2,340	**2,440**	5,313
Between two and five years	**13,847**	6,027	**–**	–	**13,847**	6,027
After five years	**160**	1,916	**9,436**	4,340	**9,596**	6,256
	17,615	12,094	**11,776**	6,680	**29,391**	18,774

For the Company's borrowings, HK$2,206 million were repayable between one and two years and HK$2,900 million repayable between two and five years (2004: HK$2,206 million repayable between two and five years).

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2005 HK$M	2004 HK$M	**2005 HK$M**	2004 HK$M
Hong Kong dollar and foreign currency hedged into Hong Kong dollar	**16,819**	11,150	**5,291**	2,206
Australian dollar	**11,108**	6,226	**–**	–
Indian rupees and foreign currency hedged into Indian rupees	**1,027**	732	**–**	–
Other currencies	**437**	666	**–**	–
	29,391	18,774	**5,291**	2,206

As at 31 December 2005, 48% of the Group's total borrowings were with interest rates fixed to maturity. 18% of such borrowings will mature within one year, 48% maturing between one to five years and 34% after five years.

24. Bank Loans and Other Borrowings (continued)

As illustrated above, the loans and borrowings of the Group are predominantly in Hong Kong dollars or Australian dollars. The effective interest rates at the balance sheet date were as follows:

	2005		2004	
	HK$	**A$**	HK$	A$
Fixed rate loans and loans swapped to fixed rates	**4.2% – 7.1%**	**6.3% – 6.6%**	4.3% – 7.1%	7.5% – 8.6%
Variable rate loans and loans swapped from fixed rates	**4.3% – 5.0%**	**6.1% – 6.4%**	0.5% – 1.0%	5.6% – 7.2%

The carrying amounts of loans and borrowings approximate their fair value. The fair value of long-term borrowings is determined using the expected future payments discounted at market interest rates prevailing at the year end.

As at 31 December 2005, the Group has undrawn bank loan and overdraft facilities of HK$13,152 million (2004: HK$8,384 million).

25. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rates enacted or substantively enacted by the balance sheet date in the respective jurisdictions. The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets (prior to offset)

	Tax Losses		**Accruals and Provisions**		**Others**		**Total**	
	2005 HK$M	2004 HK$M	**2005 HK$M**	2004 HK$M	**2005 HK$M**	2004 HK$M	**2005 HK$M**	2004 HK$M
As at 1 January	**3,851**	3,840	**338**	236	**114**	91	**4,303**	4,167
Derivative instruments (Note 2)	**–**	–	**–**	–	**29**	–	**29**	–
As at 1 January, as restated	**3,851**	3,840	**338**	236	**143**	91	**4,332**	4,167
Acquisition of subsidiaries	**–**	–	**162**	–	**421**	–	**583**	–
Fair value adjustments	**–**	–	**–**	1	**–**	–	**–**	1
(Charged)/credited to profit and loss account	**205**	(130)	**234**	87	**158**	18	**597**	(25)
Exchange differences	**(241)**	141	**(35)**	14	**(23)**	5	**(299)**	160
As at 31 December (A)	**3,815**	3,851	**699**	338	**699**	114	**5,213**	4,303

(A) The deferred tax asset arising from tax losses is related to the electricity business in Australia. There is no expiry on the tax losses recognised. In accordance with the Group's accounting policy, this asset is subject to impairment review (Note 11).

25. Deferred Taxation (continued)

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding/ Dividend Distribution Tax		Unbilled Revenue and Intangibles		Others		Total	
	2005 HK$M	2004 HK$M	**2005 HK$M**	2004 HK$M	**2005 HK$M**	2004 HK$M	**2005 HK$M**	2004 HK$M	**2005 HK$M**	2004 HK$M
As at 1 January	**(7,753)**	(7,278)	**(364)**	(323)	**–**	–	**(227)**	(228)	**(8,344)**	(7,829)
Derivative instruments (Note 2)	**–**	–	**–**	–	**–**	–	**(7)**	–	**(7)**	–
As at 1 January, as restated	**(7,753)**	(7,278)	**(364)**	(323)	**–**	–	**(234)**	(228)	**(8,351)**	(7,829)
Acquisition of subsidiaries	**(388)**	–	**–**	–	**(532)**	–	**(445)**	–	**(1,365)**	–
Fair value adjustments	**–**	–	**–**	2	**–**	–	**–**	–	**–**	2
(Charged)/credited to profit and loss account	**(753)**	(361)	**6**	(21)	**31**	–	**99**	9	**(617)**	(373)
(Charged)/credited to equity	**–**	–	**–**	–	**–**	–	**(43)**	–	**(43)**	–
Tax consolidation and related adjustments (Note 11)	**2,015**	–	**–**	–	**–**	–	**(11)**	–	**2,004**	–
Exchange differences	**130**	(114)	**39**	(22)	**24**	–	**31**	(8)	**224**	(144)
As at 31 December	**(6,749)**	(7,753)	**(319)**	(364)	**(477)**	–	**(603)**	(227)	**(8,148)**	(8,344)

Deferred tax balances predominantly comprise non-current items. Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately in the consolidated balance sheet:

	2005 HK$M	2004 HK$M
Deferred tax assets	**2,537**	1,043
Deferred tax liabilities	**(5,472)**	(5,084)
	(2,935)	(4,041)

26. Share Capital

	2005		2004	
	Number of Ordinary Shares of HK$5 Each	**Amount HK$M**	Number of Ordinary Shares of HK$5 Each	Amount HK$M
Authorised, as at 31 December	**3,000,000,000**	**15,000**	3,000,000,000	15,000
Issued and fully-paid, as at 31 December	**2,408,245,900**	**12,041**	2,408,245,900	12,041

There was no movement in the share capital of the Company during the year (2004: nil).

27. Reserves

	Capital Redemption Reserve HK$M	Translation & Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance as at 1 January 2004	2,482	301	86	24,167	27,036
Exchange differences on translation of:					
subsidiaries	–	365	–	–	365
jointly controlled entities	–	110	–	–	110
associated company	–	32	–	–	32
designated hedges	–	(76)	–	–	(76)
Net exchange gain not recognised in profit and loss account	–	431	–	–	431
Earnings for the year	–	–	–	8,614	8,614
Dividends paid					
2003 finals	–	–	–	(1,806)	(1,806)
2004 interims	–	–	–	(3,251)	(3,251)
Share of movements in reserves of					
jointly controlled entities	–	–	44	(42)	2
associated company	–	–	(32)	–	(32)
Balance as at 31 December 2004	2,482	732	98	27,682[(a)]	30,994
Balance as at 1 January 2005, as previously reported	2,482	732	98	27,682	30,994
Adjustments for adoption of new HKFRSs					
Negative goodwill (HKFRS 3)	–	–	–	1,046	1,046
Derivative instruments (HKAS 39)	–	(99)	–	83	(16)
Balance as at 1 January 2005, as restated	2,482	633	98	28,811	32,024
Exchange differences on translation of:					
subsidiaries	–	(915)	–	–	(915)
jointly controlled entities	–	(25)	–	–	(25)
associated companies	–	(95)	–	–	(95)
designated hedges	–	(6)	–	–	(6)
Net exchange loss not recognised in profit and loss account	–	(1,041)	–	–	(1,041)
Cash flow hedges, net of tax					
Net fair value loss	–	(172)	–	–	(172)
Transfer to profit and loss account	–	116	–	–	116
Transfer to assets – basis adjustment	–	131	–	–	131
Tax on above movements	–	(21)	–	–	(21)
	–	54	–	–	54
Revaluation of assets, net of tax	–	–	117	–	117
Earnings for the year	–	–	–	11,368	11,368
Dividends paid					
2004 finals	–	–	–	(2,119)	(2,119)
2005 interims	–	–	–	(3,468)	(3,468)
Capital redemption by a subsidiary	–	–	417	(417)	–
Share of movements in reserves of					
jointly controlled entities	–	16	29	(31)	14
associated company	–	–	5	–	5
Balance as at 31 December 2005	**2,482**	**(338)**	**666**	**34,144**[(b)]	**36,954**

Notes:
(a) The proposed final dividends as at 31 December 2004 and balance of retained profits after the proposed final dividends were HK$2,119 million and HK$25,563 million respectively.
(b) The proposed final dividends as at 31 December 2005 and balance of retained profits after the proposed final dividends were HK$2,264 million and HK$31,880 million respectively.

Capital redemption reserve represents the nominal value of the shares repurchased which was paid out of the distributable reserves of the Company.

28. Fuel Clause Account

Costs of fuel consumed by CLP Power Hong Kong 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 Hong Kong.

29. SoC Reserve Accounts

The Development Fund, special provision account and Rate Reduction Reserve of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts in the consolidated balance sheet. The respective balances at the end of the year are:

	2005 HK$M	2004 HK$M
SoC reserve accounts		
Development Fund (A)	**3,685**	3,171
Special provision account (B)	**–**	–
Rate Reduction Reserve (C)	**489**	549
	4,174	3,720

Movements in the SoC reserve accounts are as follows:

	2005 HK$M	2004 HK$M
(A) Development Fund		
As at 1 January	**3,171**	2,960
Transfer from profit and loss account (Note 6)	**527**	219
One-off rebate	**(13)**	8
Business relief rebate	**–**	(1)
Special rebate to customers	**–**	(15)
As at 31 December	**3,685**	3,171
(B) Special provision account		
As at 1 January	**–**	176
Transfer to profit and loss account	**–**	(176)
As at 31 December	**–**	–
(C) Rate Reduction Reserve		
As at 1 January	**549**	471
Interest expense charged to profit and loss account (Note 9)	**274**	253
One-off rebate	**–**	2
Rebate to customers[(a)]	**(334)**	(177)
As at 31 December	**489**	549

Note (a): A rebate of HK¢1.1 per unit (2004: HK¢0.6 per unit) was made to customers during the year.

30. Notes to the Consolidated Cash Flow Statement

(A) Reconciliation of profit before taxation to net cash inflow from operations:

	2005 HK$M	2004 HK$M
Profit before taxation	**10,445**	9,910
Adjustments for:		
Operating interest	**1,383**	1,081
Finance income	**(124)**	(63)
Share of results, net of tax		
jointly controlled entities	**(3,099)**	(2,897)
associated companies	**(140)**	(188)
Depreciation and amortisation	**2,896**	2,485
Net loss on disposal of fixed assets	**103**	212
Capital gain arising from disposal of properties	**(128)**	(214)
Net (gain)/loss on disposal of other assets	**(37)**	38
Hedging costs and net exchange difference	**29**	52
Fair value loss on derivative instruments		
cash flow hedges, transfer from equity	**116**	–
transactions not qualifying as hedges	**96**	–
SoC items		
increase in customers' deposits	**189**	241
decrease in fuel clause account	**(466)**	(152)
one-off rebate	**(13)**	(479)
rebate to customers under SoC	**(334)**	(177)
business relief rebate	**–**	(1)
special rebate	**–**	(15)
	(624)	(583)
Transfers to Development Fund and from special provision account	**527**	43
Cash flow before working capital changes	**11,443**	9,876
Decrease in debtors and prepayments	**238**	1,695
Increase in creditors and other liabilities	**220**	95
Decrease/(Increase) in dividend receivable from a jointly controlled entity	**109**	(196)
Increase in current accounts due to jointly controlled entities	**29**	32
Net cash inflow from operations	**12,039**	11,502

(B) Analysis of net cash outflow in respect of the acquisitions of MEB and Huaiji:

	2005 HK$M	2004 HK$M
Purchase consideration excluding non-cash items (Note 5)	**(13,114)**	–
Cash and cash equivalents in subsidiaries acquired (Note 5)	**675**	–
Net cash outflow in respect of the acquisitions	**(12,439)**	–

31. Commitments

(A) Capital expenditure on fixed assets, leasehold land and land use rights authorised but not brought into the accounts is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for	**2,689**	2,207	**–**	–
Authorised but not contracted for	**6,922**	9,670	**2**	2
	9,611	11,877	**2**	2

(B) The Group has entered into a number of joint venture arrangements to develop power projects in Thailand and the Chinese mainland. Equity contributions required and made by the Group under each project are summarised below:

Project Name	Total Equity Contributions Required	Amount Fulfilled as at 31 December 2005	Remaining Balance to be Contributed	Expected Year for Last Contribution
BLCP power project (Thailand)	US$165 million	US$17 million (HK$132 million)	US$148 million (HK$1,147 million)	2007
Fangchenggang power project (Chinese mainland)	RMB966 million	RMB457 million (HK$439 million)	RMB509 million (HK$489 million)	2008
Weihai wind power project (Chinese mainland)	RMB30 million	RMB5 million (HK$4 million)	RMB25 million (HK$24 million)	2006
Nanao II wind power project (Chinese mainland)	RMB36 million	nil	RMB36 million (HK$35 million)	2006

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
	HK$M	HK$M
Not later than one year	**272**	18
Later than one year and not later than five years	**981**	12
Later than five years	**1,767**	–
	3,020	30

Of the above amount, HK$2,827 million was related to the twenty-year Master Hedge Agreement between TRUenergy and Ecogen. Under the Agreement, TRUenergy has the right to call upon electricity from the power stations in consideration of fixed premiums over the life of the Agreement. Other non-cancellable operating leases are for leases of various offices and equipment.

(D) Pursuant to the previous loan agreements of Yallourn, the Group had to provide the senior lenders with contingent equity support up to A$200 million depending on certain minimum requirements regarding the availability of cash flows for debt services. As at 31 December 2004, A$80 million had been contributed by the Group. This contingent equity support, however, is no longer required upon repayment of the debts in May 2005.

32. Related Party Transactions

Below are the more significant transactions with related parties for the year ended 31 December:

(A) Purchases of electricity and gas from affiliated companies

(i) Of the purchases of electricity and gas totalling HK$21,516 million (2004: HK$16,055 million), HK$17,017 million (2004: HK$16,055 million) was related to purchases of electricity from jointly controlled entities for the electricity business in Hong Kong. Details are shown below:

	2005 HK$M	2004 HK$M
Purchases of electricity from CAPCO (a)	**11,636**	10,923
Purchases of nuclear electricity (b)	**5,029**	4,763
Pumped storage service fee (c)	**352**	369
	17,017	16,055

(a) Under the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is obliged to purchase all of CAPCO's generating capacity. The Electricity Supply Contract provides that the price paid by CLP Power Hong Kong 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 off-take and resale contracts, CLP Power Hong Kong is obliged 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 Hong Kong 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 Hong Kong has entered into a contract with PSDC to make use of this capacity. The price paid by CLP Power Hong Kong 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.

(ii) Gascor Pty Ltd (Gascor), formerly owned by the Victorian State Government and became an associated company of TRUenergy as a result of an arrangement made during the privatisation of the Victorian gas industry, is a party to a gas supply contract in Victoria with Esso Australia Resources Pty Ltd (Esso) and BHP Billiton Petroleum (Bass Strait) Pty Ltd (BHP). The contract terms between Gascor and Esso/BHP are effectively replicated in the Master Agreement between TRUenergy and Gascor. TRUenergy purchases gas at the wholesale market price from Gascor, which in turn obtains the gas from Esso and BHP. The amount paid to Gascor since acquisition of the MEB to 31 December 2005 was HK$522 million.

Amounts due to the related parties as at 31 December 2005 are disclosed in Note 23.

32. Related Party Transactions (continued)

(B) Rendering of services to jointly controlled entities

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the year amounted to HK$1,044 million (2004: HK$1,071 million) and a portion of the charges which is accounted for as operating expenses by CAPCO is covered under the Electricity Supply Contract referred to in (A)(i)(a) above.

Amounts due from the related parties as at 31 December 2005 are disclosed in Note 21. No provision has been made for the amounts owed by the related parties.

(C) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$17,311 million (2004: HK$12,046 million) made to its subsidiaries (Note 17), HK$16,827 million (2004: HK$11,532 million) was advanced to CLP Power Asia Limited to fund the investments in power projects in Australia, the Chinese mainland and other Asia-Pacific regions. Movements of the advance account to CLP Power Asia Limited are as follows:

	2005 HK$M	2004 HK$M
Balance as at 1 January	**11,532**	10,409
Amounts advanced	**6,823**	2,073
Amounts repaid	**(1,528)**	(950)
Balance as at 31 December	**16,827**	11,532

The Company also has advances from subsidiaries, which are unsecured, interest-free and have no fixed repayment terms except an advance from CLP Properties Group of HK$7 million (2004: HK$15 million), which is repayable on demand and bears interest of 1.5% (2004: 0.75%) per annum. Of the HK$195 million (2004: HK$20 million) advanced from subsidiaries, HK$166 million (2004: HK$19 million) was from CLP Properties Group.

(D) The loan and advances made to affiliated companies totalled HK$6,865 million (2004: HK$6,681 million) (Note 18 and Note 19). Of these, HK$6,427 million (2004: HK$6,037 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO. Details are as follows:

	2005 HK$M	2004 HK$M
Balance as at 1 January	**6,037**	5,690
Amounts advanced	**2,027**	2,221
Amounts repaid	**(1,622)**	(1,881)
Exchange differences	**(15)**	7
Balance as at 31 December	**6,427**	6,037

As at 31 December 2005, the Group did not have any guarantees which were of significant amount given to or received from these parties.

32. Related Party Transactions (continued)

(E) Emoluments of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. It comprises the Non-executive Directors, Executive Directors and Senior Management, namely the Group Director – Managing Director Hong Kong, Group Director – Managing Director Asia Pacific and Group Director – Operations.

The total remuneration of the key management personnel is shown below:

	2005 HK$M	2004 HK$M
Fees	**4**	3
Base compensation, allowances and benefits in kind	**26**	24
Performance bonus		
Annual incentive	**24**	18
Long-term incentive	**11**	6
Provident fund contributions	**3**	3
Ex-gratia payment[a]	**2**	–
	70	54

Note (a): Ex-gratia payment is not part of the remuneration arrangements for the Executive Directors, but may be payable, where appropriate, upon approval by the Chairman of the Human Resources & Remuneration Committee.

The position of Group Director – Operations was established on 1 November 2005; hence there is no comparative remuneration in 2004.

As at 31 December 2005, the CLP Holdings' Board was composed of thirteen Non-executive Directors and three Executive Directors. Remuneration of all Directors for year 2005 totalled HK$47 million (2004: HK$39 million). With respect to the emoluments of the highest paid employees, the six highest paid individuals in the Group during the year included three who served as Directors for the full year, one who served as a Director for part of the year and two Senior Management personnel. The total remuneration of these six highest paid individuals amounted to HK$60 million (2004: HK$51 million). Further details of the remuneration of the Directors and Senior Management, on named basis, and remuneration paid to the six highest paid individuals by bands are disclosed in sections 4, 6, 7 and 9 of the Remuneration Report on pages 114, 116, 117 and 118 respectively.

33. Contingent Liabilities

Under the original power purchase agreement between GPEC and its off-taker GUVNL, GUVNL was required to make a "deemed generation incentive" payment to GPEC when the plant availability was above 68.5% (70% as revised subsequently). GUVNL has been making such payments since December 1997. In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission claiming that the "deemed generation incentive" payment should not be paid for the period when the plant was using naphtha as fuel instead of gas. GUVNL's contention is based on a 1995 Government of India notification which disallowed "deemed generation incentive" for naphtha based power plants. The total amount of the claim plus interest amounts to about HK$1,250 million.

On the basis of legal advice that has been sought, Directors are of the opinion that no provision is required to be made in the accounts in respect of this matter.