

# Notes to the Condensed Consolidated Interim Accounts

## 1. General Information

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the condensed consolidated interim 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, Southeast Asia and Taiwan.

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 the SoC business.

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 condensed consolidated interim accounts have been approved for issue by the Board of Directors on 15 August 2006.

## 2. Basis of Preparation and Changes in Accounting Policies

The unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the preparation of this condensed consolidated interim accounts are consistent with those set out in the Annual Report 2005, except for the adoption of the new Hong Kong Financial Reporting Standards (HKFRS)-Interpretation 4 "Determining whether an Arrangement contains a Lease", which is effective for accounting periods commencing on or after 1 January 2006.

The adoption of HKFRS-Interpretation 4 in 2006 has impacted the accounting for a number of contractual arrangements on electricity supply and power purchase that the Group's affiliates have entered into. After assessment of these arrangements, some of them have been determined to contain terms that should be accounted for as finance leases in accordance with HKAS 17 "Leases". One subsidiary which was previously accounted for as a purchaser of electricity has become a lessee, and another subsidiary, together with a number of joint ventures, which were previously accounted for as electricity sellers have become lessors. For finance lease accounting, a lessee has to capitalise the leased assets in its books and at the same time recognise its obligations at amounts equal to the fair value of the leased assets or, if lower, the present value of future minimum lease payments. For a lessor under a finance lease, leased assets are recognised as lease receivables at an amount equal to the net investment in the lease.

Set out below is the effect of adopting this new interpretation on the prior year's financial results and position.

**2. Basis of Preparation and Changes in Accounting Policies (continued)**

The 2005 comparatives (originally shown in the Consolidated Profit and Loss Account for the six months ended 30 June 2005 published on 23 August 2005 and the Consolidated Balance Sheet as at 31 December 2005 published on 28 February 2006) have been amended as a result of:

- i) the adoption of the new HKFRS-Interpretation 4, in accordance with the transitional provisions specified therein; and
- ii) the adjustment to the purchase consideration and the valuation of intangible assets relating to the acquisition of the merchant energy business division (MEB) of SPI Australia Group in 2005.

<i>Consolidated Profit and Loss Account (for 6 months to 30 June 2005)</i>	Adjustments to comparatives		
	As previously stated HK\$M	Lease accounting HK\$M	Restated HK\$M
<b>Revenue</b>	16,626	(265)	16,361
Expenses			
Purchase of electricity, gas and distribution services	(8,613)	2,160	(6,453)
Staff expenses	(665)	–	(665)
Fuel and other operating costs	(1,976)	(13)	(1,989)
Depreciation and amortisation	(1,359)	(708)	(2,067)
	<u>(12,613)</u>	<u>1,439</u>	<u>(11,174)</u>
Operating profit	4,013	1,174	5,187
Finance costs	(725)	(1,347)	(2,072)
Finance income	63	188	251
Share of results, net of tax			
jointly controlled entities	1,614	50	1,664
associated companies	79	(28)	51
Profit before taxation	5,044	37	5,081
Taxation	(467)	(3)	(470)
<b>Earnings attributable to shareholders</b>	<u>4,577</u>	<u>34</u>	<u>4,611</u>

## 2. Basis of Preparation and Changes in Accounting Policies (continued)

<i>Consolidated Balance Sheet (as at 31 December 2005)</i>	As previously stated HK\$M	Adjustments to comparatives		Restated HK\$M
		Lease accounting HK\$M	Purchase <sup>(a)</sup> consideration HK\$M	
<b>Non-current assets</b>				
Fixed assets	60,815	18,703	–	79,518
Leasehold land and land use rights	2,234	(1)	–	2,233
Goodwill and other intangible assets (Note 15)	7,949	–	(1,019)	6,930
Interests in jointly controlled entities	16,519	142	–	16,661
Interests in associated companies	1,641	56	–	1,697
Finance lease receivables	–	2,652	–	2,652
Deferred tax assets	2,537	–	–	2,537
Derivative instruments	260	–	–	260
Other non-current assets	506	–	–	506
	<u>92,461</u>	<u>21,552</u>	<u>(1,019)</u>	<u>112,994</u>
<b>Current assets</b>				
Inventories – stores and fuel	596	–	–	596
Trade and other receivables	5,505	–	1,019	6,524
Finance lease receivables	–	165	–	165
Derivative instruments	1,302	–	–	1,302
Bank balances, cash and other liquid funds	2,041	–	–	2,041
	<u>9,444</u>	<u>165</u>	<u>1,019</u>	<u>10,628</u>
<b>Current liabilities</b>				
Customers' deposits	(3,308)	–	–	(3,308)
Trade and other payables	(6,079)	–	–	(6,079)
Taxation payable	(376)	–	–	(376)
Bank loans and other borrowings	(3,508)	–	–	(3,508)
Obligations under finance leases	–	(1,803)	–	(1,803)
Derivative instruments	(1,134)	–	–	(1,134)
	<u>(14,405)</u>	<u>(1,803)</u>	<u>–</u>	<u>(16,208)</u>
Net current (liabilities)/assets	<u>(4,961)</u>	<u>(1,638)</u>	<u>1,019</u>	<u>(5,580)</u>
<b>Total assets less current liabilities</b>	<u>87,500</u>	<u>19,914</u>	<u>–</u>	<u>107,414</u>
<b>Financed by:</b>				
<b>Equity</b>				
Share capital	12,041	–	–	12,041
Share premium	1,164	–	–	1,164
Reserves				
Proposed dividends	2,264	–	–	2,264
Others	34,690	126	–	34,816
Shareholders' funds	<u>50,159</u>	<u>126</u>	<u>–</u>	<u>50,285</u>
Minority interest	111	–	–	111
	<u>50,270</u>	<u>126</u>	<u>–</u>	<u>50,396</u>
<b>Non-current liabilities</b>				
Bank loans and other borrowings	25,883	–	–	25,883
Obligations under finance leases	–	19,694	–	19,694
Deferred tax liabilities	5,472	107	–	5,579
Derivative instruments	444	–	–	444
Fuel clause account	323	–	–	323
SoC reserve accounts	4,174	–	–	4,174
Other non-current liabilities	934	(13)	–	921
	<u>37,230</u>	<u>19,788</u>	<u>–</u>	<u>57,018</u>
<b>Equity and non-current liabilities</b>	<u>87,500</u>	<u>19,914</u>	<u>–</u>	<u>107,414</u>

Note (a): The acquisition of the MEB from an affiliate of Singapore Power Limited occurred in May 2005. A claim was lodged with this affiliated company prior to the end of 2005. Settlement was reached in April 2006, resulting in a reduction in the purchase consideration which has been reflected as a reduction in goodwill.

### 3. Purchase of Electricity, Gas and Distribution Services

These expenses are made up of:

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Purchase of electricity, gas and distribution services	5,892	2,961
Lease and service charges	3,691	3,492
	<u>9,583</u>	<u>6,453</u>

Following the adoption of lease accounting by the Group, certain elements of the payments by CLP Power Hong Kong to CAPCO under the electricity supply contract have now been accounted for as lease and service payments.

### 4. Formation of OneEnergy

On 22 March 2006, the Group and Mitsubishi Corporation of Japan formed a jointly controlled entity called OneEnergy Limited (OneEnergy) for the purpose of acquiring interests in and developing and operating power generation businesses in Southeast Asia and Taiwan. The Group's interest of 22.4% in Electricity Generating Public Company Limited (EGCO) of Thailand was injected into OneEnergy. The gain arising from the formation of OneEnergy amounted to HK\$291 million.

### 5. Revenue

An analysis of the Group's revenue for the period is as follows:

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Sales of electricity	18,590	14,908
Lease and service charges received	778	669
Sales of gas	1,379	313
Other revenue	177	133
	<u>20,924</u>	<u>16,023</u>
Transfer from Development Fund (A)	488	338
	<u>21,412</u>	<u>16,361</u>

(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 26).

## 6. 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 region 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
<b>6 months ended 30 June 2006</b>						
Revenue	14,061	6,502	49	799	1	21,412
Segment results	5,227	621	(21)	517	(83)	6,261
Share of results, net of tax						
jointly controlled entities	791	5	501 <sup>(a)</sup>	65	–	1,362
associated companies	–	2	–	110	–	112
Profit/(Loss) before financing and taxation	6,018	628	480	692	(83)	7,735
Finance costs						(2,419)
Finance income						242
Taxation						(575)
Minority interest						(8)
Earnings for the period						4,975
Capital additions	4,855	422	2	4	1	5,284
Depreciation and amortisation	1,976	429	18	3	1	2,427
<b>As at 30 June 2006</b>						
Segment assets	5,418	10,878	307	6,085	80	22,768
Owned and leased assets	67,394	14,413	653	24	8	82,492
Interests in						
jointly controlled entities	7,228	1,117	6,630	3,824	–	18,799
associated companies	–	7	–	–	–	7
Tax assets	–	2,421	40	–	–	2,461
Consolidated total assets	80,040	28,836	7,630	9,933	88	126,527
Segment liabilities	10,432	4,358	83	109	82	15,064
Obligation under finance leases	23,468	14	–	–	–	23,482
Bank loans and other borrowings	12,319	9,678	225	1,265	6,095	29,582
Tax liabilities	5,686	137	23	448	–	6,294
Consolidated total liabilities	51,905	14,187	331	1,822	6,177	74,422

Note (a): Out of the HK\$501 million, HK\$347 million was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

## 6. Segment Information (continued)

(Restated)	Hong Kong HK\$M	Australia HK\$M	Chinese Mainland HK\$M	Other Countries in Asia HK\$M	Unallocated Items HK\$M	Total HK\$M
6 months ended 30 June 2005						
Revenue	13,704	1,968	–	689	–	16,361
Segment results	4,919	445	(37)	(66)	(74)	5,187
Share of results, net of tax						
jointly controlled entities	931	–	563 <sup>(a)</sup>	170	–	1,664
associated companies	–	–	–	51	–	51
Profit/(Loss) before financing and taxation	5,850	445	526	155	(74)	6,902
Finance costs						(2,072)
Finance income						251
Taxation						(470)
Earnings for the period						4,611
Capital additions	5,088	261	–	6	–	5,355
Depreciation and amortisation	1,793	269	1	3	1	2,067
As at 31 December 2005						
Segment assets	5,013	12,374	255	5,492	75	23,209
Owned and leased assets	64,621	14,196	661	32	8	79,518
Interests in						
jointly controlled entities	7,092	1,093	6,888	1,588	–	16,661
associated companies	–	5	–	1,692	–	1,697
Tax assets	–	2,504	33	–	–	2,537
Consolidated total assets	76,726	30,172	7,837	8,804	83	123,622
Segment liabilities	11,287	4,271	150	598	77	16,383
Obligation under finance leases	21,484	13	–	–	–	21,497
Bank loans and other borrowings	11,528	11,108	228	1,236	5,291	29,391
Tax liabilities	5,466	133	27	329	–	5,955
Consolidated total liabilities	49,765	15,525	405	2,163	5,368	73,226

Note (a): Out of the HK\$563 million, HK\$431 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. The SoC business accounted for approximately 100% of the Group's revenue and segment results in Hong Kong for the period ended 30 June 2006.

## 7. Operating Profit

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

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
<b>Charging</b>		
Staff costs (A)		
Salaries and other costs	1,039	800
Retirement benefits costs	91	68
Lease and service charges from CAPCO	3,691	3,492
Lease expenditure for long-term hedge agreement with Ecogen	105	–
Net loss on disposal of fixed assets	8	33
Other net fair value losses/(gains) on derivative instruments		
Transactions not qualifying as hedges	80	(7)
Other net exchange losses	–	24
<b>Crediting</b>		
Other net fair value gains on derivative instruments		
Cash flow hedges, transfer from equity	(44)	(68)
Lease and service charges received	(778)	(669)
Net rental income from properties	(6)	(7)
One-off gain on formation of OneEnergy	(291)	–

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

## 8. Finance Costs and Income

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Finance costs:		
Interest expenses on		
bank loans and overdrafts	458	341
other borrowings		
– wholly repayable within five years	49	82
– not wholly repayable within five years	280	100
Development Fund and special provision account (A)	133	120
customers' deposits and others	53	30
Subscription interest on outstanding purchase consideration		
on renewable projects	19	–
Finance charges under finance leases	1,533	1,360
Other finance charges	27	20
Fair value losses on derivative instruments		
Cash flow hedges, transfer from equity	1	174
Transactions not qualifying as hedges	2	–
Hedging costs and exchange losses/(gains)	4	(2)
	<u>2,559</u>	<u>2,225</u>
Less: amount capitalised	(140)	(153)
	<u>2,419</u>	<u>2,072</u>
Finance income:		
Interest income on		
short-term investments and bank deposits	69	62
advance to a jointly controlled entity	1	1
Finance income under finance leases	172	188
	<u>242</u>	<u>251</u>

(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 26).

## 9. Share of Results of Affiliated Companies

Affiliated companies include the Group's jointly controlled entities and associated companies. The share of results of affiliated companies is determined based upon the management accounts of the respective affiliated companies, after making adjustments to conform with the Group's significant accounting policies, for the period ended 30 June.

## 10. Taxation

Taxation in the condensed consolidated income statement represents the taxation of the Company and subsidiaries and is analysed below:

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Current income tax		
Hong Kong	346	418
Outside Hong Kong	32	14
	<u>378</u>	<u>432</u>
Deferred income tax		
Hong Kong	130	125
Outside Hong Kong	67	(87)
	<u>197</u>	<u>38</u>
	<u>575</u>	<u>470</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Taxation on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

## 11. Earnings Attributable to Shareholders

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:

	6 months ended 30 June			
	2006		2005	
	HK\$M	HK\$M	HK\$M	HK\$M
Electricity business in Hong Kong		3,573		3,510
Electricity sales to Chinese mainland from Hong Kong	55		63	
Generating facilities in Chinese mainland serving				
Hong Kong (GNPJVC and PSDC)	347		431	
Other power projects in Chinese mainland	106		95	
Energy business in Australia	287		(8)	
Electricity business in India	371		279	
Power projects in Southeast Asia and Taiwan	142		185	
Renewable energy business	(25)		4	
Other businesses	(6)		(5)	
One-off gain on formation of OneEnergy	291		–	
	<u>          </u>	<u>1,568</u>	<u>          </u>	<u>1,044</u>
Earnings from other activities		(122)		(43)
Unallocated net finance costs		(83)		(74)
		<u>4,936</u>		<u>4,437</u>
Total operating earnings		<u>4,936</u>		<u>4,437</u>
Hok Un redevelopment profit		39		174
Earnings attributable to shareholders		<u>4,975</u>		<u>4,611</u>

**12. Dividends**

	6 months ended 30 June			
	2006		2005	
	HK\$ per share	HK\$M	HK\$ per share	HK\$M
First interim dividend paid	0.50	1,204	0.48	1,156
Second interim dividend proposed	0.50	1,204	0.48	1,156
	<u>1.00</u>	<u>2,408</u>	<u>0.96</u>	<u>2,312</u>

At the Board meeting held on 15 August 2006, the Directors declared the second interim dividend of HK\$0.50 per share. The second interim dividend is not reflected as a dividend payable in the accounts, but as a separate component of the shareholders' funds for the period ended 30 June 2006.

**13. Earnings per Share**

The prescribed earnings per share includes Hok Un redevelopment profit and is computed as follows:

	6 months ended 30 June	
	2006	2005
Earnings for the period, HK\$M	<u>4,975</u>	<u>4,611</u>
Weighted average number of shares in issue, thousand shares	<u>2,408,246</u>	<u>2,408,246</u>
Earnings per share, HK\$	<u>2.07</u>	<u>1.91</u>

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

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Earnings for the period	4,975	4,611
Less: Hok Un redevelopment profit	(39)	(174)
Earnings excluding Hok Un redevelopment profit	<u>4,936</u>	<u>4,437</u>
Earnings per share excluding Hok Un redevelopment profit, HK\$	<u>2.05</u>	<u>1.84</u>

Fully diluted earnings per share is not included as the Company did not have any diluting equity instruments as at 30 June 2006 (2005: nil).

## 14. Fixed Assets, Leasehold Land and Land Use Rights

Fixed assets, leasehold land and land use rights totalled HK\$84,700 million (December 2005: HK\$81,751 million).  
Movements in the accounts are as follows:

### (A) Fixed Assets

	Freehold Land and Buildings		Plant, Machinery and Equipment		Total HK\$M
	Owned HK\$M	Leased HK\$M	Owned HK\$M	Leased HK\$M	
Net book value, as at 1 January 2005					
– as previously reported	6,002	–	49,506	–	55,508
– adjustment on adoption of finance lease accounting	(152)	5,389	(3,055)	14,828	17,010
– as restated	5,850	5,389	46,451	14,828	72,518
Acquisition of a subsidiary	533	–	1,181	1,936	3,650
Additions	572	–	5,176	3,226	8,974
Transfers and disposals	(75)	(136)	(143)	30	(324)
Depreciation charge	(195)	(248)	(2,734)	(1,466)	(4,643)
Exchange differences	(3)	–	(564)	(90)	(657)
Net book value, as at 31 December 2005	6,682	5,005	49,367	18,464	79,518
Cost	8,677	9,334	72,540	35,215	125,766
Accumulated depreciation	(1,995)	(4,329)	(23,173)	(16,751)	(46,248)
Net book value, as at 31 December 2005	6,682	5,005	49,367	18,464	79,518
Net book value, as at 1 January 2006	6,682	5,005	49,367	18,464	79,518
Additions	204	223	2,157	2,700	5,284
Transfers and disposals	15	–	(117)	(39)	(141)
Depreciation charge	(104)	(127)	(1,260)	(820)	(2,311)
Exchange differences	7	–	117	18	142
<b>Net book value, as at 30 June 2006</b>	<b>6,804</b>	<b>5,101</b>	<b>50,264</b>	<b>20,323</b>	<b>82,492</b>
Cost	8,889	9,556	74,635	37,888	130,968
Accumulated depreciation	(2,085)	(4,455)	(24,371)	(17,565)	(48,476)
<b>Net book value, as at 30 June 2006</b>	<b>6,804</b>	<b>5,101</b>	<b>50,264</b>	<b>20,323</b>	<b>82,492</b>

The above leased assets include:

- CAPCO's operational generating plants and associated fixed assets for the generation of electricity supply to CLP Power Hong Kong under the Electricity Supply Contract between the two parties, following the adoption of HKFRS-Interpretation 4. The net book value of these leased assets amounted to HK\$23,602 million as at 30 June 2006 (HK\$21,624 million in the restated figures as at 31 December 2005); and
- Leased generating plants for our electricity business in Australia held under agreements which are treated as finance leases. The net book value of these leased assets as at 30 June 2006 was HK\$1,821 million.

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

## (B) Leasehold Land and Land Use Rights

	30 June 2006 HK\$M	31 December 2005 HK\$M
Net book value, at beginning of period/year		
– as previously restated/reported	2,233	2,240
– adjustment on adoption of finance lease accounting	–	(1)
– as restated	2,233	2,239
Acquisition of a subsidiary	–	43
Additions	1	2
Transfers and disposals	–	(2)
Amortisation charge	(26)	(49)
Net book value, at end of period/year	<u>2,208</u>	<u>2,233</u>
Cost	2,340	2,339
Accumulated amortisation	(132)	(106)
Net book value, at end of period/year	<u>2,208</u>	<u>2,233</u>

Leasehold land is mainly held under medium to long term leases (i.e. over 10 years) in Hong Kong. The SoC Agreement considers leasehold land as one type of fixed assets on which permitted return is earned.

## 15. Goodwill and other Intangible Assets

	Goodwill HK\$M	Negative Goodwill HK\$M	Net Balance HK\$M	Other Intangible Assets HK\$M	Total HK\$M
<b>2006</b>					
Net carrying value, as at 1 January	5,513	–	5,513	1,417	6,930
Amortisation charge	–	–	–	(91)	(91)
Exchange differences	52	–	52	14	66
<b>Net carrying value, as at 30 June</b>	<b>5,565</b>	<b>–</b>	<b>5,565</b>	<b>1,340</b>	<b>6,905</b>
Cost	5,565	–	5,565	1,495	7,060
Accumulated amortisation	–	–	–	(155)	(155)
<b>Net carrying value, as at 30 June</b>	<b>5,565</b>	<b>–</b>	<b>5,565</b>	<b>1,340</b>	<b>6,905</b>
<b>2005</b>					
Net carrying value, as at 1 January					
– as previously reported	24	(1,046)	(1,022)	–	(1,022)
– derecognition of negative goodwill	–	1,046	1,046	–	1,046
– as restated	24	–	24	–	24
Acquisition of a subsidiary	5,817 <sup>(a)</sup>	–	5,817	1,545 <sup>(a)</sup>	7,362
Amortisation charge	–	–	–	(66)	(66)
Exchange differences	(328)	–	(328)	(62)	(390)
Net carrying value, as at 31 December	5,513	–	5,513	1,417	6,930
Cost	5,513	–	5,513	1,481	6,994
Accumulated amortisation	–	–	–	(64)	(64)
Net carrying value, as at 31 December	5,513	–	5,513	1,417	6,930

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. The MEB is considered as a cash-generating unit of the Group during 2006.

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

Note (a): A review of the valuation of contracted customers in Australia resulted in a reallocation of HK\$185 million from goodwill to intangible assets; together with the adjustment in the purchase consideration for the MEB (refer to Note (a) on page 29), total goodwill at 31 December 2005 was decreased by HK\$1,204 million.

**16. Interests in Jointly Controlled Entities**

	30 June 2006 HK\$M	31 December 2005 HK\$M
Castle Peak Power Company Limited	6,853	6,647
Guangdong Nuclear Power Joint Venture Company, Limited	2,704	3,077
OneEnergy Limited	2,311	–
Ho-Ping Power Company	1,458	1,536
CLP Guohua Power Company Limited	1,392	1,293
Shandong Zhonghua Power Company, Ltd.	1,103	1,091
Roaring 40s Renewable Energy Pty Ltd	692	686
Guizhou CLP Power Company Limited	445	466
CLP Guangxi Fangchenggang Power Company Limited	433	424
South East Australia Gas Pty Ltd	425	407
Hok Un joint venture	359	400
Hong Kong Pumped Storage Development Company, Limited	327	328
Others	297	306
	<u>18,799</u>	<u>16,661</u>

The above amount includes the loan and advances made to the following jointly controlled entities:

	30 June 2006 HK\$M	31 December 2005 HK\$M
Castle Peak Power Company Limited	6,546	6,505
Hong Kong Pumped Storage Development Company, Limited	310	317
Others	13	43
	<u>6,869</u>	<u>6,865</u>

The Group's share of results of the jointly controlled entities is as follows:

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Revenue	4,934	5,272
Expenses	(3,340)	(3,342)
Share of profit before taxation	1,594	1,930
Taxation	(232)	(266)
Share of profit after taxation	<u>1,362</u>	<u>1,664</u>

## 16. Interests in Jointly Controlled Entities (continued)

The following amounts represent the Group's share of net assets, capital commitments and contingent liabilities of the jointly controlled entities:

	30 June 2006 HK\$M	31 December 2005 HK\$M
Non-current assets	30,959	29,205
Current assets	6,755	5,659
Current liabilities	(4,023)	(3,766)
Non-current liabilities	(21,761)	(21,302)
Net assets at end of period/year	<u>11,930</u>	<u>9,796</u>
Capital commitments at end of period/year	<u>9,782</u>	<u>9,406</u>
Contingent liabilities at end of period/year	<u>440</u>	<u>385</u>

The Group's capital commitment in relation to its interest in the jointly controlled entities is disclosed in Note 28. There are no contingent liabilities relating to the Group's interest in these entities.

## 17. Interests in Associated Companies

	30 June 2006 HK\$M	31 December 2005 HK\$M
Electricity Generating Public Company Limited (EGCO)	–	1,692
Gascor Pty Ltd	7	5
	<u>7</u>	<u>1,697</u>

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

	6 months ended 30 June 2006 HK\$M	2005 HK\$M
Share of profit before taxation	152	64
Taxation	(40)	(13)
Share of profit after taxation	<u>112</u>	<u>51</u>

Upon the formation of OneEnergy, a joint venture with Mitsubishi Corporation, the Group injected its interest in EGCO into OneEnergy, effectively disposing of one-half of its interest in EGCO (Note 4).

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

**18. Finance Lease Receivables**

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2006 HK\$M	31 December 2005 HK\$M	30 June 2006 HK\$M	31 December 2005 HK\$M
Amounts receivable under finance leases:				
Within one year	485	508	158	165
Later than one year and not later than five years	1,809	2,302	704	893
After five years	3,081	2,934	1,815	1,759
	<u>5,375</u>	<u>5,744</u>	<u>2,677</u>	<u>2,817</u>
Less: unearned finance income	(2,698)	(2,927)		
Present value of minimum lease payments receivable	<u>2,677</u>	<u>2,817</u>		
Analysed as:				
Current finance lease receivables (recoverable within 12 months)			158	165
Non-current finance lease receivables (recoverable after 12 months)			2,519	2,652
			<u>2,677</u>	<u>2,817</u>

The effective interest rate of the finance lease receivables was based on the interest rate implicit in the lease.

**19. Derivative Instruments**

	30 June 2006		31 December 2005	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cash flow hedges				
Forward foreign exchange contracts	78	340	39	332
Interest rate swaps/cross currency & interest rate swaps	135	–	9	48
Energy contracts	146	147	291	258
Fair value hedge				
Cross currency & interest rate swap	7	53	129	–
Held for trading or not qualifying as hedges				
Forward foreign exchange contracts	21	3	2	20
Interest rate swaps	–	3	–	13
Energy contracts	732	715	1,092	907
	<u>1,119</u>	<u>1,261</u>	<u>1,562</u>	<u>1,578</u>
Less: current portion	(891)	(829)	(1,302)	(1,134)
Non-current portion of derivative instruments	<u>228</u>	<u>432</u>	<u>260</u>	<u>444</u>

Derivative instruments qualifying as cash flow hedges as at 30 June 2006 have a maturity of between now to approximately six years from the balance sheet date.

## 20. Trade and Other Receivables

	30 June 2006 HK\$M	31 December 2005 HK\$M
Trade receivables (aging analysis is shown below)	5,799	4,541
Deposits and prepayments	881	872
Other receivables	–	1,019
Dividends receivable from jointly controlled entities	313	87
Current accounts with jointly controlled entities	12	5
	<u>7,005</u>	<u>6,524</u>

Trade and other receivables attributed to overseas subsidiaries amounted to HK\$3,643 million (December 2005: HK\$3,257 million).

The Group has established credit policies for customers in each of its core businesses. The credit term for trade receivables ranges from 15 to 60 days.

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

	30 June 2006 HK\$M	31 December 2005 HK\$M
Below 30 days (including amount not yet due)	5,530	4,350
31-60 days	56	68
61-90 days	69	43
Over 90 days	144	80
	<u>5,799</u>	<u>4,541</u>

For the other receivables of HK\$1,019 million at 31 December 2005, refer to Note (a) on page 29.

## 21. Bank Balances, Cash and Other Liquid Funds

	30 June 2006 HK\$M	31 December 2005 HK\$M
Trust fund for unclaimed dividends	10	12
Trust accounts under TRAA (A)	497	556
Short-term investments and bank deposits	1,433	1,305
Bank balances and cash	183	168
	<u>2,123</u>	<u>2,041</u>

(A) Pursuant to a Trust and Retention Account Agreement (TRAA) between GPEC and its lenders, GPEC allocates monthly receipts from its off-taker, Gujarat Urja Vikas Nigam Ltd (GUVNL, formerly known as Gujarat Electricity Board), 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.

**22. Trade and Other Payables**

	30 June 2006 HK\$M	31 December 2005 HK\$M
Trade payables (aging analysis is shown below)	2,939	3,116
Other payables and accruals	1,342	1,395
Current accounts with jointly controlled entities (A)	1,340	1,127
Amount due to a jointly controlled entity (B)	457	441
	<u>6,078</u>	<u>6,079</u>

(A) Of the amount due to the jointly controlled entities, HK\$1,071 million (December 2005: HK\$912 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 for share capital of A\$117 million by 2008 plus a pre-subscription interest fee of A\$2 million. A contribution of A\$40 million (approximately HK\$236 million) was made in October 2005, with the outstanding amount bearing interest of 6.11% to be repayable on demand.

The aging analysis of the trade payables is as follows:

	30 June 2006 HK\$M	31 December 2005 HK\$M
Below 30 days (including amount not yet due)	2,894	3,082
31-60 days	7	–
61-90 days	3	2
Over 90 days	35	32
	<u>2,939</u>	<u>3,116</u>

## 23. Bank Loans and Other Borrowings

Total borrowings in the condensed consolidated balance sheet are analysed as follows:

	Current		Non-Current		Total	
	30 June	31 December	30 June	31 December	30 June	31 December
	2006	2005	2006	2005	2006	2005
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Short-term loans	2,200	867	–	–	2,200	867
Long-term bank loans	2,505	301	14,592	16,447	17,097	16,748
Other long-term borrowings	–	2,340	10,285	9,436	10,285	11,776
Bank loans and other borrowings	<u>4,705</u>	<u>3,508</u>	<u>24,877</u>	<u>25,883</u>	<u>29,582</u>	<u>29,391</u>

During the six months ended 30 June 2006, the Group issued HK\$1 billion of fixed rate notes under the Medium Term Note Programme to support the capital requirements of the electricity business in Hong Kong. The Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	30 June	31 December	30 June	31 December	30 June	31 December
	2006	2005	2006	2005	2006	2005
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Within one year	4,705	1,168	–	2,340	4,705	3,508
Between one and two years	495	2,440	–	–	495	2,440
Between two and five years	13,635	13,847	–	–	13,635	13,847
After five years	462	160	10,285	9,436	10,747	9,596
	<u>19,297</u>	<u>17,615</u>	<u>10,285</u>	<u>11,776</u>	<u>29,582</u>	<u>29,391</u>

Bank loans and other borrowings totalling HK\$11,168 million (December 2005: HK\$12,572 million) were attributed to overseas subsidiaries and are non-recourse to the Company. Of these, secured loans for GPEC and Huaiji amounted to HK\$629 million (December 2005: HK\$575 million) and HK\$225 million (December 2005: HK\$228 million) respectively. Bank loans for GPEC are secured by fixed and floating charges over its assets while for Huaiji, they are secured by fixed assets and land use rights. Collateralised borrowings for GPEC are secured by trade receivables (Note 20).

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

Loans and borrowings of the Group are predominantly in HK\$ or AUD. The effective interest rates at the balance sheet date were as follows:

	30 June 2006		31 December 2005	
	HK\$	AUD	HK\$	AUD
Fixed rate loans and loans swapped to fixed rates	4.2% – 6.2%	6.3% – 6.6%	4.2% – 7.1%	6.3% – 6.6%
Variable rate loans and loans swapped from fixed rates	4.1% – 5.3%	6.4% – 6.7%	4.3% – 5.0%	6.1% – 6.4%

As at 30 June 2006, the Group has undrawn bank loan and overdraft facilities of HK\$11,346 million (December 2005: HK\$13,152 million).

## 24. Obligations under Finance Leases

Following the adoption of HKFRS-Interpretation 4, the Group has commitments under the finance lease arrangement with CAPCO in respect of the operational generating plants and associated fixed assets. Together with the acquisition of the MEB on 31 May 2005, the Group had obligations under finance leases repayable as follows:

	30 June 2006 HK\$M	31 December 2005 HK\$M
Minimum lease payments		
not later than one year	4,878	4,601
later than one year and not later than five years	16,598	15,396
later than five years	29,626	25,614
	<u>51,102</u>	<u>45,611</u>
Future interest expenses on finance leases	(27,620)	(24,114)
Present value of minimum lease payments	<u>23,482</u>	<u>21,497</u>
Present value of minimum lease payments		
not later than one year	1,912	1,803
later than one year and not later than five years	6,765	6,480
later than five years	14,805	13,214
	<u>23,482</u>	<u>21,497</u>

The effective interest rates of the finance lease obligations were based on the interest rate implicit in the lease.

## 25. Share Capital

	30 June 2006		31 December 2005	
	Number of Shares of HK\$5 Each	Amount HK\$M	Number of Shares of HK\$5 Each	Amount HK\$M
Authorised				
At end of period/year	<u>3,000,000,000</u>	<u>15,000</u>	<u>3,000,000,000</u>	<u>15,000</u>
Issued and fully-paid				
At end of period/year	<u>2,408,245,900</u>	<u>12,041</u>	<u>2,408,245,900</u>	<u>12,041</u>

There was no movement in the share capital of the Company during the period (year 2005: nil).

## 26. 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 condensed consolidated balance sheet. The respective balances at the end of the period/year are:

	30 June 2006 HK\$M	31 December 2005 HK\$M
SoC reserve accounts		
Development Fund (A)	2,947	3,685
Special provision account (B)	–	–
Rate Reduction Reserve (C)	466	489
	<u>3,413</u>	<u>4,174</u>

Movements in the SoC reserve accounts are as follows:

	30 June 2006 HK\$M	31 December 2005 HK\$M
(A) Development Fund		
At beginning of period/year	3,685	3,171
Transfer (to)/from the income statement (Note 5)	(488)	527
One-off rebates	–	(13)
Business relief rebate	–	–
Special rebate to customers <sup>(a)</sup>	(250)	–
At end of period/year	<u>2,947</u>	<u>3,685</u>
(B) Special provision account		
At beginning of period/year	–	–
Transfer to the income statement	–	–
At end of period/year	<u>–</u>	<u>–</u>
(C) Rate Reduction Reserve		
At beginning of period/year	489	549
Interest expense charged to the income statement (Note 8)	133	274
One-off rebates	–	–
Rebate to customers <sup>(b)</sup>	(156)	(334)
At end of period/year	<u>466</u>	<u>489</u>

Notes:

(a) A special rebate of HK¢1.8 per unit (2005: nil) was made to customers during the period.

(b) A rebate of HK¢1.1 per unit (2005: HK¢1.1 per unit) was made to customers during the period.

**27. Notes to the Consolidated Cash Flow Statement**

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

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Profit before taxation	5,558	5,081
Adjustments for:		
Operating interest	2,372	1,883
Finance income	(242)	(251)
Share of results, net of tax		
jointly controlled entities	(1,362)	(1,664)
associated companies	(112)	(51)
Depreciation and amortisation	2,427	2,067
Decrease in finance lease receivables	81	77
Net loss on disposal of fixed assets	8	33
One-off gain on formation of OneEnergy	(291)	–
Fair value losses on tax assets	56	–
Net exchange difference	4	–
Fair value (gains)/losses on derivative instruments		
Cash flow hedges, transfer from equity	(43)	106
Transactions not qualifying as hedges	82	(7)
SoC items		
Increase in customers' deposits	45	104
Decrease in fuel clause account	(240)	(318)
One-off rebates	–	(13)
Rebate to customers under SoC	(156)	(151)
Special rebate	(250)	–
	(601)	(378)
Transfers from Development Fund and special provision account	(488)	(338)
Cash flow before working capital changes	7,449	6,558
Increase in debtors and prepayments	(152)	(994)
Increase in creditors and other liabilities	281	294
Increase in current accounts due to jointly controlled entities	206	47
Net cash inflow from operations	7,784	5,905

## 28. Commitments

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

	30 June 2006 HK\$M	31 December 2005 HK\$M
Contracted but not provided for	2,781	2,689
Authorised but not contracted for	6,367	6,922
	<u>9,148</u>	<u>9,611</u>

- (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 30 June 2006	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\$1,149 million)	2007
Fangchenggang power project (Chinese mainland)	RMB966 million	RMB463 million (HK\$445million)	RMB503 million (HK\$488 million)	2008
Weihai wind power project (Chinese mainland)	RMB30 million	RMB9 million (HK\$9 million)	RMB21 million (HK\$20 million)	2008
Nanao II wind power project (Chinese mainland)	RMB36 million	RMB5 million (HK\$5 million)	RMB31 million (HK\$30 million)	2007

## 29. Related Party Transactions

Below are the more significant transactions with related parties during the period ended 30 June:

(A) Purchases of electricity and gas from affiliated companies

- (i) Details of electricity supply contracts relating to the electricity business in Hong Kong with jointly controlled entities are shown below:

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Electricity supply contract with CAPCO	6,099	5,652
Purchases of nuclear electricity	2,115	2,447
Pumped storage service fee	173	179
	<u>8,387</u>	<u>8,278</u>

Amounts due to the related parties as at 30 June 2006 are disclosed in Note 22.

The amount relating to the electricity supply contract with CAPCO refers to the payments made by CLP Power Hong Kong in discharging its payment obligations under the contract. Following the adoption of lease accounting by the Group, such payments have been accounted for as lease and service payments, finance cost and principal repayments of finance lease obligations.

- (ii) Gascor Pty Ltd (Gascor), 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 was HK\$401 million (2005: HK\$91 million).

(B) Rendering of services to jointly controlled entities

Pursuant to the CAPCO Operating Service Agreement, the charges from CLP Power Hong Kong to CAPCO for the services rendered during the period amounted to HK\$526 million (2005: HK\$529 million).

Amounts due from the related parties as at 30 June 2006 are disclosed in Note 20. No provisions have been made for doubtful debts in respect of the amounts owed by the related parties.

- (C) Loan and advances to affiliated companies are discussed under Notes 16 and 17. As at 30 June 2006, the Group did not have any guarantees which were of significant amount given to or received from these parties.

## 29. Related Party Transactions (continued)

(D) Total remuneration of Non-executive Directors and Senior Management, which includes three Executive Directors of the Company, Group Director – Managing Director Hong Kong, Group Director – Managing Director Australia, Group Director – Operations, and Group Director – Corporate Development (2005: Four Executive Directors of the Company and Managing Directors of the two major subsidiaries, CLP Power Hong Kong and CLP Power Asia), is as follows:

	6 months ended 30 June	
	2006 HK\$M	2005 HK\$M
Fees	2	2
Base compensation, allowances and benefits in kind	13	12
Performance bonus		
Annual incentive	18	15
Long-term incentive	8	8
Provident fund contributions	2	1
	<u>43</u>	<u>38</u>

## 30. 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 approximately HK\$1,250 million.

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