Notes to the Financial Statements

1. General Information

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements. The Company is a limited liability company incorporated and listed in Hong Kong. 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 main features of the current SoC are summarised on page 194.

These financial statements have been approved for issue by the Board of Directors on 28 February 2007.

2. Significant Accounting Policies

(A) Basis of Preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) 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 financial instruments) which are stated at fair value.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(B) Changes in Accounting Policies

(i) Adoption of new/revised HKFRS effective 1 January 2006

The Group has adopted HKFRS-Int 4 "Determining whether an Arrangement contains a Lease", which prescribes that the determination of whether an arrangement is or contains a lease shall be based on the substance of the arrangement. It requires an assessment of whether the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use such assets. The adoption of HKFRS-Int 4 has resulted in certain contractual arrangements on electricity supply and power purchase of the Group's subsidiaries and jointly controlled entities being accounted for as finance or operating leases. In prior years, these arrangements were accounted for as normal sale and purchase contracts.

The change in this accounting policy has been applied retrospectively with comparative figures restated accordingly. The effects of the resulting changes are summarised on the opposite page.

2. Significant Accounting Policies (continued)

(B) Changes in Accounting Policies (continued)

(i) Adoption of new/revised HKFRS effective 1 January 2006 (continued)

Consolidated Income Statement

For the year ended 31 December

	2006 HK$M	2005 HK$M
Decrease in revenue	(116)	(93)
Decrease in expenses	3,242	2,984
Increase in finance costs	(3,020)	(2,832)
Increase/(decrease) in share of results, net of income tax		
– jointly controlled entities	40	83
– associated companies	(64)	(13)
Increase in income tax expense	(8)	(77)
Increase in earnings attributable to shareholders	74	52
Increase in earnings per share, basic and diluted (HK$)	0.03	0.02

Consolidated Balance Sheet

As at 31 December

	2006 HK$M	2005 HK$M
Increase in fixed assets	20,154	18,694
Decrease in leasehold land and land use rights	(1)	(1)
Increase in interests in jointly controlled entities	306	200
Increase in interests in associated companies	–	157
Increase in finance lease receivables	2,866	2,933
Increase in other current assets	232	235
Increase in income tax payable	(15)	(15)
Increase in obligations under finance leases	(22,794)	(21,484)
Increase in deferred tax liabilities	(259)	(246)
Decrease/(increase) in other non-current liabilities	58	(3)
Increase in net assets	547	470

Other new/revised HKFRS effective 1 January 2006 have no significant impact on the Group's financial statements.

(ii) New/revised HKFRS that have been issued but are not yet effective

The following new/revised HKFRS which have been issued are mandatory for the Group's accounting periods beginning on or after 1 January 2007 and the Group has not early adopted:

- Amendment to HKAS 1 "Capital Disclosures"
- HKFRS 7 "Financial Instruments: Disclosures"
- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment"

Apart from certain presentational changes, the adoption of the above new/revised HKFRS will have no significant impact on the Group's financial statements.

2. Significant Accounting Policies (continued)

(C) Basis of Consolidation

The consolidated financial statements of the Group incorporate the financial statements 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 (E) and Note (F) below, respectively.

The results of subsidiaries acquired during the year are included in the consolidated income statement 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. Purchases of minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries, jointly controlled entities and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(D) 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, 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 income statement.

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.

(E) Jointly Controlled Entities

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interests in jointly controlled entities in the consolidated financial statements 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 income statement, 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 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.

2. Significant Accounting Policies (continued)

(E) Jointly Controlled Entities (continued)

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(F) 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 financial statements 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 income statement, 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 comprise the Group's share of the net assets 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.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(G) Foreign Currency Translation

Items included in the financial statements 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 financial statements 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 income statement, except when deferred in equity as qualifying cash flow hedges or 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 income statement item 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 date of the transactions). All resulting exchange differences are recognised as a separate component of equity. When a foreign entity is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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.

(H) 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.

2. Significant Accounting Policies (continued)

(H) Segment Reporting (continued)

Segment assets consist primarily of fixed assets, intangible assets, receivables and other operating assets, and exclude investments in jointly controlled entities and associated companies and income tax assets. Segment liabilities comprise operating liabilities and exclude items such as income tax liabilities 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 expenses, corporate assets, and the Company's liquid funds and borrowings.

(I) Revenue

Revenue primarily represents 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 the SoC. It is measured at the fair value of the consideration received or receivable, net of applicable tax, discounts and 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.

Lease service income comprises servicing income and fuel costs received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receipts on lease receivables and lease income is recognised over the lease period using the effective interest method.

Interest income is recognised on a time proportion basis using the effective interest method.

(J) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the year in which they are incurred. For any asset replacement, the carrying amount of the replaced part is derecognised. 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 (132 kV and above)	35 years
Overhead lines (below 132 kV) 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 the SoC, leasehold land is considered as one class of fixed assets on which a permitted return is earned and is amortised over the unexpired term of the lease.

2. Significant Accounting Policies (continued)

(J) Fixed Assets (continued)

Fixed assets used for the non-SoC business, primarily relating to 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 term of the lease
Land use rights	30 years
Freehold land	not depreciable

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

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

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.

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 income statement.

(K) Leases

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 income statement.

Leases of assets where the lessee 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 a finance lease is depreciated over the shorter of its useful life or the lease term.

For a finance lease, each lease receipt/payment is allocated between the receivable/liability and finance income/charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt/payment is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable/liability for each period.

For an operating lease, the lease income/expense is recognised over the term of the lease on a straight-line basis.

In the case of an electricity supply or a power purchase contractual arrangement, where the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use these assets, such a contractual arrangement is accounted for as a finance or operating lease. Payments for services and the cost of inputs of the arrangement are excluded from the calculation of the minimum lease payments.

2. Significant Accounting Policies (continued)

(L) 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 identifiable 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 the acquisition of a subsidiary or included within interests in jointly controlled entities or associated companies if arising from an acquisition of these respective entities. Goodwill is tested for impairment annually or whenever there is an indication that it may be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units which are expected to benefit from the business combination in which the goodwill arose.

(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.

(M) Derivative Financial Instruments and Hedging Activities

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.

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, 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 income statement.

Amounts accumulated in equity are transferred to the income statement 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.

2. Significant Accounting Policies (continued)

(M) Derivative Financial Instruments and Hedging Activities (continued)

(ii) Cash flow hedges (continued)

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 income statement. 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 income statement.

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

Certain derivative financial instruments do not qualify for hedge accounting or are held for trading purposes. Changes in the fair value of these derivative financial instruments are recognised immediately in the income statement.

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.

(N) Inventory

Inventory comprises stores and fuel which 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.

(O) 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 the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 original effective interest rate. The amount of the provision is recognised in the income statement.

(P) 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.

2. Significant Accounting Policies (continued)

(Q) 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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.

(R) 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 income statement or cost of the qualifying assets over the period of the borrowings using the effective interest method.

Borrowing costs are charged to the income statement 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(S) Deferred Tax

Deferred tax 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 consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred 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 tax 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.

(T) 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 probable 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)

(U) 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. The Group has no further payment obligations once the contributions have been paid.

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

The Group's employees outside Hong Kong are covered by the respective retirement schemes in accordance with local legislation.

(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.

(V) Related Parties

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, jointly controlled entities, associated companies and key management personnel, 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. A close family member of any such individual is considered to be a related party. Parties are also considered to be related if they are under common control.

3. Critical Accounting Estimates and Judgements

In preparing the consolidated financial statements, 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 2006, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management concluded that apart from an impairment loss of HK$1,176 million on fixed assets of Yallourn Power Station, Australia, there was no material impairment loss for goodwill and other long-lived assets.

3. Critical Accounting Estimates and Judgements (continued)

(B) Deferred Tax

As at 31 December 2006, a deferred tax asset of HK$4,790 million (2005: HK$3,815 million) in relation to unused tax losses was recognised in the consolidated balance sheet. Estimating the deferred tax asset arising from tax losses requires a process that involves determining appropriate tax provisions, 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 income statement 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.

(C) SoC Agreement

The financial operations of the Company's major subsidiary, CLP Power Hong Kong, and its jointly controlled entity, CAPCO, are governed by a SoC Agreement entered into with the Hong Kong Government.

The current SoC Agreement will expire on 30 September 2008. The Hong Kong Government is in discussion with CLP Power Hong Kong and CAPCO regarding the post-2008 regulatory framework. The final post-2008 regulatory framework will be subject to negotiation and agreement between CLP Power Hong Kong, CAPCO and the Government. The Group considers that, under the post-2008 framework, there will not be any impairment to the fixed and other assets employed for the Hong Kong electricity business.

(D) SoC-related Accounts

As stipulated in the SoC Agreement, the balance in the Development Fund shall represent a liability in the financial statements 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 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 the account balances of the Development Fund, the Rate Reduction Reserve and the fuel clause account 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 will expire in 2008. Should there be any change to the terms of the existing SoC, a reclassification may be required.

(E) Lease Accounting

Effective 1 January 2006, the Group has adopted HKFRS-Int 4 "Determining whether an Arrangement contains a Lease", which prescribes that the determination of whether an arrangement is or contains a lease shall be based on the substance of the arrangement. It requires an assessment of whether the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use such assets. The adoption of HKFRS-Int 4 has resulted in finance lease accounting being applied to CLP Power Hong Kong as lessee for the Electricity Supply Contract with CAPCO, as well as GPEC, Ho-Ping, EGCO and BLCP as lessors for the Power Purchase Agreements with their respective off-takers. To apply finance lease accounting, a number of assumptions in the lease models, such as minimum lease payments, implicit interest rates, residual values of the power plants at the end of contract periods and discount rates, have been made. Any changes to these assumptions in the future will affect the value of the lease assets and liabilities recognised and the corresponding lease income and expenses in the Group's financial statements.

4. 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 financial 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 financial 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 and General Committee of those respective companies. Overseas subsidiaries, jointly controlled entities and associated 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.

(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 fluctuations.

(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 forecast 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 actively monitored and managed.

4. Financial Risk Management (continued)

(A) Financial Risk Factors (continued)

(i) Market risk (continued)

(b) Wholesale market energy price risk (continued)

CLP Australia manages such exposures 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.

(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 two weeks 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) through a 20-year power purchase agreement (PPA). With management's close monitoring of outstanding receivables and the implementation of an amended PPA in recent years, the position of overdue and disputed receivables has improved significantly.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counterparties with acceptable credit ratings to minimise credit exposure. The Group further assigns mark-to-market limits to its financial counterparties and monitors potential exposures to all counterparties. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, jointly controlled entities and associated 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 2006, 48% (2005: 54%) of the Group's borrowings were at fixed rates.

4. Financial Risk Management (continued)

(B) Accounting for Derivative Financial Instruments and Hedging Activities

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

(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. A discounted cash flow method is used to determine the fair value of 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.

5. Changes in the Group

During the year, the Group (a) formed a jointly controlled entity, OneEnergy Limited (OneEnergy), with Mitsubishi Corporation of Japan, (b) transferred its interest in BLCP Power Limited (BLCP) in Thailand to an associated company of OneEnergy, and (c) acquired an additional interest in the Huaiji hydro power project in Guangdong, the Chinese mainland.

(A) Formation of OneEnergy

On 22 March 2006, the Group and Mitsubishi Corporation of Japan formed a 50:50 jointly controlled entity, 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) in Thailand was injected into OneEnergy upon formation, resulting in a gain of HK$343 million.

(B) Share Transfer of BLCP

On 30 October 2006, the Group executed a Share Purchase Agreement with EGCO for the transfer of the Group's 50% interest in BLCP to EGCO at a total consideration of approximately HK$1,424 million. The gain arising from such share transfer amounted to HK$888 million.

(C) Additional Interest in Huaiji Project

On 31 August 2006, the Group acquired an additional 9.9% interest in the Huaiji project at a consideration of HK$39 million. HK$8 million, being the excess of the corresponding share of the net assets acquired over the consideration, has been credited to the consolidated income statement.

6. Segment Information

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

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2006							
Revenue	29,555	13,770	131	2,196	46	4	45,702
Segment results	10,761	(551)	(70)	962	1,233	(168)	12,167
Share of results, net of income tax							
jointly controlled entities	1,532	24	1,058[(a)]	–	322	–	2,936
associated companies	–	2	–	–	112	–	114
Profit/(loss) before net finance costs and income tax	12,293	(525)	988	962	1,667	(168)	15,217
Finance costs							(4,762)
Finance income							138
Profit before income tax							10,593
Income tax expense							(683)
Profit for the year							9,910
Profit attributable to minority interest							(10)
Earnings attributable to shareholders							9,900
Capital additions	8,089	1,101	31	2	–	5	9,228
Depreciation and amortisation	4,053	874	36	2	1	2	4,968
Impairment charge	–	1,176	–	–	–	–	1,176
As at 31 December 2006							
Segment assets							
owned and leased fixed assets	68,236	14,492	675	3	2	10	83,418
other segment assets	5,705	11,860	499	6,026	1,056	41	25,187
Interests in							
jointly controlled entities	7,300	1,199	6,523	–	4,151	–	19,173
associated companies	–	8	–	–	–	–	8
Deferred tax assets	–	3,264	41	–	–	–	3,305
Consolidated total assets	81,241	30,823	7,738	6,029	5,209	51	131,091
Segment liabilities							
obligations under finance leases	22,794	16	–	–	–	–	22,810
other segment liabilities	11,148	3,959	77	534	37	92	15,847
Bank loans and other borrowings	13,053	10,954	253	1,224	–	4,794	30,278
Current and deferred tax liabilities	5,510	193	25	510	2	–	6,240
Consolidated total liabilities	52,505	15,122	355	2,268	39	4,886	75,175

Note (a): Out of the HK$1,058 million, HK$751 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.

6. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2005							
Revenue	28,516	8,045	17	1,876	35	2	38,491
Segment results	10,553	643	(132)	695	(35)	(138)	11,586
Share of results, net of income tax							
jointly controlled entities	1,782	16	1,102[a]	–	282	–	3,182
associated companies	–	–	–	–	127	–	127
Profit/(loss) before net finance costs and income tax	12,335	659	970	695	374	(138)	14,895
Finance costs							(4,445)
Finance income							124
Profit before income tax							10,574
Income tax credit							845
Profit for the year							11,419
Loss attributable to minority interest							1
Earnings attributable to shareholders							11,420
Capital additions	8,029	750	2	2	–	1	8,784
Depreciation and amortisation	3,684	663	7	2	1	2	4,359
Impairment charge	–	–	–	–	–	–	–
As at 31 December 2005							
Segment assets							
owned and leased fixed assets	64,621	14,196	669	11	4	8	79,509
other segment assets	5,013	12,374	247	5,845	44	37	23,560
Interests in							
jointly controlled entities	7,092	1,093	6,888	–	1,646	–	16,719
associated companies	–	5	–	–	1,793	–	1,798
Deferred tax assets	–	2,504	33	–	–	–	2,537
Consolidated total assets	76,726	30,172	7,837	5,856	3,487	45	124,123
Segment liabilities							
obligations under finance leases	21,484	13	–	–	–	–	21,497
other segment liabilities	11,287	4,271	150	557	44	77	16,386
Bank loans and other borrowings	11,528	11,108	228	1,236	–	5,291	29,391
Current and deferred tax liabilities	5,466	133	27	483	–	–	6,109
Consolidated total liabilities	49,765	15,525	405	2,276	44	5,368	73,383

Note (a): Out of the HK$1,102 million, HK$760 million was attributed to investments in GNPJVC and PSDC, whose generating facilities serve Hong Kong.

Owing to its growing significance to the Group, India is identified as a reportable segment and is reported separately. The 2005 comparative segment data has been restated.

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.

7. Revenue

An analysis of the Group revenue is as follows:

	2006 HK$M	2005 HK$M
Sales of electricity	39,662	34,928
Lease service income (A)	1,500	1,419
Finance lease income	423	453
Sales of gas	3,108	1,801
Other revenue	807	417
	45,500	39,018
Transfer from/(to) Development Fund (B)	202	(527)
	45,702	38,491

(A) In accordance with HKFRS-Int 4, servicing income and fuel costs received from lessees with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

(B) 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 33).

8. Operating Lease and Lease Service Payments

In accordance with HKFRS-Int 4, fuel and servicing charges paid to lessors with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service payments.

9. Other Income, net

	2006 HK$M	2005 HK$M
Gain on formation of OneEnergy (Note 5(A))	343	–
Gain on transfer of BLCP to EGCO (Note 5(B))	888	–
Impairment charge on fixed assets, before income tax (Note 17)	(1,176)	–
	55	–

Taking into account the income tax effect, the impairment charge on fixed assets was HK$823 million, and the after tax net other income is HK$408 million (Note 14).

10. Operating Profit

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

	2006 HK$M	2005 HK$M
Charging		
Staff costs (A)		
Salaries and other costs	2,070	1,769
Retirement benefits costs (B)	203	155
Auditors' remuneration (C)		
Audit	30	17
Permissible non-audit services	3	17
Operating lease expenditure for long-term hedge agreement with Ecogen	216	125
Net loss on disposal of fixed assets	216	188
Net fair value loss/(gain) on derivative financial instruments		
Cash flow hedges, transfer from equity	13	(58)
Fair value hedges	(26)	–
Transactions not qualifying as hedges	132	96
Net exchange loss	49	30
Crediting		
Net rental income from properties	(13)	(14)
Capital gain on disposal of properties	(25)	(128)
Net gain on disposal of other assets	–	(37)

(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), 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$186 million (2005: HK$182 million), of which HK$65 million (2005: HK$64 million) was capitalised.

Staff employed by subsidiaries outside Hong Kong are covered by appropriate local arrangements. Total contributions amounted to HK$82 million (2005: HK$37 million). The Group's financial obligations to these arrangements are not material.

(C) As U.S. Sarbanes-Oxley Act Section 404 compliance audit became effective 2006, the related fees have now been reported as part of audit fees, whilst fees on preparation for compliance were included as part of permissible non-audit services in 2005. Permissible non-audit services in 2006 comprise primarily accounting/tax advisory services for business development.

11. Finance Costs and Income

	2006 HK$M	2005 HK$M
Finance costs:		
Interest expenses on		
bank loans and overdrafts	949	905
other borrowings		
– wholly repayable within five years	48	166
– not wholly repayable within five years	576	261
finance charges under finance leases	3,020	2,832
Development Fund (A)	265	274
customers' deposits and others	97	69
Subscription interest on outstanding purchase consideration for renewable projects	29	–
Other finance charges	45	62
Fair value loss on derivative financial instruments		
Cash flow hedges, transfer from equity	1	174
Transactions not qualifying as hedges	2	–
Other net exchange loss/(gain)	5	(1)
	5,037	4,742
Less: amount capitalised (B)	(275)	(297)
	4,762	4,445
Finance income:		
Interest income on		
short-term investments and bank deposits	137	122
advance to a jointly controlled entity	1	2
	138	124

(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 financial statements, a charge of 8% per annum on the average balance of the Development Fund (Note 33).

(B) Finance costs have been capitalised at the average interest rate of 4.87% (2005: 4.70%) per annum for CLP Power Hong Kong and 6.35% (2005: 6.38%) per annum for CLP Australia.

12. Share of Results of Jointly Controlled Entities and Associated Companies

The share of results, net of income tax, of jointly controlled entities and associated companies is determined based on the financial statements for the year ended 31 December of the respective companies, after making adjustments to conform with the Group's significant accounting policies.

13. Income Tax

Income tax in the consolidated income statement represents the income tax of the Company and subsidiaries and is analysed below:

	2006 HK$M	2005 HK$M
Current income tax		
Hong Kong	779	1,009
Outside Hong Kong	100	67
	879	1,076
Deferred tax		
Hong Kong	346	363
Outside Hong Kong, excluding tax consolidation benefit	(542)	(280)
	(196)	83
Tax consolidation benefit from Australia (A)	–	(2,004)
	(196)	(1,921)
	683	(845)

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

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

	2006 HK$M	2005 HK$M
Profit before income tax	10,593	10,574
Less: share of results, net of income tax		
jointly controlled entities	(2,936)	(3,182)
associated companies	(114)	(127)
	7,543	7,265
Calculated at an income tax rate of 17.5% (2005: 17.5%)	1,320	1,271
Effect of different income tax rates in other countries	(459)	(128)
Income not subject to tax	(243)	(24)
Expenses not deductible for tax purposes	64	30
Transfers from/to SoC reserve accounts not subject to tax (Note 33)	11	140
Tariff rebates deductible for tax purposes	(156)	(61)
Under/(over)-provision in prior years	27	(114)
Utilisation of previously unrecognised tax losses	(2)	–
Tax losses not recognised	121	45
	683	1,159
Tax benefit arising from tax consolidation adjustments (A)	–	(2,004)
Income tax expense/(credit)	683	(845)

13. Income Tax (continued)

(A) In 2005, CLP Australia Holdings formed a tax consolidated group whereby CLP Australia Holdings and its Australian-resident wholly-owned subsidiaries have been 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. The reset resulted in additional tax depreciation being available over the lives of the assets.

14. Earnings Attributable to Shareholders

Earnings attributable to shareholders amounted to HK$9,900 million (2005: HK$11,420 million). Of this amount, HK$6,158 million (2005: HK$7,602 million) has been dealt with in the financial statements of the Company.

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

	2006		2005	
	HK$M	HK$M	HK$M	HK$M
Electricity business in Hong Kong (page 195)		7,290		7,047
Electricity sales to Chinese mainland from Hong Kong	119		120	
Generating facilities in Chinese mainland serving Hong Kong (GNPJVC and PSDC)	751		760	
Other power projects in Chinese mainland	245		205	
Energy business in Australia	169		200	
Electricity business in India	916		603	
Power projects in Southeast Asia and Taiwan	405		363	
Other businesses	4		140	
Other income, net (Note 9)	408		–	
Earnings from other activities		3,017		2,391
Unallocated net finance costs		(283)		(151)
Unallocated Group expenses		(168)		(138)
Total operating earnings		9,856		9,149
Hok Un redevelopment profit		44		267
Tax consolidation benefit from Australia (Note 13)		–		2,004
Earnings attributable to shareholders		9,900		11,420

15. Dividends

	2006		2005	
	HK$ per share	HK$M	HK$ per share	HK$M
Interim dividends paid	1.50	3,612	1.44	3,468
Final dividend proposed	0.89	2,144	0.83	1,999
Special final dividend proposed	0.02	48	0.11	265
	2.41	5,804	2.38	5,732

At the Board meeting held on 28 February 2007, the Directors recommended a final dividend of HK$0.89 (2005: HK$0.83) per share and a special final dividend of HK$0.02 (2005: HK$0.11) per share. Such dividends are to be proposed at the Annual General Meeting on 24 April 2007 and are not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2006.

16. Earnings per Share

The prescribed figure for earnings per share includes (a) the Hok Un redevelopment profit (Note 14), and (b) for 2005, the tax consolidation benefit from Australia (Note 13) and is computed as follows:

	2006	2005
Earnings attributable to shareholders (HK$M)	9,900	11,420
Weighted average number of shares in issue (thousand shares)	2,408,246	2,408,246
Earnings per share (HK$)	4.11	4.74

To enable investors to better understand the Group's results, an additional earnings per share figure, excluding the Hok Un redevelopment profit and one-off tax consolidation benefit from Australia, is set out below:

	2006	2005
	HK$M	HK$M
Earnings attributable to shareholders	9,900	11,420
Less: Tax consolidation benefit from Australia	–	(2,004)
Hok Un redevelopment profit	(44)	(267)
Adjusted earnings attributable to shareholders	9,856	9,149
Earnings per share (HK$) – Excluding Hok Un redevelopment profit and tax consolidation benefit from Australia	4.09	3.80

Basic and fully diluted earnings per share are the same as the Company did not have any diluting equity instruments throughout the year ended 31 December 2006 (2005: nil).

17. Fixed Assets, Leasehold Land and Land Use Rights

Fixed assets, leasehold land and land use rights totalled HK$85,653 million (2005: HK$81,742 million).

Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Freehold Land and Buildings		Plant, Machinery and Equipment		
	Owned HK$M	Leased[(a)] HK$M	Owned HK$M	Leased[(a)] HK$M	Total HK$M
Cost	7,494	9,153	67,181	30,100	113,928
Accumulated depreciation and impairment	(1,645)	(4,097)	(20,737)	(14,939)	(41,418)
Net book value, as at 1 January 2005	5,849	5,056	46,444	15,161	72,510
Net book value, as at 1 January 2005	5,849	5,056	46,444	15,161	72,510
Acquisition of subsidiaries	533	–	1,181	1,936	3,650
Additions	564	332	4,992	2,894	8,782
Transfers and disposals	(75)	(136)	(143)	30	(324)
Depreciation	(171)	(247)	(2,359)	(1,467)	(4,244)
Exchange differences	(18)	–	(757)	(90)	(865)
Net book value, as at 31 December 2005	6,682	5,005	49,358	18,464	79,509
Cost	8,677	9,334	72,517	35,216	125,744
Accumulated depreciation and impairment	(1,995)	(4,329)	(23,159)	(16,752)	(46,235)
Net book value, as at 31 December 2005	6,682	5,005	49,358	18,464	79,509
Net book value, as at 1 January 2006	6,682	5,005	49,358	18,464	79,509
Additions	459	277	5,396	3,029	9,161
Transfers and disposals	(14)	(7)	(291)	(134)	(446)
Depreciation	(219)	(256)	(2,579)	(1,697)	(4,751)
Impairment charge[(b)]	(5)	–	(1,171)	–	(1,176)
Exchange differences	38	–	939	144	1,121
Net book value, as at 31 December 2006	**6,941**	**5,019**	**51,652**	**19,806**	**83,418**
Cost	9,136	9,597	78,686	38,173	135,592
Accumulated depreciation and impairment	(2,195)	(4,578)	(27,034)	(18,367)	(52,174)
Net book value, as at 31 December 2006	**6,941**	**5,019**	**51,652**	**19,806**	**83,418**

Included in fixed assets is plant under construction, the book value of which as at 31 December 2006 was HK$6,572 million (2005: HK$7,423 million) for the Group.

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

(A) Fixed Assets (continued)

Notes:

(a) The above leased assets include:

(i) CAPCO's operational plant and associated fixed assets, which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties. This arrangement has been accounted for as a finance lease in accordance with HKFRS-Int 4. The net book value of these leased fixed assets amounted to HK$22,921 million as at 31 December 2006 (2005: HK$21,624 million); and

(ii) 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 31 December 2006 was HK$1,904 million (2005: HK$1,845 million).

(b) Owing to changes in market conditions in Australia and reduced performance of the ageing plant during the year, the recoverable amount of fixed assets at Yallourn Power Station, Australia, is assessed to fall short of its carrying amount and an impairment charge is recognised. The recoverable amount is estimated based on a value-in-use calculation using a pre-tax discount rate reflecting specific risks relating to the business.

(c) The net book value of the fixed assets for Torrens Island Power Station in relation to the asset swap with AGL Energy Limited entered into post-year end (Note 38) amounted to HK$1,952 million.

Company

The net book value of fixed assets of the Company was HK$10 million (2005: HK$8 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$4 million (2005: HK$1 million) and HK$2 million (2005: HK$2 million) respectively.

(B) Leasehold Land and Land Use Rights

	2006 HK$M	2005 HK$M
Net book value, as at 1 January	2,233	2,239
Acquisition of a subsidiary	–	43
Additions	52	2
Transfers and disposals	–	(2)
Amortisation	(52)	(49)
Exchange differences	2	–
Net book value, as at 31 December	2,235	2,233
Cost	2,393	2,339
Accumulated amortisation	(158)	(106)
Net book value, as at 31 December	2,235	2,233

The tenure of the leasehold land and land use rights of the Group is as follows:

	2006 HK$M	2005 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	179	150
On medium-term leases (10 – 50 years)	2,013	2,039
On short-term leases (less than 10 years)	–	1
	2,192	2,190
Held outside Hong Kong:		
On medium-term leases (10 – 50 years)	43	43
	2,235	2,233

18. Goodwill and Other Intangible Assets

	Goodwill HK$M	Other Intangible Assets HK$M	Total HK$M
Net carrying value, as at 1 January 2005	24	–	24
Acquisition of a subsidiary			
– as previously reported	7,021	1,360	8,381
– purchase consideration revised (A)	(1,019)	–	(1,019)
– valuation of contracted customers (B)	(185)	185	–
– as restated	5,817	1,545	7,362
Amortisation	–	(66)	(66)
Exchange differences	(328)	(62)	(390)
Net carrying value, as at 31 December 2005	5,513	1,417	6,930
Cost	5,513	1,481	6,994
Accumulated amortisation	–	(64)	(64)
Net carrying value, as at 31 December 2005	5,513	1,417	6,930
Net carrying value, as at 1 January 2006	5,513	1,417	6,930
Additions	–	15	15
Amortisation	–	(165)	(165)
Exchange differences	441	105	546
Net carrying value, as at 31 December 2006	**5,954**	**1,372**	**7,326**
Cost	5,954	1,615	7,569
Accumulated amortisation	–	(243)	(243)
Net carrying value, as at 31 December 2006	**5,954**	**1,372**	**7,326**

Goodwill predominantly arose from the acquisition of the MEB business in 2005. In accordance with its accounting policies, the Group has assessed the recoverable amount of goodwill for the MEB cash generating unit and determined that such goodwill has not been impaired. The recoverable amount has been determined by a value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a period of five years and a pre-tax discount rate. Cash flows beyond the five-year period are extrapolated using estimated growth rates. The discount rate used reflects specific risks relating to the business and the growth rates are in line with the forecasts adopted by the industry.

Other intangible assets mainly include contracted customers and a lease arrangement under the long-term hedge agreement with Ecogen which arose from the acquisition of the MEB in May 2005.

Other intangible assets are amortised on a straight-line basis over a period of 6 – 14 years.

(A) In respect of the acquisition of the MEB from an affiliated company of Singapore Power Limited in May 2005, a claim was lodged with this affiliated company prior to the end of 2005. A settlement was subsequently reached in April 2006, resulting in a reduction in the purchase consideration and reflected as a reduction in goodwill of HK$1,019 million.

(B) A further review of the valuation of contracted customers in Australia resulted in a reallocation of HK$185 million from goodwill to other intangible assets.

19. Interests in and Advances to Subsidiaries

	2006 HK$M	2005 HK$M
Unlisted shares, at cost	23,590	23,590
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (A)	17,114	17,311
	40,604	40,801

(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 36(C)).

The Company has also made an advance to CLP Engineering Limited of HK$41 million (2005: HK$41 million), which is interest-free and due on or after 30 June 2008 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

The table below lists the principal subsidiaries of the Group at 31 December 2006:

Name	Issued Share Capital/ Registered Capital	% of Issued Capital Held at 31 December 2006	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 Projects 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	692,000 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
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	15 ordinary shares of A$1 each	100 *	Australia	Generation and Supply of Electricity
TRUenergy Pty Ltd	1,331,686,988 ordinary shares of A$1 each	100 *	Australia	Retailing of Electricity and Gas

19. Interests in and Advances to Subsidiaries (continued)

Name	Issued Share Capital/ Registered Capital	% of Issued Capital Held at 31 December 2006	Place of Incorporation/ Operation	Principal Activity
Gujarat Paguthan Energy Corporation Private Limited	728,597,871 shares of Rs.10 each	100 *	India	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited**	RMB 69,098,976	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited**	RMB 249,430,049	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited**	US$ 13,266,667	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited**	RMB 141,475,383	84.9*	Chinese mainland	Generation of Electricity

* Indirectly held

** Registered as Sino-Foreign Cooperative Joint Ventures under the PRC law

20. Interests in Jointly Controlled Entities

	2006 HK$M	2005 HK$M
Share of net assets other than goodwill	11,075	8,965
Goodwill	934	889
Advances	7,086	6,787
Special loan	78	78
	19,173	16,719

Advances to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms except for an advance of HK$9 million (2005: HK$43 million) to a joint venture undertaken with a subsidiary of Cheung Kong (Holdings) Limited, of which HK$8 million (2005: HK$43 million) bears interest of 5.0% (2005: 3.5%) per annum. These advances are considered as quasi-equity loans.

20. Interests in Jointly Controlled Entities (continued)

The Group's interests in jointly controlled entities are analysed as follows:

	2006 HK$M	2005 HK$M
Castle Peak Power Company Limited (A)		
Share of net assets	143	142
Advances	6,755	6,427
Special loan	78	78
	6,976	6,647
Guangdong Nuclear Power Joint Venture Company, Limited (B)		
Share of net assets	2,497	3,077
OneEnergy Limited (C)		
Share of net assets	2,342	–
Ho-Ping Power Company (D)		
Share of net assets other than goodwill	1,555	1,360
Goodwill	237	234
	1,792	1,594
CLP Guohua Power Company Limited (E)		
Share of net assets other than goodwill	1,223	1,175
Goodwill	118	118
	1,341	1,293
Shandong Zhonghua Power Company, Limited (F)		
Share of net assets	1,111	1,091
Roaring 40s Renewable Energy Pty Ltd (G)		
Share of net assets other than goodwill	537	534
Goodwill	200	152
	737	686
CLP Guangxi Fangchenggang Power Company Limited (H)		
Share of net assets	504	424
Guizhou CLP Power Company Limited (I)		
Share of net assets	481	466
Hong Kong Pumped Storage Development Company, Limited (J)		
Share of net assets	11	11
Advances	322	317
	333	328
Hok Un joint venture (K)		
Share of net assets	308	400
Others (L)		
Share of net assets other than goodwill	363	285
Goodwill	379	385
Advances	9	43
	751	713
	19,173	16,719

20. Interests in Jointly Controlled Entities (continued)

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 profit for the year then ended are as follows:

	2006 HK$M	2005 HK$M
Non-current assets	30,194	29,644
Current assets	7,024	5,656
Current liabilities	(4,838)	(3,845)
Non-current liabilities	(20,371)	(21,601)
Net assets	12,009	9,854
Revenue	10,368	10,267
Expenses	(6,981)	(6,533)
Share of profit before income tax	3,387	3,734
Share of income tax expense	(451)	(552)
Share of profit for the year	2,936	3,182
Capital commitments	8,546	9,406
Contingent liabilities	273	385

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 35. There are no contingent liabilities relating to the Group's interest in these entities.

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. In accordance with HKFRS-Int 4, such arrangement is considered as a finance lease and the power generation assets are accounted for as leased fixed assets on the Group's balance sheet (Note 17).

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 tax, retained profits and any proposed dividend.

The Special Loan to CAPCO carries interest, at a deemed interest rate of 7.87% payable semi-annually, is unsecured, and repayable in full on 30 September 2008.

20. Interests in Jointly Controlled Entities (continued)

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

	2006 HK$M	2005 HK$M
Results for the year		
Revenue	10,331	10,039
Profit after income tax	3,637	3,662
Group's share of profit after income tax	1,459	1,469
Net assets[(a)] as at year end		
Non-current assets	23,644	24,943
Current assets	3,564	3,517
Current liabilities	(3,505)	(4,155)
Deferred tax	(2,689)	(2,787)
Non-current liabilities	(3,704)	(5,030)
	17,310	16,488

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

(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 financial statements 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:

	2006 HK$M	2005 HK$M
Results for the year		
Revenue	6,911	7,076
Profit after income tax	2,763	2,792
Group's share of profit after income tax	691	698
Net assets as at year end		
Non-current assets	11,155	12,853
Current assets	8,320	6,951
Current liabilities	(3,734)	(1,418)
Non-current liabilities	(5,754)	(6,078)
	9,987	12,308

20. Interests in Jointly Controlled Entities (continued)

(C) OneEnergy Limited (OneEnergy) is a 50:50 strategic jointly controlled entity owned by Mitsubishi Corporation of Japan and the Group. This company operates as an investment vehicle in the Southeast Asia and Taiwan markets and it currently owns a 22.4% interest in EGCO in Thailand.

In view of the significance of this investment, an extract of the management financial statements of OneEnergy, after making adjustments to conform with the Group's significant accounting policies, for the year ended 31 December is set out as follows:

	2006 HK$M	2005 HK$M
Results for the year		
Revenue	1	–
Profit after income tax	120	–
Group's share of profit after income tax	60	–
Net assets as at year end		
Non-current assets	1,939	–
Current assets	2,762	–
Current liabilities	(17)	–
	4,684	–

(D) 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. In accordance with HKFRS-Int 4, the arrangement is considered as a finance lease.

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

(F) Shandong Zhonghua Power Company, Limited 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.

(G) Roaring 40s Renewable Energy Pty Ltd is 50% owned by the Group and is incorporated in Australia. This company owns two wind farms in Australia and provides a platform to develop renewable energy business in Australia and elsewhere in the Asia-Pacific region.

(H) 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. Units 1 and 2 are targeted for commissioning in 2007 and 2008 respectively. 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.

20. Interests in Jointly Controlled Entities (continued)

(I) 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.

(J) 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.

(K) 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. Over 99% of the residential units at Laguna Verde had been sold by the end of 2006.

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

- 50% interest in a jointly controlled entity 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; and
- 33 1/3% 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.

21. Interests in Associated Companies

	2006 HK$M	2005 HK$M
Electricity Generating Public Company Limited (EGCO) (A)		
Share of net assets other than goodwill	–	1,723
Goodwill	–	70
	–	1,793
Gascor Pty Ltd (B)		
Share of net assets	8	5
	8	1,798

(A) Upon the formation of OneEnergy, a jointly controlled entity with Mitsubishi Corporation, the Group injected its interest in EGCO (a listed company in Thailand) into OneEnergy (Note 5(A)).

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

21. Interests in Associated Companies (continued)

Summarised financial information in respect of the Group's associated company is set out below:

	2006 HK$M	2005 HK$M
Total assets	200	14,125
Total liabilities	(176)	(6,111)
Net assets	24	8,014
Group's share of associated company's net assets	8	1,798
Revenue	2,787	4,233
Profit after income tax	507	568
Group's share of associated company's profit after income tax	114	127

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

22. Finance Lease Receivables

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2006 HK$M	2005 HK$M	2006 HK$M	2005 HK$M
Amounts receivable under finance leases:				
Within one year	509	519	126	127
Later than one year and not later than five years	1,884	1,900	524	502
After five years	4,041	4,398	2,216	2,304
	6,434	6,817	2,866	2,933
Less: unearned finance income	(3,568)	(3,884)		
Present value of minimum lease payments receivable	2,866	2,933		
Analysed as:				
Current finance lease receivables (recoverable within 12 months)			126	127
Non-current finance lease receivables (recoverable after 12 months)			2,740	2,806
			2,866	2,933

The effective interest rate of the finance lease receivables implicit in the lease is approximately 13.4% for both 2005 and 2006.

23. Derivative Financial Instruments

	2006 Assets HK$M	2006 Liabilities HK$M	2005 Assets HK$M	2005 Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	67	566	39	332
Interest rate swaps	170	25	2	37
Cross currency & interest rate swaps	–	–	7	11
Energy contracts	315	438	291	258
Fair value hedge				
Cross currency & interest rate swap	69	43	129	–
Held for trading or not qualifying as hedges				
Forward foreign exchange contracts	21	5	2	20
Interest rate swaps	–	5	–	13
Energy contracts	914	938	1,092	907
	1,556	2,020	1,562	1,578
Analysed as:				
Current	1,131	1,285	1,302	1,134
Non-current	425	735	260	444
	1,556	2,020	1,562	1,578

The net fair value and remaining terms of the derivative financial instruments are set out below:

	2006 HK$M	2005 HK$M
Forward foreign exchange contracts		
Within one year	(95)	(61)
Between one and two years	(147)	(81)
Between two and five years	(240)	(168)
Over five years	(1)	(1)
	(483)	(311)
Interest rate swaps/cross currency & interest rate swaps		
Within one year	(5)	(11)
Between one and two years	–	(13)
Between two and five years	136	(23)
Over five years	35	124
	166	77
Energy contracts		
Within one year	(70)	153
Between one and two years	(81)	12
Between two and five years	4	53
	(147)	218

Derivative financial instruments qualifying as cash flow hedges as at 31 December 2006 have a maturity of up to six years (2005: seven years) from the balance sheet date.

24. Trade and Other Receivables

	Group		Company	
	2006	2005	**2006**	2005
	HK$M	HK$M	**HK$M**	HK$M
Trade receivables (ageing analysis is shown below)	**5,586**	4,541	**–**	–
Deposits and prepayments	**1,332**	1,107	**7**	7
Other receivables	**1,000**	1,019	**–**	–
Dividend receivable from a jointly controlled entity	**858**	87	**–**	–
Current accounts with jointly controlled entities	**23**	5	**–**	–
Current accounts with subsidiaries	**–**	–	**2**	1
	8,799	6,759	**9**	8

The amounts receivable from jointly controlled entities are unsecured, interest-free and have no fixed repayment terms.

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 two weeks 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 about 12 to 60 days.

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

	2006	2005
	HK$M	HK$M
Below 30 days (including amount not yet due)	**5,176**	4,350
31 – 90 days	**267**	111
Over 90 days	**143**	80
	5,586	4,541

About 80% of the gross trade receivables relate to the sales of electricity and 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$68 million in 2006 (2005: HK$94 million). Such reversal has been included within the "fuel and other operating costs" in the consolidated income statement.

Trade and other receivables attributed to overseas subsidiaries amounted to HK$5,303 million (2005: HK$4,276 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 27).

Other receivables refer to an amount due from EGCO relating to the share transfer in BLCP, while the receivable in 2005 was related to the adjustment in the purchase consideration for the MEB (Note 18(A)).

25. Bank Balances, Cash and Other Liquid Funds

	2006 HK$M	2005 HK$M
Trust fund for unclaimed dividends (A)	9	12
Trust accounts under TRAA (B)	510	556
Short-term investments and bank deposits	829	1,305
Bank balances and cash	265	168
	1,613	2,041

(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 six 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.

The average effective interest rate on the Group's bank balances, cash and other liquid funds is 6.7% (2005: 5.9%).

The Group's bank balances, cash and other liquid funds denominated in foreign currencies amounted to HK$1,471 million (2005: HK$1,960 million). Of these, HK$1,319 million (2005: HK$1,567 million) was denominated in Indian rupee.

26. Trade and Other Payables

	Group		Company	
	2006 HK$M	2005 HK$M	2006 HK$M	2005 HK$M
Trade payables (ageing analysis is shown below)	3,121	3,116	–	–
Other payables and accruals	1,648	1,395	92	77
Current accounts with jointly controlled entities (A)	1,124	1,127	–	–
Amount due to a jointly controlled entity	–	441	–	–
Current accounts with subsidiaries	–	–	9	1
	5,893	6,079	101	78

(A) The amounts payable to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms. Of these, HK$911 million (2005: HK$912 million) was due to CAPCO.

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

	2006 HK$M	2005 HK$M
Below 30 days (including amount not yet due)	3,098	3,082
31 – 90 days	1	2
Over 90 days	22	32
	3,121	3,116

27. Bank Loans and Other Borrowings

	Group		Company	
	2006 HK$M	2005 HK$M	**2006 HK$M**	2005 HK$M
Current				
Short-term loans	**1,798**	867	**589**	185
Long-term bank loans	**2,466**	301	**2,205**	–
Other long-term borrowings				
USD Yankee notes due 2006	**–**	2,340	**–**	–
	4,264	3,508	**2,794**	185
Non-current				
Long-term bank loans (A)	**15,375**	16,447	**2,000**	5,106
Other long-term borrowings				
MTN programme (USD) due 2012	**2,367**	2,485	**–**	–
MTN programme (HKD) due 2013 to 2015	**3,000**	3,000	**–**	–
MTN programme (HKD) due 2016 (A)	**1,000**	–	**–**	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012	**3,966**	3,667	**–**	–
EPN and MTN programme (AUD) due 2015	**306**	284	**–**	–
	26,014	25,883	**2,000**	5,106
Total borrowings	**30,278**	29,391	**4,794**	5,291

(A) CLP Power Hong Kong arranged a total of HK$1.5 billion new credit facilities during the year in the form of notes and bank loan to support the capital requirements of the electricity business in Hong Kong. In January 2006, it issued HK$1 billion fixed-rate notes due in 2016 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$888 million (2005: HK$803 million). Of these, HK$635 million (2005: HK$575 million) and HK$253 million (2005: HK$228 million) were related to GPEC and Huaiji respectively. Bank loans for GPEC are secured by fixed and floating charges over its assets whilst for Huaiji, they are secured by right of receipt of tariff, fixed assets and land use rights. Collateralised borrowings for GPEC are secured by trade receivables (Note 24). Bank loans and other borrowings totalling HK$12,431 million (2005: HK$12,572 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

As at 31 December 2006, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2006 HK$M	2005 HK$M	**2006 HK$M**	2005 HK$M	**2006 HK$M**	2005 HK$M
Within one year	**4,264**	1,168	**–**	2,340	**4,264**	3,508
Between one and two years	**3,031**	2,440	**–**	–	**3,031**	2,440
Between two and five years	**11,870**	13,847	**–**	–	**11,870**	13,847
Over five years	**474**	160	**10,639**	9,436	**11,113**	9,596
	19,639	17,615	**10,639**	11,776	**30,278**	29,391

Of the Company's non-current borrowings, none (2005: HK$2,206 million) was repayable between one and two years and HK$2,000 million (2005: HK$2,900 million) was repayable between two and five years.

27. Bank Loans and Other Borrowings (continued)

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$M	HK$M	**HK$M**	HK$M
Hong Kong dollar and foreign currency hedged into Hong Kong dollar	**17,847**	16,819	**4,794**	5,291
Australian dollar	**10,954**	11,108	**–**	–
Indian rupee and foreign currency hedged into Indian rupee	**1,224**	1,027	**–**	–
Other currencies	**253**	437	**–**	–
	30,278	29,391	**4,794**	5,291

The exposure of the Group's and the Company's borrowings to interest rate changes and the contractual repricing dates are as follows:

Group

	Floating Interest Rate	Fixed Interest Rate Maturing in				
		1 year or less	1 to 2 years	2 to 5 years	Over 5 years	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
As at 31 December 2006						
Total borrowings	**21,720**	**71**	**48**	**91**	**8,348**	**30,278**
Effect of interest rate swaps	**(6,008)**	**–**	**–**	**7,363**	**(1,355)**	**–**
	15,712	**71**	**48**	**7,454**	**6,993**	**30,278**
As at 31 December 2005						
Total borrowings	19,696	2,365	22	–	7,308	29,391
Effect of interest rate swaps	(6,041)	–	–	6,811	(770)	–
	13,655	2,365	22	6,811	6,538	29,391

Company

	Floating Interest Rate	Fixed Interest Rate Maturing in				
		1 year or less	1 to 2 years	2 to 5 years	Over 5 years	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Total borrowings as at 31 December 2006	**4,794**	**–**	**–**	**–**	**–**	**4,794**
Total borrowings as at 31 December 2005	5,291	–	–	–	–	5,291

27. Bank Loans and Other Borrowings (continued)

As disclosed 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:

	2006		2005	
	HK$	A$	HK$	A$
Fixed rate loans and loans swapped to fixed rates	4.2% – 6.1%	6.2% – 6.6%	4.2% – 7.1%	6.3% – 6.6%
Variable rate loans and loans swapped from fixed rates	4.0% – 4.8%	6.4% – 7.0%	4.3% – 5.0%	6.1% – 6.4%

The carrying amounts of loans and borrowings approximate to 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 2006, the Group had undrawn bank loan and overdraft facilities of HK$12,245 million (2005: HK$13,152 million).

28. Obligations under Finance Leases

The Group's obligations under finance leases arise from the power purchase arrangements which are accounted for as finance leases in accordance with HKFRS-Int 4. As at 31 December 2006, the Group's obligations represented predominantly its arrangement with CAPCO in respect of the operational generating plant and associated fixed assets of the Hong Kong electricity business.

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2006 HK$M	2005 HK$M	2006 HK$M	2005 HK$M
Amounts payable under finance leases:				
Within one year	4,903	4,601	1,945	1,803
Later than one year and not later than five years	16,158	15,396	6,696	6,480
Later than five years	28,042	25,614	14,169	13,214
	49,103	45,611	22,810	21,497
Less: future finance charges	(26,293)	(24,114)		
Present value of lease obligations	22,810	21,497		
Analysed as:				
Amount due for settlement within 12 months			1,945	1,803
Amount due for settlement after 12 months			20,865	19,694
			22,810	21,497

The effective interest rate of the finance lease obligations implicit in the lease is approximately 13.5% as derived with reference to the return allowed under the SoC.

29. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date in the respective jurisdictions.

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

	2006 HK$M	2005 HK$M
Deferred tax assets	3,305	2,537
Deferred tax liabilities	(6,054)	(5,718)
	(2,749)	(3,181)

Most of the deferred tax balances are to be recovered or settled after more than 12 months.

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

	2006 HK$M	2005 HK$M
As at 1 January	(3,181)	(4,195)
Acquisition of subsidiaries	–	(782)
Tax consolidation and related adjustments	–	2,004
Credited/(charged) to income statement	196	(83)
Credited/(charged) directly to equity	88	(43)
Exchange differences	148	(82)
As at 31 December	(2,749)	(3,181)

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred tax assets (prior to offset)

	Tax Losses		Accruals and Provisions		Others		Total	
	2006 HK$M	2005 HK$M	2006 HK$M	2005 HK$M	2006 HK$M	2005 HK$M	2006 HK$M	2005 HK$M
As at 1 January	3,815	3,851	746	385	396	(152)	4,957	4,084
Acquisition of subsidiaries	–	–	–	162	–	421	–	583
(Charged)/credited to income statement	639	205	(478)	234	38	152	199	591
Charged directly to equity	–	–	(8)	–	–	–	(8)	–
Exchange differences	336	(241)	37	(35)	34	(25)	407	(301)
As at 31 December (A)	4,790	3,815	297	746	468	396	5,555	4,957

29. Deferred Tax (continued)

(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. 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 income statement.

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding/ Dividend Distribution Tax		Unbilled Revenue and Intangibles		Others		Total	
	2006 HK$M	2005 HK$M	**2006 HK$M**	2005 HK$M	**2006 HK$M**	2005 HK$M	**2006 HK$M**	2005 HK$M	**2006 HK$M**	2005 HK$M
As at 1 January	**(6,386)**	(7,290)	**(318)**	(364)	**(477)**	–	**(957)**	(625)	**(8,138)**	(8,279)
Acquisition of subsidiaries	**–**	(388)	**–**	–	**–**	(532)	**–**	(445)	**–**	(1,365)
(Charged)/credited to income statement	**48**	(843)	**(61)**	23	**(38)**	31	**48**	115	**(3)**	(674)
(Charged)/credited directly to equity	**93**	–	**–**	–	**–**	–	**3**	(43)	**96**	(43)
Tax consolidation and related adjustments (Note 13)	**–**	2,015	**–**	–	**–**	–	**–**	(11)	**–**	2,004
Exchange differences	**(98)**	120	**(15)**	23	**(95)**	24	**(51)**	52	**(259)**	219
As at 31 December	**(6,343)**	(6,386)	**(394)**	(318)	**(610)**	(477)	**(957)**	(957)	**(8,304)**	(8,138)

30. Share Capital

	2006		2005	
	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 (2005: none).

31. 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 2005, as previously reported	2,482	633	98	28,811	32,024
Changes in accounting policies (Note 2(B))	–	16	–	430	446
Balance as at 1 January 2005, as restated	2,482	649	98	29,241	32,470
Exchange differences on translation of:					
subsidiaries	–	(933)	–	–	(933)
jointly controlled entities	–	(25)	–	–	(25)
associated companies	–	(105)	–	–	(105)
designated hedges	–	(6)	–	–	(6)
Net exchange losses not recognised in income statement	–	(1,069)	–	–	(1,069)
Cash flow hedges, net of tax					
Net fair value losses	–	(172)	–	–	(172)
Transfer to income statement	–	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 attributable to shareholders	–	–	–	11,420	11,420
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 companies	–	–	5	–	5
Balance as at 31 December 2005	2,482	(350)	666	34,626[a]	37,424

31. Reserves (continued)

	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 2006, as per above	2,482	(350)	666	34,626	37,424
Exchange differences on translation of:					
subsidiaries	–	1,164	–	–	1,164
jointly controlled entities	–	241	–	–	241
associated companies	–	14	–	–	14
designated hedges	–	6	–	–	6
Net exchange gains not recognised in income statement	–	1,425	–	–	1,425
Cash flow hedges, net of tax					
Net fair value losses	–	(580)	–	–	(580)
Transfer to income statement	–	14	–	–	14
Transfer to assets – basis adjustment	–	(5)	–	–	(5)
Tax on above movements	–	105	–	–	105
Translation difference	–	(1)	–	–	(1)
	–	(467)	–	–	(467)
Revaluation of assets, net of tax	–	–	22	–	22
Revaluation reserves realised upon depreciation	–	–	(3)	3	–
Earnings attributable to shareholders	–	–	–	9,900	9,900
Dividends paid					
2005 finals	–	–	–	(2,264)	(2,264)
2006 interims	–	–	–	(3,612)	(3,612)
Share of movements in reserves of					
jointly controlled entities	–	82	158	(17)	223
associated companies	–	–	(18)	–	(18)
Balance as at 31 December 2006	**2,482**	**690**	**825**	**38,636**[(a)]	**42,633**

Note (a): The proposed final dividends as at 31 December 2006 and balance of retained profits after the proposed final dividends were HK$2,192 million (2005: HK$2,264 million) and HK$36,444 million (2005: HK$32,362 million) respectively.

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

32. 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.

33. SoC Reserve Accounts

The Development Fund 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:

	2006 HK$M	2005 HK$M
SoC reserve accounts		
Development Fund (A)	2,932	3,685
Rate Reduction Reserve (B)	414	489
	3,346	4,174

Movements in the SoC reserve accounts are as follows:

	2006 HK$M	2005 HK$M
(A) Development Fund		
As at 1 January	3,685	3,171
Transfer (to)/from income statement (Note 7)	(202)	527
One-off rebate	–	(13)
Special rebate to customers[a]	(551)	–
As at 31 December	2,932	3,685
(B) Rate Reduction Reserve		
As at 1 January	489	549
Interest expense charged to income statement (Note 11)	265	274
Rebate to customers[b]	(340)	(334)
As at 31 December	414	489

Notes:

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

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

34. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before income tax to net cash inflow from operations:

	2006 HK$M	2005 HK$M
Profit before income tax	10,593	10,574
Adjustments for:		
Operating interest	4,718	4,215
Finance income	(138)	(124)
Share of results, net of income tax		
jointly controlled entities	(2,936)	(3,182)
associated companies	(114)	(127)
Depreciation and amortisation	4,968	4,359
Impairment charge on fixed assets	1,176	–
Net loss on disposal of fixed assets	216	188
Capital gain on disposal of properties	(25)	(128)
Net gain on disposal of other assets	–	(37)
Excess of share of net assets acquired over consideration on acquisition of additional interest in a subsidiary	(8)	–
Gain on formation of OneEnergy	(343)	–
Gain on transfer of BLCP to EGCO	(888)	–
Fair value loss on borrowings under fair value hedges and net exchange difference	33	29
SoC items		
increase in customers' deposits	104	189
decrease in fuel clause account	(41)	(466)
one-off rebate	–	(13)
rebate to customers under SoC	(340)	(334)
special rebate	(551)	–
	(828)	(624)
Transfers (from)/to Development Fund	(202)	527
(Increase)/decrease in trade and other receivables	(72)	354
Increase in trade and other payables	304	164
Decrease in finance lease receivables	127	133
Decrease in derivative financial instruments	185	228
(Decrease)/increase in current accounts due to jointly controlled entities	(21)	29
Net cash inflow from operations	16,745	16,578

35. Commitments

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for	**4,407**	2,689	**2**	–
Authorised but not contracted for	**7,965**	6,922	**–**	2
	12,372	9,611	**2**	2

(B) The Group has entered into a number of joint venture arrangements to develop power projects in 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 2006	Remaining Balance to be Contributed	Expected Year for Last Contribution
Fangchenggang power project	RMB966 million	RMB532 million (HK$513 million)	RMB434 million (HK$432 million)	2008
Weihai wind power project	RMB30 million	RMB14 million (HK$13 million)	RMB16 million (HK$16 million)	2008
Nanao II wind power project	RMB36 million	RMB16 million (HK$16 million)	RMB20 million (HK$20 million)	2007
Weihai II wind power project	RMB80 million	Nil	RMB80 million (HK$80 million)	2007

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

	2006	2005
	HK$M	HK$M
Not later than one year	**703**	685
Later than one year and not later than five years	**2,569**	2,548
Later than five years	**9,319**	9,759
	12,591	12,992

Of the above amount, HK$9,559 million (2005: HK$9,972 million) was related to the operating leases element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,854 million (2005: HK$2,827 million) was related to the twenty-year Master Hedge Agreement between TRUenergy and Ecogen. Under the latter Agreement, TRUenergy has the right to call upon electricity from the power stations at predetermined charging rates over the life of the Agreement. Other non-cancellable operating leases are for leases of various offices and equipment.

36. 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 jointly controlled entities and associated companies

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

	2006 HK$M	2005 HK$M
Purchases of electricity from CAPCO (a)	12,114	11,636
Purchases of nuclear electricity (b)	5,040	5,029
Pumped storage service fee (c)	340	352
	17,494	17,017

(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.

Pursuant to the requirements of HKFRS-Int 4 and HKAS 17, the electricity supply contract arrangement was assessed to contain finance leases, operating leases and service elements. The payment made to CAPCO pursuant to the contract has been allocated to the different leases and service elements according to the requirements of the standards.

(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, subject to a minimum return level.

36. Related Party Transactions (continued)

(A) Purchases of electricity and gas from jointly controlled entities and associated companies (continued)

(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 in 2006 was HK$858 million (2005: HK$522 million).

Amounts due to the related parties as at 31 December 2006 are disclosed in Note 26.

(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$1,061 million (2005: HK$1,044 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 2006 are disclosed in Note 24. 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$17,114 million (2005: HK$17,311 million) made to its subsidiaries (Note 19), HK$16,616 million (2005: HK$16,827 million) was advanced to CLP Power Asia Limited to fund investments in power projects in Australia, the Chinese mainland, Southeast Asia and Taiwan. Movements of the advance account to CLP Power Asia Limited are as follows:

	2006 HK$M	2005 HK$M
Balance as at 1 January	16,827	11,532
Amounts advanced	1,018	6,823
Amounts repaid	(1,229)	(1,528)
Balance as at 31 December	16,616	16,827

The Company also has advances from subsidiaries, which are unsecured, interest-free and have no fixed repayment terms. The total amount of advances from subsidiaries amounted to HK$186 million (2005: HK$195 million), of which HK$185 million (2005: HK$166 million) was from CLP Properties Group.

36. Related Party Transactions (continued)

(D) The loan and advances made to jointly controlled entities totalled HK$7,164 million (2005: HK$6,865 million) (Note 20). Of these, HK$6,755 million (2005: HK$6,427 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO. Details are as follows:

	2006 HK$M	2005 HK$M
Balance as at 1 January	**6,427**	6,037
Amounts advanced	**2,128**	2,027
Amounts repaid	**(1,819)**	(1,622)
Exchange differences	**19**	(15)
Balance as at 31 December	**6,755**	6,427

As at 31 December 2006, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2005: nil).

(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 and the Senior Management Group. Members of the Senior Management Group include the Executive Directors and seven senior management personnel (2005: three). The total remuneration of the key management personnel is shown below:

	2006 HK$M	2005 HK$M
Fees	**5**	4
Base compensation, allowances and benefits in kind	**34**	26
Performance bonus		
Annual incentive	**28**	24
Long-term incentive	**9**	11
Provident fund contributions	**4**	3
Ex-gratia payment[a]	**–**	2
	80	70

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.

As at 31 December 2006, the CLP Holdings' Board was composed of sixteen Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year 2006 totalled HK$37 million (2005: HK$47 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included two Directors (2005: three Directors, of whom one served as Director for part of the year) and two senior management personnel (2005: two) and a former senior manager. The total remuneration of these five highest paid individuals amounted to HK$56 million (2005: HK$53 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in sections 5, 6, 7 and 8 of the Remuneration Report on pages 122 to 125.

37. 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$1,275 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 financial statements in respect of this matter.

38. Events after the Balance Sheet Date

In January 2007, TRUenergy entered into a power station swap agreement with AGL Energy Limited (AGL), subject to Australian Competition and Consumer Commission clearance and other third party consents. TRUenergy will sell its 1,280MW Torrens Island Power Station to AGL for A$417 million (approximately HK$2,564 million) in exchange for AGL's 180MW Hallett Power Station of A$117 million (approximately HK$719 million) plus cash of A$300 million (approximately HK$1,845 million). The transaction also involves electricity and wholesale gas supply and delivery arrangements in connection with the operation of these power stations. It is expected that the transaction will be completed in July 2007.