Financial Statements

The Financial Statements rest on Board and Management accountability and independent auditing, all within a defined legal and regulatory framework. They represent the key process by which the delivery of economic value is measured and reported.

Independent Auditor's Report

To the Shareholders of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CLP Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 134 to 200, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 25 February 2010

Consolidated Income Statement
for the year ended 31 December 2009

	Note	2009 HK$M	2008 HK$M
Revenue	3	50,668	54,297
Expenses			
Purchases of electricity, gas and distribution services		(18,306)	(18,235)
Operating lease and lease service payments	4	(9,201)	(9,102)
Staff expenses		(1,819)	(1,755)
Fuel and other operating expenses		(6,316)	(8,570)
Depreciation and amortisation		(4,332)	(4,055)
		(39,974)	(41,717)
Other income	5	153	727
Operating profit	6	10,847	13,307
Finance costs	7	(3,477)	(4,245)
Finance income	7	69	124
Share of results, net of income tax			
Jointly controlled entities	15	2,675	2,624
Associated companies	16	(260)	(27)
Profit before income tax		9,854	11,783
Income tax expense	8	(1,665)	(1,349)
Profit for the year		8,189	10,434
Loss / (profit) attributable to minority interests		7	(11)
Earnings attributable to shareholders	9	8,196	10,423
Dividends	10		
Interim dividends paid		3,753	3,757
Final dividend proposed		2,214	2,214
		5,967	5,971
Earnings per share, basic and diluted	11	HK$3.41	HK$4.33

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 HK$M	2009 HK$M	2008 HK$M	2008 HK$M
Profit for the year		8,189		10,434
Other comprehensive income				
Exchange differences on translation of				
Subsidiaries	4,637		(4,741)	
Jointly controlled entities	371		267	
Associated companies	62		(60)	
		5,070		(4,534)
Cash flow hedges				
Net fair value gains	402		65	
Reclassification adjustment for amounts included in profit or loss	(145)		218	
Transfer to assets	(7)		14	
Translation difference	50		(30)	
Tax on the above items	(80)		(38)	
		220		229
Available-for-sale investments				
Fair value gains	109		28	
Tax on the above item	(18)		(13)	
		91		15
Revaluation surplus on step-acquisition of subsidiaries		15		–
Share of other comprehensive income of jointly controlled entities		120		(625)
Reclassification adjustment relating to disposal of jointly controlled entities		–		(319)
Other comprehensive income / (loss) for the year, net of tax		5,516		(5,234)
Total comprehensive income for the year		13,705		5,200
Total comprehensive income attributable to:				
Shareholders of the Company		13,711		5,190
Minority interests		(6)		10
		13,705		5,200

This year, a new statement of comprehensive income is presented. The concept of other comprehensive income is explained on page 58.

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2009

	Note	2009 HK$M	2008 HK$M
Non-current assets			
Fixed assets	12(A)	96,604	86,873
Leasehold land and land use rights	12(B)	2,254	2,250
Goodwill and other intangible assets	13	8,105	6,324
Interests in jointly controlled entities	15	18,838	17,791
Interests in associated companies	16	1,813	242
Finance lease receivables	17	2,379	2,387
Deferred tax assets	25	3,355	2,992
Fuel clause account	26	14	800
Derivative financial instruments	18	1,821	1,505
Available-for-sale investments	19	1,692	224
Other non-current assets		327	258
		137,202	121,646
Current assets			
Inventory – stores and fuel		715	662
Trade and other receivables	20	9,018	8,239
Finance lease receivables	17	130	128
Derivative financial instruments	18	1,472	1,374
Bank balances, cash and other liquid funds	21	7,994	782
		19,329	11,185
Current liabilities			
Customers' deposits	20(a)	(3,854)	(3,722)
Trade and other payables	22	(8,926)	(5,919)
Income tax payable		(208)	(366)
Bank loans and other borrowings	23	(6,892)	(3,313)
Obligations under finance leases	24	(1,523)	(1,403)
Derivative financial instruments	18	(1,035)	(1,198)
		(22,438)	(15,921)
Net current liabilities		(3,109)	(4,736)
Total assets less current liabilities		134,093	116,910

	Note	2009 HK$M	2008 HK$M
Financed by:			
Equity			
Share capital	28	12,031	12,031
Share premium		1,164	1,164
Reserves	29		
Proposed dividends		2,214	2,214
Others		55,352	47,608
Shareholders' funds		70,761	63,017
Minority interests		107	105
		70,868	63,122
Non-current liabilities			
Bank loans and other borrowings	23	32,539	23,383
Obligations under finance leases	24	20,332	20,362
Deferred tax liabilities	25	7,009	6,435
Derivative financial instruments	18	617	837
Scheme of Control (SoC) reserve accounts	27	1,654	1,826
Other non-current liabilities		1,074	945
		63,225	53,788
Equity and non-current liabilities		134,093	116,910

The risk exposures of the Group's financial instruments are detailed in the Risk Management Report and the Financial Risk Management section set out on pages 107 to 115 and 194 to 200 respectively.

William Mocatta Andrew Brandler Mark Takahashi

William Mocatta
Vice Chairman
Hong Kong, 25 February 2010

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Company Statement of Financial Position
as at 31 December 2009

	Note	2009 HK$M	2008 HK$M
Non-current assets			
Fixed assets	*12(A)*	62	42
Investments in subsidiaries	*14*	46,005	37,933
Advance to a subsidiary	*14*	39	39
Other non-current assets		2	2
		46,108	38,016
Current assets			
Trade and other receivables	*20*	44	55
Bank balances and cash		3	1
		47	56
Current liabilities			
Trade and other payables	*22*	(200)	(192)
Advances from subsidiaries	*32(C)*	(110)	(106)
Bank loans and other borrowings	*23*	(2,000)	(166)
		(2,310)	(464)
Net current liabilities		(2,263)	(408)
Total assets less current liabilities		43,845	37,608
Financed by:			
Equity			
Share capital	*28*	12,031	12,031
Share premium		1,164	1,164
Reserves			
Proposed dividends		2,214	2,214
Others		28,436	21,699
Shareholders' funds		43,845	37,108
Non-current liabilities			
Bank loans and other borrowings	*23*	–	500
Equity and non-current liabilities		43,845	37,608

William Mocatta
Vice Chairman

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

Hong Kong, 25 February 2010

The notes and disclosures on pages 142 to 200 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Attributable to shareholders					
	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Total HK$M	Minority Interests HK$M	Total HK$M
Balance at 1 January 2008	12,041	1,164	50,696	63,901	95	63,996
Total comprehensive income for the year	–	–	5,190	5,190	10	5,200
Dividends paid						
2007 final	–	–	(2,216)	(2,216)	–	(2,216)
2008 interim	–	–	(3,757)	(3,757)	–	(3,757)
Repurchase of shares	(10)	–	(91)	(101)	–	(101)
Balance at 31 December 2008	12,031	1,164	49,822	63,017	105	63,122
Balance at 1 January 2009	12,031	1,164	49,822	63,017	105	63,122
Total comprehensive income for the year	–	–	13,711	13,711	(6)	13,705
Dividends paid						
2008 final	–	–	(2,214)	(2,214)	–	(2,214)
2009 interim	–	–	(3,753)	(3,753)	–	(3,753)
Capital contribution from minority interests	–	–	–	–	8	8
Balance at 31 December 2009	**12,031**	**1,164**	**57,566**	**70,761**	**107**	**70,868**

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2009

	Share Capital HK$M	Share Premium HK$M	Capital Redemption Reserve HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2008	12,041	1,164	2,482	20,854	36,541
Total comprehensive income for the year	–	–	–	6,641	6,641
Dividends paid					
2007 final	–	–	–	(2,216)	(2,216)
2008 interim	–	–	–	(3,757)	(3,757)
Repurchase of shares	(10)	–	10	(101)	(101)
Balance at 31 December 2008	12,031	1,164	2,492	21,421[a]	37,108
Balance at 1 January 2009	12,031	1,164	2,492	21,421	37,108
Total comprehensive income for the year	–	–	–	12,704	12,704
Dividends paid					
2008 final	–	–	–	(2,214)	(2,214)
2009 interim	–	–	–	(3,753)	(3,753)
Balance at 31 December 2009	**12,031**	**1,164**	**2,492**	**28,158[a]**	**43,845**

Note (a): The proposed final dividend at 31 December 2009 was HK$2,214 million (2008: HK$2,214 million) and the balance of retained profits after the proposed final dividend was HK$25,944 million (2008: HK$19,207 million).

At 31 December 2009, distributable reserves of the Company amounted to HK$28,158 million (2008: HK$21,421 million).

The notes and disclosures on pages 142 to 200 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2009

	Note	2009 HK$M	2009 HK$M	2008 HK$M	2008 HK$M
Operating activities					
Net cash inflow from operations	*30*	15,398		15,916	
Interest received		55		132	
Income tax paid		(924)		(810)	
Net cash inflow from operating activities			14,529		15,238
Investing activities					
Capital expenditure		(7,449)		(6,569)	
Capitalised interest paid		(320)		(388)	
Proceeds from disposal of fixed assets		121		175	
Additions of intangible assets		(124)		(168)	
Additions of available-for-sale investments		(144)		(106)	
Acquisition of subsidiaries		(153)		(321)	
Proceeds from sale of Power Generation Services Company Limited (PGS) / SEAGas		156		895	
Investments in and advances to jointly controlled entities and associated company		(1,992)		(1,347)	
Dividends received from jointly controlled entities		2,557		2,676	
Increase in bank deposits with maturities of more than three months		(8)		–	
Net cash outflow from investing activities			(7,356)		(5,153)
Net cash inflow before financing activities			7,173		10,085
Financing activities					
Proceeds from long-term borrowings		18,105		9,591	
Repayment of long-term borrowings		(7,694)		(11,083)	
Repayment of obligations under finance leases		(1,516)		(1,558)	
(Decrease) / increase in short-term borrowings		(535)		1,872	
Interest and other finance costs paid		(3,354)		(4,074)	
Repurchase of shares		–		(101)	
Dividends paid		(5,967)		(5,973)	
Net cash outflow from financing activities			(961)		(11,326)
Net increase / (decrease) in cash and cash equivalents			6,212		(1,241)
Cash and cash equivalents at beginning of year			780		2,160
Effect of exchange rate changes			156		(139)
Cash and cash equivalents at end of year			7,148		780
Analysis of balances of cash and cash equivalents					
Short-term investments			–		90
Deposits with banks			7,214		228
Cash at banks and on hand			780		464
Bank balances, cash and other liquid funds	*21*		7,994		782
Excluding:					
Cash restricted for specific purposes			(838)		(2)
Bank deposits with maturities of more than three months			(8)		–
			7,148		780

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Significant Accounting Policies

1. Basis of Preparation

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements.

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 measured at fair values.

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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgments on pages 153 to 156.

2. Effect of New / Revised HKFRS

(A) Adoption of new / revised HKFRS effective 1 January 2009

The Group has adopted the following new / revised standards and interpretations:

- HKAS 1 (Revised) "Presentation of Financial Statements"
- HKAS 23 (Revised) "Borrowing Costs"
- HKFRS 8 "Operating Segments"
- HK(IFRIC)-Int 16 "Hedges of a Net Investment in a Foreign Operation"
- HK(IFRIC)-Int 18 "Transfers of Assets from Customers"
- Amendments to HKAS 27 "Consolidated and Separate Financial Statements" – Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to HKFRS 7 "Financial Instruments: Disclosures" – Improving Disclosures about Financial Instruments
- Amendments to HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" and HKAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives
- Amendment to HK-Int 4 "Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases"
- HKICPA's improvements to HKFRS published in October 2008

Apart from certain presentational changes, the adoption of these new / revised standards and interpretations has no significant impact on the Group's financial statements.

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

The following new / revised HKFRS, potentially relevant to the Group's operations, have been issued, are mandatory, and will be adopted by the Group for accounting periods beginning on or after 1 January 2010:

- HKAS 24 (Revised) "Related Party Disclosures"
- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HKFRS 3 (Revised) "Business Combinations"
- HKFRS 9 "Financial Instruments"
- HK(IFRIC)-Int 17 "Distribution of Non-cash Assets to Owners"
- Amendment to HKAS 39 "Eligible Hedged Items"
- HKICPA's improvements to HKFRS published in May 2009

The adoption of HKAS 27 (Revised) "Consolidated and Separate Financial Statements" and HKFRS 3 (Revised) "Business Combinations" may have an effect on the accounting of future business combinations, if any.

Otherwise, save for the above-mentioned, and apart from certain presentational changes, the adoption of these HKFRS will have no significant impact on the results and the financial position of the Group.

3. 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 Policy No. 11.

The results of subsidiaries acquired during the year are included in the consolidated financial statements 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. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. 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 entities 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.

4. Foreign Currency Translation

Items included in the financial statements of each of the Group 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 the Hong Kong dollar, 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 or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies by using the exchange rates at the end of the reporting period are recognised in profit or loss.

For subsidiaries, jointly controlled entities and associated companies that have a functional currency different from the Group's presentation currency (i.e. Hong Kong dollar), assets and liabilities for each statement of financial position presented are translated using the closing rate at the end of the reporting period; whilst income and expenses for each income statement presented are translated at average exchange rate for the reporting period (unless this average rate 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 initially recognised in other comprehensive income and as a separate component of equity. When a foreign entity is sold, exchange differences that were accumulated in equity are reclassified to profit or loss 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 using the closing rate at the end of the reporting period.

Monetary assets and liabilities are assets to be received and liabilities to be paid in fixed money amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is uncertain how much you will receive if the fixed asset is to be sold.

5. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions.

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.

6. 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 and the corresponding lease income / expense, 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 profit or loss.

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. The corresponding rental obligations, net of finance charges, are included as obligations under finance leases in current and non-current liabilities.

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 profit or loss 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.

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 containing a finance or an operating lease. Payments for services and the cost of inputs of the arrangement are excluded from the calculation of the minimum lease payments and are recognised as lease service income / payment. In respect of the power purchase arrangement between CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO), the effective interest rate of the finance lease obligation is a variable rate akin to a price index which moves with reference to the return allowed under the SoC Agreement and accordingly, the finance charge has been treated as contingent rent. Contingent rent is recognised as an expense in the period in which it is incurred.

Readers who would like to revisit our explanation of lease accounting can find this on our website.

7. 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.

> Related Parties ≠ Connected Parties
>
> They sometimes overlap but should not be confused. Accounting standards define related parties, while the Listing Rules of the Hong Kong Stock Exchange define connected parties.

8. 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 actual and accrued consumption 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 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.

9. Employee Benefits

(A) 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 (GPFS) and Mandatory Provident Fund (MPF) scheme administered 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 legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices.

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

(B) 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 end of the reporting period, where there is a contractual obligation or past practice has created a constructive obligation.

10. 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 at 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 interests. 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 profit or loss.

Investments in subsidiaries are carried on the statement of financial position 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.

11. Jointly Controlled Entities and Associated Companies

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.

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 jointly controlled entities / associated companies in the consolidated financial statements are initially recognised at cost and are subsequently accounted for by the equity method of accounting. The Group's share of its jointly controlled entities / associated companies' post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated statement of financial position, interests in jointly controlled entities / associated companies comprise the Group's share of the net assets and its net advances made to the jointly controlled entities / 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.

When the Group's shared losses in a jointly controlled entity / associated company equal or exceed its interest therein, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities / associated companies.

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

A quick guide to the classification of different entities:

Control → Subsidiary
Joint Control → Jointly Controlled Entity
Significant Influence → Associated Company
Less than Significant Influence → Available-for-sale Investment

12. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset. Cost may also include transfer from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of fixed assets. 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. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in the period in which they are incurred.

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 fixed assets and amortisation of leasehold land 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.

Leasehold land	unexpired term of the lease
Cable tunnels	100 years
Buildings and civil structures at power stations	35 years
Other buildings and civil structures	50 years
Overhead lines (33 kV and above)	50 years
Overhead lines (below 33 kV)	45 years
Cables (132 kV and above)	55 years
Cables (below 132 kV)	60 years
Switchgear and transformers	50 years
Generating plant	25 years
Substation miscellaneous	25 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 and marine craft	5 years
Refurbished or improved assets	Remaining original life plus any life extension

Fixed assets used for the non-SoC business, primarily relating to the electricity businesses 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
Computers, furniture and fittings and office equipment	3 – 10 years
Motor vehicles	3 – 10 years
Leasehold land	unexpired term of the lease
Land use rights	unexpired term of the lease
Freehold land	not depreciable

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. 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 profit or loss.

13. Intangible Assets

(A) 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 statement of financial position as a separate asset if it relates to the acquisition of a subsidiary. Goodwill is included within interests in jointly controlled entities or associated companies if arising from an acquisition of these respective entities and is tested for impairment as part of the overall balance. 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.

(B) 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 of 6 – 14 years 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.

14. Impairment of Non-Financial 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 its 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.

Indefinite useful life ≠ Infinite useful life

An indefinite useful life only means that there is no foreseeable limit to the period over which an asset is expected to generate cash flows to the Group. It does not necessarily mean that it will generate such cash flows forever.

This year, we have an expanded discussion on impairment assessment on pages 75 to 77.

15. 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 fair value hedges, which are hedges of the fair value of recognised financial assets or financial liabilities or firm commitments (e.g. fixed interest rate loans, foreign currency trade receivables) or cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities or highly probable forecast transactions (e.g. floating interest rate loans, future purchases of fuels denominated in U.S. dollar).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives 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.

(A) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, which will offset any changes in the fair value recognised in profit or loss of the corresponding hedged asset or liability that are attributable to the hedged risk and achieve the overall hedging result.

(B) 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 other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

The cumulative gain or loss that has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result. 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 that were recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income and accumulated in equity shall remain separately and be reclassified from equity to profit or loss in the same period when the hedged forecast cash flows affect profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been recognised in other comprehensive income and accumulated in equity is reclassified from equity to profit or loss immediately.

(C) 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 profit or loss.

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 the end of each of the reporting period. 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.

16. Available-for-sale Investments

Available-for-sale investments are non-derivative financial assets that are either designated in the category or not classified in any of the other categories of financial instruments including financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity financial assets. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

Changes in the fair value of monetary investment denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the investment and other changes in the carrying amount of the investment. The translation differences on monetary investment are recognised in profit or loss; translation differences on non-monetary investments are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary investment classified as available-for-sale are recognised in other comprehensive income.

When an investment classified as available-for-sale is sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Dividends on available-for-sale equity investment are recognised in profit or loss when the Group's right to receive payments is established.

The Group assesses at the end of each reporting period whether there is objective evidence that an available-for-sale investment is impaired. A significant or prolonged decline in the fair value of an equity investment below its cost is evidence that the asset is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity investment are not reversed through profit or loss.

Available-for-sale investments are classified as non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

17. 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 and gas, and on the first-in, first-out basis for oil and naphtha. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

18. 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

19. Cash and Cash Equivalents

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, subjected to insignificant risk of change in value 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 statement of financial position.

20. Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

21. 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 profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. 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 end of the reporting period.

Borrowing costs are recognised as an expense 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.

22. Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised as income or an expense and included in profit or loss, except to the extent that it relates to items recognised either in other comprehensive income or directly in equity. In this case, the tax is also recognised in either other comprehensive income or equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries, jointly controlled entities and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period 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.

23. 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

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.

What is the difference between a legal obligation and a constructive obligation?

A legal obligation derives from a contract, legislation or the operation of law.

A constructive obligation arises from an established pattern of past practices or published policies which create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

Here is a quick guide on how to account for contingent liabilities:

Probable to happen → Recognise a provision
Possible → Disclose only
Remote → Do nothing

Critical Accounting Estimates and Judgments

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

1. Australia Carbon Pollution Reduction Scheme (CPRS)

Introduction

Recent developments in climate change policy in Australia pose potentially significant financial risks to the Group's business in Australia. The position up to 31 December 2008 was disclosed on pages 156 to 157 of the 2008 Annual Report.

Background

The Australian Government (the "Government") released its White Paper (the "White Paper" [1]) on the CPRS on 15 December 2008. The White Paper recognised that some coal-fired electricity generators are unlikely to be able to pass on their full carbon costs, because they are constrained by competing generators with lower emissions intensity.

An exposure draft of the CPRS legislation was subsequently introduced on 10 March 2009. This set out what would be required of participants in the CPRS and the mechanics of the CPRS. The Government sought feedback from stakeholders on the terms of the draft legislation and its effectiveness in delivering the White Paper's policy positions.

New measures for the CPRS were announced by the Government on 4 May 2009, including a one year delay in the proposed start date for the CPRS to July 2011, a fixed price for carbon permits for the first year (A$10 / tonne) and a target of 25% reduction of 2000 levels of carbon emissions by 2020.

The Government introduced a package of 11 emissions trading scheme bills into the Parliament on 14 May 2009 [2]. On 4 June 2009, the lower house of parliament (House of Representatives) passed the legislation, allowing it to proceed to a vote in the upper house (Senate). The legislation passed by 74 votes to 63 in the lower house, where the Government holds a majority. The bills were debated in the Senate during the June and August sittings of the Parliament and were ultimately defeated by a vote of 42 to 30 on 13 August 2009.

The Government then reintroduced the bills to the Parliament in mid November. After progressing again through the House of Representatives, the bills moved on to broader debate in the Senate focussed on a set of amendments agreed between the Government and the Opposition leadership. The Senate voted down the CPRS by 41 to 33.

The CPRS version that was amended in November 2009, following discussions with the Opposition, was reintroduced a third time to the Parliament in February 2010. The Opposition under new leadership, has backed bipartisan emissions targets but has ruled out support for an emissions trading scheme or a carbon tax. Instead the new Opposition policy envisages a focus on direct action through land management and energy efficiency measures.

Potential Implications for Electricity Generators

In recognition of the impact on the most emissions intensive electricity generators, the Government has proposed to provide a once-and-for-all allocation of permits to such generators under the Electricity Sector Adjustment Scheme ("ESAS"). Assistance is to be targeted at the most emissions intensive generators as they are unlikely to be able to pass on the full costs of the permits they must buy.

[1] Refer to Australian Government website: http://climatechange.gov.au/publications/cprs/white-paper/cprs-whitepaper.aspx
[2] Refer to Australian Government website: http://climatechange.gov.au/government/initiatives/cprs/cprs-progress/legislation.aspx

1. Australia Carbon Pollution Reduction Scheme (CPRS) (continued)

In the December 2008 White Paper, the Government estimated the total value of the permits allocated in the ESAS as A$3.5 billion [3] (HK$24 billion). This was based on an assumed carbon price starting at A$25 per tonne, consistent with their modelled scenario of a 5% cut on 2000 emission levels by 2020. However, there remains significant uncertainty over the expected carbon price path with the first CPRS emissions caps not being finalised until 2010 and ongoing international negotiations, the outcome of which is likely to dictate Australian carbon prices. The current draft of the legislation has been amended to increase the quantum of assistance available under the ESAS from 130.7 million permits to 228.7 million permits (a 75% increase) and to extend the period over which ESAS is provided from five years to ten.

Assuming legislation is ultimately passed in line with these amended terms and conditions, these permits will be distributed to eligible companies over the first ten years of the CPRS (mid 2011 through mid 2021). The amount of assistance applicable to companies and assets will be determined prior to the start date of the CPRS. The Government will allocate assistance through the ESAS to coal-fired electricity generators according to a methodology that weighs assistance by the historical energy output of each generator and the extent by which the ESAS regulator's estimate of the emissions intensity of each generator exceeds the Government's threshold level of emissions intensity. However, to ensure that assistance does not lead to windfall gains, a review will be held in 2018 to determine whether generators in receipt of ESAS assistance are likely to earn windfall profits, taking into account actual and forecast net revenues, compared to those predicted when assistance was originally estimated.

Potential Implications for TRUenergy

The possible introduction of a CPRS may have a significant impact on TRUenergy's business, in particular on the Yallourn brown coal-fired generation business. It may result in a significant impairment of the business due to either a reduction in the earnings from a combination of reduced output and increased costs not fully offset by higher electricity prices and / or a reduction in the useful life of the asset.

Given the lack of support from the Opposition for the existing CPRS proposal, uncertainty remains regarding the timing and structure of any CPRS. As such, the introduction of the CPRS presents an unquantifiable, but potentially material risk to the Group. At 31 December 2009, no impact of the CPRS has been reflected in the Group's financial statements (including impairment model cash flows, assumptions on discount rate, asset useful lives, outage rates and capital expenditure) on the basis that there is currently uncertainty in relation to the likely structure, timing and impact of any CPRS.

The carrying amount of the Yallourn power station assets, which comprised a single cash generating unit, was A$1,662 million or HK$11,592 million at 31 December 2009 (2008: A$1,682 million or HK$9,036 million). Other parts of the Group in Australia may also be impacted adversely or favourably.

[3] In 2008 / 09 Australian dollars.

The impact of CPRS on Yallourn Power Station is also discussed on page 77.

2. Asset Impairment

The Group has made substantial investments in tangible long-lived assets, jointly controlled entities and associated companies. 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, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During 2009, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management concluded that there was no material impairment loss for Yallourn (please also refer to item 1 above), SoC fixed assets of HK$74,523 million (2008: HK$71,899 million), goodwill of HK$6,766 million (2008: HK$5,205 million) and other long-lived assets, except for the provisions for Solar Systems Pty Ltd (Solar Systems) of HK$319 million (HK$346 million with related tax adjustment) (2008: nil) and OneEnergy Limited (OneEnergy) of HK$131 million (2008: nil). As the latest annual impairment models indicated that headroom (meaning the excess of the recoverable amount over carrying value) existed for the relevant assets, management believe that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2009 year end except for the introduction of CPRS disclosed in item 1 above.

3. Deferred Tax

At 31 December 2009, a deferred tax asset of HK$4,794 million (2008: HK$3,979 million) in relation to unused tax losses was recognised in the consolidated statement of financial position. 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 profit or loss for the period in which such a reversal takes place. The Group's deferred tax asset arises from tax losses in our Australia business. The current financial models indicate that the tax losses can be utilised in the foreseeable future and with no expiry date for utilising losses in Australia, management believe that any reasonable changes in the model assumptions would not affect management's view as at the close of 2009. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

4. Asset Retirement Obligations

CLP Power Hong Kong and CAPCO have been investing in the transmission and distribution network and power stations respectively to supply electricity to the customers in its supply area in Hong Kong. CLP Power Hong Kong and CAPCO expect that the land currently used for its transmission and distribution network and generation facilities will continue to be used for generation and distribution of electricity supply in order to maintain the electricity supply to the customers for the foreseeable future. It is considered remote that the transmission and distribution network and the power stations would be removed from the existing land sites. As such, an asset retirement obligation has not been recognised upfront in the respective financial statements of CLP Power Hong Kong and CAPCO in accordance with the requirements of accounting standards.

5. SoC-related Accounts

As stipulated in the SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities 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. 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 to customers such that the SoC reserve account balances of HK$1,654 million (2008: HK$1,826 million) meet the definition of a liability.

Features of the current SoC are summarised on pages 201 and 202.

6. Lease Accounting

The application of HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" has resulted in finance lease accounting being applied to CLP Power Hong Kong as lessee (for its Electricity Supply Contract with CAPCO), whilst being applied to Gujarat Paguthan Energy Corporation Private Limited (GPEC), Ho-Ping Power Company (Ho-Ping), Electricity Generating Public Company Limited (EGCO) and BLCP Power Limited (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 have been made, such as the determination of minimum lease payments, implicit interest rates and residual values of the power plants at the end of contract periods. For the power purchase arrangement between CLP Power Hong Kong and CAPCO, in determining the minimum lease payments, the assumption has been made that the return contained in the lease is a variable rate return which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. Any future changes to these assumptions will affect the value of the lease assets and liabilities recognised and the corresponding lease income and expenses in the consolidated financial statements.

7. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 3 Fair Value Estimation on page 198.

1. General Information

The Company is a limited liability company incorporated in Hong Kong and listed on the Stock Exchange of 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, and its jointly controlled entity, CAPCO, are governed by a SoC entered with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The current SoC Agreement took effect from 1 October 2008 (2008 SoC), immediately after the expiry of the previous SoC which covered the period from 1 October 1993 to 30 September 2008 (1993 SoC). The main features of these SoC agreements are summarised on pages 201 and 202.

These financial statements have been approved for issue by the Board of Directors on 25 February 2010.

2. Segment Information

Accounting Policy No. 5

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. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions. Substantially all the principal activities of the Group in each region are for the generation and supply of electricity which are managed and operated on an integrated basis.

Information about the Group's operations by geographical region is as follows:

2. 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 2009							
Revenue	28,484	19,166	180	2,786	43	9	50,668
Operating profit / (loss)	8,689	1,752	(100)	756	163	(413)	10,847
Share of results, net of income tax							
Jointly controlled entities	1,107	(40)	1,218[(a)]	–	390	–	2,675
Associated companies	–	(354)	94[(a)]	–	–	–	(260)
Profit / (loss) before net finance costs and income tax	9,796	1,358	1,212	756	553	(413)	13,262
Finance costs	(2,673)	(666)	(35)	(82)	–	(21)	(3,477)
Finance income	11	30	5	23	–	–	69
Profit / (loss) before income tax	7,134	722	1,182	697	553	(434)	9,854
Income tax expense	(989)	(349)	(70)	(251)	(6)	–	(1,665)
Profit / (loss) for the year	6,145	373	1,112	446	547	(434)	8,189
Loss attributable to minority interests	–	–	7	–	–	–	7
Earnings / (loss) attributable to shareholders	6,145	373	1,119	446	547	(434)	8,196
Capital additions	6,105	1,349	239	2,111	3	30	9,837
Depreciation and amortisation	3,088	1,132	68	35	–	9	4,332
Impairment charge	–	264	19	16	–	–	299
At 31 December 2009							
Fixed assets	74,567	17,283	1,730	2,960	3	61	96,604
Interests in							
Jointly controlled entities	7,545	1,144	7,447	–	2,702	–	18,838
Associated companies	–	37	1,776	–	–	–	1,813
Deferred tax assets	–	3,291	64	–	–	–	3,355
Other assets	5,895	15,277	1,919	7,331	244	5,255	35,921
Total assets	88,007	37,032	12,936	10,291	2,949	5,316	156,531
Bank loans and other borrowings	22,429	11,155	784	3,063	–	2,000	39,431
Current and deferred tax liabilities	6,425	24	139	629	–	–	7,217
Obligations under finance leases	21,838	17	–	–	–	–	21,855
Other liabilities	9,939	4,804	1,263	965	3	186	17,160
Total liabilities	60,631	16,000	2,186	4,657	3	2,186	85,663

2. 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 2008							
Revenue	30,471	19,432	169	4,197	24	4	54,297
Operating profit / (loss)	10,839	2,022	282	528	(13)	(351)	13,307
Share of results, net of income tax							
Jointly controlled entities	1,581	21	889 [(a)]	–	133	–	2,624
Associated companies	–	(27)	–	–	–	–	(27)
Profit / (loss) before net finance costs and income tax	12,420	2,016	1,171	528	120	(351)	15,904
Finance costs	(3,409)	(731)	(31)	(45)	–	(29)	(4,245)
Finance income	15	46	3	52	–	8	124
Profit / (loss) before income tax	9,026	1,331	1,143	535	120	(372)	11,783
Income tax (expense) / credit	(883)	(276)	29	(215)	(4)	–	(1,349)
Profit / (loss) for the year	8,143	1,055	1,172	320	116	(372)	10,434
Profit attributable to minority interests	–	–	(11)	–	–	–	(11)
Earnings / (loss) attributable to shareholders	8,143	1,055	1,161	320	116	(372)	10,423
Capital additions	5,465	1,757	258	424	–	24	7,928
Depreciation and amortisation	2,944	1,047	51	9	–	4	4,055
Impairment charge / (reversal)	2	122	(55)	62	–	–	131
At 31 December 2008							
Fixed assets	71,869	13,001	1,588	373	–	42	86,873
Interests in							
Jointly controlled entities	7,014	864	7,540	–	2,373	–	17,791
Associated companies	–	242	–	–	–	–	242
Deferred tax assets	–	2,925	67	–	–	–	2,992
Other assets	6,892	11,476	652	5,746	121	46	24,933
Total assets	85,775	28,508	9,847	6,119	2,494	88	132,831
Bank loans and other borrowings	14,848	9,087	824	1,271	–	666	26,696
Current and deferred tax liabilities	6,210	10	57	524	–	–	6,801
Obligations under finance leases	21,752	13	–	–	–	–	21,765
Other liabilities	9,594	3,917	62	678	14	182	14,447
Total liabilities	52,404	13,027	943	2,473	14	848	69,709

Note (a): Out of the amounts, HK$784 million (2008: HK$896 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.

3. Revenue

Accounting Policy No. 8

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

	2009 HK$M	2008 HK$M
Sales of electricity	42,754	44,249
Lease service income (note)	2,327	3,754
Finance lease income	368	428
Sales of gas	4,775	5,093
Other revenue	587	966
	50,811	54,490
Transfer for SoC (Note 27)	(143)	(193)
	50,668	54,297

Note: In accordance with HK(IFRIC)-Int 4 and HKAS 17, 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.

4. Operating Lease and Lease Service Payments

Accounting Policy No. 6

In accordance with HK(IFRIC)-Int 4 and HKAS 17, 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.

5. Other Income

	2009 HK$M	2008 HK$M
Gain on sale of PGS (note)	153	–
Gain on sale of SEAGas	–	502
Gain on deemed disposal from CSEC Guohua International Power Company Limited (CSEC Guohua) restructuring	–	225
	153	727

Note: In December 2009, CLP sold its entire 60% interest in PGS, a jointly controlled entity in Thailand, to EGCO and Banpu Power Limited at total considerations of US$20 million (HK$156 million) resulting in a gain of HK$153 million.

6. Operating Profit

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

	2009 HK$M	2008 HK$M
Charging		
Staff costs		
Salaries and other costs	1,652	1,619
Retirement benefits costs [(a)]	167	136
Auditors' remuneration		
Audit	27	25
Permissible non-audit services [(b)]	10	13
Operating lease expenditure on the agreement with Ecogen	238	254
Net loss on disposal of fixed assets	172	140
Impairment of fixed assets	50	–
Coal mine subsidence of TRUenergy	1	84
Net fair value loss / (gain) on derivative financial instruments		
Cash flow hedges, reclassify from equity to fuel and other operating expenses	(151)	213
Transactions not qualifying as hedges	136	(6)
Net exchange (gain) / loss	(256)	146
Crediting		
Net rental income from properties	(18)	(13)
Insurance recovery relating to coal mine subsidence of TRUenergy	–	(266)

Notes:

(a) The retirement benefit plans for staff employed by the Group entities in Hong Kong are regarded as defined contribution schemes. The current scheme, GPFS, provides benefits linked to contributions and investment returns on the scheme. Contributions to defined contribution schemes, including GPFS and MPF as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$195 million (2008: HK$198 million), of which HK$95 million (2008: HK$103 million) was capitalised.

Staff employed by the Group entities outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK$70 million (2008: HK$37 million).

(b) Permissible non-audit services comprise primarily accounting / tax advisory services for business development.

7. Finance Costs and Income

Accounting Policy No. 21

	2009 HK$M	2008 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	713	831
Other borrowings		
Wholly repayable within five years	165	120
Not wholly repayable within five years	450	527
Tariff Stabilisation Fund / Development Fund [(a)]	3	132
Customers' deposits, fuel clause over-recovery and others	–	10
Finance charges under finance leases [(b)]	2,190	2,930
Other finance charges	207	100
Fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassify from equity	6	5
Fair value hedges	67	(151)
(Gain) / loss on hedged items in fair value hedges	(56)	121
Other net exchange loss on financing activities	50	–
	3,795	4,625
Less: amount capitalised [(c)]	(318)	(380)
	3,477	4,245
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	69	124

Notes:

(a) CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the 2008 SoC; and 8% per annum on the average balance of the Development Fund under the 1993 SoC (Note 27).

(b) Finance charges under finance leases primarily relate to contingent rent in respect of the power purchase arrangement between CLP Power Hong Kong and CAPCO accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17.

(c) Finance costs have been capitalised at average interest rates of 3.39% – 12.31% (2008: 3.86% – 6.74%) per annum.

8. Income Tax Expense

Accounting Policy No. 22

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

	2009 HK$M	2008 HK$M
Current income tax		
Hong Kong	613	817
Outside Hong Kong	151	127
	764	944
Deferred tax		
Hong Kong (note)	376	68
Outside Hong Kong	525	337
	901	405
	1,665	1,349

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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:

	2009 HK$M	2008 HK$M
Profit before income tax	9,854	11,783
Less: Share of results in jointly controlled entities and associated companies, net of income tax	(2,415)	(2,597)
	7,439	9,186
Calculated at an income tax rate of 16.5% (2008: 16.5%)	1,227	1,516
Effect of different income tax rates in other countries	340	185
Change in Hong Kong profits tax rate (note)	–	(327)
Income not subject to tax	(64)	(43)
Expenses not deductible for tax purposes	142	72
Revenue adjustment for SoC not subject to tax (Note 27)	24	54
Tariff rebates deductible for tax purposes	(12)	(122)
(Over)/under-provision in prior years	(2)	27
Utilisation of previously unrecognised tax losses	–	(19)
Tax losses not recognised	10	6
Income tax expense	1,665	1,349

Note: The amount in 2008 included a write-back of deferred tax liabilities of HK$327 million as the Hong Kong profits tax rate was reduced from 17.5% to 16.5%.

9. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$12,704 million (2008: HK$6,641 million).

10. Dividends

	2009 HK$ per share	2009 HK$M	2008 HK$ per share	2008 HK$M
Interim dividends paid	1.56	3,753	1.56	3,757
Final dividend proposed	0.92	2,214	0.92	2,214
	2.48	5,967	2.48	5,971

At the Board meeting held on 25 February 2010, the Directors recommended a final dividend of HK$0.92 per share (2008: HK$0.92 per share). Such dividends are to be proposed at the Annual General Meeting on 27 April 2010 and are not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2009.

11. Earnings per Share

The earnings per share are computed as follows:

	2009	2008
Earnings attributable to shareholders (HK$M)	8,196	10,423
Weighted average number of shares in issue (thousand shares)	2,406,143	2,407,873
Earnings per share (HK$)	3.41	4.33

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2009 (2008: nil).

12. Fixed Assets, Leasehold Land and Land Use Rights

Accounting Policy No. 12

Fixed assets, leasehold land and land use rights totalled HK$98,858 million (2008: HK$89,123 million). Included in fixed assets is plant under construction with book value of HK$7,825 million (2008: HK$7,503 million). Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Freehold Land HK$M	Buildings Owned HK$M	Buildings Leased [(a)] HK$M	Plant, Machinery and Equipment Owned HK$M	Plant, Machinery and Equipment Leased [(a)] HK$M	Total HK$M
Cost	232	9,666	9,659	87,225	35,976	142,758
Accumulated depreciation and impairment	–	(2,456)	(4,836)	(30,398)	(18,655)	(56,345)
Net book value at 1 January 2008	232	7,210	4,823	56,827	17,321	86,413
Net book value at 1 January 2008	232	7,210	4,823	56,827	17,321	86,413
Acquisition of subsidiaries	–	453	–	94	–	547
Additions	–	656	73	5,870	1,045	7,644
Transfers and disposals	–	(60)	(16)	(172)	(126)	(374)
Depreciation	–	(160)	(265)	(2,288)	(1,066)	(3,779)
Exchange differences	(50)	11	–	(3,531)	(8)	(3,578)
Net book value at 31 December 2008	182	8,110	4,615	56,800	17,166	86,873
Cost	182	10,709	9,692	86,989	36,692	144,264
Accumulated depreciation and impairment	–	(2,599)	(5,077)	(30,189)	(19,526)	(57,391)
Net book value at 31 December 2008	182	8,110	4,615	56,800	17,166	86,873
Net book value at 1 January 2009	182	8,110	4,615	56,800	17,166	86,873
Acquisition of subsidiaries	14	–	–	403	–	417
Additions	526	922	110	6,564	1,494	9,616
Transfers and disposals	–	(15)	(5)	(148)	(122)	(290)
Depreciation	–	(179)	(268)	(2,490)	(1,116)	(4,053)
Impairment charge	–	(4)	–	(46)	–	(50)
Exchange differences	67	48	–	3,966	10	4,091
Net book value at 31 December 2009	789	8,882	4,452	65,049	17,432	96,604
Cost	789	11,682	9,790	99,388	37,898	159,547
Accumulated depreciation and impairment	–	(2,800)	(5,338)	(34,339)	(20,466)	(62,943)
Net book value at 31 December 2009	789	8,882	4,452	65,049	17,432	96,604

Note (a): The leased assets include mainly CAPCO's operational plant and associated fixed assets of net book value of HK$21,838 million (2008: HK$21,752 million), 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 HK(IFRIC)-Int 4 and HKAS 17.

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

(A) Fixed Assets (continued)

Company

The net book value of fixed assets of the Company was HK$62 million (2008: HK$42 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$30 million (2008: HK$24 million) and HK$9 million (2008: HK$4 million) respectively.

(B) Leasehold Land and Land Use Rights

Group

	2009 HK$M	2008 HK$M
Net book value at 1 January	2,250	2,196
Acquisition of subsidiaries	1	6
Additions	97	116
Transfers and disposals	(40)	(19)
Amortisation	(54)	(54)
Exchange differences	–	5
Net book value at 31 December	2,254	2,250
Cost	2,571	2,521
Accumulated amortisation	(317)	(271)
Net book value at 31 December	2,254	2,250

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

	2009 HK$M	2008 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	132	135
On medium-term leases (10 – 50 years)	2,012	2,009
	2,144	2,144
Held outside Hong Kong:		
On medium-term leases (10 – 50 years)	110	106
	2,254	2,250

13. Goodwill and Other Intangible Assets

Accounting Policy No. 13

	Goodwill HK$M	Other Intangible Assets HK$M	Total HK$M
Cost	6,648	1,966	8,614
Accumulated amortisation	–	(479)	(479)
Net carrying value at 1 January 2008	6,648	1,487	8,135
Net carrying value at 1 January 2008	6,648	1,487	8,135
Acquisition of subsidiaries	3	–	3
Additions	–	168	168
Amortisation	–	(222)	(222)
Exchange differences	(1,446)	(314)	(1,760)
Net carrying value at 31 December 2008	5,205	1,119	6,324
Cost	5,205	1,674	6,879
Accumulated amortisation	–	(555)	(555)
Net carrying value at 31 December 2008	5,205	1,119	6,324
Net carrying value at 1 January 2009	5,205	1,119	6,324
Acquisition of subsidiaries	12	–	12
Additions	–	124	124
Amortisation	–	(225)	(225)
Exchange differences	1,549	321	1,870
Net carrying value at 31 December 2009	**6,766**	**1,339**	**8,105**
Cost	6,766	2,313	9,079
Accumulated amortisation	–	(974)	(974)
Net carrying value at 31 December 2009	**6,766**	**1,339**	**8,105**

Goodwill predominantly arose from the previous acquisition of the Merchant Energy Business (MEB) in Australia. In accordance with the Group's 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 of 12.09% (2008: 10.52%) based on MEB's weighted average cost of capital, which reflects specific risks relating to the MEB business. The cash flow projections have taken into account the information derived from statistical data on population growth, energy usage rates and also Consumer Price Index (CPI) in Australia. These assumptions used are based on management's past experience of the specific market, and references to external sources of information. Cash flows beyond the five-year period are extrapolated using estimated growth rates that do not exceed the long-term average growth rate for the industry in Australia.

Other intangible assets mainly include contracted customers and a lease arrangement under the long-term Master Hedge Agreement with Ecogen arising from the acquisition of MEB in May 2005.

14. Investments in and Advances to Subsidiaries

Accounting Policy No. 10

	2009 HK$M	2008 HK$M
Unlisted shares, at cost	23,612	23,612
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	22,493	14,421
	46,005	37,933

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 32(C)). These advances are considered equity in nature.

Apart from the above advances to subsidiaries which are considered equity in nature, the Company has also made an advance to CLP Engineering Limited of HK$39 million (2008: HK$39 million), which is interest-free and due on or after 30 June 2011 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 2009:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2009	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	2,720 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 each	100	British Virgin Islands / Hong Kong	Research and Development

14. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2009	Place of Incorporation / Operation	Principal Activity
TRUenergy 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
Gujarat Paguthan Energy Corporation Private Limited	726,254,742 equity shares of Rs.10 each	100*	India	Generation of Electricity
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each, 770,380,476 compulsory convertible preference shares of Rs.10 each	100*	India	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited**	RMB69,098,976	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited**	RMB249,430,049	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**	RMB141,475,383	84.9*	Chinese mainland	Generation of Electricity

* Indirectly held

** Registered as Sino-Foreign Cooperative Joint Ventures under the People's Republic of China (PRC) law

15. Interests in Jointly Controlled Entities

Accounting Policy No. 11

	2009 HK$M	2008 HK$M
Share of net assets	11,131	10,601
Goodwill	381	273
Advances	7,326	6,917
	18,838	17,791

Advances to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms. These advances are considered equity in nature.

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

		2009				2008			
		Share of Net Assets HK$M	Goodwill HK$M	Advances HK$M	Total HK$M	Share of Net Assets HK$M	Goodwill HK$M	Advances HK$M	Total HK$M
CAPCO	(A)	211	–	7,060	7,271	220	–	6,520	6,740
GNPJVC (note)		–	–	–	–	1,877	–	–	1,877
OneEnergy	(B)	2,695	–	–	2,695	2,365	–	–	2,365
CSEC Guohua	(C)	2,385	93	–	2,478	2,029	80	–	2,109
Shandong Zhonghua Power Company, Limited	(D)	1,111	–	–	1,111	1,039	–	–	1,039
CLP Guangxi Fangchenggang Power Company Limited	(E)	1,221	–	–	1,221	976	–	–	976
Guizhou CLP Power Company Limited	(E)	534	–	–	534	522	–	–	522
Roaring 40s Renewable Energy Pty Ltd	(F)	917	227	–	1,144	613	175	76	864
PSDC	(G)	12	–	258	270	12	–	319	331
Others	(H)	2,045	61	8	2,114	948	18	2	968
		11,131	381	7,326	18,838	10,601	273	6,917	17,791

Note: During the year, GNPJVC was reclassified to become an associated company (Note 16(A)).

15. Interests in Jointly Controlled Entities (continued)

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

	2009 HK$M	2008 HK$M
Non-current assets	37,365	34,498
Current assets	5,563	6,401
Current liabilities	(8,688)	(8,032)
Non-current liabilities	(21,715)	(21,238)
Minority interests	(1,394)	(1,028)
Share of net assets	11,131	10,601
Income	14,043	13,268
Expenses	(10,886)	(10,215)
Profit before income tax	3,157	3,053
Income tax expense	(449)	(382)
Minority interests	(33)	(47)
Share of profit for the year (note)	2,675	2,624
Share of capital commitments	5,511	5,214
Share of contingent liabilities	57	57

Note: Including a provision for OneEnergy of HK$131 million (2008: nil).

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 31.

Details of the jointly controlled entities are summarised below:

(A) 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 HK(IFRIC)-Int 4 and HKAS 17, such arrangement is considered as a finance lease and the power generation assets are accounted for as leased fixed assets on the Group's statement of financial position (Note 12).

Under the terms of the revised CAPCO Deed of Subordination, in the event of the winding up of CAPCO, CLP Power Hong Kong's advances to it would be subordinated to certain loans of CAPCO. CLP Power Hong Kong's advances to CAPCO may be withdrawn only to the extent that the shareholders' funds exceed two-thirds of the aggregate principal amount outstanding of the said loans. In this context the shareholders' funds represent the sum of the issued share capital, shareholders' advances, special advances, deferred taxation, retained profits and any proposed dividend.

15. Interests in Jointly Controlled Entities (continued)

An extract of the financial statements of CAPCO for the year ended 31 December is set out as follows:

	2009 HK$M	2008 HK$M
Results for the year		
Income	11,474	12,122
Profit after income tax	2,722	3,681
Net assets (note)		
Non-current assets	27,578	25,912
Current assets	4,096	3,637
Current liabilities	(7,042)	(6,378)
Deferred tax	(3,226)	(2,875)
Non-current liabilities	(3,225)	(3,452)
	18,181	16,844
Group's share of profit after income tax	1,089	1,476

Note: The amounts exclude advances from shareholders.

(B) OneEnergy, a company incorporated in Cayman Islands, is a 50:50 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 currently owns a 22.4% interest in EGCO, Thailand and 40% interest in Ho-Ping, Taiwan.

An extract of the management financial statements of OneEnergy for the year ended 31 December is set out as follows:

	2009 HK$M	2008 HK$M
Results for the year		
Income	–	–
Profit after income tax	761	235
Net assets		
Non-current assets	5,015	4,156
Current assets	381	604
Current liabilities	(7)	(29)
	5,389	4,731
Group's share of profit after income tax (note)	380	117

Note: Including a provision for OneEnergy of HK$131 million (2008: nil).

(C) CSEC Guohua, the joint stock company with 70% (2008: 73%) owned by China Shenhua Energy Company Limited and 30% (2008: 27%) owned by the Group, is incorporated in the Chinese mainland. It holds interests in five coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin, Sanhe Power Station in Hebei, Zhungeer Power Station in Inner Mongolia and Suizhong Power Station in Liaoning, with a combined capacity of 7,650MW. All generators are in operation except for unit 3 and unit 4 generators of Suizhong Power Station, totalling 2,000MW, which are still under construction.

15. Interests in Jointly Controlled Entities (continued)

(D) Shandong Zhonghua Power Company, Limited is 29.4% owned by the Group and is incorporated in the Chinese mainland. This company owns four coal-fired power stations, namely Shiheng I, Shiheng II, Heze II and Liaocheng, with a combined installed capacity of 3,060MW. All power generated is for supply to the Shandong power grid.

(E) CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) is 70% owned by the Group and is incorporated in the Chinese mainland. This company owns and operates a 1,260MW coal-fired power station in Guangxi. All power generated is for supply to the Guangxi power grid.

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. All power generated is for supply to the Guizhou power grid.

Under the joint venture agreements, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and Guizhou CLP Power and hence, the Group's interests are accounted for as jointly controlled entities.

(F) Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) is 50% owned by the Group and is incorporated in Australia. This company develops renewable energy business and owns several wind farms in Australia.

(G) PSDC 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.

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

- 50% interest in two joint ventures undertaken with a subsidiary of Cheung Kong (Holdings) Limited in Hong Kong to develop the Hok Un site (named Laguna Verde) and to provide second mortgage financing to purchasers of Laguna Verde. The joint venture only holds a commercial complex with 270,000 sq. ft. for leasing to tenants after the sale of all residential units;
- 49% interest in CLP Guohua Shenmu Power Company Limited, 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 220MW; and
- 49% interests in various Chinese jointly controlled entities at a carrying amount of HK$852 million in aggregate acquired from Roaring 40s in 2009. The jointly controlled entities are incorporated in the Chinese mainland and hold interests in various wind power stations in Shandong and Jilin, with a total installed capacity of 593MW.

16. Interests in Associated Companies

Accounting Policy No. 11

	2009 HK$M	2008 HK$M
Share of net assets	1,796	26
Goodwill	10	186
Advances	7	30
	1,813	242

Advances to associated companies are unsecured, interest-free and have no fixed repayment terms. These advances are considered equity in nature.

16. Interests in Associated Companies (continued)

The Group's interests in associated companies are analysed as follows:

	2009 HK$M	2008 HK$M
GNPJVC (A)	1,776	–
Solar Systems (B)	7	221
Others	30	21
	1,813	242

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

	2009 HK$M	2008 HK$M
Total assets	14,824	459
Total liabilities	(7,673)	(360)
Net assets	7,151	99
Group's share of associated companies' net assets	1,796	26
Income	4,189	2,985
Profit / (loss) after income tax	192	(144)
Group's share of loss after income tax (note)	(260)	(27)

Note: Including a provision for Solar Systems of HK$319 million (2008: nil).

At 31 December 2009, the Group's share of capital commitments of its associated companies was HK$148 million (2008: HK$13 million).

(A) GNPJVC, which is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited, is unlisted and 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 September 2009, the Joint Venture Contract of GNPJVC and the Electricity Off-take Contracts were extended for another 20 years from May 2014. Certain provisions in GNPJVC's Joint Venture Contract and Articles of Association were also amended to differentiate the rights and obligations of CLP as an off-taker and as a shareholder. As a result of these amendments, it is considered that CLP, as a shareholder of GNPJVC, has not retained the joint control in GNPJVC. Therefore, the investment in GNPJVC has been reclassified from a jointly controlled entity to an associated company.

16. Interests in Associated Companies (continued)

An extract of the management financial statements of GNPJVC for the year ended 31 December is set out as follows:

	2009 HK$M	2008 HK$M
Results for the year		
Income	7,290	7,116
Profit after income tax	2,868	3,320
Net assets		
Non-current assets	6,486	8,158
Current assets	8,119	7,192
Current liabilities	(1,340)	(1,917)
Non-current liabilities	(6,162)	(5,928)
	7,103	7,505
Group's share of profit after income tax (note)	715	830

Note: Out of HK$715 million, HK$94 million, represented GNPJVC's last three-month results, is presented as share of results of associated company following its reclassification in September 2009, whilst the balance of HK$621 million is presented as share of results of jointly controlled entity.

(B) The Group indirectly holds a 20% interest in Solar Systems, an unlisted company incorporated in Australia which is currently under voluntary administration. During the year, a provision for the investment was made resulting in a loss of HK$319 million (2008: nil). Together with related tax adjustment, the total loss was HK$346 million (2008: nil).

17. Finance Lease Receivables

Accounting Policy No. 6

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Amounts receivable under finance leases:				
Within one year	466	464	130	128
After one year but within five years	1,648	1,747	500	578
Over five years	2,860	2,987	1,879	1,809
	4,974	5,198	2,509	2,515
Less: unearned finance income	(2,465)	(2,683)		
Present value of minimum lease payments receivable	2,509	2,515		
Analysed as:				
Current (recoverable within 12 months)			130	128
Non-current (recoverable after 12 months)			2,379	2,387
			2,509	2,515

17. Finance Lease Receivables (continued)

The finance lease receivables, accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17, relate to the 20-year power purchase agreement under which GPEC sells all of its electricity output to its off-taker, Gujarat Urja Vikas Nigam Ltd. (GUVNL). The effective interest rate implicit in the finance lease is approximately 13.4% for both 2008 and 2009. The carrying amounts of the finance lease receivables approximate to their fair values.

An overview of lease accounting is on our website.

18. Derivative Financial Instruments

Accounting Policy No. 15

	2009		2008	
	Assets HK$M	Liabilities HK$M	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	532	113	677	34
Cross currency & interest rate swaps	301	96	–	49
Interest rate swaps	5	251	–	485
Energy contracts	1,033	475	696	427
Fair value hedges				
Cross currency & interest rate swaps	180	–	252	5
Held for trading or not qualifying as hedges				
Forward foreign exchange contracts	375	165	356	303
Energy contracts	867	552	898	732
	3,293	1,652	2,879	2,035
Analysed as:				
Current	1,472	1,035	1,374	1,198
Non-current	1,821	617	1,505	837
	3,293	1,652	2,879	2,035

Recall our accounting "mini-series" on derivatives and hedging? Please visit our website.

Derivative assets — the amounts we would receive based on normal circumstance if the positions were closed out at year end.

Derivative liabilities — the amounts we would pay based on normal circumstance if the positions were closed out at year end.

18. Derivative Financial Instruments (continued)

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	2009 HK$M	2008 HK$M
Forward foreign exchange contracts	67,261	62,127
Interest rate swaps / cross currency & interest rate swaps	20,066	15,175
Energy contracts	12,440	18,236

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

Derivative financial instruments qualifying as cash flow hedges at 31 December 2009 have a maturity of up to 15 years (2008: five years) from the end of the reporting period.

The maturities of the derivative financial instruments used for hedging will correlate to the timing of the cash flows associated with the corresponding hedged items. As for the energy contracts that are hedges of anticipated future purchases and sales of electricity (cash flow hedge), any unrealised gains or losses on the contracts recognised are deferred in the hedging reserve (through other comprehensive income) and reclassified to profit or loss, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.

19. Available-for-sale Investments

Accounting Policy No. 16

According to the accounting policy No. 16, the Group's unquoted investment in CGN Wind of HK$1,189 million (2008: nil) is treated for accounting purpose as an available-for-sale investment. There is no intention to sell the investment.

20. Trade and Other Receivables

Accounting Policy No. 18

	Group		Company	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Trade receivables [a]	6,150	5,655	–	–
Deposits and prepayments	2,593	2,085	5	10
Dividend receivables from jointly controlled entities and associated company [b]	194	452	–	–
Current accounts with jointly controlled entities [b]	81	47	–	–
Current accounts with subsidiaries [b]	–	–	39	45
	9,018	8,239	44	55

Trade and other receivables attributed to overseas subsidiaries amounted to HK$6,379 million (2008: HK$5,263 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 23).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

20. Trade and Other Receivables (continued)

Notes:

(a) Trade receivables

32% (2008: 39%) and 52% (2008: 37%) of the gross trade receivables relate to the sales of electricity in Hong Kong and sales of electricity and gas in Australia respectively. There is no significant concentration of credit risk with respect to these trade receivables as the customer bases are widely dispersed in different sectors and industries. The trade receivables in currencies other than Hong Kong dollar are denominated in the functional currencies of the respective overseas entities.

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 from customers for an amount not exceeding the highest expected charge for 60 days of consumption. At 31 December 2009, such cash deposits amounted to HK$3,852 million (2008: HK$3,722 million) and the bank guarantees stood at HK$934 million (2008: HK$932 million). The customer deposits are repayable on demand, bear interest at the HSBC bank savings rate and their carrying value approximates to their fair value. Impairment provisions on trade receivables are recognised on an individual basis once a receivable is more than 90 days overdue and are calculated by reference to the historical past due recovery pattern together with any customer deposits held. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from about 30 to 60 days.

During the year ended 31 December 2009, TRUenergy in Australia revised its methodology in relation to doubtful debt provisioning to reflect a more conservative approach. The rationale for the change in provisioning methodology came about due to changes in the economic climate, a competitive market and an increasing trend in bad debt levels. Currently the provision for doubtful debts is determined by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions and the days overdue. Future cash flows for each group of trade receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions. As a result of this credit risk assessment, virtually all of the credit risk groupings have been subject to some level of impairment. Receivable balances relating to known insolvencies are individually impaired. At 31 December 2009, TRUenergy held bank guarantees of HK$27 million (2008: nil) from large industrial and commercial customers as security in relation to outstanding receivable balances.

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

	2009				2008			
	Not impaired HK$M	Impaired HK$M	Provision for impairment HK$M	Total HK$M	Not impaired HK$M	Impaired HK$M	Provision for impairment HK$M	Total HK$M
Not yet due	4,938	543	(42)	5,439	5,173	28	(3)	5,198
Overdue								
1 – 30 days	138	297	(35)	400	285	23	(23)	285
31 – 90 days	30	206	(57)	179	58	75	(36)	97
Over 90 days	16	410	(294)	132	2	268	(195)	75
	5,122	1,456	(428)	6,150	5,518	394	(257)	5,655

At 31 December 2009, trade receivables of HK$184 million (2008: HK$345 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default.

Movements in the provision for impairment are as follows:

	2009 HK$M	2008 HK$M
Balance at 1 January	257	279
Provision for impairment	252	189
Receivables written off during the year as uncollectible	(130)	(99)
Amounts reversed	(3)	(58)
Exchange differences	52	(54)
Balance at 31 December	428	257

(b) The amounts receivable from jointly controlled entities, associated company and subsidiaries are unsecured, interest-free and have no fixed repayment terms.

21. Bank Balances, Cash and Other Liquid Funds

Accounting Policy No. 19

	2009 HK$M	2008 HK$M
Trust accounts under TRAA (note)		
Restricted for specific purposes	838	2
Unrestricted	65	–
	903	2
Short-term investments and bank deposits	6,612	318
Bank balances and cash	479	462
	7,994	782

Note: Pursuant to Trust and Retention Account Agreements (TRAA) of GPEC and other subsidiaries in India with their corresponding lenders, various trust accounts are set up for designated purposes. At the end of December 2008, there was a shortfall of HK$282 million in the required restricted cash balances of GPEC. The shortfall was a result of slower cash payments from GUVNL, and the unexpected requirement to purchase naphtha as fuel by GPEC as instructed by GUVNL. GPEC had communicated the shortfall as required under TRAA to the lenders, and had not received any notice of default from the lenders. Funding from the Company and working capital facilities with local banks were arranged, and the shortfall was rectified on 3 February 2009.

The average effective interest rate on the Group's bank balances, cash and other liquid funds is 1.0% (2008: 3.0%).

The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currency of the respective overseas entities amounted to HK$428 million (2008: HK$248 million) which was mostly denominated in U.S. dollar.

22. Trade and Other Payables

Accounting Policy No. 20

	Group		Company	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Trade payables [a]	3,368	2,113	–	–
Other payables and accruals	4,038	2,376	179	172
Current accounts with jointly controlled entities and associated company [b]	1,520	1,430	1	1
Current accounts with subsidiaries [b]	–	–	20	19
	8,926	5,919	200	192

Notes:

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

	2009 HK$M	2008 HK$M
Below 30 days (including amount not yet due)	3,334	2,099
31 – 90 days	8	9
Over 90 days	26	5
	3,368	2,113

At 31 December 2009, HK$404 million (2008: HK$339 million) of the trade payables were denominated in a currency other than the functional currency of the corresponding group entities.

(b) The amounts payable to jointly controlled entities, associated company and subsidiaries are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,260 million (2008: HK$1,212 million) is due to CAPCO.

23. Bank Loans and Other Borrowings

Accounting Policy No. 21

	Group		Company	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Current				
Short-term bank loans	1,838	2,600	–	166
Long-term bank loans	5,054	713	2,000	–
	6,892	3,313	2,000	166
Non-current				
Long-term bank loans	15,370	11,323	–	500
Other long-term borrowings				
MTN programme (USD) due 2012	2,523	2,578	–	–
MTN programme (HKD) due 2012 to 2023 (note)	8,520	5,740	–	–
MTN programme (JPY) due 2024 (note)	1,260	–	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012 and 2015	4,866	3,742	–	–
	32,539	23,383	–	500
Total borrowings	39,431	26,696	2,000	666

Note: CLP Power Hong Kong issued fixed-rate bonds during the year. This comprises HK$3,978 million bond issuances with tenors of 3 to 15 years under the Medium Term Note (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$3,336 million (2008: HK$1,373 million). Of these, HK$2,904 million (2008: HK$891 million) were related to GPEC and other subsidiaries in India, HK$364 million (2008: HK$402 million) related to subsidiaries in Huaiji and HK$68 million (2008: HK$80 million) related to CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing).

Bank loans for GPEC and other subsidiaries in India are secured by fixed and floating charges over their immoveable and moveable properties with total carrying amounts of HK$4,225 million (2008: HK$1,642 million). Bank loans for Huaiji and Boxing are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights at HK$775 million (2008: HK$815 million) for Huaiji and HK$123 million (2008: HK$113 million) for Boxing. Collateralised borrowings for GPEC are secured by trade receivables, the carrying amounts of which were HK$191 million (2008: HK$422 million).

Bank loans and other borrowings totalling HK$15,002 million (2008: HK$11,182 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

23. Bank Loans and Other Borrowings (continued)

At 31 December 2009, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Within one year	6,892	3,313	–	–	6,892	3,313
Between one and two years	8,420	3,043	–	–	8,420	3,043
Between two to five years	5,097	7,859	10,720	7,052	15,817	14,911
Over five years	1,853	421	6,449	5,008	8,302	5,429
	22,262	14,636	17,169	12,060	39,431	26,696

Of the Company's borrowings, HK$2,000 million (2008: HK$166 million) is repayable within one year and nil is between one and two years (2008: HK$500 million).

Another presentation of the Group's liquidity risk is set out on page 197.

At 31 December 2009 and 2008, all of the Group's borrowings are either in the functional currencies of the corresponding group entities or hedged into those currencies.

The loans and borrowings of the Group are predominantly in Hong Kong dollar or Australian dollar. The effective interest rates at the end of the reporting period were as follows:

	2009		2008	
	HK$	A$	HK$	A$
Fixed rate loans and loans swapped to fixed rates	2.3% – 5.0%	6.3% – 6.6%	3.9% – 5.0%	6.3% – 6.6%
Variable rate loans and loans swapped from fixed rates	0.3% – 1.4%	3.7% – 4.0%	0.3% – 4.6%	4.9% – 5.3%

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

At 31 December 2009, the Group had undrawn bank loan and overdraft facilities of HK$20,045 million (2008: HK$14,538 million).

24. Obligations under Finance Leases

Accounting Policy No. 6

The Group's obligations under finance leases arise predominantly from the power purchase arrangement with CAPCO in respect of the operational generating plant and associated fixed assets of the Hong Kong electricity business. CAPCO's power purchase arrangement is accounted for as a finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17.

	Minimum Lease Payments	
	2009 HK$M	2008 HK$M
Amounts payable under finance leases		
Within one year	1,523	1,403
After one year but within two years	1,519	1,399
After two years but within five years	4,502	4,183
Over five years	14,311	14,780
	21,855	21,765
Analysed as:		
Amount due for settlement within 12 months	1,523	1,403
Amount due for settlement after 12 months	20,332	20,362
	21,855	21,765

The effective interest rate of the finance lease obligations is a variable rate which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. For 2009, the interest rate was 9.99% (2008: 9.99% to 15%). The finance charges associated with the finance leases were charged to profit or loss in the period in which they were actually incurred.

Recall our accounting "mini-series" on lease accounting?
Please visit our website.

25. Deferred Tax

Accounting Policy No. 22

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 on the consolidated statement of financial position:

	2009 HK$M	2008 HK$M
Deferred tax assets	3,355	2,992
Deferred tax liabilities	(7,009)	(6,435)
	(3,654)	(3,443)

Deferred tax asset = income tax recoverable in the future

Deferred tax liability = income tax payable in the future

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:

	2009 HK$M	2008 HK$M
At 1 January	(3,443)	(2,429)
Disposal of subsidiaries	–	49
Charged to profit or loss	(901)	(405)
(Charged)/credited to other comprehensive income	(124)	52
Withholding tax	26	–
Exchange differences	788	(710)
At 31 December	(3,654)	(3,443)

25. Deferred Tax (continued)

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 [b]		Total	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
At 1 January	3,979	5,600	337	280	506	640	4,822	6,520
(Charged) / credited to profit or loss	(332)	(501)	31	19	(199)	5	(500)	(477)
(Charged) / credited to other comprehensive income	–	–	(26)	103	–	–	(26)	103
Exchange differences	1,147	(1,120)	70	(65)	123	(139)	1,340	(1,324)
At 31 December [a]	4,794	3,979	412	337	430	506	5,636	4,822

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others [b]		Total	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
At 1 January	(6,382)	(6,445)	(250)	(280)	(348)	(410)	(264)	(372)	(1,021)	(1,442)	(8,265)	(8,949)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	49	–	49
(Charged) / credited to profit or loss	(400)	(98)	(122)	(14)	(38)	(34)	33	34	126	184	(401)	72
Charged to other comprehensive income	–	–	–	–	–	–	–	–	(98)	(51)	(98)	(51)
Withholding tax	–	–	26	–	–	–	–	–	–	–	26	–
Exchange differences	(192)	161	(10)	44	(109)	96	(75)	74	(166)	239	(552)	614
At 31 December	(6,974)	(6,382)	(356)	(250)	(495)	(348)	(306)	(264)	(1,159)	(1,021)	(9,290)	(8,265)

Notes:

(a) The deferred tax asset arising from tax losses is mainly related to the electricity business in Australia. There is no expiry on the tax losses recognised. Apart from the tax losses in Australia, there are no significant unused tax losses not recognised.

(b) Others mainly relate to temporary differences arising from trading derivative financial instruments and lease accounting adjustments.

26. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is 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 of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, whilst interest is credited to customers at prime rate on the amount over-recovered. The carrying amount of fuel clause account approximates to its fair value.

27. SoC Reserve Accounts

The Tariff Stabilisation Fund and Rate Reduction Reserve of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2009 HK$M	2008 HK$M
Tariff Stabilisation Fund (A)	1,653	1,756
Rate Reduction Reserve (B)	1	70
	1,654	1,826

The Tariff Stabilisation Fund is to replace the Development Fund under the 1993 SoC and operates in the same manner as the Development Fund. The movements during the year are shown as follows:

	2009 HK$M	2008 HK$M
(A) Tariff Stabilisation Fund / Development Fund		
At 1 January	1,756	2,117
Transfer under SoC [(a)]		
– transfer for SoC from profit or loss (Note 3)	143	193
– charge for asset decommissioning [(b)]	(246)	(60)
Special rebate to customers	–	(494)
At 31 December	1,653	1,756

	2009 HK$M	2008 HK$M
(B) Rate Reduction Reserve		
At 1 January	70	183
Interest expense charged to profit or loss (Note 7)	3	132
Special rebate to customers	–	1
Rebate to customers [(c)]	(72)	(246)
At 31 December	1	70

The carrying amounts of the SoC reserve accounts approximate to their fair values.

Notes:

(a) Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the 2008 SoC – previously the Development Fund under the 1993 SoC. In any period, the amount of deduction from or addition to these funds is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 3).

(b) Under the 2008 SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. For CLP Power Hong Kong, the balance of the asset decommissioning liabilities account of HK$176 million (2008: HK$34 million) recognised under the SoC represents a liability to the Group. The carrying amount of the asset decommissioning liabilities approximates to its fair value.

(c) A rebate of HK¢0.8 per unit (2008: HK¢0.8 per unit) was made to customers during the period from 1 January to 5 May 2009.

28. Share Capital

	2009 Number of Ordinary Shares of HK$5 Each	2009 Amount HK$M	2008 Number of Ordinary Shares of HK$5 Each	2008 Amount HK$M
Authorised, at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid:				
At 1 January	2,406,143,400	12,031	2,408,245,900	12,041
Repurchase of shares (note)	–	–	(2,102,500)	(10)
At 31 December	2,406,143,400	12,031	2,406,143,400	12,031

Note: The Company acquired 2,102,500 of its own shares through purchases on the Hong Kong Stock Exchange in October 2008. The total amount paid to acquire the shares was HK$101,974,750. All the shares repurchased were subsequently cancelled. An amount equal to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve (Note 29).

29. Reserves

	Capital Redemption Reserve [(a)] HK$M	Translation Reserves HK$M	Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2008	2,482	3,592	215	1,122	43,285	50,696
Revaluation reserve realised upon depreciation	–	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	–	12	(12)	–
Total comprehensive income attributable to shareholders	–	(4,795)	57	(495)	10,423	5,190
Dividends paid						
2007 final	–	–	–	–	(2,216)	(2,216)
2008 interim	–	–	–	–	(3,757)	(3,757)
Repurchase of shares	10	–	–	–	(101)	(91)
Disposal of jointly controlled entities	–	–	–	(74)	74	–
Balance at 31 December 2008	2,492	(1,203)	272	562	47,699 [(b)]	49,822
Balance at 1 January 2009	2,492	(1,203)	272	562	47,699	49,822
Revaluation reserve realised upon depreciation	–	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	–	10	(10)	–
Total comprehensive income attributable to shareholders	–	5,069	290	156	8,196	13,711
Dividends paid						
2008 final	–	–	–	–	(2,214)	(2,214)
2009 interim	–	–	–	–	(3,753)	(3,753)
Balance at 31 December 2009	**2,492**	**3,866**	**562**	**725**	**49,921 [(b)]**	**57,566**

Notes:

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

(b) After the proposed final dividends of HK$2,214 million (2008: HK$2,214 million), the balance of retained profits at 31 December 2009 was HK$47,707 million (2008: HK$45,485 million).

30. Note to the Consolidated Statement of Cash Flows

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

	2009 HK$M	2008 HK$M
Profit before income tax	9,854	11,783
Adjustments for:		
Finance costs	3,477	4,245
Finance income	(69)	(124)
Share of results in jointly controlled entities and associated companies, net of income tax	(2,415)	(2,597)
Depreciation and amortisation	4,332	4,055
Impairment charge	299	131
Net loss on disposal of fixed assets	172	140
Gain on sale of PGS / SEAGas	(153)	(502)
Gain on deemed disposal from CSEC Guohua restructuring	–	(225)
Fair value (gain) / loss on borrowings under fair value hedges and net exchange difference	(48)	168
SoC items		
Increase in customers' deposits	130	138
Decrease / (increase) in fuel clause account (under-recovery)	796	(653)
Rebate to customers under SoC	(72)	(246)
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a jointly controlled entity	(104)	(25)
Special rebate	–	(493)
Transfer for SoC	143	193
	893	(1,086)
Increase in trade and other receivables	(357)	(1,836)
Decrease in finance lease receivables	111	145
(Increase) / decrease in cash restricted for specific purposes	(836)	617
(Increase) / decrease in derivative financial instruments	(202)	199
Increase in trade and other payables	285	124
Increase in current accounts due to jointly controlled entities	55	679
Net cash inflow from operations	15,398	15,916

31. 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	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Contracted but not provided for	14,668	4,008	3	4
Authorised but not contracted for	11,643	17,952	49	47
	26,311	21,960	52	51

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

Project Name	Total Equity Contributions Required	Amount Contributed at 31 December 2009	Remaining Balance to be Contributed	Expected Year for Last Contribution
Jiangbian hydro power project	RMB335 million	RMB298 million (HK$322 million)	RMB37 million (HK$42 million)	2010
Nanao wind power project	RMB12 million	–	RMB12 million (HK$14 million)	2010
Rongcheng wind power project	RMB87 million	–	RMB87 million (HK$99 million)	2010
Zhanhua wind power project	RMB88 million	–	RMB88 million (HK$100 million)	2010
Lijin wind power project	RMB88 million	–	RMB88 million (HK$100 million)	2010
Haifang wind power project	RMB92 million	–	RMB92 million (HK$105 million)	2010

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

	2009 HK$M	2008 HK$M
Within one year	633	563
Later than one year but not later than five years	2,368	2,014
Over five years	6,810	6,826
	9,811	9,403

Of the above amount, HK$6,810 million (2008: HK$7,113 million) was related to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,502 million (2008: HK$2,125 million) was related to the 20-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.

32. Related Party Transactions

Accounting Policy No. 7

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:

	2009 HK$M	2008 HK$M
Lease and lease service payment to CAPCO (a)	12,954	13,506
Purchases of nuclear electricity from GNPS (b)	5,237	5,031
Pumped storage service fee to PSDC (c)	390	363
	18,581	18,900

(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 under the SoC, 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 HK(IFRIC)-Int 4 and HKAS 17, the electricity supply arrangement was assessed to contain 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, 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.

(ii) Gascor Pty Ltd (Gascor), an associated company, 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 2009 was HK$583 million (2008: HK$889 million).

Amounts due to the related parties at 31 December 2009 are disclosed in Note 22.

32. Related Party Transactions (continued)

(B) Rendering of services to jointly controlled entities

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the year amounted to HK$1,159 million (2008: HK$1,100 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 at 31 December 2009 are disclosed in Note 20.

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$22,493 million (2008: HK$14,421 million) made to its subsidiaries (Note 14), HK$13,216 million (2008: HK$13,921 million) and HK$3,596 million (2008: nil) were made to CLP Power Asia Limited and CLP Asia Finance Limited respectively to fund investments in power projects in Australia, India, the Chinese mainland, and Southeast Asia and Taiwan. Another advance of HK$5,227 million (2008: nil) was made to CLP Treasury Services Limited for treasury operations purpose.

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$110 million (2008: HK$106 million), of which HK$106 million (2008: HK$95 million) was from CLP Properties Group.

(D) The loan and advances made to jointly controlled entities totalled HK$7,326 million (2008: HK$6,917 million) (Note 15). Of these, HK$7,060 million (2008: HK$6,520 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2009, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2008: nil).

32. Related Party Transactions (continued)

(E) Emoluments of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. It comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include the Executive Directors and nine (2008: eight) senior management personnel. The total remuneration of the key management personnel is shown below:

	2009 HK$M	2008 HK$M
Fees	7	7
Base compensation, allowances and benefits in kind	46	42
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	9	12
Performance bonus		
Annual incentive	36	37
Long-term incentive	10	8
Provident fund contributions	6	5
	114	111

At 31 December 2009, the CLP Holdings' Board was composed of 16 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year totalled HK$42 million (2008: HK$43 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included three Directors (2008: two Directors) and two senior management (2008: two senior management and one former senior employee). The total remuneration of these five highest paid individuals amounted to HK$67 million (2008: HK$69 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 4, 5, 6 and 8 (as highlighted in green) of the Remuneration Report on pages 120 to 122, 124 and 125 respectively. These sections form the "auditable" part of the Remuneration Report and are part of the financial statements.

33. Contingent Liabilities

Accounting Policy No. 23

(A) GPEC – Deemed Generation Incentive Payment

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 (GERC) claiming that the "deemed generation incentive" payment should not be paid for the period when the plant was declared with its availability on "naphtha" as fuel rather than on "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 Rs.7,260 million or HK$1,207 million (2008: Rs.7,260 million or HK$1,157 million).

On 18 February 2009, the GERC made an adjudication on GUVNL's claim. On the substantive issue, the GERC decided that the "deemed generation incentive" was not payable when GPEC's plant was declared with its availability on naphtha. However, the GERC also decided that GUVNL's claim in respect of deemed generation payments up to 14 September 2002 was time-barred under the Limitations Act of India. Hence, the total amount of the claim allowed by the GERC was reduced to Rs.2,896 million or HK$482 million. GPEC filed an appeal with the Appellate Tribunal for Electricity (ATE) against the decision of the GERC.

GUVNL also filed an appeal in the ATE against an Order of the GERC rejecting GUVNL's claims on interest on deemed loan and the time barring of the deemed generation claim to 14 September 2002.

On 19 January 2010, the ATE dismissed both GPEC and GUVNL's appeals and upheld the decision of the GERC. GPEC intends to appeal the ATE order to the Supreme Court.

On the basis of legal advice obtained, the Directors are of the opinion that GPEC has a strong case on appeal to the Supreme Court. In consequence, no provision has been made in the financial statements at this stage in respect of these matters.

(B) Indian Wind Power Projects – Enercon's Contracts

CLP Wind Farms (India) Private Limited, GPEC and CLP India group companies ("CLP India") have invested (or are committed to invest) in around 350MW of wind power projects to be developed with Enercon India Limited (EIL). EIL's major shareholder, Enercon GmbH, has commenced litigation against EIL claiming infringement of intellectual property rights. CLP India, as a customer of EIL, has been named as a pro-forma defendant. As at 31 December 2009, the Group considered that CLP India is an innocent purchaser and the legal proceedings will not result in material outflow of economic benefits to the Group.

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and energy price risk), credit risk and liquidity risk. Risk management for Hong Kong operations, predominantly 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.

Details of the Group's financial risks and their management are disclosed in the Financial Risks and Key Business Risks sections (as highlighted in green) of the Risk Management Report on pages 108 to 113 and form the "auditable" part of the Risk Management Report and are part of the financial statements. The Group's exposures to these risks are disclosed as follows.

Foreign currency risk

All foreign exchange gains and losses incurred by CLP Power Hong Kong are recoverable under the SoC. Therefore, exchange rate fluctuations effectively will have no ultimate impact on CLP Power Hong Kong's profit or loss. As a measure of additional prudence, CLP Power Hong Kong enters forward contracts and currency swaps to hedge its currency risk exposures on U.S. dollar and Japanese yen. At the end of the reporting period, the fair value movement of the derivative financial instruments in a cash flow hedge relationship is recorded as other comprehensive income and accumulated in equity. To the extent that the Hong Kong dollar had weakened / strengthened by 0.6% (2008: 0.6%) against the U.S. dollar and 6.0% (2008: nil) against the Japanese yen, with all other variables held constant, the impact would have been an increase / decrease of HK$272 million (2008: HK$252 million) and HK$36 million (2008: nil) respectively to equity. This fluctuation in equity is a timing difference as when the exchange gain or loss is reclassified from equity to profit or loss, the amount is recoverable under the SoC.

Apart from CLP Power Hong Kong, most foreign currency exposures of the Company and other Group entities are hedged and / or their transactions are predominantly conducted through the functional currency of the respective entity. The following analysis presents the Group's (apart from CLP Power Hong Kong) sensitivity to a reasonably possible change in the functional currency of the Group entities against the U.S. dollar, with all other variables held constant.

	2009 HK$M	2008 HK$M
If the respective functional currency weakened by 5.5% (2008: 3%)		
Post-tax profit for the year	55	30
Equity – hedging reserve	96	–
If the respective functional currency strengthened by 5.5% (2008: 3%)		
Post-tax profit for the year	(52)	(32)
Equity – hedging reserve	(96)	–

In relation to foreign currency translation risk, at 31 December 2009, the Group's net investment subject to translation exposure was approximately HK$40 billion (2008: HK$31 billion), arising mainly from our investments in Australia, India, the Chinese mainland, and Southeast Asia and Taiwan. This means that, for each 1% (2008: 1%) average foreign currency movement, our translation exposure will vary by about HK$404 million (2008: HK$305 million).

1. Financial Risk Factors (continued)

Energy price risk

TRUenergy measures the risk of the fluctuation of the spot market price using Value-at-Risk (VaR) analysis and stress testing analysis. VaR is a risk measurement technique that uses probability analyses to calculate the market risk of a portfolio using historical volatility and correlation over a defined holding period. As the VaR calculation is based on historical data, there is no guarantee that it will accurately predict the future. TRUenergy's VaR is determined using a variance-covariance methodology including all long (generation and bought contract) and short (retail and sold contract) positions measured over a four years' time horizon. The distribution of value of these positions will vary according to the variability of market prices. This is measured by using historical price distribution and correlations over a holding period of four weeks at a 95% confidence level.

The VaR for TRUenergy's energy contracts portfolio at 31 December 2009 was HK$234 million (2008: HK$149 million). The change reflects an increase in holding of volatile positions and higher market volatility estimates. During 2009, the VaR ranged between a low of HK$161 million (2008: HK$123 million) and a high of HK$255 million (2008: HK$528 million).

Analyses below show the effect on profit after tax and equity if market prices were 15% (2008: 15%) higher or lower with all other variables held constant. Concurrent movements in market prices and parallel shifts in the yield curves are assumed. A sensitivity of 15% (2008: 15%) has been selected based on historical data relating to the level of volatility in the electricity commodity prices. The sensitivity assumed does not reflect the Group's expectations as to the future movement in commodity prices.

	2009 HK$M	2008 HK$M
If market prices were 15% (2008: 15%) higher		
Post-tax profit for the year	99	40
Equity – hedging reserve	(23)	(335)
If market prices were 15% (2008: 15%) lower		
Post-tax profit for the year	(99)	(40)
Equity – hedging reserve	23	335

Interest rate risk

The sensitivity analysis below presents the effects on the Group's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) and equity (as a result of change in the fair value of cash flow hedges of borrowings). Such amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss, and offset one another in the profit or loss.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. For floating-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity to interest rate used is considered reasonable given the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

1. Financial Risk Factors (continued)

Interest rate risk (continued)

	2009 HK$M	2008 HK$M
Hong Kong dollar		
If interest rates were 0.5% (2008: 0.5%) higher		
Post-tax profit for the year	(46)	(25)
Equity – hedging reserve	20	40
If interest rates were 0.1% (2008: 0.5%) lower		
Post-tax profit for the year	9	25
Equity – hedging reserve	(5)	(40)
Australian dollar		
If interest rates were 1% (2008: 1%) higher		
Post-tax profit for the year	(12)	(15)
Equity – hedging reserve	57	120
If interest rates were 1% (2008: 1%) lower		
Post-tax profit for the year	12	15
Equity – hedging reserve	(57)	(120)

The Company's sensitivity to interest rate is not significant and therefore is not presented.

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's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of each financial asset, including trade and other receivables and derivative financial instruments, as reported on the statement of financial position.

1. Financial Risk Factors (continued)

Liquidity risk

The table below analyses the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities (both net settled and gross settled), which are based on contractual undiscounted cash flows:

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31 December 2009					
Non-derivative financial liabilities					
Bank loans	7,639	8,565	6,067	2,599	24,870
Other borrowings	822	838	11,408	7,479	20,547
Obligations under finance leases	3,629	3,474	9,462	23,195	39,760
Customers' deposits	3,854	–	–	–	3,854
Trade and other payables	8,926	–	–	–	8,926
SoC reserve accounts	–	–	–	1,654	1,654
	24,870	12,877	26,937	34,927	99,611
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	4	–	–	–	4
Interest rate swaps	193	63	14	–	270
Energy contracts	672	202	158	–	1,032
Gross settled					
Forward foreign exchange contracts	15,645	11,427	36,037	–	63,109
Cross currency & interest rate swaps	223	244	3,485	2,155	6,107
	16,737	11,936	39,694	2,155	70,522
At 31 December 2008					
Non-derivative financial liabilities					
Bank loans	3,516	3,624	7,865	590	15,595
Other borrowings	588	586	7,860	5,496	14,530
Obligations under finance leases	3,507	3,362	9,237	24,539	40,645
Customers' deposits	3,722	–	–	–	3,722
Trade and other payables	5,919	–	–	–	5,919
SoC reserve accounts	–	–	–	1,826	1,826
	17,252	7,572	24,962	32,451	82,237
Derivative financial liabilities					
Net settled					
Interest rate swaps	188	189	121	–	498
Energy contracts	674	352	128	–	1,154
Gross settled					
Forward foreign exchange contracts	12,874	12,778	31,384	–	57,036
Cross currency & interest rate swaps	90	71	3,102	–	3,263
	13,826	13,390	34,735	–	61,951

At 31 December 2009, the maturity profile of the Company's bank loans, included in the Group amounts shown above, was HK$2,003 million (2008: HK$176 million) repayable within one year and nil (2008: HK$503 million) within one to two years.

2. Accounting for Derivative Financial Instruments and Hedging Activities

These are covered under the Significant Accounting Policy No.15 on page 149.

3. 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 end of the reporting period. 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 the end of each reporting period. 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 end of the reporting period. 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 carrying values of the current financial assets and current financial liabilities approximate to their fair values.

4. Fair Value Hierarchy of Financial Instruments

HKFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 — inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

4. Fair Value Hierarchy of Financial Instruments (continued)

The following table presents the financial instruments that are measured at fair value at 31 December 2009.

	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Assets				
Available-for-sale investments	429	–	1,263	1,692
Forward foreign exchange contracts	–	907	–	907
Cross currency & interest rate swaps	–	481	–	481
Interest rate swaps	–	5	–	5
Energy contracts	–	1,115	785	1,900
	429	2,508	2,048	4,985
Liabilities				
Forward foreign exchange contracts	–	278	–	278
Cross currency & interest rate swaps	–	96	–	96
Interest rate swaps	–	251	–	251
Energy contracts	–	607	420	1,027
	–	1,232	420	1,652

During the year, there are no significant transfers between Level 1 and Level 2.

The movements of the balance of financial assets and financial liabilities measured at fair value based on Level 3 are as follows:

	Available-for-sale Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	3	277	280
Total gains or losses recognised in			
Profit or loss	–	(78)	(78)
Other comprehensive income	1	132	133
Purchases	1,259	107	1,366
Settlements	–	6	6
Transfers out of Level 3 (note)	–	(79)	(79)
Closing balance	1,263	365	1,628
Total gains or losses for the year included in profit or loss and presented in fuel and other operating expenses	–	(78)	(78)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting period and presented in fuel and other operating expenses	–	(29)	(29)

Note: The transfer of certain energy contracts out of Level 3 is because certain observable significant inputs are used in the fair value measurement instead of those unobservable ones used previously.

5. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2008 and 2009.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2009 HK$M	2008 HK$M
Total debt [(a)]	39,431	26,696
Net debt [(b)]	31,437	25,914
Total equity	70,868	63,122
Total capital (based on total debt) [(c)]	110,299	89,818
Total capital (based on net debt) [(d)]	102,305	89,036
Total debt to total capital (based on total debt) ratio (%)	35.7	29.7
Net debt to total capital (based on net debt) ratio (%)	30.7	29.1

The increase in total debt to total capital ratio in 2009 is primarily the result of our overseas business expansion, which led to additional borrowings, and the translation of Australian dollar denominated loan balances at a higher exchange rate prevailing at 2009 year end. The net debt to total capital ratio has increased to a smaller extent mainly due to the offsetting effect of HK$7,994 million of bank balances, cash and other liquid funds.

Certain entities of the Group are subject to certain loan covenants. For both 2009 and 2008, these entities have fully complied with those imposed loan covenants, apart from the obligation under TRAA in 2008 which was subsequently remediated (Note 21).

Notes:

(a) Total debt equals to bank loans and other borrowings.

(b) Net debt equals to total debt less bank balances, cash and other liquid funds.

(c) Total capital (based on total debt) equals to total debt plus total equity.

(d) Total capital (based on net debt) equals to net debt plus total equity.