FINANCIAL STATEMENTS

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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 140 to 206, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement 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 information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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, 24 February 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Note	2010 HK$M	2009 HK$M
Revenue	*2*	58,410	50,668
Expenses			
Purchases of electricity, gas and distribution services		(21,740)	(18,306)
Operating lease and lease service payments		(10,098)	(9,201)
Staff expenses		(2,189)	(1,819)
Fuel and other operating expenses		(7,321)	(6,316)
Depreciation and amortisation		(5,065)	(4,332)
		(46,413)	(39,974)
Other income	*4*	400	153
Operating profit	*5*	12,397	10,847
Finance costs	*6*	(4,212)	(3,477)
Finance income	*6*	101	69
Share of results, net of income tax			
Jointly controlled entities	*14*	2,080	2,675
Associated companies	*15*	813	(260)
Profit before income tax		11,179	9,854
Income tax expense	*7*	(844)	(1,665)
Profit for the year		10,335	8,189
Earnings attributable to:			
Shareholders	*8*	10,332	8,196
Non-controlling interests		3	(7)
		10,335	8,189
Dividends	*9*		
Interim dividends paid		3,753	3,753
Interim dividend declared / final dividend proposed		2,214	2,214
		5,967	5,967
Earnings per share, basic and diluted	*10*	HK$4.29	HK$3.41

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	2010 HK$M	2009 HK$M
Profit for the year	10,335	8,189
Other comprehensive income		
Exchange differences on translation	3,929	5,070
Cash flow hedges	588	220
Net fair value gains on available-for-sale investments	128	91
Revaluation surplus on step-acquisition of subsidiaries	–	15
Share of other comprehensive income of jointly controlled entities	2	120
Reclassification adjustments		
Sale of a subsidiary	(91)	–
Acquisition of additional interest in a jointly controlled entity to become a subsidiary	(17)	–
Other comprehensive income for the year, net of tax	4,539	5,516
Total comprehensive income for the year	14,874	13,705
Total comprehensive income attributable to:		
Shareholders	14,867	13,711
Non-controlling interests	7	(6)
	14,874	13,705

This statement of comprehensive income includes not only conventional profit for the year, but also "other comprehensive income". The concept of other comprehensive income is explained on page 68. Further details of other comprehensive income attributable to shareholders are presented in Note 28.

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	At 31 December 2010 HK$M	(Restated) At 31 December 2009 HK$M	(Restated) At 1 January 2009 HK$M
Non-current assets				
Fixed assets	*11(A)*	115,731	97,098	87,416
Leasehold land and land use rights under operating leases	*11(B)*	1,729	1,760	1,707
Goodwill and other intangible assets	*12*	9,150	8,105	6,324
Interests in jointly controlled entities	*14*	20,476	18,838	17,791
Interests in associated companies	*15*	2,378	1,813	242
Finance lease receivables	*16*	2,286	2,379	2,387
Deferred tax assets	*24*	4,210	3,355	2,992
Fuel clause account	*25*	294	14	800
Derivative financial instruments	*17*	2,736	1,821	1,505
Available-for-sale investments	*18*	1,512	1,692	224
Other non-current assets		139	327	258
		160,641	137,202	121,646
Current assets				
Inventories – stores and fuel		751	715	662
Trade and other receivables	*19*	11,118	9,018	8,239
Finance lease receivables	*16*	144	130	128
Available-for-sale investments		336	–	–
Derivative financial instruments	*17*	1,609	1,472	1,374
Bank balances, cash and other liquid funds	*20*	4,756	7,994	782
		18,714	19,329	11,185
Current liabilities				
Customers' deposits	*19(a)*	(3,979)	(3,854)	(3,722)
Trade and other payables	*21*	(11,344)	(8,926)	(5,919)
Income tax payable		(165)	(208)	(366)
Bank loans and other borrowings	*22*	(7,816)	(6,892)	(3,313)
Obligations under finance leases	*23*	(1,995)	(1,523)	(1,403)
Derivative financial instruments	*17*	(932)	(1,035)	(1,198)
		(26,231)	(22,438)	(15,921)
Net current liabilities		(7,517)	(3,109)	(4,736)
Total assets less current liabilities		153,124	134,093	116,910

You may be curious why there are three columns in this statement of financial position. During the year, the Group has retrospectively applied an amendment to HKFRS on leases which resulted in reclassification of certain leasehold land in Hong Kong from operating lease to finance lease. Under the new disclosure requirement, whenever there is a restatement of items in the statement of financial position, a third column presenting the financial position at the beginning of the earliest comparative period (i.e. 1 January 2009) is required to provide more information to the readers. Detail of the change in accounting policy is discussed under Significant Accounting Policies No. 2.

	Note	At 31 December 2010 HK$M	(Restated) At 31 December 2009 HK$M	(Restated) At 1 January 2009 HK$M
Financed by:				
Equity				
Share capital	*27*	**12,031**	12,031	12,031
Share premium		**1,164**	1,164	1,164
Reserves	*28*			
Declared / proposed dividends		**2,214**	2,214	2,214
Others		**64,252**	55,352	47,608
Shareholders' funds		**79,661**	70,761	63,017
Non-controlling interests		**97**	107	105
		79,758	70,868	63,122
Non-current liabilities				
Bank loans and other borrowings	*22*	**36,807**	32,539	23,383
Obligations under finance leases	*23*	**25,105**	20,332	20,362
Deferred tax liabilities	*24*	**7,590**	7,009	6,435
Derivative financial instruments	*17*	**1,079**	617	837
Scheme of Control (SoC) reserve accounts	*26*	**1,509**	1,654	1,826
Other non-current liabilities		**1,276**	1,074	945
		73,366	63,225	53,788
Equity and non-current liabilities		**153,124**	134,093	116,910

William Mocatta Andrew Brandler Mark Takahashi

William Mocatta
Vice Chairman

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

Hong Kong, 24 February 2011

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

Company Statement of Financial Position
as at 31 December 2010

	Note	2010 HK$M	2009 HK$M
Non-current assets			
Fixed assets	*11(A)*	85	62
Investments in subsidiaries	*13*	43,949	46,005
Advance to a subsidiary	*13*	39	39
Other non-current assets		22	2
		44,095	46,108
Current assets			
Trade and other receivables	*19*	44	44
Bank balances and cash		2	3
		46	47
Current liabilities			
Trade and other payables	*21*	(247)	(200)
Advances from subsidiaries	*31(D)*	(132)	(110)
Bank loans and other borrowings	*22*	–	(2,000)
		(379)	(2,310)
Net current liabilities		(333)	(2,263)
Total assets less current liabilities		43,762	43,845
Financed by:			
Equity			
Share capital	*27*	12,031	12,031
Share premium		1,164	1,164
Reserves	*28*		
Declared / proposed dividends		2,214	2,214
Others		28,353	28,436
		43,762	43,845

William Mocatta
William Mocatta
Vice Chairman
Hong Kong, 24 February 2011

Andrew Brandler
Andrew Brandler
Chief Executive Officer

Mark Takahashi
Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 147 to 206 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Attributable to Shareholders					
	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Total HK$M	Non-controlling Interests HK$M	Total HK$M
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 non-controlling interests	–	–	–	–	8	8
Balance at 31 December 2009	12,031	1,164	57,566	70,761	107	70,868
Balance at 1 January 2010	12,031	1,164	57,566	70,761	107	70,868
Total comprehensive income for the year	–	–	14,867	14,867	7	14,874
Dividends paid						
2009 final	–	–	(2,214)	(2,214)	–	(2,214)
2010 interim	–	–	(3,753)	(3,753)	–	(3,753)
Dividends paid to non-controlling interests of a subsidiary	–	–	–	–	(17)	(17)
Balance at 31 December 2010	**12,031**	**1,164**	**66,466**	**79,661**	**97**	**79,758**

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	Note	2010 HK$M	2010 HK$M	2009 HK$M	2009 HK$M
Operating activities					
Net cash inflow from operations	*29*	16,810		15,398	
Interest received		99		55	
Income tax paid		(824)		(924)	
Net cash inflow from operating activities			16,085		14,529
Investing activities					
Capital expenditure		(10,137)		(7,449)	
Capitalised interest paid		(515)		(320)	
Proceeds from disposal of fixed assets		267		121	
Additions of intangible assets		(42)		(124)	
Additions of available-for-sale investments		(1,190)		(144)	
Acquisition of subsidiaries		(38)		(153)	
Proceeds from sale of a subsidiary		852		–	
Proceeds from sale of a jointly controlled entity		–		156	
Investments in and advances to jointly controlled entities and associated companies		(2,062)		(1,992)	
Dividends received from jointly controlled entities and associated companies		2,594		2,557	
Decrease / (increase) in bank deposits with maturities of more than three months		8		(8)	
Net cash outflow from investing activities			(10,263)		(7,356)
Net cash inflow before financing activities			5,822		7,173
Financing activities					
Proceeds from long-term borrowings		14,422		18,105	
Repayment of long-term borrowings		(11,105)		(7,694)	
Repayment of obligations under finance leases		(1,790)		(1,516)	
Decrease in short-term borrowings		(458)		(535)	
Interest and other finance costs paid		(4,199)		(3,354)	
Dividends paid to shareholders		(5,967)		(5,967)	
Dividends paid to non-controlling interests of a subsidiary		(17)		–	
Net cash outflow from financing activities			(9,114)		(961)
Net (decrease) / increase in cash and cash equivalents			(3,292)		6,212
Cash and cash equivalents at beginning of year			7,148		780
Effect of exchange rate changes			167		156
Cash and cash equivalents at end of year			4,023		7,148
Analysis of balances of cash and cash equivalents					
Deposits with banks			3,821		7,214
Cash at banks and on hand			935		780
Bank balances, cash and other liquid funds	*20*		4,756		7,994
Excluding:					
Cash restricted for specific purposes			(733)		(838)
Bank deposits with maturities of more than three months			–		(8)
			4,023		7,148

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

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 have been measured at fair value.

The preparation of 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 159 to 160.

2. Effect of New / Revised HKFRS

(A) Adoption of new / revised HKFRS for the first time for the financial year beginning 1 January 2010

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

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HKFRS 3 (Revised) "Business Combinations"
- HK(IFRIC)-Int 17 "Distribution of Non-cash Assets to Owners"
- HK-Int 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"
- Amendment to HKAS 39 "Eligible Hedged Items"
- Improvements to HKFRS published by HKICPA in May 2009 (including HKAS 17 (amendment))

Apart from the effects of adopting HKAS 17 (amendment) as stated below, the adoption of these new / revised standards and interpretations has no significant impact on the Group's financial statements.

HKAS 17 (amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards of ownership of an asset to the lessee. Prior to the amendment, land has been classified as under an operating lease when the title to that land is not expected to pass to the Group at the end of the lease term.

The Group has reassessed the classification of leases of land as at 1 January 2010. As a result of the reassessment, the Group has reclassified certain leasehold land in Hong Kong from under operating lease to finance lease. As the leasehold land is held for own use, it is classified as fixed assets on the statement of financial position and is depreciated over the unexpired term of the lease.

HKAS 17 (amendment) has been applied retrospectively with comparatives restated. The effect of the resulting changes on the consolidated statement of financial position is summarised below. There are no effects on the consolidated income statement and the consolidated statement of comprehensive income.

	At 31 December 2010 HK$M	At 31 December 2009 HK$M	At 1 January 2009 HK$M
Increase in fixed assets	412	494	543
Decrease in leasehold land and land use rights under operating leases	(412)	(494)	(543)
Change in net assets	–	–	–

(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 and are mandatory for the Group for accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted:

- HKAS 24 (Revised) "Related Party Disclosures"
- HKFRS 9 "Financial Instruments"
- Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"
- Improvements to HKFRS published by HKICPA in May 2010

Apart from the adoption of HKFRS 9 which may have an effect on the classification and the treatment of fair value changes of existing available-for-sale investments, the adoption of these new / revised HKFRS will have no significant impact on the results and the financial position of the Group.

3. Consolidation

(A) 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 (C) below.

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.

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. Where necessary to ensure consistency with the policies adopted by the Group, adjustments are made to the financial statements of subsidiaries, jointly controlled entities and associated companies.

(B) Subsidiaries

A subsidiary is an entity which is controlled by the Company through, directly or indirectly, controlling the composition of the board of directors or controlling more than half of the voting power. 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 acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree plus the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If the purchase consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(B) Subsidiaries (continued)

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 impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. 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.

(C) 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 movements in 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.

Any excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired jointly controlled entities / associated companies at the date of acquisition is recognised as goodwill. Goodwill is included within interests in jointly controlled entities / associated companies and is tested for impairment as a whole.

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.

Dilution gains or losses arising in investments in jointly controlled entities / associated companies are recognised in profit or loss.

(D) Change in ownership interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of ownership interests from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of a subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

For changes in ownership interests that result in loss of control of subsidiaries, loss of joint control in jointly controlled entities or loss of significant influence in associated companies, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as a jointly controlled entity, associated company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are reclassified to profit or loss.

(D) Change in ownership interests (continued)

If the ownership interest in a jointly controlled entity or associated company is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

4. 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 relate to the electricity businesses located outside Hong Kong. Amortisation of leasehold land and depreciation of fixed assets are calculated, using the straight-line method, to allocate their cost to their estimated residual values over the unexpired term of the lease or their estimated useful lives, as appropriate. Their estimated useful lives are similar to those of the SoC fixed assets and are set out as follows:

Leasehold land	unexpired term of the lease
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
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. Leasehold land commences amortisation from the time when the land interest becomes available for its 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.

5. 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 at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill is tested for impairment at least 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 at least annually or whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses.

6. 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.

Readers who would like to revisit our expanded discussion on impairment assessment can find this on our website as part of our accounting "mini-series".

7. 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 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 is 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 (for example, inventory or fixed assets), the gains and losses that were recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

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 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 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.

8. Available-for-sale Investments

Available-for-sale investments are non-derivative financial assets that are either designated in that 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 investments 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 investments 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 investments 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.

Although termed “available-for-sale” by the accounting standard, investments in this category are generally held for the long-term, including our investment in CGN Wind Power Company Limited (CGN Wind).

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

> Under the effective interest method, the effective interest rate is the rate that exactly discounts future cash payments / receipts through the term of the financial liability / asset to its net carrying amount.

14. Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised 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 and its subsidiaries 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 consolidated financial statements. However, 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.

15. 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.

An elaboration of the accounting concepts on provision and contingent liabilities can be found in our accounting "mini-series" on pages 84 to 86.

16. 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.

17. 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.

18. 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 the Group's and the Company's presentation currency.

Foreign currency transactions are translated into the relevant 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, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, jointly controlled entities and associated companies that have a functional currency different from the Group's presentation currency, 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 the 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.

A company entity can have both functional currency and presentation currency; however, a consolidation group can only have presentation currency but not functional currency. This is because presentation currency is a matter of choice but functional currency is based on the different primary economic environment in which each group entity is operating.

19. 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 geographical region 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.

20. 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 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 asset 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 in our accounting "mini-series" can find this on our website.

21. 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.

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 judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

1. Australian Climate Change Policy

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 2009 was disclosed on pages 153 and 154 of the 2009 Annual Report.

Background

The Carbon Pollution Reduction Scheme (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 bill was passed by the House of Representatives. However, the legislation did not progress to a vote in the Senate.

On 27 April 2010, the Australian Government announced that it did not intend to reintroduce the CPRS bill again before 2012. Slow progress towards a comprehensive global agreement as well as continued opposition domestically was cited as reasons for the delay. On 27 September 2010 the Australian Government announced the membership and terms of reference for the new Multi-Party Climate Change Committee (the "Committee") to explore options for the introduction of a carbon price (as the starting position of the Committee). The Committee is scheduled to report to the Cabinet at the end of 2011 with a range of possible policy positions.

Potential Implications for TRUenergy

The possible introduction of climate change legislation 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.

Uncertainty remains regarding the timing and structure of any climate change legislation. As such, the introduction of climate change legislation presents an unquantifiable, but potentially material risk to the Group. At 31 December 2010, no impact of climate change legislation 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 climate change legislation. The carrying amount of the Yallourn power station assets, which comprised a single cash generating unit, was A$1,656 million or HK$13,103 million at 31 December 2010 (2009: A$1,662 million or HK$11,592 million). Other parts of the Group in Australia may also be impacted adversely or favourably.

2. Deferred Tax

At 31 December 2010, a deferred tax asset of HK$5,636 million (2009: HK$4,794 million) in relation to unused tax losses was recognised in the consolidated statement of financial position, which included a tax consolidation benefit in Australia of HK$989 million (2009: nil) arising during the year. Estimating the deferred tax asset 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 mainly 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 2010. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

3. 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 at least 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, an impairment loss may arise. During 2010, 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$82,744 million (2009: HK$75,006 million), goodwill of HK$7,701 million (2009: HK$6,766 million) and other long-lived assets, except for the provision for Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) of HK$258 million. 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 2010 year end except for the possible introduction of climate change legislation in Australia disclosed in item 1 above.

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 accounts 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$1,509 million (2009: HK$1,654 million) meet the definition of a liability.

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) and OneEnergy Limited (OneEnergy)'s investee companies 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.

7. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 2 Fair Value Estimation on page 204.

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, (collectively referred as SoC Companies) 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 main features of the SoC agreement are summarised on pages 207 and 208.

These financial statements have been approved for issue by the Board of Directors on 24 February 2011.

2. Revenue

Accounting Policy No. 16

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

	2010 HK$M	2009 HK$M
Sales of electricity	49,462	42,754
Lease service income	1,889	2,327
Finance lease income	363	368
Sales of gas	5,792	4,775
Other revenue	980	587
	58,486	50,811
Transfer for SoC (Note 26)	(76)	(143)
	58,410	50,668

In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by GPEC from the lessee, or servicing charges and fuel costs paid to the lessor by CLP Power Hong Kong, with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income or payments respectively.

3. Segment Information

Accounting Policy No. 19

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.

3. Segment Information (continued)

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

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2010							
Revenue	30,281	25,182	305	2,578	59	5	58,410
Operating profit / (loss)	9,252	2,793	412	374	5	(439)	12,397
Finance costs	(3,115)	(831)	(49)	(198)	–	(19)	(4,212)
Finance income	1	52	1	46	–	1	101
Share of results, net of income tax							
Jointly controlled entities	1,159	(287)	816 [(a)]	–	392	–	2,080
Associated companies	–	9	804 [(a)]	–	–	–	813
Profit / (loss) before income tax	7,297	1,736	1,984	222	397	(457)	11,179
Income tax (expense) / credit	(1,004)	395	(147)	(81)	(7)	–	(844)
Profit / (loss) for the year	6,293	2,131	1,837	141	390	(457)	10,335
Earnings attributable to non-controlling interests	–	–	(3)	–	–	–	(3)
Earnings / (loss) attributable to shareholders	6,293	2,131	1,834	141	390	(457)	10,332
Capital additions	11,577	1,880	965	5,763	–	37	20,222
Depreciation and amortisation	3,365	1,493	81	112	1	13	5,065
Impairment charge	–	170	17	17	–	–	204
At 31 December 2010							
Fixed assets	82,829	20,093	3,907	8,814	3	85	115,731
Interests in							
Jointly controlled entities	9,144	1,018	7,371	–	2,943	–	20,476
Associated companies	–	36	2,342	–	–	–	2,378
Deferred tax assets	–	4,146	64	–	–	–	4,210
Other assets	6,288	18,257	2,308	7,044	378	2,285	36,560
Total assets	98,261	43,550	15,992	15,858	3,324	2,370	179,355
Bank loans and other borrowings	25,603	10,815	2,288	5,917	–	–	44,623
Current and deferred tax liabilities	6,881	21	231	622	–	–	7,755
Obligations under finance leases	27,064	36	–	–	–	–	27,100
Other liabilities	10,615	6,376	244	2,650	4	230	20,119
Total liabilities	70,163	17,248	2,763	9,189	4	230	99,597

The difference between total assets and total liabilities represents shareholders' financing.

Unallocated items represent mainly corporate overheads.

3. 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
Finance costs	(2,673)	(666)	(35)	(82)	–	(21)	(3,477)
Finance income	11	30	5	23	–	–	69
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 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 non-controlling 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	75,061	17,283	1,730	2,960	3	61	97,098
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	5,401	15,277	1,919	7,331	244	5,255	35,427
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

Note (a): In September 2009, the investment in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) has been reclassified from a jointly controlled entity to an associated company. Out of the total amount of HK$1,620 million (2009: HK$1,312 million), HK$877 million (2009: HK$784 million) was attributed to investments in GNPJVC and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

4. Other Income

	2010 HK$M	2009 HK$M
Gain on sale of a subsidiary (note)	400	–
Gain on sale of a jointly controlled entity	–	153
	400	153

Note: In April 2010, the Group sold its entire interest in CLP Power China (Anshun) Limited which held a 70% interest in Guizhou CLP Power Company Limited (Guizhou CLP Power), a jointly controlled entity in the Chinese mainland, for a consideration of RMB750 million (HK$852 million) resulting in a gain of HK$400 million (including the release of translation reserve of HK$91 million on the investment).

5. Operating Profit

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

	2010 HK$M	2009 HK$M
Charging		
Staff costs		
Salaries and other costs	2,024	1,652
Retirement benefits costs [a]	165	167
Auditors' remuneration		
Audit	32	27
Permissible non-audit services [b]	10	10
Operating lease expenditure on the agreement with Ecogen	282	238
Net loss on disposal of fixed assets	183	172
Impairment of fixed assets	17	50
Net fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(60)	(39)
Fuel and other operating expenses	(63)	(112)
Transactions not qualifying as hedges	452	136
Ineffectiveness of cash flow hedges	82	–
Crediting		
Coal mine subsidence (insurance recovery) / cost of TRUenergy	(138)	1
Net rental income from properties	(19)	(18)
Net exchange gain	(79)	(256)

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$202 million (2009: HK$195 million), of which HK$96 million (2009: HK$95 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$65 million (2009: HK$70 million).

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

6. Finance Costs and Income

Accounting Policy No. 13

	2010 HK$M	2009 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	1,103	713
Other borrowings		
Wholly repayable within five years	214	165
Not wholly repayable within five years	583	450
Tariff Stabilisation Fund [(a)]	3	3
Customers' deposits, fuel clause over-recovery and others	2	–
Finance charges under finance leases [(b)]	2,471	2,190
Other finance charges	203	207
Fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassified from equity	(53)	6
Fair value hedges	54	67
Gain on hedged items in fair value hedges	(43)	(56)
Other net exchange loss on financing activities	168	50
	4,705	3,795
Less: amount capitalised [(c)]	(493)	(318)
	4,212	3,477
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	101	69

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 SoC (Note 26).

(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 3.18% – 13.50% (2009: 3.39% – 12.31%) per annum.

7. Income Tax Expense

Accounting Policy No. 14

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

	2010 HK$M	2009 HK$M
Current income tax		
Hong Kong	621	613
Outside Hong Kong	136	151
	757	764
Deferred tax		
Hong Kong	382	376
Outside Hong Kong (note)	(295)	525
	87	901
	844	1,665

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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:

	2010 HK$M	2009 HK$M
Profit before income tax	11,179	9,854
Less: Share of results of jointly controlled entities and associated companies, net of income tax	(2,893)	(2,415)
	8,286	7,439
Calculated at an income tax rate of 16.5% (2009: 16.5%)	1,367	1,227
Effect of different income tax rates in other countries	381	340
Income not subject to tax	(64)	(64)
Expenses not deductible for tax purposes	165	142
Revenue adjustment for SoC not subject to tax (Note 26)	12	24
Tariff rebates deductible for tax purposes	–	(12)
Over-provision in prior years	(46)	(2)
Tax losses not recognised	18	10
Tax consolidation benefit (note)	(989)	–
Income tax expense	844	1,665

Note: The amount included TRUenergy Holdings Pty Ltd (TRUenergy)'s tax consolidation benefit of HK$989 million (A$144 million) (2009: nil). Under the Australian tax consolidation regime, TRUenergy formed a tax consolidated group in 2005 whereby TRUenergy and its Australian-resident wholly-owned subsidiaries are treated as a single entity for income tax purpose. A tax consolidation benefit of HK$2,004 million was recognised in 2005 pursuant to the then relevant rules. During 2010, certain amendments to the tax consolidation rules were enacted and can be applied retrospectively from 1 July 2002. These amendments allow deductions of tax cost bases for some assets (which were not allowed under the original legislation), and benefit the acquisition of Yallourn and Merchant Energy Business (MEB) by TRUenergy tax consolidation group in 2005. As a result, an additional deferred tax asset of HK$989 million (A$144 million) was recognised.

8. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$5,884 million (2009: HK$12,704 million).

CLP Holdings is the investment holding company. Its earnings were mainly derived from dividends of subsidiaries.

9. Dividends

	2010		2009	
	HK$ per share	HK$M	HK$ per share	HK$M
Interim dividends paid	1.56	3,753	1.56	3,753
Interim dividend declared / final dividend proposed	0.92	2,214	0.92	2,214
	2.48	5,967	2.48	5,967

At the Board meeting held on 24 February 2011, the Directors declared the fourth interim dividend of HK$0.92 per share instead of final dividend as in previous years (2009: final dividend of HK$0.92 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2010.

10. Earnings per Share

The earnings per share are computed as follows:

	2010	2009
Earnings attributable to shareholders (HK$M)	10,332	8,196
Weighted average number of shares in issue (thousand shares)	2,406,143	2,406,143
Earnings per share (HK$)	4.29	3.41

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 2010 (2009: nil).

11. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases

Accounting Policy No. 4

Fixed assets and leasehold land and land use rights under operating leases totalled HK$117,460 million (2009: HK$98,858 million). Included in fixed assets is plant under construction with book value of HK$12,689 million (2009: HK$7,825 million). Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Land		Buildings		Plant, Machinery and Equipment		
	Freehold HK$M	Leased HK$M	Owned HK$M	Leased [(a)] HK$M	Owned HK$M	Leased [(a)] HK$M	Total HK$M
Net book value at 1 January 2009, as previously reported	182	–	8,110	4,615	56,800	17,166	86,873
Adjustment for adoption of HKAS 17 (amendment)	–	543	–	–	–	–	543
Net book value at 1 January 2009, as restated	182	543	8,110	4,615	56,800	17,166	87,416
Acquisition of subsidiaries	14	–	–	–	403	–	417
Additions	526	–	922	110	6,564	1,494	9,616
Transfers and disposals	–	(38)	(15)	(5)	(148)	(122)	(328)
Depreciation	–	(11)	(179)	(268)	(2,490)	(1,116)	(4,064)
Impairment charge	–	–	(4)	–	(46)	–	(50)
Exchange differences	67	–	48	–	3,966	10	4,091
Net book value at 31 December 2009	789	494	8,882	4,452	65,049	17,432	97,098
Cost	789	562	11,682	9,790	99,388	37,898	160,109
Accumulated depreciation and impairment	–	(68)	(2,800)	(5,338)	(34,339)	(20,466)	(63,011)
Net book value at 31 December 2009	789	494	8,882	4,452	65,049	17,432	97,098
Net book value at 1 January 2010	789	494	8,882	4,452	65,049	17,432	97,098
Acquisition of subsidiaries	–	–	903	–	289	–	1,192
Additions	6	–	1,135	1,774	11,848	5,259	20,022
Transfers and disposals	–	(71)	(25)	(28)	(220)	(141)	(485)
Depreciation	–	(11)	(203)	(291)	(2,935)	(1,329)	(4,769)
Impairment charge	–	–	–	–	(17)	–	(17)
Exchange differences	54	–	125	–	2,503	8	2,690
Net book value at 31 December 2010	849	412	10,817	5,907	76,517	21,229	115,731
Cost	849	475	13,845	11,539	114,677	42,738	184,123
Accumulated depreciation and impairment	–	(63)	(3,028)	(5,632)	(38,160)	(21,509)	(68,392)
Net book value at 31 December 2010	849	412	10,817	5,907	76,517	21,229	115,731

Note (a): These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK$27,065 million (2009: HK$21,838 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.

11. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases (continued)

(A) Fixed Assets (continued)

Company

The net book value of fixed assets of the Company was HK$85 million (2009: HK$62 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$36 million (2009: HK$30 million) and HK$13 million (2009: HK$9 million) respectively.

(B) Leasehold Land and Land Use Rights under Operating Leases

Group

	2010 HK$M	2009 HK$M
Net book value at 1 January, as previously reported	2,254	2,250
Adjustment for adoption of HKAS 17 (amendment)	(494)	(543)
Net book value at 1 January, as restated	1,760	1,707
Acquisition of subsidiaries	–	1
Additions	10	97
Transfers and disposals	(2)	(2)
Amortisation	(43)	(43)
Exchange differences	4	–
Net book value at 31 December	1,729	1,760
Cost	2,022	2,009
Accumulated amortisation	(293)	(249)
Net book value at 31 December	1,729	1,760

Following the amendment to HKAS 17, leasehold land under finance lease is now classified under "fixed assets"; whereas that under operating lease remains under "leasehold land and land use rights under operating leases". Please also refer to Significant Accounting Policies No. 2.

(C) Tenure of Leasehold Land and Land Use Rights

The tenure of leasehold land and land use rights (under finance or operating leases) of the Group is as follows:

	2010 HK$M	2009 HK$M
Held in Hong Kong		
On long-term leases (over 50 years)	127	132
On medium-term leases (10 - 50 years)	1,888	2,012
On short-term leases (less than 10 years)	8	–
	2,023	2,144
Held outside Hong Kong		
On medium-term leases (10 - 50 years)	118	110
	2,141	2,254

12. Goodwill and Other Intangible Assets

Accounting Policy No. 5

	Goodwill HK$M	Other Intangible Assets HK$M	Total HK$M
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
Net carrying value at 1 January 2010	6,766	1,339	8,105
Acquisition of subsidiaries	32	–	32
Additions	–	190	190
Amortisation	–	(253)	(253)
Exchange differences	903	173	1,076
Net carrying value at 31 December 2010	**7,701**	**1,449**	**9,150**
Cost	7,701	2,833	10,534
Accumulated amortisation	–	(1,384)	(1,384)
Net carrying value at 31 December 2010	**7,701**	**1,449**	**9,150**

Goodwill predominantly arose from the previous acquisition of the 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 12.85% (2009: 12.09%) based on MEB's weighted average cost of capital, which reflects specific risks relating to the MEB. 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 the MEB in May 2005.

13. Investments in and Advances to Subsidiaries

Accounting Policy No. 3(B)

	2010 HK$M	2009 HK$M
Unlisted shares, at cost	23,617	23,612
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	20,432	22,493
	43,949	46,005

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 31(D)). 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 (2009: HK$39 million), which is interest-free and due on or after 30 June 2012 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 2010:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2010	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	3,270 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 (a)	British Virgin Islands / Chinese mainland	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100 (a)	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

13. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2010	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 (a)	Australia	Energy Business Investment Holding
TRUenergy Yallourn Pty Ltd	15 ordinary shares of A$1 each	100 (a)	Australia	Generation and Supply of Electricity
TRUenergy Pty Ltd	1,331,686,988 ordinary shares of A$1 each	100 (a)	Australia	Retailing of Electricity and Gas
Gujarat Paguthan Energy Corporation Private Limited	726,254,742 equity shares of Rs.10 each	100 (a)	India	Generation of Electricity
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 1,081,700,158 compulsory convertible preference shares of Rs.10 each	100 (a)	India	Generation of Electricity
CLP Sichuan (Jiangbian) Power Company Limited (b)	RMB496,380,000	100 (a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited (c)	RMB69,098,976	84.9 (a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited (c)	RMB249,430,049	84.9 (a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited (c)	US$13,266,667	84.9 (a)	Chinese mainland	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited (c)	RMB141,475,383	84.9 (a)	Chinese mainland	Generation of Electricity

Notes:

(a) Indirectly held

(b) Registered as a wholly foreign owned enterprise under People's Republic of China (PRC) law

(c) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

14. Interests in Jointly Controlled Entities

Accounting Policy No. 3(C)

	2010 HK$M	2009 HK$M
Share of net assets	11,402	11,131
Goodwill	142	381
Advances	8,932	7,326
	20,476	18,838

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:

		2010				2009			
		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)	151	–	8,720	8,871	211	–	7,060	7,271
OneEnergy	(B)	2,887	–	–	2,887	2,695	–	–	2,695
CSEC Guohua International Power Company Limited	(C)	2,558	99	–	2,657	2,385	93	–	2,478
Shandong Zhonghua Power Company, Limited	(D)	966	–	–	966	1,111	–	–	1,111
CLP Guangxi Fangchenggang Power Company Limited	(E)	1,477	–	–	1,477	1,221	–	–	1,221
Guizhou CLP Power		–	–	–	–	534	–	–	534
Roaring 40s	(F)	1,018	–	–	1,018	917	227	–	1,144
PSDC	(G)	12	–	207	219	12	–	258	270
Others	(H)	2,333	43	5	2,381	2,045	61	8	2,114
		11,402	142	8,932	20,476	11,131	381	7,326	18,838

14. 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:

	2010 HK$M	2009 HK$M
Non-current assets	37,524	37,365
Current assets	5,380	5,563
Current liabilities	(7,564)	(8,688)
Non-current liabilities	(22,338)	(21,715)
Non-controlling interests	(1,600)	(1,394)
Share of net assets	11,402	11,131
Revenue	14,533	14,043
Expenses	(11,948)	(10,886)
Profit before income tax	2,585	3,157
Income tax expense	(377)	(449)
Non-controlling interests	(128)	(33)
Share of profit for the year (note)	2,080	2,675
Share of capital commitments	2,473	5,511
Share of contingent liabilities	57	57

Note: Included a provision for Roaring 40s of HK$258 million (2009: OneEnergy of HK$131 million).

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 30.

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 11).

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.

14. 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:

	2010 HK$M	2009 HK$M
Results for the year		
Revenue	12,607	11,474
Profit after income tax	2,852	2,722
Net assets (note)		
Non-current assets	28,472	27,578
Current assets	5,002	4,096
Current liabilities	(4,959)	(7,042)
Deferred tax	(3,524)	(3,226)
Non-current liabilities	(2,811)	(3,225)
	22,180	18,181
Group's share of profit after income tax	1,141	1,089

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 (MC) of Japan and the Group. This company operates as an investment vehicle in the Southeast Asia and Taiwan markets and owns a 22.4% interest in Electricity Generating Public Company Limited (EGCO), Thailand and 40% interest in Ho-Ping Power Company (Ho-Ping), Taiwan.

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

	2010 HK$M	2009 HK$M
Results for the year		
Revenue	–	–
Profit after income tax	800	761
Net assets		
Non-current assets	5,594	5,015
Current assets	186	381
Current liabilities	(6)	(7)
	5,774	5,389
Group's share of profit after income tax (note)	400	380

Note: Included a provision for OneEnergy of HK$131 million in 2009.

(C) CSEC Guohua International Power Company Limited, the joint stock company with 70% owned by China Shenhua Energy Company Limited and 30% 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.

14. 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.

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

(F) 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$1,267 million (2009: 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 494MW.

15. Interests in Associated Companies

Accounting Policy No. 3(C)

	2010 HK$M	2009 HK$M
Share of net assets	2,366	1,796
Goodwill	12	10
Advances	–	7
	2,378	1,813

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

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

	2010 HK$M	2009 HK$M
GNPJVC (A)	2,342	1,776
Others	36	37
	2,378	1,813

15. Interests in Associated Companies (continued)

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

	2010 HK$M	2009 HK$M
Total assets	15,312	14,824
Total liabilities	(5,884)	(7,673)
Net assets	9,428	7,151
Group's share of associated companies' net assets	2,366	1,796
Revenue	7,216	4,189
Profit after income tax	3,232	192
Group's share of profit/(loss) after income tax (note)	813	(260)

Note: Included a provision for Solar Systems Pty Ltd of HK$319 million in 2009.

At 31 December 2010, the Group's share of capital commitments of its associated companies was HK$154 million (2009: HK$148 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.

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

	2010 HK$M	2009 HK$M
Results for the year		
Revenue	6,667	7,290
Profit after income tax	3,218	2,868
Net assets		
Non-current assets	5,208	6,486
Current assets	10,022	8,119
Current liabilities	(3,184)	(1,340)
Non-current liabilities	(2,678)	(6,162)
	9,368	7,103
Group's share of profit after income tax (note)	804	715

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

16. Finance Lease Receivables

Accounting Policy No. 20

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Amounts receivable under finance leases				
Within one year	**468**	466	**144**	130
After one year but within five years	**1,485**	1,648	**378**	500
Over five years	**2,663**	2,860	**1,908**	1,879
	4,616	4,974	**2,430**	2,509
Less: unearned finance income	**(2,186)**	(2,465)		
Present value of minimum lease payments receivable	**2,430**	2,509		
Analysed as:				
Current (recoverable within 12 months)			**144**	130
Non-current (recoverable after 12 months)			**2,286**	2,379
			2,430	2,509

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 2010 and 2009. The carrying amounts of the finance lease receivables approximate to their fair values.

An overview of lease accounting is on our website as part of our accounting "mini-series".

17. Derivative Financial Instruments **Accounting Policy No. 7**

	2010 Assets HK$M	2010 Liabilities HK$M	2009 Assets HK$M	2009 Liabilities HK$M
Cash flow hedges (note)				
Forward foreign exchange contracts	**878**	**111**	532	113
Cross currency & interest rate swaps	**652**	**331**	301	96
Interest rate swaps	**136**	**172**	5	251
Energy contracts	**1,408**	**566**	1,033	475
Fair value hedges				
Cross currency & interest rate swaps	**208**	**95**	180	–
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	**460**	**152**	375	165
Cross currency & interest rate swaps	**–**	**23**	–	–
Energy contracts	**603**	**561**	867	552
	4,345	**2,011**	3,293	1,652
Analysed as:				
Current	**1,609**	**932**	1,472	1,035
Non-current	**2,736**	**1,079**	1,821	617
	4,345	**2,011**	3,293	1,652

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

Although termed "held for trading or not qualifying as accounting hedges" above, these derivatives are used as "economic hedges" or for the purpose of understanding price movements.

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.

Note: Derivative financial instruments qualifying as cash flow hedges at 31 December 2010 have a maturity of up to 14 years (2009: 15 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.

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

	2010 HK$M	2009 HK$M
Forward foreign exchange contracts	**86,603**	67,261
Interest rate swaps / cross currency & interest rate swaps	**24,498**	20,066
Energy contracts	**14,805**	12,440

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

18. Available-for-sale Investments

Accounting Policy No. 8

In accordance with the Accounting Policy No. 8, the Group's unquoted investment in CGN Wind of HK$1,190 million (2009: HK$1,189 million) is treated for accounting purpose as an available-for-sale investment. There is no intention to sell the investment.

19. Trade and Other Receivables

Accounting Policy No. 10

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Trade receivables [(a)]	**7,425**	6,150	**–**	–
Deposits and prepayments	**3,425**	2,593	**13**	5
Dividend receivables [(b)]				
Jointly controlled entities	**160**	53	**–**	–
Associated companies	**48**	141	**–**	–
Current accounts with [(b)]				
Subsidiaries	**–**	–	**31**	39
Jointly controlled entities	**60**	81	**–**	–
	11,118	9,018	**44**	44

Trade and other receivables attributed to overseas subsidiaries amounted to HK$8,677 million (2009: HK$6,379 million). In 2009, GPEC obtained payment for some of its receivables from GUVNL through bill discounting with recourse and the transactions were accounted for as collateralised borrowings (Note 22).

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

Notes:

(a) Trade receivables

26% (2009: 32%) and 53% (2009: 52%) of the gross trade receivables relate to 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 retail 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 2010, such cash deposits amounted to HK$3,979 million (2009: HK$3,852 million) and the bank guarantees stood at HK$935 million (2009: HK$934 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.

TRUenergy in Australia determines its doubtful debt provisioning by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. 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.

19. Trade and Other Receivables (continued)

The ageing analysis of trade receivables at 31 December based on due date is as follows:

	2010				2009			
	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	5,165	569	(36)	5,698	4,938	543	(42)	5,439
Overdue								
1 – 30 days	277	328	(33)	572	138	297	(35)	400
31 – 90 days	81	239	(63)	257	30	206	(57)	179
Over 90 days	746	502	(350)	898	16	410	(294)	132
	6,269	1,638	(482)	7,425	5,122	1,456	(428)	6,150

At 31 December 2010, trade receivables of HK$1,104 million (2009: HK$184 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default and an amount deducted by GUVNL from GPEC's January to March 2010 invoices of HK$647 million (2009: nil) (Note 32(A)).

The ageing analysis of trade receivables at 31 December based on invoice date is as follows:

	2010 HK$M	2009 HK$M
30 days or below	5,534	5,511
31 – 90 days	771	459
Over 90 days	1,120	180
	7,425	6,150

Out of the amount aged over 90 days (based on invoice date), HK$647 million is related to an amount deducted by GUVNL from GPEC's January to March 2010 invoices and classified as trade receivables. Further details of this dispute can be found in Note 32(A).

Movements in the provision for impairment are as follows:

	2010 HK$M	2009 HK$M
Balance at 1 January	428	257
Provision for impairment	267	252
Receivables written off during the year as uncollectible	(174)	(130)
Amounts reversed	(80)	(3)
Exchange differences	41	52
Balance at 31 December	482	428

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

"Ageing analysis based on invoice date" is presented to meet the reporting requirements under the Listing Rules of the Hong Kong Stock Exchange, whereas "ageing analysis based on due date" is disclosed in accordance with the requirements under the HKFRS.

Invoice date = Date of issue of an invoice
Due date = Invoice date + credit period granted to customers

20. Bank Balances, Cash and Other Liquid Funds

Accounting Policy No. 11

	2010 HK$M	2009 HK$M
Trust accounts under TRAA (note)		
Restricted for specific purposes	733	838
Unrestricted	–	65
	733	903
Short-term investments and bank deposits	3,203	6,612
Bank balances and cash	820	479
	4,756	7,994

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.

The average effective interest rate on the Group's bank balances, cash and other liquid funds is 1.9% (2009: 1.0%).

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$444 million (2009: HK$428 million) which was mostly denominated in U.S. dollar.

21. Trade and Other Payables

Accounting Policy No. 12

	Group		Company	
	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M
Trade payables [(a)]	5,026	3,243	–	–
Other payables and accruals	4,807	4,163	222	179
Current accounts with [(b)]				
Subsidiaries	–	–	24	20
Jointly controlled entities	1,425	1,299	1	1
Associated companies	86	221	–	–
	11,344	8,926	247	200

Notes:

(a) The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2010 HK$M	2009 HK$M
30 days or below	4,828	3,139
31 – 90 days	87	66
Over 90 days	111	38
	5,026	3,243

At 31 December 2010, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$1,517 million (2009: HK$404 million), which were mostly denominated in Euro and U.S. dollar.

(b) The amounts payable to subsidiaries, jointly controlled entities and associated companies are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,375 million (2009: HK$1,260 million) is due to CAPCO.

22. Bank Loans and Other Borrowings

Accounting Policy No. 13

	Group		Company	
	2010	2009	2010	2009
	HK$M	HK$M	HK$M	HK$M
Current				
Short-term bank loans	1,161	1,838	–	–
Long-term bank loans	6,655	5,054	–	2,000
	7,816	6,892	–	2,000
Non-current				
Long-term bank loans	13,207	15,370	–	–
Other long-term borrowings				
MTN programme (USD) due 2012 and 2020 (note)	6,411	2,523	–	–
MTN programme (HKD) due 2012 to 2030 (note)	9,280	8,520	–	–
MTN programme (JPY) due 2024	1,433	1,260	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012 and 2015	5,524	4,866	–	–
U.S. private placement notes (USD) due 2020	952	–	–	–
	36,807	32,539	–	–
Total borrowings	44,623	39,431	–	2,000

Note: CLP Power Hong Kong issued fixed rate bonds during the year. This comprises bonds with a notional value of HK$4,642 million in total and tenors of 10 to 20 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$7,997 million (2009: HK$3,336 million) and is analysed as follows:

	2010	2009
	HK$M	HK$M
GPEC and other subsidiaries in India [(a)]	5,709	2,904
Subsidiaries in Chinese mainland [(b)]	2,288	432
	7,997	3,336

Notes:

(a) 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$10,219 million (2009: HK$4,225 million). In 2009, collateralised borrowings for GPEC were secured by trade receivables, the carrying amounts of which were HK$191 million.

(b) Bank loans for subsidiaries in Chinese mainland 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 of HK$3,714 million (2009: HK$898 million).

Bank loans and other borrowings totalling HK$19,020 million (2009: HK$15,002 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

22. Bank Loans and Other Borrowings (continued)

At 31 December 2010, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Within one year	**7,816**	6,892	**–**	–	**7,816**	6,892
Between one and two years	**1,329**	8,420	**8,602**	–	**9,931**	8,420
Between two to five years	**5,958**	5,097	**4,414**	10,720	**10,372**	15,817
Over five years	**5,920**	1,853	**10,584**	6,449	**16,504**	8,302
	21,023	22,262	**23,600**	17,169	**44,623**	39,431

At 31 December 2010, the Company had no bank loans and other borrowings (2009: HK$2,000 million repayable within one year).

Another presentation of the Group's liquidity risk is set out on page 203.

At 31 December 2010 and 2009, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

The bank loans and other 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:

	2010		2009	
	HK$	**A$**	HK$	A$
Fixed rate loans and loans swapped to fixed rates	**2.3% – 5.0%**	**6.3% – 6.5%**	2.3% – 5.0%	6.3% – 6.6%
Variable rate loans and loans swapped from fixed rates	**0.3% – 1.7%**	**5.6% – 5.7%**	0.3% – 1.4%	3.7% – 4.0%

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 2010, the Group had undrawn bank loan and overdraft facilities of HK$33,502 million (2009: HK$20,045 million).

23. Obligations under Finance Leases

Accounting Policy No. 20

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	
	2010	2009
	HK$M	HK$M
Amounts payable under finance leases		
Within one year	**1,995**	1,523
After one year but within two years	**1,992**	1,519
After two years but within five years	**5,958**	4,502
Over five years	**17,155**	14,311
	27,100	21,855
Analysed as:		
Amount due for settlement within 12 months	**1,995**	1,523
Amount due for settlement after 12 months	**25,105**	20,332
	27,100	21,855

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 2010, the interest rate was 9.99% (2009: 9.99%). 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.

24. Deferred Tax

Accounting Policy No. 14

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:

	2010	2009
	HK$M	HK$M
Deferred tax assets	**4,210**	3,355
Deferred tax liabilities	**(7,590)**	(7,009)
	(3,380)	(3,654)

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.

24. Deferred Tax (continued)

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

	2010 HK$M	2009 HK$M
At 1 January	(3,654)	(3,443)
Charged to profit or loss (Note 7)	(87)	(901)
Charged to other comprehensive income	(115)	(124)
Withholding tax	26	26
Exchange differences	450	788
At 31 December	(3,380)	(3,654)

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 [(a)]		Accruals and Provisions		Others [(b)]		Total	
	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M
At 1 January	4,794	3,979	412	337	430	506	5,636	4,822
Credited / (charged) to profit or loss	192	(332)	(1)	31	170	(199)	361	(500)
Credited / (charged) to other comprehensive income	–	–	14	(26)	–	–	14	(26)
Exchange differences	650	1,147	46	70	75	123	771	1,340
At 31 December	5,636	4,794	471	412	675	430	6,782	5,636

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others [(b)]		Total	
	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M
At 1 January	(6,974)	(6,382)	(356)	(250)	(495)	(348)	(306)	(264)	(1,159)	(1,021)	(9,290)	(8,265)
(Charged) / credited to profit or loss	(568)	(400)	(87)	(122)	(15)	(38)	179	33	43	126	(448)	(401)
Charged to other comprehensive income	–	–	–	–	–	–	–	–	(129)	(98)	(129)	(98)
Withholding tax	–	–	26	26	–	–	–	–	–	–	26	26
Exchange differences	(126)	(192)	(12)	(10)	(68)	(109)	(21)	(75)	(94)	(166)	(321)	(552)
At 31 December	(7,668)	(6,974)	(429)	(356)	(578)	(495)	(148)	(306)	(1,339)	(1,159)	(10,162)	(9,290)

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 derivative financial instruments and lease accounting adjustments.

25. 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.

26. 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:

	2010 HK$M	2009 HK$M
Tariff Stabilisation Fund (A)	1,505	1,653
Rate Reduction Reserve (B)	4	1
	1,509	1,654

The movements in SoC reserve accounts during the year are shown as follows:

	2010 HK$M	2009 HK$M
(A) Tariff Stabilisation Fund		
At 1 January	1,653	1,756
Transfer under the SoC [(a)]		
– transfer for SoC from profit or loss (Note 2)	76	143
– charge for asset decommissioning [(b)]	(224)	(246)
At 31 December	1,505	1,653
(B) Rate Reduction Reserve		
At 1 January	1	70
Interest expense charged to profit or loss (Note 6)	3	3
Rebate to customers [(c)]	–	(72)
At 31 December	4	1

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 SoC. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 2).

(b) Under the 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$291 million (2009: HK$176 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) During the period from 1 January to 5 May 2009, a rebate of HK¢0.8 per unit was made to customers.

27. Share Capital

	2010 Number of Ordinary Shares of HK$5 Each	2010 Amount HK$M	2009 Number of Ordinary Shares of HK$5 Each	2009 Amount HK$M
Authorised, at 31 December	**3,000,000,000**	**15,000**	3,000,000,000	15,000
Issued and fully-paid, at 31 December	**2,406,143,400**	**12,031**	2,406,143,400	12,031

28. Reserves

Group

	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 2009	2,492	(1,203)	272	562	47,699	49,822
Earnings attributable to shareholders	–	–	–	–	8,196	8,196
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	4,636	–	–	–	4,636
Jointly controlled entities	–	371	–	–	–	371
Associated companies	–	62	–	–	–	62
Cash flow hedges						
Net fair value gains	–	–	402	–	–	402
Reclassification adjustment for amount included in profit or loss	–	–	(145)	–	–	(145)
Transfer to assets	–	–	(7)	–	–	(7)
Translation difference	–	–	50	–	–	50
Tax on the above items	–	–	(80)	–	–	(80)
Available-for-sale investments						
Fair value gains	–	–	–	109	–	109
Tax on the above item	–	–	–	(18)	–	(18)
Revaluation surplus on step-acquisition of subsidiaries	–	–	–	15	–	15
Share of other comprehensive income of jointly controlled entities	–	–	70	50	–	120
Total comprehensive income attributable to shareholders	–	5,069	290	156	8,196	13,711
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	–	10	(10)	–
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

28. Reserves (continued)

Group

	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 2010	2,492	3,866	562	725	49,921	57,566
Earnings attributable to shareholders	–	–	–	–	10,332	10,332
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	3,247	–	–	–	3,247
Jointly controlled entities	–	669	–	–	–	669
Associated companies	–	9	–	–	–	9
Cash flow hedges						
Net fair value gains	–	–	813	–	–	813
Reclassification adjustment for amount included in profit or loss	–	–	(176)	–	–	(176)
Transfer to assets	–	–	81	–	–	81
Tax on the above items	–	–	(130)	–	–	(130)
Available-for-sale investments						
Fair value gains	–	–	–	127	–	127
Tax on the above item	–	–	–	1	–	1
Share of other comprehensive income of jointly controlled entities	–	–	32	(30)	–	2
Reclassification adjustments						
Sale of a subsidiary	–	(91)	–	–	–	(91)
Acquisition of additional interest in a jointly controlled entity to become a subsidiary	–	(17)	–	–	–	(17)
Total comprehensive income attributable to shareholders	–	3,817	620	98	10,332	14,867
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	–	23	(23)	–
Dividends paid						
2009 final	–	–	–	–	(2,214)	(2,214)
2010 interim	–	–	–	–	(3,753)	(3,753)
Balance at 31 December 2010	**2,492**	**7,683**	**1,182**	**843**	**54,266** [b]	**66,466**

28. Reserves (continued)

Company

	Capital Redemption Reserve [a] HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2009	2,492	21,421	23,913
Profit and 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	2,492	28,158 [b]	30,650
Balance at 1 January 2010	2,492	28,158	30,650
Profit and total comprehensive income for the year	–	5,884	5,884
Dividends paid			
2009 final	–	(2,214)	(2,214)
2010 interim	–	(3,753)	(3,753)
Balance at 31 December 2010	**2,492**	**28,075 [b]**	**30,567**

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) The fourth interim dividend declared for the year ended 31 December 2010 was HK$2,214 million (2009: final dividend of HK$2,214 million). The balance of retained profits after the fourth interim dividend of the Group was HK$52,052 million (2009: HK$47,707 million after the final dividend) and of the Company was HK$25,861 million (2009: HK$25,944 million after the final dividend).

At 31 December 2010, distributable reserves of the Company amounted to HK$28,075 million (2009: HK$28,158 million).

Distributable reserves of the Company do not equal to the Group's retained profits because distributable reserves refer to the amount that a company can distribute to its shareholders as a legal entity. Consolidated reserves of the Group are irrelevant in determining the amount of distributable reserves of the Company itself.

29. Note to the Consolidated Statement of Cash Flows

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

	2010 HK$M	2009 HK$M
Profit before income tax	11,179	9,854
Adjustments for:		
Finance costs	4,212	3,477
Finance income	(101)	(69)
Share of results of jointly controlled entities and associated companies, net of income tax	(2,893)	(2,415)
Depreciation and amortisation	5,065	4,332
Impairment charge	204	299
Net loss on disposal of fixed assets	183	172
Gain on sale of a subsidiary	(400)	–
Gain on sale of a jointly controlled entity	–	(153)
Fair value gain on borrowings under fair value hedges and net exchange difference	(64)	(48)
SoC items		
Increase in customers' deposits	127	130
(Increase) / decrease in fuel clause account (under-recovery)	(282)	796
Rebate to customers under SoC	–	(72)
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a jointly controlled entity	(109)	(104)
Transfer for SoC	76	143
	(188)	893
Increase in trade and other receivables	(2,270)	(357)
Decrease in finance lease receivables	184	111
Decrease / (increase) in cash restricted for specific purposes	105	(836)
Decrease / (increase) in derivative financial instruments	211	(202)
Increase in trade and other payables	1,371	285
Increase in current accounts due to jointly controlled entities and associated companies	12	55
Net cash inflow from operations	16,810	15,398

30. Commitments

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for	**10,899**	14,668	**3**	3
Authorised but not contracted for	**14,294**	11,643	**93**	49
	25,193	26,311	**96**	52

(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 2010	Remaining Balance to be Contributed	Expected Year for Last Contribution
Chongming wind power project	RMB54 million	RMB27 million (HK$32 million)	RMB27 million (HK$32 million)	2011
Haifang wind power project	RMB92 million	RMB18 million (HK$21 million)	RMB74 million (HK$88 million)	2011
Natural Energy Development's solar power project	THB773 million	THB198 million (HK$51 million)	THB575 million (HK$148 million)	2011
CGN CLP Energy Services (Shenzhen)	RMB29 million	–	RMB29 million (HK$35 million)	2012

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

	2010	2009
	HK$M	HK$M
Within one year	**699**	633
Later than one year but not later than five years	**2,573**	2,368
Over five years	**6,454**	6,810
	9,726	9,811

Of the above amount, HK$6,542 million (2009: HK$6,810 million) was related to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,655 million (2009: HK$2,502 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.

30. Commitments (continued)

(D) On 14 December 2010 the Group entered into agreements with the New South Wales (NSW) Government to acquire the EnergyAustralia Retail, the Delta Western GenTrader Bundle and Project Sites for a total consideration of A$2,035 million (HK$16,099 million). The acquisition has a target completion date of 1 March 2011.

EnergyAustralia Retail is an energy retailing business with a customer base of approximately 1.5 million billable connections across the east coast of Australia. The acquisition of EnergyAustralia Retail does not include EnergyAustralia's electricity distribution network, which will continue to be owned and operated by the vendor. The EnergyAustralia Retail business consists of the customer accounts and associated assets, but does not include the transfer of employees or physical assets. The Group has entered into a Transitional Service Agreement with the vendor to ensure the smooth integration of EnergyAustralia customers into the TRUenergy business.

The Delta Western GenTrader Bundle comprises long-term exclusive off-take contracts to control the dispatch and buy the output of the black coal-fired power stations of Delta Electricity at Mount Piper and Wallerawang. The Mount Piper power station has a power generating capacity of 1,400MW and the Wallerawang power station has a capacity of 1,000MW. In accordance with the terms of the GenTrader contract, Delta Electricity will continue to own, operate and maintain the power stations and employ a workforce for these purposes, while the Group has exclusive rights to trade the electricity for the anticipated life of each power station. The terms of the GenTrader contracts contain efficiency, availability and reliability targets, and liquidated damages would apply in the event that Delta Electricity does not meet contracted performance standards. The Group will make periodic payments to Delta Electricity ("Fixed and Variable Charges") which are intended to cover Delta Electricity's costs of operating and maintaining the stations, including capital expenditure.

The Project Sites are three development sites for potential new power station projects located at Marulan and Mount Piper. Development of power stations at these sites will be subject to obtaining all necessary licences and approvals, and future market conditions.

The acquisition offers an opportunity for the Group to strengthen its position in NSW, the largest energy market in Australia, and is in line with the Group's objective of building a diversified and integrated energy business in Australia.

The total consideration for the acquisitions is A$2,035 million (HK$16,099 million), which is subject to completion adjustments and, a contingent tax payment by TRUenergy of up to an additional A$60 million (HK$475 million) in the event of a favourable ruling by the Australian Tax Office on the treatment of the GenTrader payments.

In addition to the commitment stated above, the other commitments associated with NSW acquisition but not brought into the financial statements, will be payable as follows:

	HK$M
Within one year	1,618
Between one to five years	6,074
Over five years	12,687
	20,379

It is currently envisaged that the acquisitions will be funded at completion by a combination of approximately A$1,200 million (HK$9,493 million) of acquisition financing under new debt facilities taken out by TRUenergy and the remainder by a shareholder advance from the Company to TRUenergy.

31. Related Party Transactions

Accounting Policy No. 21

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 and associated companies are shown below:

	2010 HK$M	2009 HK$M
Lease and lease service payment to CAPCO (a)	14,381	12,954
Purchases of nuclear electricity from GNPS (b)	5,003	5,237
Pumped storage service fee to PSDC (c)	495	390
	19,879	18,581

(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 Master Agreement expired on 31 December 2009. During the year ended 31 December 2010, there was an agreement between TRUenergy and Gascor for TRUenergy to purchase a certain volume of gas from Gascor with the same terms under the Master Agreement. The amount paid to Gascor in 2010 was HK$107 million (2009: HK$583 million).

Amounts due to the related parties at 31 December 2010 are disclosed in Note 21.

31. 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$1,273 million (2009: HK$1,159 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 2010 are disclosed in Note 19.

No provision has been made for the amounts owed by the related parties.

(C) The loan and advances made to jointly controlled entities totalled HK$8,932 million (2009: HK$7,326 million) (Note 14). Of these, HK$8,720 million (2009: HK$7,060 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2010, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2009: nil).

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$20,432 million (2009: HK$22,493 million) made to its subsidiaries (Note 13), HK$11,343 million (2009: HK$13,216 million) and HK$6,417 million (2009: HK$3,596 million) 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$2,231 million (2009: HK$5,227 million) 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$132 million (2009: HK$110 million), of which HK$128 million (2009: HK$106 million) was from CLP Properties Group.

(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 ten (2009: nine) senior management personnel. The total remuneration of the key management personnel is shown below:

	2010 HK$M	2009 HK$M
Fees	8	7
Base compensation, allowances and benefits in kind	51	46
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	8	9
Performance bonus		
Annual incentive	48	36
Long-term incentive	15	10
Provident fund contributions	6	6
Final payment (note)	3	–
	139	114

Note: The final payment included payment in lieu of notice, ex-gratia payment and compensation for loss of office paid to a former senior management personnel upon leaving.

31. Related Party Transactions (continued)

(E) Emoluments of key management personnel (continued)

At 31 December 2010, the CLP Holdings' Board was composed of 13 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year totalled HK$46 million (2009: HK$42 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 (2009: three Directors) and two senior management (2009: two senior management). The total remuneration of these five highest paid individuals amounted to HK$69 million (2009: HK$67 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) of the Remuneration Report on pages 125, 126, 127 and 130 to 131 respectively. These sections form the "auditable" part of the Remuneration Report and are part of the financial statements.

32. Contingent Liabilities

Accounting Policy No. 15

See pages 85 and 86 for the application of the accounting concept to the "deemed generation incentive" lawsuit.

(A) GPEC – Deemed Generation Incentive Payment and Interests on Deemed Loans

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 periods when the plant is declared with availability to generate 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 calculated up to June 2005 amounts to about Rs.7,260 million or HK$1,259 million. GPEC's position, amongst other arguments, is that the GPEC power station is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the "deemed generation incentive".

GUVNL also claimed that GPEC has wrongly received interest on "deemed loans" under the existing power purchase agreement. GUVNL's claim rests on two main grounds: (i) GPEC had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the "deemed loans" amounts to a further Rs.830 million or HK$144 million.

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to GPEC of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when GPEC's plant was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL's claim against GPEC in respect of deemed generation incentive 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$502 million (2009: Rs.2,896 million or HK$482 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

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 loans and the time barring of the deemed generation claim to 14 September 2002.

32. Contingent Liabilities (continued)

(A) GPEC – Deemed Generation Incentive Payment and Interests on Deemed Loans (continued)

On 19 January 2010, the ATE dismissed both GPEC and GUVNL's appeals and upheld the decision of the GERC. GPEC has filed an appeal against the ATE order in the Supreme Court of India. The appeal petition was admitted on 16 April 2010 but the next date of hearing has not yet been fixed by the court.

GUVNL has also filed a cross appeal challenging those parts of the ATE judgment which held that GUVNL's claims before September 2002 were time barred and which disallowed its claims for interest on "deemed loans".

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million or HK$647 million from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million or HK$87 million, which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010. The total amount of the claim plus interest and tax with respect to the "deemed generation incentive" is therefore revised to Rs.8,968 million or HK$1,555 million.

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. Enercon GmbH is also seeking an injunction restraining CLP India's use of certain rotor blades acquired from EIL. As at 31 December 2010, the Group considered that CLP India has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits to the Group.

33. Event after the End of the Reporting Period

On 23 February 2011, the Company, CLP SEA Energy Limited (an indirect wholly-owned subsidiary of the Company), MC, Diamond Generating Asia, Limited (a wholly-owned subsidiary of MC) and OneEnergy entered into the Reorganisation Agreement in relation to, inter alia, the reorganisation of the ownership structure of OneEnergy and the divestment of the Group's indirect shareholding in EGCO.

Prior to the reorganisation, the Group had an effective interest of approximately 13.36% in EGCO. Following full implementation of the reorganisation, the Group will no longer hold any direct or indirect interest in EGCO. The consideration for the divestment of the Group's interest in EGCO is approximately US$273 million (HK$2,129 million), which is expected to exceed its book value. The Group is expected to recognise an estimated gain of approximately HK$881 million.

Completion of the reorganisation is subject to, inter alia, (a) finalisation of the sale and purchase agreement and any other documentation as may be required for the implementation of the relevant step of the reorganisation; (b) all necessary approvals and consents, whether regulatory or governmental or otherwise, as may be required for the implementation of the relevant step of the reorganisation having been obtained; and (c) corresponding changes in board composition to reflect the changes in shareholding of the relevant company.

It is currently envisaged that the reorganisation will be fully implemented by 30 June 2011. If the reorganisation cannot be completed as contemplated by the parties for any reason, the parties have undertaken to remedy the situation in good faith, failing which the Company and MC will establish a 50:50 joint venture in respect of the total interests of approximately 24.57% in EGCO.

Following full implementation of the reorganisation, the Group will continue to hold the same level of effective interest in Ho-Ping and HPC Power Services Corporation, the latter being a company which principally provides operation and maintenance services to Ho-Ping Power Station.

1. Financial Risk Factors

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

Risk management for Hong Kong operations, predominately the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those respective companies. Overseas subsidiaries, jointly controlled entities and associated companies conduct their risk management activities in accordance with 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.

Foreign currency risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Australian dollars and Indian rupees. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its foreign currency denominated debts, U.S. dollar denominated nuclear power purchase off-take commitments and other fuel-related payments.

The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions and recognised liabilities which are denominated in a currency that is not the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

CLP Power Hong Kong

Under the SoC, CLP Power Hong Kong is allowed to pass-through foreign exchange gains and losses arising from future commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollars, thus retaining no significant foreign exchange risk over the long term. As a measure of additional prudence, CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in U.S. dollar and Japanese yen for the full tenor, and a significant portion of its U.S. dollar obligations on fuel and nuclear power purchases for up to five years, provided that for U.S. dollar the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK$7.8 : US$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs.

As described above, exchange rate fluctuations will have no ultimate impact on profit or loss of CLP Power Hong Kong on the basis that all foreign exchange gains and losses are recoverable under the SoC. At the end of the reporting period, the fair value movement of the derivative financial instrument in a cash flow hedge relationship is recorded in equity. The extent of the impact to the hedging reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

Foreign currency risk (continued)

	2010 HK$M	2009 HK$M
Hong Kong dollar against U.S. dollar		
If Hong Kong dollar weakened by 0.6% (2009: 0.6%)	376	272
If Hong Kong dollar strengthened by 0.6% (2009: 0.6%)	(376)	(272)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 12.0% (2009: 6.0%)	92	36
If Hong Kong dollar strengthened by 12.0% (2009: 6.0%)	(72)	(36)

This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in profit or loss, the amount is recoverable under the SoC.

The Group's Asia-Pacific Investments

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks.

The Group closely monitors translation risk using a Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. At 31 December 2010, the Group's net investment subject to translation exposure was HK$49,520 million (2009: HK$40,362 million), arising mainly from our investments in Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. This means that, for each 1% (2009: 1%) average foreign currency movement, our translation exposure will vary by about HK$495 million (2009: HK$404 million). All the translation exposures are recognised in other comprehensive income and therefore have no impact on our profit or loss.

We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Each overseas subsidiary and project company has developed its own hedging programme into local currency taking into consideration any indexing provision in project agreements, tariff reset mechanisms, lender requirements and tax and accounting implications.

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. The sensitivity rate in U.S. dollar used is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movement at the end of the reporting period and under the economic environments in which the Group operates.

	2010 HK$M	2009 HK$M
If U.S. dollar strengthened by 5% – 10% (2009: 5.5%)		
Post-tax profit for the year	67	55
Equity – hedging reserve	64	96
If U.S. dollar weakened by 5% – 10% (2009: 5.5%)		
Post-tax profit for the year	(64)	(52)
Equity – hedging reserve	(79)	(96)

Energy price risk

TRUenergy sells and purchases electricity to / from the Australian National Electricity Market. Although TRUenergy has a vertically integrated business structure, generation loads and retail customer demands do not exactly offset each other and therefore, hedging contracts (forward contracts and energy price swaps) are entered into to cover the differences between forecast generation loads and retail customer demands. These contracts fix the price of electricity within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price.

In addition to hedging the physical market position through accounting hedge contracts, TRUenergy enters into financial transactions and other contractual commitments that are classified as held for trading or economic hedges. Held for trading transactions represent energy derivatives entered into to support market liquidity or for the purpose of understanding price movements. The overall net exposure of these derivatives is small and closely monitored. Transactions classified as economic hedges are derivative contracts entered into for risk management purposes of future retail or generation activities but which do not meet the requirements for hedge accounting.

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

TRUenergy measures the risk of the fluctuation of the spot market price using 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 2010 was HK$333 million (2009: HK$234 million). The change reflects an increase in holding of volatile positions. During 2010, the VaR ranged between a low of HK$143 million (2009: HK$161 million) and a high of HK$356 million (2009: HK$255 million).

Analyses below show the effect on profit after tax and equity if market prices were 15% (2009: 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% (2009: 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.

	2010 HK$M	2009 HK$M
If market prices were 15% (2009: 15%) higher		
Post-tax profit for the year	250	99
Equity – hedging reserve	(207)	(23)
If market prices were 15% (2009: 15%) lower		
Post-tax profit for the year	(164)	(99)
Equity – hedging reserve	207	23

The Group enters into trading and non-trading forward electricity contracts in accordance with the Group's risk management policies. These policies enable the Group to enter into contracts that are considered to be economic hedges against future retail and generation activities. It should be noted that while mark-to-market gains and losses on economic hedges are recognised in earnings in the period in which they occur, they will offset the impact of price movements on future profits relating to retail and generation activities occurring at the time of settlement.

Interest rate risk

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

The appropriate level of the fixed / floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed / floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications. At 31 December 2010, 61% (2009: 59%) of the Group's borrowings was at fixed rates.

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 derivative instruments which qualify as cash flow hedges of floating rate 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 rates 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.

	2010 HK$M	2009 HK$M
Hong Kong dollar		
If interest rates were 0.25% (2009: 0.5%) higher		
Post-tax profit for the year	(19)	(46)
Equity – hedging reserve	5	20
If interest rates were 0.1% (2009: 0.1%) lower		
Post-tax profit for the year	7	9
Equity – hedging reserve	(3)	(5)
Australian dollar		
If interest rates were 0.5% (2009: 1%) higher		
Post-tax profit for the year	(8)	(12)
Equity – hedging reserve	57	57
If interest rates were 0.5% (2009: 1%) lower		
Post-tax profit for the year	8	12
Equity – hedging reserve	(60)	(57)

The Company had no bank loans and other borrowings and interest rate derivative financial instruments at 31 December 2010. The Company's sensitivity to interest rates was not significant and therefore was not presented at 31 December 2009.

Credit risk

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

GPEC, our subsidiary in India, sells all of its electricity output to GUVNL through a 20-year power purchase agreement (PPA). The credit quality of GUVNL is closely monitored by management.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies and scrutiny of the financial position of non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, jointly controlled entities and associated companies without recourse to the Company.

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 in the statement of financial position.

Liquidity risk

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

Management also monitors rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

Liquidity risk (continued)

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 2010					
Non-derivative financial liabilities					
Bank loans	8,710	2,101	7,886	9,069	27,766
Other borrowings	1,120	8,979	6,058	12,605	28,762
Obligations under finance leases	4,599	4,397	11,980	27,880	48,856
Customers' deposits	3,979	–	–	–	3,979
Trade and other payables	11,344	–	–	–	11,344
SoC reserve accounts	–	–	–	1,509	1,509
	29,752	15,477	25,924	51,063	122,216
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	4	–	–	–	4
Interest rate swaps	141	76	12	–	229
Gross settled					
Forward foreign exchange contracts	14,755	12,562	55,973	693	83,983
Cross currency & interest rate swaps	1,626	2,922	2,073	8,249	14,870
	16,526	15,560	58,058	8,942	99,086
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

The Company has no bank loans and other borrowings at 31 December 2010. For 2009, the maturity profile of the Company's bank loans, included in the Group amounts shown above, was HK$2,003 million repayable within one year.

2. 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.

3. 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).

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

	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
At 31 December 2010				
Assets				
Available-for-sale investments	584	–	1,264	1,848
Forward foreign exchange contracts	–	1,338	–	1,338
Cross currency & interest rate swaps	–	860	–	860
Interest rate swaps	–	136	–	136
Energy contracts	–	1,154	857	2,011
	584	3,488	2,121	6,193
Liabilities				
Forward foreign exchange contracts	–	263	–	263
Cross currency & interest rate swaps	–	449	–	449
Interest rate swaps	–	172	–	172
Energy contracts	–	517	610	1,127
Bank loans and other borrowings	–	952	–	952
	–	2,353	610	2,963

	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
At 31 December 2009				
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 2010 and 2009, there are no significant transfers between Level 1 and Level 2.

The movements of Level 3 financial instruments for the years ended 31 December are as follows:

	2010			2009		
	Available-for-sale Investments HK$M	**Energy Contracts HK$M**	**Total HK$M**	Available-for-sale Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	**1,263**	**365**	**1,628**	3	277	280
Total gains / (losses) recognised in						
Profit or loss	**–**	**(297)**	**(297)**	–	(78)	(78)
Other comprehensive income	**–**	**98**	**98**	1	132	133
Purchases	**1**	**67**	**68**	1,259	107	1,366
Settlements	**–**	**14**	**14**	–	6	6
Transfers out of Level 3 (note)	**–**	**–**	**–**	–	(79)	(79)
Closing balance	**1,264**	**247**	**1,511**	1,263	365	1,628
Total losses for the year included in profit or loss and presented in fuel and other operating expenses	**–**	**(297)**	**(297)**	–	(78)	(78)
In respect of the assets and liabilities held at the end of the reporting period, the losses for the year and presented in fuel and other operating expenses	**–**	**(199)**	**(199)**	–	(29)	(29)

Note: During 2009, the transfer of certain energy contracts out of Level 3 was because certain observable significant inputs were used in the fair value measurement instead of those unobservable ones used previously.

4. 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 2010 and 2009.

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

	2010 HK$M	2009 HK$M
Total debt [a]	44,623	39,431
Net debt [b]	39,867	31,437
Total equity	79,758	70,868
Total capital (based on total debt) [c]	124,381	110,299
Total capital (based on net debt) [d]	119,625	102,305
Total debt to total capital (based on total debt) ratio (%)	35.9	35.7
Net debt to total capital (based on net debt) ratio (%)	33.3	30.7

Total debt to total capital ratio remained at a similar level as 2009. The increase of net debt to total capital ratio was mainly due to a significant portion of cash being utilised during the year for capital expenditure and investment needs.

Certain entities of the Group are subject to certain loan covenants. For both 2010 and 2009, these entities have fully complied with those loan covenants.

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.