Financials

These provide a detailed explanation of the financial performance of CLP during 2011 and of its financial position at the end of the year. We have added a five-year summary of our environmental and social performance which is presented in greater detail in our online Sustainability Report.

How Can You Approach Our Financial Statements?

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

Statement of comprehensive income

"Financial performance measured by recording the flow of resources over a period of time"

This statement comprises (a) profit or loss and (b) other comprehensive income ("OCI") which represents changes in net assets / equity not arising from transactions with owners (i.e. shareholders).

An example of OCI in CLP is the exchange loss arising from the translation of our Australia and India businesses in 2011 which decreased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity.

Statement of financial position

"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"

This statement sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2011. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

Statement of cash flows

"Where the company gets its cash and how it spends it"

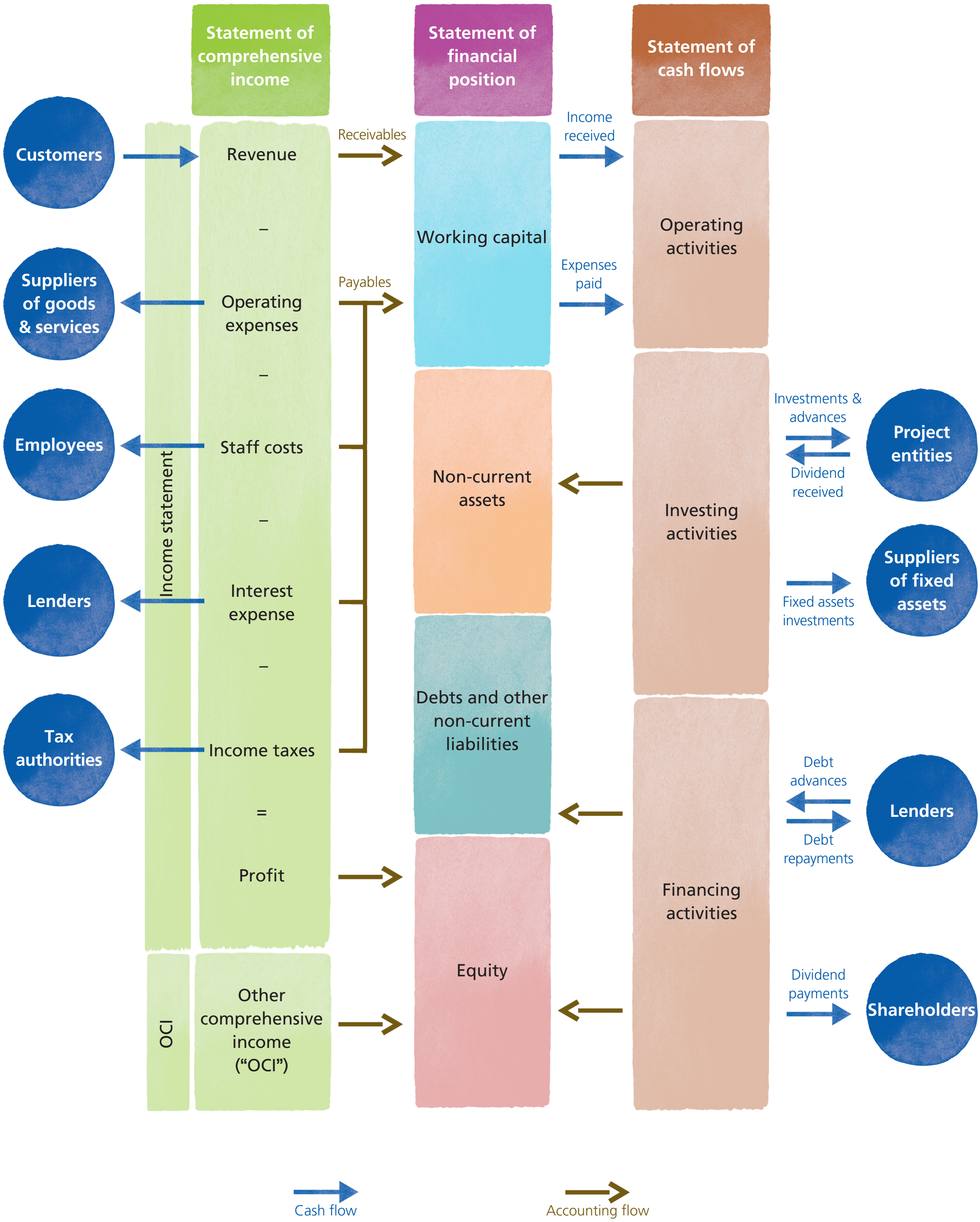
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders.

Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of comprehensive income, the statement of financial position and the statement of cash flows, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders (interest expenses and debt repayment) and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. Moreover, the Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration

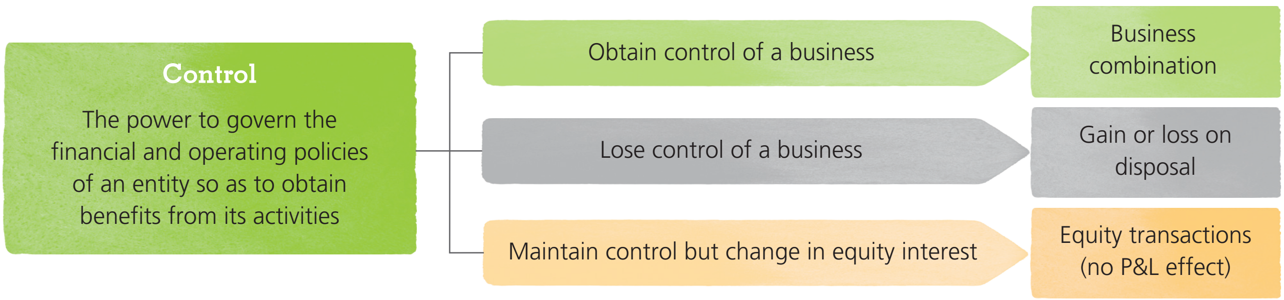


Accounting Mini-series

The scale of CLP's business in Australia grew substantially after the acquisition of the EnergyAustralia retail business, the Delta Western GenTrader contracts and the power station development sites in New South Wales (NSW) (the "NSW Acquisition"). The NSW Acquisition is classified as a business combination under HKFRS 3 Business Combinations. A detailed disclosure has been made in Note 2 to the Financial Statements. HKFRS 3 and its related standards have significant implications on business acquisitions and disposals which, we believe, deserve further explanation in this year's "Accounting Mini-series".

What is the difference between a business combination and an asset acquisition? Why is it important to distinguish them?

From an accounting perspective, an acquisition of a business is accounted for differently from an asset acquisition. A business combination is a transaction in which the acquirer obtains control of one or more businesses (subject business). HKFRS 3 provides guidance that "a business consists of inputs and processes applied to those inputs that have the ability to create outputs". The NSW Acquisition has been evaluated to consist of inputs (customer contracts, commodity contracts and intellectual property), processes (via the Transition Services Agreement with the vendor) and outputs (energy sales) and is therefore concluded to be a business combination. In contrast, our acquisition of a 20% working level interest in Eastern Star Gas in Australia is treated as an asset acquisition.

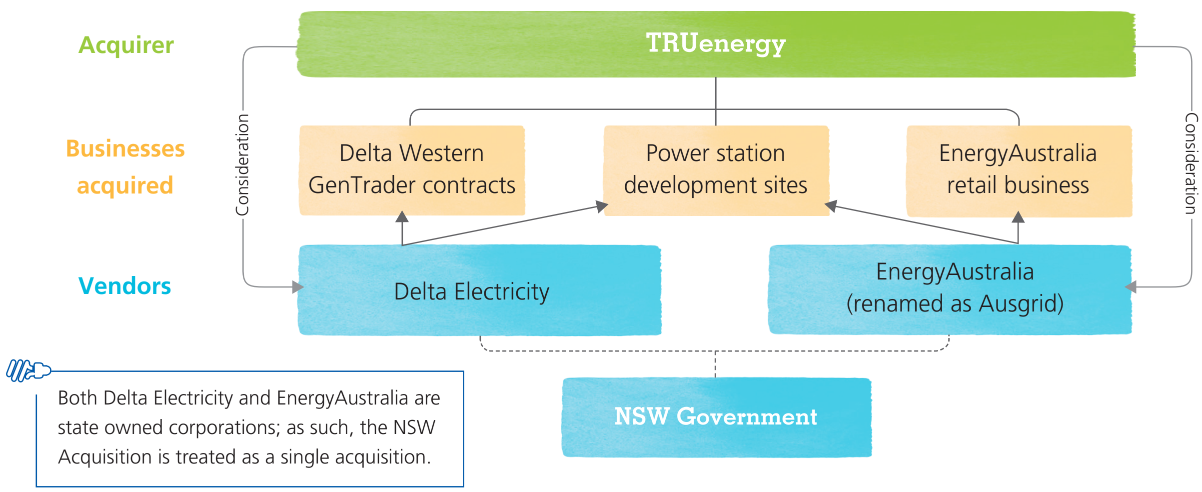


The acquisition method

The NSW Acquisition is accounted for in the Group's financial statements by using the acquisition method. This method governs the recognition and measurement of the assets acquired, liabilities assumed, consideration transferred and goodwill on the date of acquisition. The following is a step by step illustration of how the acquisition method is applied on this transaction. Are you ready to go?

Step 1: Identify the acquirer

The acquirer is the entity that obtains control over one or more other entities or businesses. It may not be a straightforward process for some complex transactions such as a reverse acquisition. A reverse acquisition occurs when the acquirer in form is identified as the "subject business" in substance for accounting purposes.

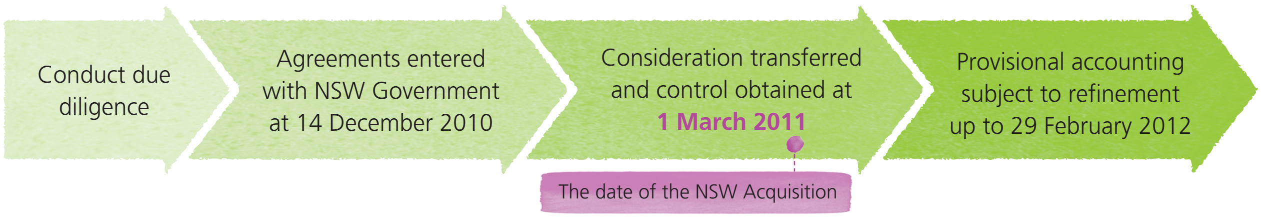


Step 2: Determine the acquisition date

Determining the acquisition date is critical as the fair value of the consideration paid, assets acquired and liabilities assumed are measured on that date. This is also the date from when the results of the acquired business are consolidated into the financial statements of the acquirer.

The acquisition date is the date on which the acquirer obtains control of the subject business. This may or may not correspond to the date when an agreement is entered, or consideration is paid. As per HKFRS 3, the assets and liabilities booked at the acquisition date are provisional and subject to refinement for up to 12 months after acquisition.

The process of the NSW Acquisition

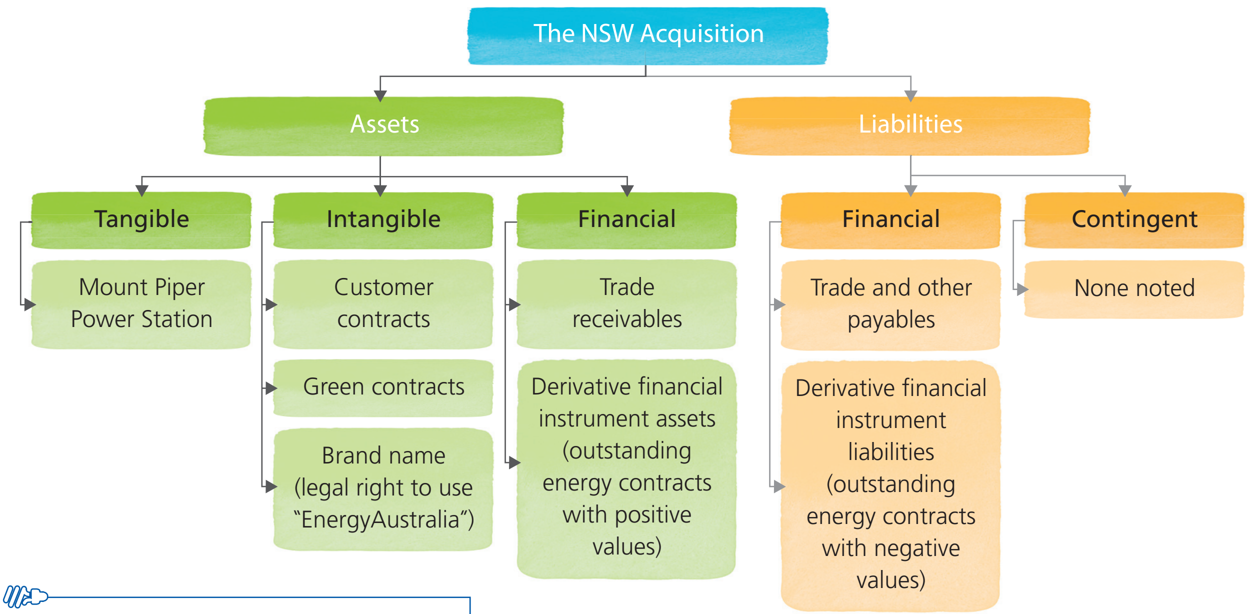


Step 3: Recognise and measure identifiable assets and liabilities and non-controlling interests

Identifiable assets are classified into different kinds (i.e. tangible, intangible and financial) with different definitions in accounting. In relation to identifiable liabilities, last year's mini-series explained that contingent liabilities are only required to be disclosed in financial statements but not recorded on the balance sheet. However, in a business combination, any contingent liabilities associated with the subject business are required to be recorded as liabilities in the books of the acquirer. As a result, the assets and liabilities identified may include some items that have not been previously recognised by the subject business.

Assets acquired and liabilities assumed are recognised on the financial statements at their fair values on the acquisition date. Fair value means "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction".

Any non-controlling interest (NCI) in the subject business is measured at either (1) the non-controlling interest's proportionate share of identifiable net assets of the subject business, or (2) at its fair value. CLP has adopted the first option.

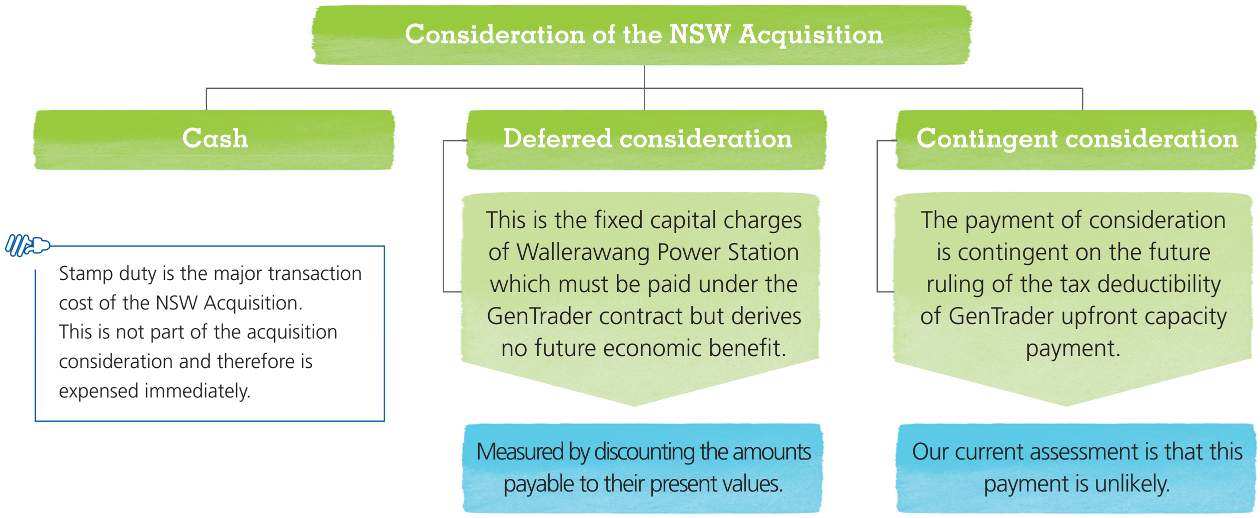


Professional assistance was sought to value some of the items whose fair values were not observable in the market.

Step 4: Recognise and measure the consideration transferred

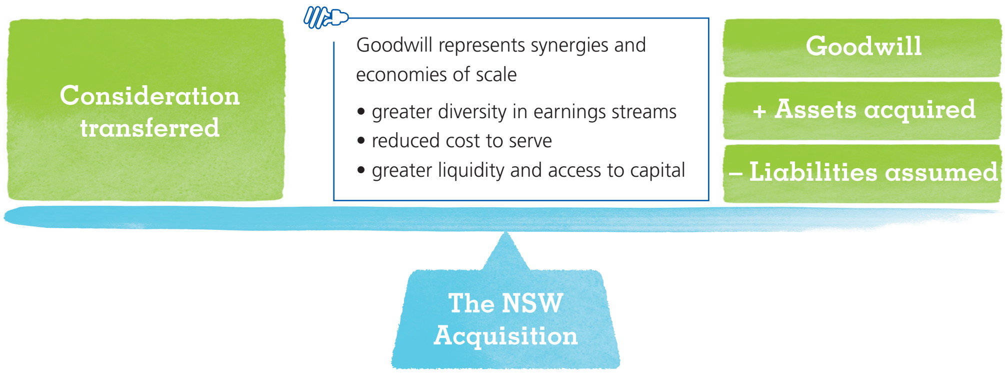
Acquisition consideration can be cash or cash equivalents and the fair value of any non-cash consideration given. The consideration may also be contingent or deferred. Contingent consideration is uncertain payments based on the occurrence of specified future events and is recognised at its fair value at the acquisition date. Deferred consideration is future payments with certainty which are discounted to reflect their present values at the acquisition date. The payments are discounted because payment at a future date is worth less than the payment of the same amount at the acquisition date.

Transaction costs or out-goings such as costs for the services of lawyers, investment bankers, accountants and valuation experts are always incurred in a business combination. People easily confuse these transaction costs with acquisition consideration. In fact, transaction costs have nothing to do with items acquired in a business combination and will not bring any future economic benefit. Therefore, they are charged as expenses at the time they are incurred.



Step 5: Recognise and measure goodwill or a gain from a bargain purchase

Goodwill represents the value created by the acquired business which does not relate to any physical attributes, and cannot be touched, seen or felt. It is measured as a residual, which represents the excess of (1) the consideration, (2) the amount of NCI, and (3) the acquirer's previously held interest at fair value over the fair value of the identifiable net assets acquired. In rare situations, such as a bargain purchase from a financially distressed seller, "negative" goodwill can arise and a gain will be recognised. Goodwill is recorded as an asset and is not written down over time. Instead, it is subject to annual impairment test or more frequently if there is an indication of impairment.



Planning for future transactions

The acquisition method results in the recognition of new assets and liabilities which were not previously recognised in the books of the subject business (e.g. customer relationships and contingent liabilities). Also, all the acquired items are required to be brought onto the acquirer's books at their fair values on the date of acquisition. The wider use of fair value increases both the number and complexity of valuations and adds to earnings volatility. In pursuing our growth strategy, CLP has to plan the approach for business acquisitions, anticipate the consequences of the transaction terms and assess potential outcomes for the financial statements.

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 210, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 2011 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, 27 February 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Note	2011 HK$M	2010 HK$M
Revenue	3	**91,634**	58,410
Expenses			
Purchases of electricity, gas and distribution services		**(43,029)**	(21,740)
Operating lease and lease service payments		**(12,169)**	(10,098)
Staff expenses		**(2,623)**	(2,189)
Fuel and other operating expenses		**(12,287)**	(7,321)
Depreciation and amortisation		**(6,353)**	(5,065)
		(76,461)	(46,413)
Other income	5	**776**	400
Other charge	6	**(2,761)**	–
Operating profit	7	**13,188**	12,397
Finance costs	8	**(6,005)**	(4,212)
Finance income	8	**146**	101
Share of results, net of income tax			
Jointly controlled entities	16	**2,929**	2,080
Associated companies	17	**681**	813
Profit before income tax		**10,939**	11,179
Income tax expense	9	**(1,650)**	(844)
Profit for the year		**9,289**	10,335
Earnings attributable to:			
Shareholders	10	**9,288**	10,332
Non-controlling interests		**1**	3
		9,289	10,335
Dividends	11		
First to third interim dividends paid		**3,753**	3,753
Fourth interim dividend declared		**2,310**	2,214
		6,063	5,967
Earnings per share, basic and diluted	12	**HK$3.86**	HK$4.29

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	2011 HK$M	2010 HK$M
Profit for the year	9,289	10,335
Other comprehensive income		
Exchange differences on translation	(971)	3,929
Cash flow hedges	325	588
Net fair value gains on available-for-sale investments	27	128
Share of other comprehensive income of jointly controlled entities	(498)	2
Reclassification adjustments		
Sales of available-for-sale investments	(281)	–
Sale of a jointly controlled entity	(320)	–
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	(1,718)	4,539
Total comprehensive income for the year	7,571	14,874
Total comprehensive income attributable to:		
Shareholders	7,565	14,867
Non-controlling interests	6	7
	7,571	14,874

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 134. Further details of other comprehensive income attributable to shareholders are presented in Note 30.

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2011

	Note	2011 HK$M	2010 HK$M
Non-current assets			
Fixed assets	*13(A)*	**128,571**	115,731
Leasehold land and land use rights under operating leases	*13(B)*	**1,811**	1,729
Goodwill and other intangible assets	*14*	**27,369**	9,150
Interests in jointly controlled entities	*16*	**18,226**	20,476
Interests in associated companies	*17*	**1,465**	2,378
Finance lease receivables	*18*	**1,847**	2,286
Deferred tax assets	*26*	**1,276**	4,210
Fuel clause account	*27*	**212**	294
Derivative financial instruments	*19*	**5,027**	2,736
Available-for-sale investments	*20*	**1,288**	1,512
Other non-current assets		**141**	139
		187,233	160,641
Current assets			
Inventories – stores and fuel		**1,470**	751
Trade and other receivables	*21*	**19,419**	11,118
Finance lease receivables	*18*	**142**	144
Available-for-sale investments		**–**	336
Derivative financial instruments	*19*	**2,158**	1,609
Bank balances, cash and other liquid funds	*22*	**3,866**	4,756
		27,055	18,714
Current liabilities			
Customers' deposits	*21(a)*	**(4,297)**	(3,979)
Trade and other payables	*23*	**(16,990)**	(11,344)
Income tax payable		**(143)**	(165)
Bank loans and other borrowings	*24*	**(12,596)**	(7,816)
Obligations under finance leases	*25*	**(2,200)**	(1,995)
Derivative financial instruments	*19*	**(2,212)**	(932)
		(38,438)	(26,231)
Net current liabilities		**(11,383)**	(7,517)
Total assets less current liabilities		**175,850**	153,124

	Note	2011 HK$M	2010 HK$M
Financed by:			
Equity			
Share capital	*29*	12,031	12,031
Share premium		1,164	1,164
Reserves	*30*		
Declared dividends		2,310	2,214
Others		65,754	64,252
Shareholders' funds		81,259	79,661
Non-controlling interests		93	97
		81,352	79,758
Non-current liabilities			
Bank loans and other borrowings	*24*	52,925	36,807
Obligations under finance leases	*25*	25,196	25,105
Deferred tax liabilities	*26*	7,979	7,590
Derivative financial instruments	*19*	5,082	1,079
Scheme of Control (SoC) reserve accounts	*28*	643	1,509
Other non-current liabilities		2,673	1,276
		94,498	73,366
Equity and non-current liabilities		175,850	153,124

The Hon. Sir Michael Kadoorie
Chairman
Hong Kong, 27 February 2012

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

Company Statement of Financial Position
as at 31 December 2011

	Note	2011 HK$M	2010 HK$M
Non-current assets			
Fixed assets	*13(A)*	117	85
Investments in subsidiaries	*15*	51,314	43,949
Advance to a subsidiary	*15*	39	39
Other non-current assets		34	22
		51,504	44,095
Current assets			
Trade and other receivables	*21*	55	44
Bank balances and cash		1	2
		56	46
Current liabilities			
Trade and other payables	*23*	(256)	(247)
Advances from subsidiaries	*33(D)*	(232)	(132)
Bank loans and other borrowings	*24*	(2,638)	–
		(3,126)	(379)
Net current liabilities		(3,070)	(333)
Total assets less current liabilities		48,434	43,762
Financed by:			
Equity			
Share capital	*29*	12,031	12,031
Share premium		1,164	1,164
Reserves	*30*		
Declared dividends		2,310	2,214
Others		27,889	28,353
		43,394	43,762
Non-current liabilities			
Bank loans and other borrowings	*24*	5,040	–
Equity and non-current liabilities		48,434	43,762

The Hon. Sir Michael Kadoorie
Chairman
Hong Kong, 27 February 2012

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 147 to 210 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	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 2010	12,031	1,164	57,566	70,761	107	70,868
Profit for the year	–	–	10,332	10,332	3	10,335
Other comprehensive income for the year	–	–	4,535	4,535	4	4,539
Dividends paid						
2009 final	–	–	(2,214)	(2,214)	–	(2,214)
2010 first to third interim	–	–	(3,753)	(3,753)	–	(3,753)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	(17)	(17)
Balance at 31 December 2010	12,031	1,164	66,466	79,661	97	79,758
Balance at 1 January 2011	12,031	1,164	66,466	79,661	97	79,758
Profit for the year	–	–	9,288	9,288	1	9,289
Other comprehensive income for the year	–	–	(1,723)	(1,723)	5	(1,718)
Dividends paid						
2010 fourth interim	–	–	(2,214)	(2,214)	–	(2,214)
2011 first to third interim	–	–	(3,753)	(3,753)	–	(3,753)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	(10)	(10)
Balance at 31 December 2011	**12,031**	**1,164**	**68,064**	**81,259**	**93**	**81,352**

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2011

	Note	2011 HK$M	2011 HK$M	2010 HK$M	2010 HK$M
Operating activities					
Net cash inflow from operations	*31*	18,717		16,810	
Interest received		145		99	
Income tax paid		(800)		(824)	
Net cash inflow from operating activities			18,062		16,085
Investing activities					
Capital expenditure		(12,109)		(10,137)	
Capitalised interest paid		(667)		(515)	
Proceeds from disposal of fixed assets		490		267	
Additions of other intangible assets		(534)		(42)	
Additions of available-for-sale investments		(7)		(1,190)	
Acquisition of business	*2(A)*	(15,378)		–	
Acquisition of subsidiaries	*2(C)*	123		(38)	
Asset acquisition in ESG	*2(D)*	(2,094)		–	
Reorganisation of OneEnergy and proceeds from sale of interest in EGCO	*2(B)*	2,192		–	
Deferred consideration paid		(443)		–	
Proceeds from sale of a subsidiary		–		852	
(Investments in and advances to) / repayment from					
Jointly controlled entities		(87)		(2,069)	
Associated companies		25		7	
Dividends received from					
Jointly controlled entities		1,998		2,251	
Associated companies		1,232		343	
Decrease in bank deposits with maturities of more than three months		–		8	
Net cash outflow from investing activities			(25,259)		(10,263)
Net cash (outflow) / inflow before financing activities			(7,197)		5,822
Financing activities					
Proceeds from long-term borrowings		53,013		14,422	
Repayment of long-term borrowings		(34,588)		(11,105)	
Repayment of obligations under finance leases		(2,251)		(1,790)	
Increase / (decrease) in short-term borrowings		1,612		(458)	
Interest and other finance costs paid		(5,438)		(4,199)	
Dividends paid to shareholders		(5,967)		(5,967)	
Dividends paid to non-controlling interests of subsidiaries		(10)		(17)	
Net cash inflow / (outflow) from financing activities			6,371		(9,114)
Net decrease in cash and cash equivalents			(826)		(3,292)
Cash and cash equivalents at beginning of year			4,023		7,148
Effect of exchange rate changes			(93)		167
Cash and cash equivalents at end of year			3,104		4,023
Analysis of balances of cash and cash equivalents					
Deposits with banks			1,983		3,821
Cash at banks and on hand			1,883		935
Bank balances, cash and other liquid funds	*22*		3,866		4,756
Excluding: cash restricted for specific purposes			(762)		(733)
			3,104		4,023

The notes and disclosures on pages 147 to 210 are an integral part of these consolidated financial statements.

Significant Accounting Policies

Apart from the accounting policies presented within the corresponding notes to the financial statements, other significant accounting policies are set out below.

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 their judgments 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 155 and 156.

2. Effect of New / Revised HKFRS

(A) Adoption of new / revised HKFRS for the first time for the financial year beginning 1 January 2011

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

- HKAS 24 (Revised) "Related Party Disclosures"
- Improvements to HKFRS published by HKICPA in May 2010

The adoption of these new / revised standards and interpretations has no significant impact on the Group's financial statements.

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

The following new / revised HKFRS, potentially relevant to the Group's operations, have been issued and are mandatory for adoption by the Group for accounting periods beginning on or after 1 January 2012 or later periods, but the Group has not early adopted:

- Amendments to HKAS 1 (Revised) "Presentation of Items of Other Comprehensive Income"
- Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"
- HKFRS 9 "Financial Instruments"
- HKFRS 10 "Consolidated Financial Statements"
- HKFRS 11 "Joint Arrangements"
- HKFRS 12 "Disclosure of Interests in Other Entities"
- HKFRS 13 "Fair Value Measurement"
- HKAS 19 (2011) "Employee Benefits"
- HKAS 27 (2011) "Separate Financial Statements"
- HKAS 28 (2011) "Investments in Associates and Joint Ventures"
- HK(IFRIC)-Int 20 "Stripping Costs in the Production Phase of a Surface Mine"

Except for those as stated below and other presentational changes, the adoption of these new / revised HKFRS is not expected to have significant impact on the results and the financial position of the Group:

- HKFRS 9 may have an effect on the classification and the treatment of fair value changes of existing available-for-sale investments;
- HKFRS 11 may have an effect on the classification of joint arrangements; and
- HKFRS 13 may have an effect on the measurement of fair values of the Group's financial instruments.

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, jointly controlled assets 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.

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 within the measurement period. 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, jointly controlled assets and associated companies

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 or joint 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 share of losses of a jointly controlled entity / an associated company equals or exceeds 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.

Jointly controlled assets

The Group has an interest in certain joint ventures, whereby the venturers have contractual agreements that establish joint control over the economic activities of the joint venture assets. The agreements require unanimous agreement for financial and operating decisions among the venturers. The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to / from the Group and their amounts can be measured reliably.

(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. For disposal of ownership interests to non-controlling interests that do not result in loss of control, gains or losses on disposals to non-controlling interests are also recorded in equity.

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 is reclassified to profit or loss where appropriate.

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.

A quick guide to the classification of different entities:

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

4. Impairment of Non-Financial Assets

Non-financial assets that have indefinite useful lives 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. Non-financial 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".

5. 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.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred 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 when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified from equity to profit or loss in the same period when the hedged forecast cash flows ultimately affect profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been deferred in equity is reclassified 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 were not closely related to those of the host contract.

6. Inventory

Inventory comprises stores and fuel and is stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores, coal 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.

7. 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 evaluate 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.

8. 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.

9. 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 recognised in other comprehensive income and as a separate component of equity.

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

Upon disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary / loss of joint control over a jointly controlled entity / loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in a jointly controlled entity or an associated company that do not result in the Group losing joint control or significant influence) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

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.

10. 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. Where assets are leased out under a finance lease, the present value of the lease receipts is recognised as a receivable.

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.

Critical Accounting Estimates and Judgments

In preparing the consolidated financial statements, management are 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. Deferred Tax

At 31 December 2011, a deferred tax asset of HK$5,018 million (2010: HK$5,636 million) in relation to unused tax losses was recognised in the consolidated statement of financial position. Estimating the deferred tax asset to be recognised 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 2011. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

2. Asset Impairment

The Group has made substantial investments in tangible long-lived assets, jointly controlled entities and associated companies. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment of goodwill 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 expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2011, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management concluded that, except for the impairment provision for Yallourn of HK$2,761 million (2010: nil) (Note 6), there was no material impairment loss for SoC fixed assets of HK$85,836 million (2010: HK$82,744 million), goodwill of HK$21,616 million (2010: HK$7,701 million) and other long-lived assets. 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 2011 year end.

3. 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 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.

4. 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$643 million (2010: HK$1,509 million) meet the definition of a liability.

5. 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 CLP India Private Limited (CLP India) (formerly known as Gujarat Paguthan Energy Corporation Private Limited (GPEC)) as lessor (for the Power Purchase Agreement with its off-taker). 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.

6. Revenue Recognition

The Group records revenue for retail and wholesale energy sales under the accrual method. Retail electricity and gas revenues are recognised when the commodity is provided to customers on the basis of periodic cycle meter readings and include an estimated accrual for the value of the commodity consumed from the meter reading date to the end of the reporting period. The unbilled revenue is calculated at the end of the reporting period based on estimated daily consumption after the meter reading date to the end of the reporting period. Estimated daily consumption is derived using historical customer profiles adjusted for weather and other measurable factors affecting consumption.

7. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 2 Fair Value Estimation on page 208.

Notes to the Financial Statements

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 211 and 212.

These financial statements have been approved for issue by the Board of Directors on 27 February 2012.

2. Business Combinations and Reorganisations

Accounting Policy

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 identifiable net assets.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or other comprehensive income as appropriate. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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.

The application of the acquisition method on the NSW Acquisition is elaborated in our accounting "mini-series" on pages 136 to 138.

(A) New South Wales (NSW) Acquisition

On 1 March 2011 the Group completed the acquisition of EnergyAustralia Retail, the Delta Western GenTrader contracts and Project Sites (the "NSW Acquisition") from the NSW Government.

EnergyAustralia Retail was an energy retailing business with a customer base of approximately 1.5 million billable accounts along the east coast of Australia. The acquisition of EnergyAustralia Retail did not include EnergyAustralia's electricity distribution network, which remains to be owned and operated by the vendor, now known as Ausgrid. 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 entered into a Transition Services Agreement with the vendor to ensure the smooth integration of EnergyAustralia customers into the TRUenergy business.

2. Business Combinations and Reorganisations (continued)

(A) NSW Acquisition (continued)

The Delta Western GenTrader contracts comprise long-term exclusive off-take arrangements 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 and Wallerawang Power Stations have power generating capacities of 1,400MW and 1,000MW respectively. In accordance with the terms of the GenTrader contracts, Delta Electricity continues 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 Group makes 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 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 acquisition was A$2,183 million (HK$17,319 million). The following table summarises the consideration paid and the provisional amounts of the assets recognised and liabilities assumed at the acquisition date. The initial accounting for the NSW Acquisition has only been provisionally determined as the necessary market valuation and other calculations have not been finalised.

	HK$M
Consideration	
Cash	15,378
Deferred consideration [(a)]	1,894
Others	47
Total consideration [(b)]	17,319
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fixed assets [(c)]	6,159
Other intangible assets	1,797
Trade receivables [(d)]	5,605
Derivative financial instrument assets	567
Other current assets	1,058
Trade and other payables	(4,955)
Deferred tax liabilities	(2,640)
Derivative financial instrument liabilities	(4,283)
Total identifiable net assets	3,308
Goodwill [(e)] (Note 14)	14,011
	17,319

Acquisition-related costs charged to profit or loss (included in fuel and other operating expenses) totalled HK$791 million, which comprised stamp duty of HK$640 million (including an amount of HK$622 million paid through the vendor) and other costs of HK$151 million.

2. Business Combinations and Reorganisations (continued)

(A) NSW Acquisition (continued)

	HK$M
Net cash flow on acquisition	
Cash paid to vendor [(f)]	16,000
Less: stamp duty expensed	(622)
Net cash outflow for business acquisition	15,378

Notes:

(a) A payable for the GenTrader contract with respect to Wallerawang Power Station of A$239 million (HK$1,894 million) was recognised upon the acquisition. The deferred consideration reflects the fair value of committed, contracted and unavoidable fixed capital charges that must be paid to Delta Electricity in return for no future economic benefit. Excluding the fixed capital charges, the fair value of the Wallerawang GenTrader contract as at 1 March 2011 was nil.

(b) A contingent consideration of up to an additional A$60 million (HK$476 million) is payable if the Australian Tax Office rules that GenTrader upfront capacity payments are tax deductible. The Group is not aware of any similar circumstances or structures where the Australian Tax Office has allowed such deductions. The Group therefore considers that an additional payment is unlikely and no consideration has been recorded for this contingent payment.

(c) Including leased fixed assets of Mount Piper Power Station of A$761 million (HK$6,039 million). The GenTrader arrangements have been accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17 whilst the corresponding obligations under finance leases have been effectively paid upfront as part of the consideration.

(d) The fair value of trade receivables acquired is HK$5,605 million, with the gross contractual amount being HK$5,744 million. The Group expects HK$139 million to be uncollectible.

(e) The goodwill arising from the acquisition is attributable to increased business scale, diversity of earnings, greater liquidity and access to capital, and other cost and revenue synergies. None of the goodwill recognised is expected to be deductible for income tax purposes.

(f) The net cash paid was A$2,017 million (HK$16,000 million), being A$2,025 million (HK$16,064 million) consideration paid on 1 March 2011 and A$1 million (HK$8 million) deferred consideration paid in October 2011, less working capital completion amount received of A$9 million (HK$72 million) in December 2011. This net cash paid included estimated stamp duty of A$78 million (HK$622 million) paid to the vendor as part of the purchase price.

It is not practicable to disclose the expected annualised performance of the acquired business as if it had been owned by the Group for the full financial year ended 31 December 2011, because the required historical financial information for the specific assets acquired is not available as part of the acquisition transaction. It is also not practicable to disclose the performance of the acquired business from 1 March 2011 to 31 December 2011, as the business has been largely integrated into the existing TRUenergy business, and stand alone results for the acquired business are not available.

(B) Reorganisation of OneEnergy Limited (OneEnergy) and sale of interest in Electricity Generating Public Company Limited (EGCO)

In February 2011, the Group, Mitsubishi Corporation (MC) and OneEnergy (a 50% owned jointly controlled entity held by the Group with MC) entered into an agreement in relation to the reorganisation of OneEnergy and the divestment of the Group's interest in EGCO.

Prior to the reorganisation, the Group had an effective interest (both direct and indirect interest through OneEnergy) of approximately 13.36% in EGCO. As part of the reorganisation, the Group and OneEnergy sold all their interests in EGCO to a company owned by MC and its business partner. The total consideration for the divestment was US$273 million (HK$2,122 million). In addition, OneEnergy became a wholly-owned subsidiary of the Group after the reorganisation and the Group continues to hold a 20% effective interest in Ho-Ping Power Company (Ho-Ping) in Taiwan through OneEnergy Taiwan Ltd (OneEnergy Taiwan) (a 50% owned jointly controlled entity held by OneEnergy with MC).

The reorganisation was completed in April 2011 and the Group recognised a total gain of HK$876 million, which comprised the gain on sale of the Group's direct interest in EGCO of HK$171 million (Note 5) and an amount included in the share of results of OneEnergy of HK$705 million (being the gain on sale of the indirect interest in EGCO) (Note 16).

2. Business Combinations and Reorganisations (continued)

(C) Reorganisation of Roaring 40s Renewable Energy Pty Ltd (Roaring 40s)

On 30 June 2011, the Group completed a restructuring of its 50% investment in the Roaring 40s joint venture. Under the reorganisation, the Group acquired 100% of the issued capital of Waterloo Investment Holding Pty Ltd (100% owner of the Waterloo wind farm), 100% of the issued capital of Cathedral Rocks Investments Pty Ltd (owner of 50% of the Cathedral Rocks wind farm) and certain development site assets from Roaring 40s. Consideration for the assets was A$145 million (HK$1,206 million), including the fair value of the Group's 50% interest in existing issued capital in Roaring 40s. As a result of the transaction, the interest in Roaring 40s was effectively sold and a gain of HK$457 million was recognised (Note 5). Taking into account the loss on deemed cancellation of a pre-acquisition off-take contract between TRUenergy and Waterloo wind farm of HK$120 million and related stamp duty and other transaction costs of HK$37 million, the overall gain on the reorganisation was HK$300 million.

The reorganisation expands the Group's renewable energy portfolio in Australia, in addition to providing wind farm development opportunities of more than 400MW across various stages of development.

(D) Asset acquisition in Eastern Star Gas Limited (ESG)

On 21 November 2011, the Group acquired a 20% working level interest in key ESG exploration permits and other assets in Australia as part of a joint arrangement with Santos Limited (Santos). Under the arrangement, Santos purchased 100% of the ESG shares (including the Group's existing holding of 3.8%) and subsequently on-sold a 20% interest in the permits (Note 14(b)) to the Group via a joint venture arrangement. Consideration for the interest was A$304 million (HK$2,374 million) comprising cash of A$250 million (HK$1,951 million), sale proceeds of ESG shares sold of A$35 million (HK$271 million) and transaction costs of A$19 million (HK$152 million). A completion adjustment is expected to occur in March 2012. A gain of A$19 million (HK$148 million) was recognised upon the sale of the 3.8% interest in ESG (Note 5).

The asset acquisition provides the Group with upstream gas reserves to help support generation and retail gas operation in Australia into the future. ESG has the largest natural gas reserves position in NSW, with current gross reserves across its permits of 988 PJ (2P) and 1,818 PJ (3P), and a large inventory of contingent and prospective resources. The transaction provides the Group with an effective interest in over 500 PJ of coal seam gas reserves in Australia.

3. Revenue

Accounting Policy

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.

3. Revenue (continued)

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

	2011 HK$M	2010 HK$M
Sales of electricity	79,922	49,462
Lease service income	2,007	1,889
Finance lease income	347	363
Sales of gas	7,836	5,792
Other revenue	936	980
	91,048	58,486
Transfer for SoC (Note 28)	586	(76)
	91,634	58,410

In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by CLP India 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.

4. Segment Information

Accounting Policy

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is the chief operating decision-maker of the Group. 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.

The Group operates, through its subsidiaries, jointly controlled entities, jointly controlled assets 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.

4. 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 2011							
Revenue	31,722	56,325	625	2,923	33	6	91,634
Operating profit / (loss)	9,606	3,097	147	671	138	(471)	13,188
Finance costs	(3,508)	(1,929)	(135)	(382)	–	(51)	(6,005)
Finance income	2	70	4	63	4	3	146
Share of results, net of income tax							
Jointly controlled entities	1,448	11	645 [(a)]	–	825	–	2,929
Associated companies	–	42	639 [(a)]	–	–	–	681
Profit / (loss) before income tax	7,548	1,291	1,300	352	967	(519)	10,939
Income tax expense	(874)	(505)	(68)	(198)	(5)	–	(1,650)
Profit / (loss) for the year	6,674	786	1,232	154	962	(519)	9,289
Earnings attributable to non-controlling interests	–	–	(1)	–	–	–	(1)
Earnings / (loss) attributable to shareholders	6,674	786 [(b)]	1,231	154	962	(519)	9,288
Capital additions	8,042	4,563	1,268	4,710	–	56	18,639
Depreciation and amortisation	3,797	2,205	148	182	–	21	6,353
Impairment charge	–	3,210 [(c)]	–	23 [(c)]	–	–	3,233 [(c)]
At 31 December 2011							
Fixed assets	86,384	25,511	5,199	11,360	–	117	128,571
Goodwill and other intangible assets	–	27,295	39	35	–	–	27,369
Interests in							
Jointly controlled entities	9,096	98	7,609	–	1,423	–	18,226
Associated companies	–	–	1,465	–	–	–	1,465
Deferred tax assets	–	1,212	63	1	–	–	1,276
Other assets	7,959	19,047	3,605	5,910	49	811	37,381
Total assets	103,439	73,163	17,980	17,306	1,472	928	214,288
Bank loans and other borrowings	27,391	19,127	3,271	8,054	–	7,678	65,521
Current and deferred tax liabilities	7,374	–	146	602	–	–	8,122
Obligations under finance leases	27,328	68	–	–	–	–	27,396
Other liabilities	10,917	18,893	366	1,483	5	233	31,897
Total liabilities	73,010	38,088	3,783	10,139	5	7,911	132,936

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

4. 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 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
Goodwill and other intangible assets	–	9,078	37	35	–	–	9,150
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	9,179	2,271	7,009	378	2,285	27,410
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

Notes:

(a) Out of the total amount of HK$1,284 million (2010: HK$1,620 million), HK$715 million (2010: HK$877 million) was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

(b) Excluding the impairment provision for Yallourn and other one-off items, the operating earnings of Australia were HK$2,911 million (2010: HK$1,303 million).

(c) Including the impairment provisions for Yallourn of HK$2,761 million (Note 6) and trade receivables of HK$472 million (Note 21).

5. Other Income

	2011 HK$M	2010 HK$M
Gains on sales of available-for-sale investments (note)	319	–
Gain on sale of a jointly controlled entity (Note 2(C))	457	–
Gain on sale of a subsidiary	–	400
	776	400

Note: Including the gains on sales of the direct interests in EGCO of HK$171 million (Note 2(B)) and ESG of HK$148 million (Note 2(D)) (2010: nil).

6. Other Charge

The passing of the Australian Government's Clean Energy legislative package on 8 November 2011 imposes a cost on the emission of carbon dioxide (CO_2) equivalent, resulting in increased production costs and reduced generation over the longer term at Yallourn. The impairment test for the Yallourn cash generating unit has resulted in an impairment provision of HK$2,761 million (A$350 million) (HK$1,933 million (A$245 million) after tax) for the year ended 31 December 2011 (2010: nil). The impairment loss has been recognised in the consolidated income statement.

The recoverable amount tested for impairment has been determined based on value in use calculations. The value in use calculations use cash flow projections as at 31 December 2011 based on a Business Plan that has been approved by the TRUenergy Holdings Pty Ltd (TRUenergy) Board which utilises whole of life projections.

The key assumptions used in the value in use calculations are as follows:

- National Energy Market modelling

  Electricity pool prices and generation volumes were derived using modelling of the electricity wholesale market. The modelling does not factor any forced closure of power stations under the Australian Federal Government's contract for closure programme. The inputs to the modelling are consistent with management's view of the Australian electricity wholesale market.

- Projection period

  The Yallourn value in use model has been extended to the end of its operating life to 2036, inclusive of the restoration period. The Group considers that a projection period of longer than five years is appropriate to take into account the anticipated longer term impact of the Clean Energy legislation on Yallourn. No terminal value growth rate has therefore been applied.

- Carbon price trajectory

  The initial carbon price at commencement on 1 July 2012 is A$23/t CO_2. Following the end of the fixed price period to 30 June 2015, carbon cost assumptions are taken from the "Core" price scenario modelled by the Australian Federal Government Treasury.

- Clean Energy Legislative Package Transitional Assistance

  Transitional assistance expected to be provided under the Clean Energy legislation has been reflected in the Yallourn value in use calculation, as the assistance is linked with the ongoing operation of the asset. The share of the national five year Government compensation package allocated to Yallourn has been estimated at 25.6% of the national assistance package, however this allocation is subject to confirmation and potential adjustment.

- Capital expenditure

  Capital expenditure relates to major outages and capital spares under long-term service arrangements and other forecast capital expenditure from the Business Plan.

6. Other Charge (continued)

- Pre-tax discount rates

  Discount rates reflect management's estimate of the time value of money and the specific risks that are not already reflected in the cash flows. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to the weighted average cost of capital. The estimated pre-tax discount rate of 15.76% (reflecting a post-tax discount rate of 9.9% applied to the relevant Australian entities) has been utilised in estimating the value in use.

Objective, externally sourced data has been utilised wherever possible in determining value in use assumptions. Management have undertaken sensitivity analysis to ensure the key assumptions used to determine the recoverable amount of Yallourn are reasonable. Management will continue to monitor changes in assumptions which may result in further impairment or impairment reversal.

Impairment assessment and its application on Yallourn have been discussed in our accounting "mini-series". Please visit our website.

7. Operating Profit

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

	2011 HK$M	2010 HK$M
Charging		
Staff costs		
Salaries and other costs	2,431	2,024
Retirement benefits costs [(a)]	192	165
Auditor's remuneration		
Audit	42	32
Permissible non-audit services [(b)]	6	10
Operating lease expenditure on the agreement with Ecogen	328	282
Net loss on disposal of fixed assets	122	183
Impairment of fixed assets	2,761	17
Net fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(116)	(60)
Fuel and other operating expenses	(606)	(63)
Transactions not qualifying as hedges	141	452
Ineffectiveness of cash flow hedges	100	82
Crediting		
Net rental income from properties	(18)	(19)
Net exchange gain	(40)	(79)
Coal mine subsidence insurance recovery of TRUenergy	–	(138)

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 paid to defined contribution schemes, including GPFS and MPF as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$204 million (2010: HK$202 million), of which HK$97 million (2010: HK$96 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$91 million (2010: HK$65 million).

(b) Permissible non-audit services comprise accounting / tax advisory services for business development, auditor's attestation and system / process review.

8. Finance Costs and Income

Accounting Policy

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.

	2011 HK$M	2010 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	1,849	1,103
Other borrowings		
Wholly repayable within five years	628	214
Not wholly repayable within five years	642	583
Tariff Stabilisation Fund [(a)]	2	3
Customers' deposits, fuel clause over-recovery and others	–	2
Finance charges under finance leases [(b)]	2,735	2,471
Other finance charges	548	203
Fair value loss / (gain) on derivative financial instruments		
Cash flow hedges, reclassified from equity	(351)	(53)
Fair value hedges	(153)	54
Ineffectiveness of cash flow hedges	(65)	–
Loss / (gain) on hedged items in fair value hedges	151	(43)
Other net exchange loss on financing activities	718	168
	6,704	4,705
Less: amount capitalised [(c)]	(699)	(493)
	6,005	4,212
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	146	101

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 28).

(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 3.09% – 8.57% (2010: 3.18% – 13.50%) per annum.

9. Income Tax Expense

Accounting Policy No. 7

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

	2011 HK$M	2010 HK$M
Current income tax		
Hong Kong	489	621
Outside Hong Kong	126	136
	615	757
Deferred tax		
Hong Kong	385	382
Outside Hong Kong (note)	650	(295)
	1,035	87
	1,650	844

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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:

	2011 HK$M	2010 HK$M
Profit before income tax	10,939	11,179
Less: Share of results of jointly controlled entities and associated companies, net of income tax	(3,610)	(2,893)
	7,329	8,286
Calculated at an income tax rate of 16.5% (2010: 16.5%)	1,209	1,367
Effect of different income tax rates in other countries	362	381
Income not subject to tax	(199)	(64)
Expenses not deductible for tax purposes	387	165
Revenue adjustment for SoC not subject to tax (Note 28)	(97)	12
Over-provision in prior years	(32)	(46)
Tax losses not recognised	6	18
Derecognition of deferred tax assets	17	–
Utilisation of previously unrecognised tax losses	(3)	–
Tax consolidation benefit (note)	–	(989)
Income tax expense	1,650	844

Note: In 2010, the amount included TRUenergy's tax consolidation benefit of HK$989 million (A$144 million) as a result of certain amendments to the tax consolidation rules in Australia.

The Australian Government announced on 25 November 2011 that it will retrospectively amend the tax consolidation amendments that it enacted in 2010. This may impact on the tax consolidation benefit recorded in 2010. However, as no draft legislation has been released and the exact details of the changes to the tax law are not known, no changes have been made with regard to the tax benefit recorded in 2010.

10. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$5,599 million (2010: HK$5,884 million).

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

11. Dividends

	2011		2010	
	HK$ per share	HK$M	HK$ per share	HK$M
First to third interim dividends paid	1.56	3,753	1.56	3,753
Fourth interim dividend declared	0.96	2,310	0.92	2,214
	2.52	6,063	2.48	5,967

At the Board meeting held on 27 February 2012, the Directors declared the fourth interim dividend of HK$0.96 per share (2010: 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 2011.

12. Earnings per Share

The earnings per share are computed as follows:

	2011	2010
Earnings attributable to shareholders (HK$M)	9,288	10,332
Weighted average number of shares in issue (thousand shares)	2,406,143	2,406,143
Earnings per share (HK$)	3.86	4.29

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 2011 (2010: nil).

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

Accounting Policy

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.

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

Fixed assets and leasehold land and land use rights under operating leases totalled HK$130,382 million (2010: HK$117,460 million). Included in fixed assets is plant under construction with book value of HK$15,375 million (2010: HK$12,689 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 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
Net book value at 1 January 2011	849	412	10,817	5,907	76,517	21,229	115,731
Acquisition of business (Note 2(A))	120	–	–	–	–	6,039	6,159
Acquisition of subsidiaries (Note 2(C))	–	–	89	–	1,969	216	2,274
Additions	5	176	1,515	153	11,462	2,364	15,675
Transfers and disposals	–	(3)	(198)	(13)	(185)	(251)	(650)
Depreciation	–	(13)	(230)	(331)	(3,408)	(1,831)	(5,813)
Impairment charge (Note 6)	–	–	(25)	–	(2,736)	–	(2,761)
Exchange differences	(94)	–	98	–	(2,008)	(40)	(2,044)
Net book value at 31 December 2011	**880**	**572**	**12,066**	**5,716**	**81,611**	**27,726**	**128,571**
Cost	880	647	15,378	11,652	125,049	50,629	204,235
Accumulated depreciation and impairment	–	(75)	(3,312)	(5,936)	(43,438)	(22,903)	(75,664)
Net book value at 31 December 2011	**880**	**572**	**12,066**	**5,716**	**81,611**	**27,726**	**128,571**

Note (a): These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK$27,328 million (2010: HK$27,065 million), which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties; and Delta Electricity's power station at Mount Piper of net book value of HK$5,838 million (2010: nil) under the Delta Western GenTrader contracts. These arrangements have been accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17.

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

(A) Fixed Assets (continued)

Although the GenTrader arrangements with respect to both Mount Piper and Wallerawang power stations are accounted for as finance leases, the estimated future costs (primarily fixed capital charges) of Wallerawang will not result in any corresponding future economic benefit. Therefore no value is assigned to the leased assets of Wallerawang Power Station.

Company

The net book value of fixed assets of the Company was HK$117 million (2010: HK$85 million), comprising mainly office furniture, fittings and equipment. The additions, disposals and depreciation for the year were HK$55 million (2010: HK$36 million), HK$2 million (2010: nil) and HK$21 million (2010: HK$13 million) respectively.

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

Group

	2011 HK$M	2010 HK$M
Net book value at 1 January	1,729	1,760
Additions	123	10
Transfers and disposals	–	(2)
Amortisation	(44)	(43)
Exchange differences	3	4
Net book value at 31 December	1,811	1,729
Cost	2,149	2,022
Accumulated amortisation	(338)	(293)
Net book value at 31 December	1,811	1,729

(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:

	2011 HK$M	2010 HK$M
Held in Hong Kong		
On long-term leases (over 50 years)	125	127
On medium-term leases (10 – 50 years)	2,089	1,888
On short-term leases (less than 10 years)	33	8
	2,247	2,023
Held outside Hong Kong		
On medium-term leases (10 – 50 years)	136	118
	2,383	2,141

14. Goodwill and Other Intangible Assets

Accounting Policy

Goodwill

Goodwill represents the excess of the consideration transferred 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.

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 2 – 34 years or using the unit of production method 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.

For a more detailed discussion and explanation on how goodwill arises and what it implies, please refer to our accounting "mini-series" on pages 136 to 138.

	Goodwill [a] HK$M	Other Intangible Assets [b] HK$M	Total HK$M
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
Net carrying value at 1 January 2011	7,701	1,449	9,150
Acquisition of business (Note 2(A))	14,011	1,797	15,808
Acquisition of subsidiaries (Note 2(C))	–	166	166
Additions	–	2,841 [b]	2,841
Amortisation	–	(496)	(496)
Exchange differences	(96)	(4)	(100)
Net carrying value at 31 December 2011	**21,616**	**5,753**	**27,369**
Cost	21,616	7,245	28,861
Accumulated amortisation	–	(1,492)	(1,492)
Net carrying value at 31 December 2011	**21,616**	**5,753**	**27,369**

14. Goodwill and Other Intangible Assets (continued)

Notes:

(a) Goodwill predominantly arose from the previous acquisition of the Merchant Energy Business (MEB) in Australia and the NSW Acquisition during the year (Note 2(A)). In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill for the corresponding cash generating units and determined that such goodwill has not been impaired. The recoverable amount of the cash generating units tested for impairment has been determined based on value in use calculations. The value in use calculations use cash flow projections as at 31 December 2011 based on a Business Plan that has been approved by the TRUenergy Board covering a period of ten years. A period of greater than five years has been used on the basis that a longer projection period presents a more accurate reflection of future cash flows to take account of anticipated legislative, regulatory and structural changes in the energy industry. Objective, externally sourced data has been utilised wherever possible in determining value in use assumptions. Management have undertaken sensitivity analysis to ensure that the key assumptions used to determine the recoverable amount are reasonable.

The key assumptions used in the value in use calculations are as follows:

- Electricity pool prices and gas prices were derived using modelling of the electricity wholesales and gas markets. The inputs to the modelling are consistent with management's view of the electricity wholesales and gas markets.
- Pre-tax discount rate reflects management's estimate of the time value of money and the specific risks that are not already reflected in the cash flows. This is the benchmark used by management to assess operating performances and to evaluate future investment proposals. In determining appropriate discount rate, regard has been given to the weighted average cost of capital. Estimated pre-tax discount rate of 12.72% (reflecting a post-tax discount rate of 9.9% applied to the relevant Australian entities) and terminal value growth rate of 3% have been utilised in estimating the values in use.
- Retail price path assumptions are based on management estimates and expectations which in turn are based on current market conditions and regulatory announcements.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the TRUenergy Business Plan.
- Electricity and gas network (distribution) cost assumptions are based on published regulated price paths where available. When no estimates are available, network costs are assumed to escalate by Consumer Price Index.
- Customer account numbers growth for electricity and gas in the years 2011 to 2015 aligns with the TRUenergy Business Plan. Beyond 2016, customer numbers are assumed to grow at rates between 0.8% and 2.1% per annum depending on the State in which the customers are located. The usage per customer remains constant.
- Retail operating costs (cost to acquire, cost to serve and corporate costs) are escalated by relevant cost drivers using activity-based costing principles.

(b) Other intangible assets mainly include contracted customers, a lease arrangement under the long-term Master Hedge Agreement with Ecogen arising from the acquisition of the MEB in May 2005, and the exploration permits of HK$2,277 million acquired as part of the asset acquisition in ESG during the year (Note 2(D)). The exploration permits represent a 20% working level interest in petroleum licences giving the Group the right to exploration, extraction and production of petroleum within the licence area, largely within the Gunnedah Basin of NSW. The licences will be systematically amortised using the unit of production method. At 31 December 2011 no amortisation had been recognised as production has not yet commenced.

15. Investments in and Advances to Subsidiaries

Accounting Policy No. 3(B)

	2011 HK$M	2010 HK$M
Unlisted shares, at cost	**23,635**	23,617
Provision for impairment losses	**(100)**	(100)
Advances to subsidiaries, less provisions (note)	**27,779**	20,432
	51,314	43,949

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 33(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 (2010: HK$39 million), which is interest-free and due on or after 30 June 2013 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

15. Investments in and Advances to Subsidiaries (continued)

The table below lists the principal subsidiaries of the Group at 31 December 2011:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2011	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	4,995 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
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

15. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2011	Place of Incorporation / Operation	Principal Activity
CLP India Private Limited (formerly known as Gujarat Paguthan Energy Corporation Private Limited)	1,355,037,342 equity shares of Rs.10 each	100 [(a)]	India	Generation of Electricity and Power Projects Investment Holding
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 1,699,824,158 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

16. Interests in Jointly Controlled Entities

Accounting Policy No. 3(C)

	2011 HK$M	2010 HK$M
Share of net assets	8,626	11,402
Goodwill	152	142
Advances	9,448	8,932
	18,226	20,476

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:

		2011				2010			
		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)	206	–	8,868	9,074	151	–	8,720	8,871
CSEC Guohua International Power Company Limited	(B)	2,855	107	–	2,962	2,558	99	–	2,657
CLP Guangxi Fangchenggang Power Company Limited	(C)	1,432	–	–	1,432	1,477	–	–	1,477
OneEnergy Taiwan (Note 2(B))	(D)	937	–	314	1,251	–	–	–	–
OneEnergy (Note 2(B))		–	–	–	–	2,887	–	–	2,887
Shandong Zhonghua Power Company, Limited	(E)	924	–	–	924	966	–	–	966
Roaring 40s (Note 2(C))		–	–	–	–	1,018	–	–	1,018
PSDC	(F)	12	–	145	157	12	–	207	219
Others	(G)	2,260	45	121	2,426	2,333	43	5	2,381
		8,626	152	9,448	18,226	11,402	142	8,932	20,476

16. 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:

	2011 HK$M	2010 HK$M
Non-current assets	35,036	37,524
Current assets	4,650	5,380
Current liabilities	(8,005)	(7,564)
Non-current liabilities	(21,301)	(22,338)
Non-controlling interests	(1,754)	(1,600)
Share of net assets	8,626	11,402
Revenue	16,306	14,533
Expenses	(12,838)	(11,948)
Profit before income tax	3,468	2,585
Income tax expense	(409)	(377)
Non-controlling interests	(130)	(128)
Share of profit for the year (note)	2,929	2,080
Share of capital commitments	2,093	2,473
Share of contingent liabilities	59	57

Note: The amount included the share of the gain on sale of interest in EGCO of HK$705 million (Note 2(B)) and a provision for Roaring 40s of HK$258 million in 2011 and 2010 respectively.

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 32.

Details of the jointly controlled entities are summarised below:

(A) CAPCO is incorporated in Hong Kong and its ordinary share capital is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited. 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 13).

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.

16. 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:

	2011 HK$M	2010 HK$M
Results for the year		
Revenue	13,803	12,607
Profit after income tax	3,049	2,852
Net assets (note)		
Non-current assets	28,845	28,472
Current assets	5,292	5,002
Current liabilities	(5,438)	(4,959)
Deferred tax	(3,582)	(3,524)
Non-current liabilities	(2,432)	(2,811)
	22,685	22,180
Group's share of profit after income tax	1,220	1,141

Note: The amounts exclude advances from shareholders.

(B) CSEC Guohua International Power Company Limited, the joint stock company with 70% of its registered capital 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.

(C) CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) is incorporated in the Chinese mainland and 70% of its registered capital is owned by the Group. 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.

(D) OneEnergy Taiwan is incorporated in the British Virgin Islands and 50% of its ordinary share capital is owned by each of Mitsubishi Corporation of Japan and the Group. This company owns a 40% interest in Ho-Ping.

(E) Shandong Zhonghua Power Company, Limited is incorporated in the Chinese mainland and 29.4% of its registered capital is owned by the Group. 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.

(F) PSDC is incorporated in Hong Kong and 49% of its ordinary share capital is owned by the Group. 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.

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

- 49% interest in the registered capital of 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 the registered capital of various Chinese jointly controlled entities at a carrying amount of HK$1,348 million (2010: HK$1,267 million) in aggregate acquired from Roaring 40s in 2009. The jointly controlled entities are incorporated in the Chinese mainland and hold interests in various wind power stations in Shandong and Jilin, with a total installed capacity of 593MW.

17. Interests in Associated Companies

Accounting Policy No. 3(C)

	2011 HK$M	2010 HK$M
Share of net assets	1,465	2,366
Goodwill	–	12
	1,465	2,378

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

	2011 HK$M	2010 HK$M
GNPJVC (A)	1,465	2,342
Others	–	36
	1,465	2,378

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

	2011 HK$M	2010 HK$M
Total assets	12,800	15,312
Total liabilities	(6,941)	(5,884)
Net assets	5,859	9,428
Group's share of associated companies' net assets	1,465	2,366
Revenue	7,350	7,216
Profit after income tax	2,565	3,232
Group's share of profit after income tax	681	813

At 31 December 2011, the Group's share of capital commitments of its associated companies was HK$95 million (2010: HK$154 million).

(A) GNPJVC is unlisted, incorporated in the Chinese mainland and its registered capital is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited. GNPJVC 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.

17. Interests in Associated Companies (continued)

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

	2011 HK$M	2010 HK$M
Results for the year		
Revenue	7,040	6,667
Profit after income tax	2,557	3,218
Net assets		
Non-current assets	3,676	5,208
Current assets	9,124	10,022
Current liabilities	(4,100)	(3,184)
Non-current liabilities	(2,841)	(2,678)
	5,859	9,368
Group's share of profit after income tax	639	804

18. Finance Lease Receivables

Accounting Policy No. 10

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M
Amounts receivable under finance leases				
Within one year	407	468	142	144
After one year but within five years	1,151	1,485	237	378
Over five years	2,036	2,663	1,610	1,908
	3,594	4,616	1,989	2,430
Less: unearned finance income	(1,605)	(2,186)		
Present value of minimum lease payments receivable	1,989	2,430		
Analysed as:				
Current (recoverable within 12 months)			142	144
Non-current (recoverable after 12 months)			1,847	2,286
			1,989	2,430

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 CLP India 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 2011 and 2010. The carrying amounts of the finance lease receivables approximate to their fair values.

19. Derivative Financial Instruments

Accounting Policy No. 5

	2011		2010	
	Assets HK$M	Liabilities HK$M	Assets HK$M	Liabilities HK$M
Cash flow hedges (note)				
Forward foreign exchange contracts	1,752	28	878	111
Cross currency & interest rate swaps	1,323	216	652	331
Interest rate swaps	2	899	136	172
Energy contracts	1,469	2,797	1,408	566
Fair value hedges				
Cross currency & interest rate swaps	242	39	208	95
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	108	133	460	152
Cross currency & interest rate swaps	–	–	–	23
Energy contracts	2,289	3,182	603	561
	7,185	7,294	4,345	2,011
Analysed as:				
Current	2,158	2,212	1,609	932
Non-current	5,027	5,082	2,736	1,079
	7,185	7,294	4,345	2,011

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.

Note: Derivative financial instruments qualifying as cash flow hedges at 31 December 2011 have a maturity of up to 15 years (2010: 14 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:

	2011 HK$M	2010 HK$M
Forward foreign exchange contracts	104,624	86,603
Interest rate swaps / cross currency & interest rate swaps	36,598	24,498
Energy contracts	32,210	14,805

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

20. Available-for-sale Investments

Accounting Policy

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. Purchases and sales of financial assets are recognised on their trade date – the date on which the Group commits to purchase or sell the asset. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

Changes in the fair value of monetary investments 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 investments 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 intend to dispose of the investment within 12 months of the end of the reporting period.

The Group's available-for-sale investments are analysed as follows:

	2011 HK$M	2010 HK$M
CGN Wind Power Company Limited (CGN Wind)	1,190	1,190
Others	98	322
	1,288	1,512

In accordance with the Group's accounting policy, the unquoted investment in CGN Wind, which is denominated in Renminbi, is treated for accounting purpose as an available-for-sale investment.

Although termed "available-for-sale" by the accounting standard, investments in this category are generally held for the long-term.

21. Trade and Other Receivables

Accounting Policy

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.

	Group		Company	
	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M
Trade receivables [(a)]	12,702	7,425	–	–
Deposits and prepayments	6,267	3,425	18	13
Dividend receivables [(b)]				
Jointly controlled entities	36	160	–	–
Associated companies	349	48	–	–
Current accounts with [(b)]				
Subsidiaries	–	–	37	31
Jointly controlled entities	65	60	–	–
	19,419	11,118	55	44

Trade and other receivables attributed to overseas subsidiaries amounted to HK$15,254 million (2010: HK$8,677 million).

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

Notes:

(a) Trade receivables

17% (2010: 26%) and 70% (2010: 53%) 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 2011, such cash deposits amounted to HK$4,152 million (2010: HK$3,979 million) and the bank guarantees stood at HK$929 million (2010: HK$935 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 14 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. At 31 December 2011, TRUenergy held cash deposits of HK$145 million (2010: nil) and bank guarantees of HK$1 million (2010: nil) from Commercial and Industrial customers as security in relation to outstanding receivable balances.

21. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

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

	2011				2010			
	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	8,928	1,576	(103)	10,401	5,165	569	(36)	5,698
Overdue								
1 – 30 days	346	723	(86)	983	277	328	(33)	572
31 – 90 days	89	464	(123)	430	81	239	(63)	257
Over 90 days	652	617	(381)	888	746	502	(350)	898
	10,015	3,380	(693)	12,702	6,269	1,638	(482)	7,425

At 31 December 2011, trade receivables of HK$1,087 million (2010: HK$1,104 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 the past invoices of CLP India netted with refund, totalled HK$482 million (2010: HK$647 million) (Note 34 (A)), which is included in the amount aged over 90 days.

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

	2011 HK$M	2010 HK$M
30 days or below	10,951	5,534
31 – 90 days	644	771
Over 90 days	1,107	1,120
	12,702	7,425

Movements in the provision for impairment are as follows:

	2011 HK$M	2010 HK$M
Balance at 1 January	482	428
Acquisition of business (Note 2(A))	139	–
Provision for impairment	474	267
Receivables written off during the year as uncollectible	(362)	(174)
Amounts reversed	(2)	(80)
Exchange differences	(38)	41
Balance at 31 December	693	482

(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

22. Bank Balances, Cash and Other Liquid Funds

Accounting Policy

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.

	2011 HK$M	2010 HK$M
Trust accounts restricted under TRAA (note)	762	733
Bank deposits	1,272	3,203
Bank balances and cash	1,832	820
	3,866	4,756

Note: Pursuant to Trust and Retention Account Agreements (TRAA) of CLP India and its subsidiaries with their corresponding lenders, various trust accounts are set up for designated purposes.

The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currency of the respective entities amounted to HK$1,087 million (2010: HK$444 million) which was mostly denominated in Renminbi (2010: U.S. dollar).

23. Trade and Other Payables

Accounting Policy

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

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Trade payables [(a)]	**8,824**	5,026	**–**	–
Other payables and accruals	**6,373**	4,807	**228**	222
Current accounts with [(b)]				
Subsidiaries	**–**	–	**27**	24
Jointly controlled entities	**1,656**	1,425	**1**	1
Associated companies	**137**	86	**–**	–
	16,990	11,344	**256**	247

Notes:

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

	2011 HK$M	2010 HK$M
30 days or below	**8,239**	4,828
31 – 90 days	**247**	87
Over 90 days	**338**	111
	8,824	5,026

At 31 December 2011, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$311 million (2010: HK$1,517 million), which were mostly denominated in U.S. dollar and Japanese yen.

(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$1,623 million (2010: HK$1,375 million) is due to CAPCO.

24. Bank Loans and Other Borrowings

Accounting Policy

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.

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.

24. Bank Loans and Other Borrowings (continued)

	Group 2011 HK$M	Group 2010 HK$M	Company 2011 HK$M	Company 2010 HK$M
Current				
Short-term bank loans	2,802	1,161	2,638	–
Long-term bank loans	1,301	6,655	–	–
Other long-term borrowings				
MTN programme (USD) due 2012	2,371	–	–	–
MTN programme (HKD) due 2012	1,000	–	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012	5,122	–	–	–
	12,596	7,816	2,638	–
Non-current				
Long-term bank loans	30,298	13,207	5,040	–
Other long-term borrowings				
MTN programme (USD) due 2020 and 2021 (note)	6,376	6,411	–	–
MTN programme (HKD) due 2013 to 2041 (note)	9,095	9,280	–	–
MTN programme (JPY) due 2021 to 2026 (note)	2,502	1,433	–	–
MTN programme (AUD) due 2021 (note)	434	–	–	–
EPN and MTN programme (AUD) due 2015	394	5,524	–	–
U.S. private placement notes (USD) due 2019 to 2026	3,826	952	–	–
	52,925	36,807	5,040	–
Total borrowings	65,521	44,623	7,678	–

Note: CLP Power Hong Kong issued fixed and floating rates bonds during the year. These comprise bonds with a notional value of HK$4,613 million in total and tenors of 10 to 30 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$11,151 million (2010: HK$7,997 million), analysed as follows:

	2011 HK$M	2010 HK$M
CLP India and its subsidiaries [a]	7,880	5,709
Subsidiaries in Chinese mainland [b]	3,271	2,288
	11,151	7,997

Notes:

(a) Bank loans for CLP India and its subsidiaries are secured by fixed and floating charges over their immoveable and moveable properties with total carrying amounts of HK$13,034 million (2010: HK$10,219 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$5,029 million (2010: HK$3,714 million).

24. Bank Loans and Other Borrowings (continued)

Bank loans and other borrowings totalling HK$30,452 million (2010: HK$19,020 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2011, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M	**2011 HK$M**	2010 HK$M
Within one year	**4,103**	7,816	**8,493**	–	**12,596**	7,816
Between one and two years	**5,187**	1,329	**1,300**	8,602	**6,487**	9,931
Between two to five years	**16,872**	5,958	**4,114**	4,414	**20,986**	10,372
Over five years	**8,239**	5,920	**17,213**	10,584	**25,452**	16,504
	34,401	21,023	**31,120**	23,600	**65,521**	44,623

Of the Company's borrowings, HK$2,638 million (2010: nil) is repayable within one year and HK$5,040 million (2010: nil) is repayable between two to five years.

Another presentation of the Group's liquidity risk is set out on page 207.

At 31 December 2011 and 2010, 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 issued in or swapped into Hong Kong dollar or Australian dollar. The effective interest rates at the end of the reporting period were as follows:

	2011		2010	
	HK$	A$	HK$	A$
Fixed rate loans and loans swapped from variable rates	**2.3% – 5.0%**	**6.3% – 8.9%**	2.3% – 5.0%	6.3% – 6.5%
Variable rate loans and loans swapped from fixed rates	**0.6% – 1.7%**	**5.2% – 6.6%**	0.3% – 1.7%	5.6% – 5.7%

The fair values of bank loans and other borrowings approximate to their carrying amounts. 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 2011, the Group had undrawn bank loans and overdraft facilities of HK$24,377 million (2010: HK$33,502 million).

25. Obligations under Finance Leases

Accounting Policy No. 10

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	
	2011 HK$M	2010 HK$M
Amounts payable under finance leases		
Within one year	2,200	1,995
After one year but within two years	2,197	1,992
After two years but within five years	6,565	5,958
Over five years	16,434	17,155
	27,396	27,100
Analysed as:		
Amount due for settlement within 12 months	2,200	1,995
Amount due for settlement after 12 months	25,196	25,105
	27,396	27,100

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 2011, the interest rate was 9.99% (2010: 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.

26. Deferred Tax

Accounting Policy No. 7

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:

	2011 HK$M	2010 HK$M
Deferred tax assets	1,276	4,210
Deferred tax liabilities	(7,979)	(7,590)
	(6,703)	(3,380)

26. Deferred Tax (continued)

Deferred tax asset = income tax recoverable in the future

Deferred tax liability = income tax payable in the future

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

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

	2011 HK$M	2010 HK$M
At 1 January	(3,380)	(3,654)
Charged to profit or loss (Note 9)	(1,035)	(87)
Credited / (charged) to other comprehensive income	110	(115)
Acquisition of business (Note 2(A))	(2,640)	–
Acquisition of subsidiaries (Note 2(C))	26	–
Withholding tax	80	26
Exchange differences	136	450
At 31 December	(6,703)	(3,380)

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	
	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M
At 1 January	5,636	4,794	471	412	675	430	6,782	5,636
(Charged) / credited to profit or loss	(597)	192	(51)	(1)	886	170	238	361
Credited to other comprehensive income	–	–	67	14	4	–	71	14
Acquisition of business (Note 2(A))	–	–	568	–	–	–	568	–
Acquisition of subsidiaries (Note 2(C))	–	–	–	–	27	–	27	–
Exchange differences	(21)	650	(28)	46	(28)	75	(77)	771
At 31 December	5,018	5,636	1,027	471	1,564	675	7,609	6,782

26. Deferred Tax (continued)

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding/ Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others (b)		Total	
	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M
At 1 January	(7,668)	(6,974)	(429)	(356)	(578)	(495)	(148)	(306)	(1,339)	(1,159)	(10,162)	(9,290)
Credited/(charged) to profit or loss	451	(568)	(85)	(87)	(292)	(15)	(677)	179	(670)	43	(1,273)	(448)
Credited/(charged) to other comprehensive income	–	–	–	–	–	–	–	–	39	(129)	39	(129)
Acquisition of business (Note 2(A))	(1,905)	–	–	–	(857)	–	(446)	–	–	–	(3,208)	–
Acquisition of subsidiaries (Note 2(C))	(1)	–	–	–	–	–	–	–	–	–	(1)	–
Withholding tax	–	–	80	26	–	–	–	–	–	–	80	26
Exchange differences	17	(126)	56	(12)	10	(68)	21	(21)	109	(94)	213	(321)
At 31 December	(9,106)	(7,668)	(378)	(429)	(1,717)	(578)	(1,250)	(148)	(1,861)	(1,339)	(14,312)	(10,162)

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.

27. 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.

28. 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:

	2011 HK$M	2010 HK$M
Tariff Stabilisation Fund (A)	637	1,505
Rate Reduction Reserve (B)	6	4
	643	1,509

28. SoC Reserve Accounts (continued)

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

	2011 HK$M	2010 HK$M
(A) Tariff Stabilisation Fund		
At 1 January	1,505	1,653
Transfer under the SoC [(a)]		
– transfer for SoC (to)/from profit or loss (Note 3)	(586)	76
– charge for asset decommissioning [(b)]	(282)	(224)
At 31 December	637	1,505
(B) Rate Reduction Reserve		
At 1 January	4	1
Interest expense charged to profit or loss (Note 8)	2	3
At 31 December	6	4

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 3).

(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$445 million (2010: HK$291 million) recognised under the SoC represents a liability to the Group. The carrying amount of the asset decommissioning liabilities approximates to its fair value.

29. Share Capital

	2011 Number of Ordinary Shares of HK$5 Each	2011 Amount HK$M	2010 Number of Ordinary Shares of HK$5 Each	2010 Amount HK$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

30. 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 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 first to third interim	–	–	–	–	(3,753)	(3,753)
Balance at 31 December 2010	2,492	7,683	1,182	843	54,266 [b]	66,466

30. 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 2011	2,492	7,683	1,182	843	54,266	66,466
Earnings attributable to shareholders	–	–	–	–	9,288	9,288
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	(1,246)	–	–	–	(1,246)
Jointly controlled entities	–	279	–	–	–	279
Associated companies	–	(9)	–	–	–	(9)
Cash flow hedges						
Net fair value gains	–	–	1,391	–	–	1,391
Reclassification adjustment for amount included in profit or loss	–	–	(1,073)	–	–	(1,073)
Transfer to assets	–	–	1	–	–	1
Tax on the above items	–	–	6	–	–	6
Available-for-sale investments						
Fair value gains	–	–	–	27	–	27
Share of other comprehensive income of jointly controlled entities	–	(345)	–	(153)	–	(498)
Reclassification adjustments						
Sales of available-for-sale investments	–	–	–	(319)	–	(319)
Tax on the above item	–	–	–	38	–	38
Sale of a jointly controlled entity	–	(346)	26	–	–	(320)
Total comprehensive income attributable to shareholders	–	(1,667)	351	(407)	9,288	7,565
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves of jointly controlled entities	–	–	–	24	(24)	–
Dividends paid						
2010 fourth interim	–	–	–	–	(2,214)	(2,214)
2011 first to third interim	–	–	–	–	(3,753)	(3,753)
Balance at 31 December 2011	**2,492**	**6,016**	**1,533**	**458**	**57,565 [b]**	**68,064**

30. Reserves (continued)

Company

	Capital Redemption Reserve [a] HK$M	Retained Profits HK$M	Total HK$M
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 first to third interim	–	(3,753)	(3,753)
Balance at 31 December 2010	2,492	28,075 [b]	30,567
Balance at 1 January 2011	2,492	28,075	30,567
Profit and total comprehensive income for the year	–	5,599	5,599
Dividends paid			
2010 fourth interim	–	(2,214)	(2,214)
2011 first to third interim	–	(3,753)	(3,753)
Balance at 31 December 2011	**2,492**	**27,707 [b]**	**30,199**

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 2011 was HK$2,310 million (2010: HK$2,214 million). The balance of retained profits after the fourth interim dividend of the Group was HK$55,255 million (2010: HK$52,052 million) and of the Company was HK$25,397 million (2010: HK$25,861 million).

At 31 December 2011, distributable reserves of the Company amounted to HK$27,707 million (2010: HK$28,075 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.

31. Note to the Consolidated Statement of Cash Flows

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

	2011 HK$M	2010 HK$M
Profit before income tax	10,939	11,179
Adjustments for:		
Finance costs	6,005	4,212
Finance income	(146)	(101)
Share of results of jointly controlled entities and associated companies, net of income tax	(3,610)	(2,893)
Depreciation and amortisation	6,353	5,065
Impairment charge	3,233	204
Net loss on disposal of fixed assets	122	183
Gains on sales of available-for-sale investments	(319)	–
Gain on sale of a jointly controlled entity	(457)	–
Gain on sale of a subsidiary	–	(400)
Fair value loss / (gain) on borrowings under fair value hedges and net exchange difference	134	(64)
SoC items		
Increase in customers' deposits	173	127
Decrease / (increase) in fuel clause account (under-recovery)	84	(282)
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a jointly controlled entity	(128)	(109)
Transfer for SoC	(586)	76
	(457)	(188)
Increase in trade and other receivables	(3,539)	(2,270)
Decrease in finance lease receivables	61	184
(Increase) / decrease in cash restricted for specific purposes	(29)	105
(Increase) / decrease in derivative financial instruments	(440)	211
Increase in trade and other payables	589	1,371
Increase in current accounts due to jointly controlled entities and associated companies	278	12
Net cash inflow from operations	18,717	16,810

32. Commitments

(A) Capital expenditure on fixed assets, leasehold land and land use rights under operating leases, as well as intangible assets contracted or authorised but not recorded in the statement of financial position is as follows:

	Group		Company	
	2011 HK$M	2010 HK$M	2011 HK$M	2010 HK$M
Contracted but not provided for	10,158	17,589	54	3
Authorised but not contracted for	14,257	14,294	106	93
	24,415	31,883	160	96

(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 2011	Remaining Balance to be Contributed	Expected Year for Last Contribution
Haifang wind power project	RMB92 million	RMB18 million (HK$21 million)	RMB74 million (HK$91 million)	2013
Natural Energy Development's solar power project	THB773 million	THB474 million (HK$121 million)	THB299 million (HK$73 million)	2012
CGN CLP Energy Services (Shenzhen)	RMB29 million	RMB14 million (HK$17 million)	RMB15 million (HK$18 million)	2012

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

	2011 HK$M	2010 HK$M
Within one year	883	699
Later than one year but not later than five years	2,862	2,573
Over five years	6,704	6,454
	10,449	9,726

Of the above amount, HK$6,973 million (2010: HK$6,542 million) relates to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,421 million (2010: HK$2,655 million) relates 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.

33. Related Party Transactions

Accounting Policy

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 or jointly 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.

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.

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

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

Details of electricity supply contracts relating to the electricity business in Hong Kong with jointly controlled entities and associated companies are shown below:

	2011 HK$M	2010 HK$M
Lease and lease service payment to CAPCO (a)	16,018	14,381
Purchases of nuclear electricity from GNPS (b)	4,879	5,003
Pumped storage service fee to PSDC (c)	512	495
	21,409	19,879

(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.

Amounts due to the related parties at 31 December 2011 are disclosed in Note 23.

33. 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$1,312 million (2010: HK$1,273 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)(a) above.

Amounts due from the related parties at 31 December 2011 are disclosed in Note 21.

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

(C) The advances made to jointly controlled entities totalled HK$9,448 million (2010: HK$8,932 million) (Note 16). Of these, HK$8,868 million (2010: HK$8,720 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2011, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2010: nil).

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$27,779 million (2010: HK$20,432 million) made to its subsidiaries (Note 15), HK$19,981 million (2010: HK$11,343 million) and HK$5,541 million (2010: HK$6,417 million) were made to CLP Power Asia Limited and CLP Asia Finance Limited respectively to fund investments in overseas power projects.

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$232 million (2010: HK$132 million), of which HK$232 million (2010: HK$128 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 six (2010: ten) senior management personnel. The total remuneration of the key management personnel is shown below:

	2011 HK$M	2010 HK$M
Fees	8	8
Base compensation, allowances and benefits in kind	47	51
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	9	8
Performance bonus		
Annual incentive	49	48
Long-term incentive	30	15
Provident fund contributions	6	6
Final payment (note)	17	3
	166	139

Note: The final payment included payment in lieu of notice, discretionary performance bonus, ex-gratia payment and compensation for loss of office paid to two (2010: one) former senior management personnel upon leaving.

33. Related Party Transactions (continued)

(E) Emoluments of key management personnel (continued)

At 31 December 2011, the CLP Holdings' Board was composed of 14 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year totalled HK$51 million (2010: HK$46 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included one Director (2010: three Directors), three members of Senior Management (2010: two members) and a former senior executive of the Group. The total remuneration of these five highest paid individuals amounted to HK$108 million (2010: HK$69 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in sections 6, 7, 8 and 10 (as highlighted) of the Human Resources & Remuneration Committee Report on pages 119 to 121, 124 and 125 respectively. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

34. Contingent Liabilities

Accounting Policy

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 on our website as part of our accounting "mini-series".

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

Under the original power purchase agreement between CLP India and its off-taker GUVNL, GUVNL was required to make a "deemed generation incentive" payment to CLP India 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 (HK$1,058 million). CLP India's position, amongst other arguments, is that the CLP India 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 CLP India has wrongly received interest on "deemed loans" under the existing power purchase agreement. GUVNL's claim rests on two main grounds: (i) CLP India 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 (HK$121 million) (2010: Rs.830 million (HK$144 million)).

34. Contingent Liabilities (continued)

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

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to CLP India of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when CLP India's plant was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL's claim against CLP India 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 (HK$422 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

CLP India 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. On 19 January 2010, the ATE dismissed both CLP India and GUVNL's appeals and upheld the decision of the GERC. CLP India 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 (HK$544 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK$73 million), which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010.

Subsequent to the above deduction, CLP India represented to GUVNL that during April 2004 to March 2006, gas was available for generation and therefore should not be considered as availability (deemed generation) on naphtha. GUVNL accepted the representation and refunded the base amount of Rs.292 million (HK$43 million) and interest of Rs.150 million (HK$22 million) in March 2011. However, during the first and last quarter of 2011, with the spot gas availability being constrained, CLP India was forced to declare availability on naphtha for certain periods, which resulted in deduction of incentive revenue by GUVNL under deemed generation of Rs.17 million (HK$3 million). At 31 December 2011, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" was revised to Rs.8,543 million (HK$1,245 million) (2010: Rs.8,968 million (HK$1,555 million)).

On the basis of legal advice obtained, the Directors are of the opinion that CLP India 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.

The application of the accounting concept to the "deemed generation incentive" lawsuit can be found on our website as part of our accounting "mini-series".

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

CLP Wind Farms (India) Private Limited, CLP India and its subsidiaries ("CLP India group") have invested (or are committed to invest) in around 500MW 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 group, as a customer of EIL, has been named as a pro-forma defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from EIL. As at 31 December 2011, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value 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 for the purpose of understanding price movements engaged by TRUenergy, all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominantly the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those companies. Overseas subsidiaries 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 future commercial transactions, and from recognised assets and liabilities and net investments in foreign operations. This is 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 from recognised assets and 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 the 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:

	2011 HK$M	2010 HK$M
Hong Kong dollar against U.S. dollar		
If Hong Kong dollar weakened by 0.6% (2010: 0.6%)	499	376
If Hong Kong dollar strengthened by 0.6% (2010: 0.6%)	(499)	(376)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 7% (2010: 12%)	77	92
If Hong Kong dollar strengthened by 7% (2010: 12%)	(67)	(72)

Foreign currency risk (continued)

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 2011, the Group's net investment subject to translation exposure was HK$57,906 million (2010: HK$49,520 million), arising mainly from our investments in Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. This means that, for each 1% (2010: 1%) average foreign currency movement, our translation exposure will vary by about HK$579 million (2010: HK$495 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 currencies 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. The extent of the impact to post-tax profit or equity due to exchange rate movements of U.S. dollar against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2011 HK$M	2010 HK$M
If U.S. dollar strengthened by 0.6% / 10% (2010: 5% / 10%)		
Post-tax profit for the year	(31)	67
Equity – hedging reserve	10	64
If U.S. dollar weakened by 0.6% / 10% (2010: 5% / 10%)		
Post-tax profit for the year	35	(64)
Equity – hedging reserve	(3)	(79)

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.

Energy price risk (continued)

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-year 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 contract portfolio at 31 December 2011 was HK$679 million (2010: HK$333 million). The change reflects an increase in holding of volatile positions through the NSW Acquisition. During 2011, the VaR ranged between a low of HK$326 million (2010: HK$143 million) and a high of HK$809 million (2010: HK$356 million).

Analyses below show the effect on post-tax profit and equity if market prices were 15% (2010: 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% (2010: 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. The extent of impact to post-tax profit or equity due to market price movements, with all other variables held constant, is as follows:

	2011 HK$M	2010 HK$M
If market prices were 15% (2010: 15%) higher		
Post-tax profit for the year	603	250
Equity – hedging reserve	(730)	(207)
If market prices were 15% (2010: 15%) lower		
Post-tax profit for the year	(591)	(164)
Equity – hedging reserve	730	207

The potential movement in post-tax profit is mainly attributable to an increase / decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The potential movement in equity is due to an increase / decrease in the fair value of energy hedging instruments designated as cash flow hedges.

In addition to VaR analysis, TRUenergy introduced Volumetric Limits in 2011. The Volumetric Limits are measures of the net physical energy and capacity exposure to spot and forward markets over time in the portfolio. It is used to provide guidance on portfolio hedging against the maximum long and short volumes allowable in megawatt (MW) terms on an energy and capacity basis for the net spot and forward market exposures.

Energy price risk (continued)

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 2011, 64% (2010: 61%) 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.

	2011 HK$M	2010 HK$M
Hong Kong dollar		
If interest rates were 0.1% (2010: 0.25%) higher		
Post-tax profit for the year	(13)	(19)
Equity – hedging reserve	–	5
If interest rates were 0.1% (2010: 0.1%) lower		
Post-tax profit for the year	13	7
Equity – hedging reserve	(1)	(3)
Australian dollar		
If interest rates were 0.5% (2010: 0.5%) higher		
Post-tax profit for the year	(17)	(8)
Equity – hedging reserve	151	57
If interest rates were 0.5% (2010: 0.5%) lower		
Post-tax profit for the year	16	8
Equity – hedging reserve	(148)	(60)

The Company's sensitivity to interest rates was not significant and therefore is not presented at 31 December 2011. The Company had no bank loans and other borrowings and interest rate derivative financial instruments at 31 December 2010.

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 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. TRUenergy has policies in place to ensure that sales of products and services are made to customers of an appropriate credit quality. For TRUenergy, receivables are due for settlement no more than 14 to 31 days after issue and collectibility is reviewed on an ongoing basis.

CLP India, 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 monitor rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

The table in next page 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.

Liquidity risk (continued)

	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 2011					
Non-derivative financial liabilities					
Bank loans	5,446	6,419	18,780	10,604	41,249
Other borrowings	9,624	2,231	6,454	20,550	38,859
Obligations under finance leases	4,823	4,604	12,473	26,134	48,034
Customers' deposits	4,297	–	–	–	4,297
Trade and other payables	16,990	–	–	–	16,990
SoC reserve accounts	–	–	–	643	643
	41,180	13,254	37,707	57,931	150,072
Derivative financial liabilities					
Net settled					
Interest rate swaps	235	225	296	171	927
Energy contracts	–	24	1,059	887	1,970
Gross settled					
Forward foreign exchange contracts	13,927	15,980	72,554	1,323	103,784
Cross currency & interest rate swaps	3,142	1,286	1,930	15,514	21,872
	17,304	17,515	75,839	17,895	128,553
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 2011, the maturity profile of the Company's bank loans, included in the Group amounts shown above, was HK$2,720 million (2010: nil) repayable within one year, HK$72 million (2010: nil) between one and two years and HK$5,226 million (2010: nil) between two to five years.

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 2011				
Assets				
Available-for-sale investments	25	–	1,263	1,288
Forward foreign exchange contracts	–	1,860	–	1,860
Cross currency & interest rate swaps	–	1,565	–	1,565
Interest rate swaps	–	2	–	2
Energy contracts	–	890	2,868	3,758
	25	4,317	4,131	8,473
Liabilities				
Forward foreign exchange contracts	–	161	–	161
Cross currency & interest rate swaps	–	255	–	255
Interest rate swaps	–	899	–	899
Energy contracts	–	395	5,584	5,979
	–	1,710	5,584	7,294

3. Fair Value Hierarchy of Financial Instruments (continued)

	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
	–	1,401	610	2,011

During 2011 and 2010, there were 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:

	2011			2010		
	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	1,264	247	1,511	1,263	365	1,628
Total gains / (losses) recognised in						
Profit or loss	(4)	627	623	–	(297)	(297)
Other comprehensive income	–	182	182	–	98	98
Acquisition of business (Note 2(A))	–	(3,338)	(3,338)	–	–	–
Purchases	3	181	184	1	67	68
Sales	–	(5)	(5)	–	–	–
Settlements	–	(610)	(610)	–	14	14
Closing balance	1,263	(2,716)	(1,453)	1,264	247	1,511
Total gains / (losses) for the year included in profit or loss and presented in fuel and other operating expenses	(4)	627	623	–	(297)	(297)
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	–	(534)	(534)	–	(199)	(199)

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 2011 and 2010.

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

	2011 HK$M	2010 HK$M
Total debt [(a)]	**65,521**	44,623
Net debt [(b)]	**61,655**	39,867
Total equity	**81,352**	79,758
Total capital (based on total debt) [(c)]	**146,873**	124,381
Total capital (based on net debt) [(d)]	**143,007**	119,625
Total debt to total capital (based on total debt) ratio (%)	**44.6**	35.9
Net debt to total capital (based on net debt) ratio (%)	**43.1**	33.3

The increase of total debt to total capital ratio and net debt to total capital ratio was mainly due to additional loans raised during the year to support our overseas business expansion, including the acquisition of certain NSW energy assets and ESG assets in Australia, as well as the construction of the Jhajjar coal-fired project in India, partly offset by the proceeds from the divestment of our interest in EGCO.

Certain entities of the Group are subject to certain loan covenants. For both 2011 and 2010, 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.

Scheme of Control Statement

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), which is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2008. The SoC covers a period of 10 years to 30 September 2018, with the Hong Kong Government having the right to extend by 5 years on the same terms to 30 September 2023 by giving notice before 1 January 2016. In the event that the 5 years extension option is not exercised by the Hong Kong Government, the SoC Companies will continue to earn the permitted return until 30 September 2023 on all approved investments.

The current SoC includes a provision to give the SoC Companies protection for stranded costs, which may arise as a result of future changes to the market structure which adversely impact on the SoC Companies' ability to recover and to earn returns on existing investments made in good faith in accordance with the SoC. These costs will include the costs of investments, fuel and power purchase agreements previously approved by the Hong Kong Government. If stranded costs arise after the SoC Companies have implemented mitigation measures reasonably required by the Hong Kong Government, the SoC Companies are entitled to recover them from the market, consistent with international practice. Three years before market changes are introduced, the SoC Companies and the Hong Kong Government will agree on the amount of stranded costs and the mechanism for their recovery by the SoC Companies.

Tariff Setting Mechanism

For each year, CLP Power Hong Kong designs the net tariff it charges to cover the SoC Companies' operating costs and allowed net return. The net tariff consists of the following three components:

(i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula "(a-b) / c":
  - (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
  - (b) 80% of the profit on electricity sale to the Chinese mainland; and
  - (c) local unit sales as determined by the load forecast.

(ii) fuel clause charge or rebate which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate; and

(iii) SoC rebate from the Rate Reduction Reserve.

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power Hong Kong. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power Hong Kong and is applied as SoC rebates to customers as shown above.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments.
- The net return is the permitted return after the deduction or adjustment of the following items:
  (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
  (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;
  (c) an excess capacity adjustment of 9.99% under the SoC on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
  (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
  (e) incentives / penalties adjustments linked with emission performance, customer performance, energy efficiency and renewables performance. These performance related adjustments are only applicable to each full calendar year of the SoC, and are in the range of -0.43% to +0.2% on the average net fixed assets.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2011 was 9.10% (2010: 9.15%).

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies and ExxonMobil International Holdings Inc. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2011, 63% (2010: 64%) of the net return was allocated to CLP Power Hong Kong and 37% (2010: 36%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Tariff Stabilisation Fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown on page 213 are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2011 HK$M	2010 HK$M
SoC revenue	**30,928**	30,016
Expenses		
Operating costs	**3,516**	3,467
Fuel	**8,784**	7,848
Purchases of nuclear electricity	**4,879**	5,003
Provision for asset decommissioning	**282**	224
Depreciation	**3,863**	3,427
Operating interest	**742**	677
Taxation	**1,528**	1,597
	23,594	22,243
Profit after taxation	**7,334**	7,773
Interest on increase in customers' deposits	**–**	–
Interest on borrowed capital	**841**	763
Adjustment for performance incentives / penalties	**(45)**	(43)
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	**(62)**	(73)
Profit for SoC	**8,068**	8,420
Transfer from Tariff Stabilisation Fund	**868**	148
Permitted return	**8,936**	8,568
Deduct interest on / Adjustment for		
Increase in customers' deposits as above	**–**	–
Borrowed capital as above	**841**	763
Performance incentives / penalties as above	**(45)**	(43)
Tariff Stabilisation Fund to Rate Reduction Reserve	**2**	3
	798	723
Net return	**8,138**	7,845
Divisible as follows:		
CLP Power Hong Kong	**5,139**	4,985
CAPCO	**2,999**	2,860
	8,138	7,845
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	**5,139**	4,985
Interest in CAPCO	**1,200**	1,144
	6,339	6,129

Five-year Summary : CLP Group Statistics

Economic

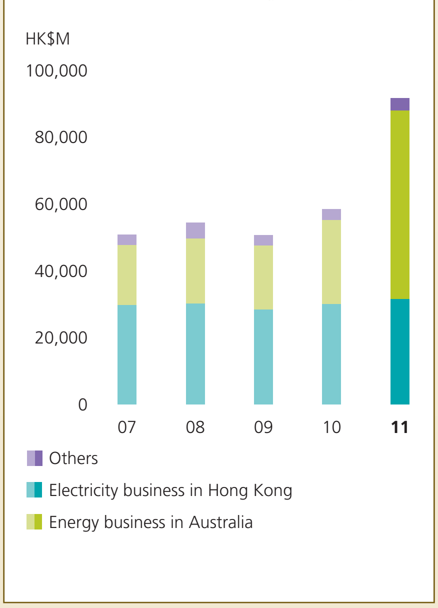
	2011	2010	2009	2008	2007
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong (HK)	**31,518**	29,944	28,297	30,191	29,684
Energy business in Australia	**56,325**	25,182	19,166	19,432	18,018
Others	**3,791**	3,284	3,205	4,674	3,087
Total	**91,634**	58,410	50,668	54,297	50,789
Operating profit	**13,188**	12,397	10,847	13,307	13,304
Earnings					
Electricity business in HK	**6,339**	6,129	5,964	7,549	7,589
Energy business in Australia	**2,911**	1,303	736	604	227
Other investments / operations	**1,581**	2,173	2,271	1,960	1,893
Gains on sales of assets	**876**	356	153	657	1,797
Provisions for fixed assets / jointly controlled entities / associated companies	**(1,933)**	(258)	(477)	–	–
Valuation gain on Hok Un redevelopment	**225**	–	–	–	–
Tax consolidation benefit from Australia	**–**	989	–	–	–
Other one-off items from Australia	**(192)**	97	(17)	19	(503)
Unallocated net finance costs	**(48)**	(18)	(21)	(21)	(90)
Unallocated Group expenses	**(471)**	(439)	(413)	(345)	(305)
Total	**9,288**	10,332	8,196	10,423	10,608
Dividends	**6,063**	5,967	5,967	5,971	5,973
Capital expenditure, owned and leased assets	**15,798**	20,032	9,713	7,760	8,271
Depreciation & amortisation, owned and leased assets	**6,353**	5,065	4,332	4,055	4,650
Consolidated Statement of Cash Flows, HK$M					
Net cash inflow from operating activities	**18,062**	16,085	14,529	15,238	14,823
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**60,142**	57,247	54,712	52,132	49,684
Other fixed assets	**70,240**	60,213	44,146	36,991	38,925
Goodwill and other intangible assets	**27,369**	9,150	8,105	6,324	8,135
Interests in jointly controlled entities	**18,226**	20,476	18,838	17,791	17,684
Interests in associated companies	**1,465**	2,378	1,813	242	299
Other non-current assets	**9,791**	11,177	9,588	8,166	8,272
Current assets	**27,055**	18,714	19,329	11,185	13,278
Total assets	**214,288**	179,355	156,531	132,831	136,277
Shareholders' funds	**81,259**	79,661	70,761	63,017	63,901
Non-controlling interests	**93**	97	107	105	95
Equity	**81,352**	79,758	70,868	63,122	63,996
Bank loans and other borrowings	**65,521**	44,623	39,431	26,696	28,360
Obligations under finance leases	**27,396**	27,100	21,855	21,765	22,216
SoC reserve accounts	**643**	1,509	1,654	1,826	2,300
Other current liabilities	**23,642**	16,420	14,023	11,205	11,538
Other non-current liabilities	**15,734**	9,945	8,700	8,217	7,867
Total liabilities	**132,936**	99,597	85,663	69,709	72,281
Equity and total liabilities	**214,288**	179,355	156,531	132,831	136,277
Per Share Data, HK$					
Shareholders' funds per share	**33.77**	33.11	29.41	26.19	26.53
Earnings per share	**3.86**	4.29	3.41	4.33	4.40
Dividends per share	**2.52**	2.48	2.48	2.48	2.48

	2011	2010	2009	2008	2007
Per Share Data, HK$ (continued)					
Closing share price					
Highest	**74.95**	64.65	57.55	70.50	59.95
Lowest	**59.95**	52.15	51.15	42.85	50.25
As at year-end	**66.05**	63.10	52.45	52.60	53.25
Ratios					
Return on equity, %	**11.5**	13.7	12.3	16.4	17.7
Total debt to total capital, %	**44.6**	35.9	35.7	29.7	30.7
Net debt to total capital, %	**43.1**	33.3	30.7	29.1	28.6
Interest cover, times	**4**	7	8	9	8
Price / Earnings, times	**17**	15	15	12	12
Dividend yield, %	**3.8**	3.9	4.7	4.7	4.7
Dividend pay-out (total earnings), %	**65.3**	57.8	72.8	57.3	56.3
Dividend pay-out (operating earnings), %	**58.8**	65.2	69.9	61.3	64.1
Group generating capacity					
(owned / operated / under construction) *, MW					
– by region					
Hong Kong	**6,908**	6,908	6,908	6,908	6,908
Australia	**5,616**	3,211	3,188	3,132	3,112
Chinese mainland **	**5,957**	5,899	5,578	5,206	4,477
India **	**2,594**	2,461	2,420	2,183	680
Southeast Asia & Taiwan	**282**	868	832	796	728
	21,357	19,347	18,926	18,225	15,905
– by status					
Operational	**19,707**	17,145	16,473	15,636	14,693
Construction	**1,650**	2,202	2,453	2,589	1,212
	21,357	19,347	18,926	18,225	15,905

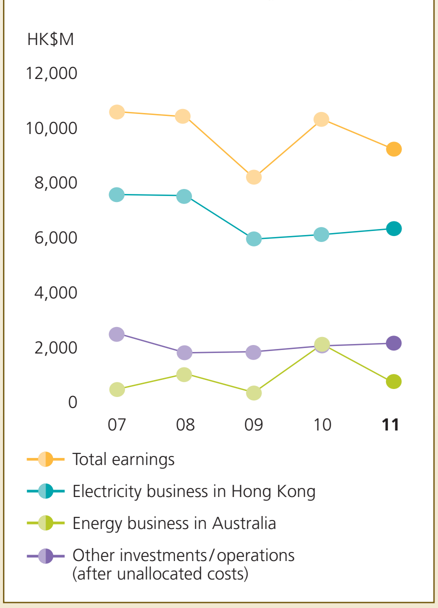
* Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC and Ecogen on 100% as having right to use; and (c) other stations on the proportion of the Group's equity interests.

** Including our interests in wind farms held through Roaring 40s for 2007 to 2008. CLP acquired these wind farms from Roaring 40s during 2009.

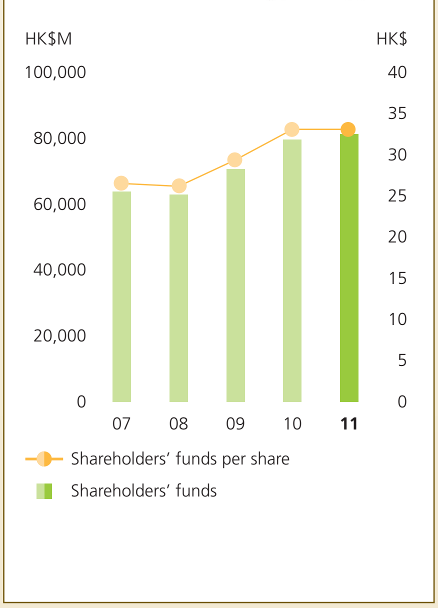
Revenue



Earnings



Shareholders' Funds



A ten-year summary is on our website

Environmental

Performance Indicators	Units	2011	2010	2009	2008	2007	Global Reporting Initiative Reference
Resource Use & Emissions [1]							
Coal consumed (for power generation)	TJ	419,357	370,427[2]	469,509	445,211	413,188	EN3
Gas consumed (for power generation)	TJ	101,166	135,556	102,160	105,821	93,763	EN3
Oil consumed (for power generation)	TJ	1,508	1,272	7,185	6,452	868	EN3
Biomass consumed (for power generation)	TJ	1,848	1,375	1,012	–	–	EN3
Carbon dioxide equivalent (CO_2e) emissions (from power generation)	kT	44,450	41,908[2]	49,761	–	–	EN16
Carbon dioxide (CO_2) emissions (from power generation) [3]	kT	44,298	41,784[2]	49,631	44,251	34,148	EN16
Nitrogen oxides emissions (NO_x) [4]	kT	48.1	39.3	43.8	47.6	57.1	EN20
Sulphur dioxide emissions (SO_2) [4]	kT	35.8	37.4[5]	53.0[5]	55.3	70.4	EN20
Total particulates emissions [4]	kT	6.2	6.4	6.8	6.8	6.3	EN20
Water withdrawal [4]							EN8
from marine water resources	Mm³	4,688.6	4,670.7	3,163.9	–	–	
from freshwater resources	Mm³	37.9	41.7	42.0	–	–	
from municipal sources	Mm³	5.5	4.3	4.1	–	–	
Total	Mm³	4,732.0	4,716.6	3,210.0	–	–	
Water discharged [4]							EN21
cooling water to marine water bodies	Mm³	4,688.6	4,670.7	3,163.9	–	–	
treated wastewater to marine water bodies	Mm³	0.8	0.8	1.0	–	–	
treated wastewater to freshwater bodies	Mm³	18.1	18.4	15.5	–	–	
wastewater to sewerage	Mm³	1.8	1.6	1.7	–	–	
wastewater to other destinations	Mm³	0.6	0.7	0.7	–	–	
Total	Mm³	4,710.0	4,692.1	3,182.9	–	–	
Hazardous waste produced [6]	T (solid) / kl (liquid)	799 / 912[7]	803 / 1,167	771 / 1,011	–	–	EN22
Hazardous waste recycled [6]	T (solid) / kl (liquid)	36 / 831[7]	39 / 844	57 / 636	–	–	EN22
Non-hazardous waste produced [6]	T (solid) / kl (liquid)	6,301 / 0[7]	8,029 / 2	5,160 / 0	–	–	EN22
Non-hazardous waste recycled [6]	T (solid) / kl (liquid)	3,699 / 0[7]	3,199 / 0	2,369 / 0	–	–	EN22
Environmental regulatory non-compliances resulting in fines or prosecutions	number	0	0	0	–	–	EN28
Environmental licence limit exceedances & other non-compliances	number	5	3	1	–	–	EN28
Climate Vision 2050 Target Performance [8]							
Total renewable energy generation capacity (equity basis)	% (MW)	18.3 (2,424)	16.8 (2,286)	11.3 (1,494)	8.4 (1,066)	–	EN6
Non-carbon emitting generation capacity (equity basis)	% (MW)	22.0 (2,916)	20.4 (2,778)	15.0 (1,986)	12.3 (1,558)	–	
Carbon dioxide emissions intensity of CLP Group's generation portfolio (equity basis)	kg CO_2 / kWh	0.80	0.80	0.83	0.84	–	EN16

Notes:

(1) Covered operating facilities where CLP has operational control for the full calendar reporting year.

(2) Yallourn's coal consumed, CO_2e and CO_2 emissions data have been updated to align with local regulatory reporting requirements.

(3) Includes Yallourn and Hallett facilities' CO_2e emissions as CO_2 emissions data were not available.

(4) Data updated to align with updated reporting scope in 2011.

(5) Yallourn's 2009 and 2010 SO_2 emissions have been re-estimated using coal sulphur measurements.

(6) Waste categorised in accordance with local regulations.

(7) Waste data of Huaiji hydro in the Chinese mainland not included as data were not verifiable.

(8) "Equity basis" includes all majority and minority share facilities in the CLP Group portfolio.

All environmental data on this page have been independently verified by ERM-Hong Kong, Limited.

Social

Performance Indicators	Units	2011	2010	2009	2008	2007	Global Reporting Initiative Reference
Employees							
Employees based on geographical location							LA1
Hong Kong	number	**4,259**	4,228	4,164	4,165	4,238	
Chinese mainland	number	**552**	574	546	525	420	
Australia	number	**1,111**	939	841	856	890	
India	number	**374**	309	207	143	119	
Other locations (Southeast Asia & Macau)	number	**20**	25	19	28	28	
Total	number	**6,316**	6,075	5,777	5,717	5,695	
Employees eligible to retire within the next five years (1)							EU15
Hong Kong	%	**13.4%**	12.5%	11.4%	9.9%	8.1%	
Chinese mainland	%	**9.6%**	11.3%	7.3%	2.1%	0%	
Australia	%	**9.6%**	9.5%	10.1%	8.6%	9.5%	
India	%	**1.1%**	1.3%	1.5%	1.4%	1.7%	
Other locations (Southeast Asia & Macau)	%	**0%**	0%	0%	0%	0%	
Group	%	**11.6%**	11.3%	10.3%	8.8%	7.6%	
Voluntary staff turnover rate	%	**4.9%**	5.3%	2.7%	5.8%	6.1%	LA2
Training per employee	average man days	**5.4**	5.5	4.9	5.9	6.5	LA10
Safety							
Fatalities (employees only) (2)	number	**0**(3)	1	0	0	0	LA7
Cases of disabling injuries (employees only) (2)	number	**9**	2	3	9	4	
Days lost/charged (employees only) (2)	number	**674**	6,010	45	109	39	
Governance							
Convicted cases of corruption	case	**0**	0	0	0	0	SO2
Breaches of Code of Conduct	case	**6**	4	8	8	9	SO8

Notes:

(1) The percentages given refer to the full-time permanent staff (based on the location of their employing Group entity) within each location, and of the Group as a whole, who are eligible to retire within the next five years.

(2) Covered operating facilities where CLP has operational control for the full calendar reporting year.

(3) There was no employee fatality in 2011 in our majority-owned facilities under operation. However, we recorded 5 contractor fatalities in our majority-owned facilities under construction and 3 other contractor fatalities in minority-owned facilities.

All social data on this page have been independently verified by ERM-Hong Kong, Limited.

Five-year Summary: Scheme of Control Financial & Operating Statistics

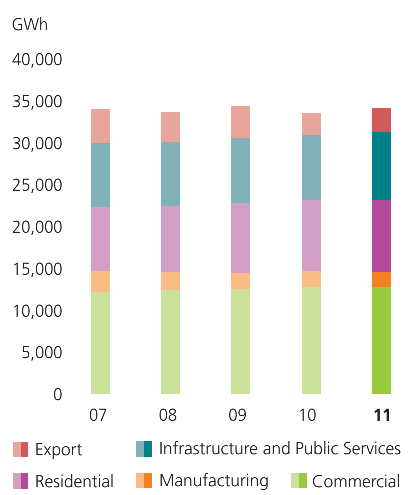
CLP Power Hong Kong Limited and Castle Peak Power Company Limited

	2011	2010	2009	2008	2007
SoC Financial Statistics, HK$M					
Combined Profit & Loss Statement					
Profit for SoC	**8,068**	8,420	8,052	10,418	10,367
Transfer (to) / from Tariff Stabilisation Fund / Development Fund *	**868**	148	103	(133)	353
Permitted return	**8,936**	8,568	8,155	10,285	10,720
Less: Interest on / Adjustment for					
Increase in customers' deposits	**–**	–	–	2	33
Borrowed capital	**841**	763	625	608	728
Performance incentives / penalties	**(45)**	(43)	(41)	–	–
Tariff Stabilisation Fund / Development Fund * and Special provision account	**2**	3	3	132	202
Net return	**8,138**	7,845	7,568	9,543	9,757
Combined Balance Sheet					
Net assets employed					
Fixed assets	**91,187**	87,713	83,811	79,445	75,239
Non-current assets	**2,310**	1,698	774	1,552	533
Current assets	**4,913**	4,367	3,929	3,612	3,504
	98,410	93,778	88,514	84,609	79,276
Less: current liabilities	**17,439**	15,194	17,658	14,394	14,429
Net assets	**80,971**	78,584	70,856	70,215	64,847
Exchange fluctuation account	**(1,428)**	(962)	(346)	(165)	51
	79,543	77,622	70,510	70,050	64,898
Represented by					
Shareholders' funds	**41,845**	39,960	37,197	42,366	40,404
Long-term loans and other borrowings	**25,283**	25,248	21,598	16,616	13,828
Deferred liabilities	**11,778**	10,909	10,062	9,312	8,549
Tariff Stabilisation Fund / Development Fund *	**637**	1,505	1,653	1,756	2,117
	79,543	77,622	70,510	70,050	64,898
Other SoC Information					
Total electricity sales	**30,824**	29,917	28,349	30,288	29,236
Capital expenditure	**7,774**	7,748	7,798	7,665	6,123
Depreciation	**3,863**	3,427	3,149	3,005	3,699
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,378**	2,347	2,321	2,291	2,261
Sales analysis, millions of kWh					
Commercial	**12,670**	12,642	12,488	12,312	12,144
Manufacturing	**1,886**	1,952	1,938	2,202	2,418
Residential	**8,594**	8,457	8,331	7,890	7,724
Infrastructure and Public Services	**8,018**	7,878	7,813	7,661	7,676
Local	**31,168**	30,929	30,570	30,065	29,962
Export	**2,957**	2,609	3,731	3,552	4,035
Total Electricity Sales	**34,125**	33,538	34,301	33,617	33,997
Annual change, %	**1.8**	(2.2)	2.0	(1.1)	(0.3)
Local consumption, kWh per person	**5,373**	5,365	5,353	5,260	5,301
Local sales, HK¢ per kWh (average)					
Basic tariff	**80.1**	80.1	77.5	85.6	88.1
Fuel clause charge	**14.1**	11.5	11.8	7.3	2.0
SoC rebate	**–**	–	(0.2)	(0.8)	(1.1)
Special rebate	**–**	–	–	(1.6)	(1.8)
Total	**94.2**	91.6	89.1	90.5	87.2
Annual basic tariff change, %	**–**	3.4	(9.5)	(2.8)	0.1
Annual total tariff change, %	**2.8**	2.8	(1.5)	3.8	0.1

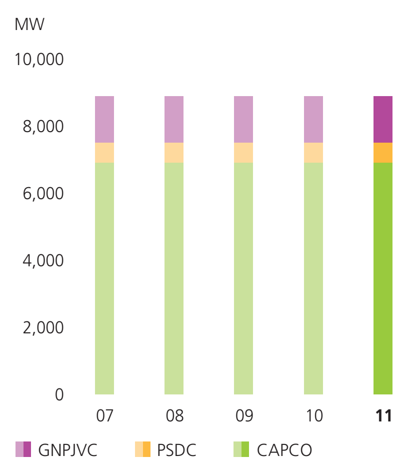
	2011	2010	2009	2008	2007
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,888**	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	**6,702**	6,766	6,389	6,749	6,284
Annual change, %	**(0.9)**	5.9	(5.3)	7.4	(2.3)
Local and the Chinese mainland, MW	**7,798**	7,349	7,616	8,199	7,730
Annual change, %	**6.1**	(3.5)	(7.1)	6.1	(7.1)
System load factor, %	**55.3**	57.2	56.4	51.1	55.0
Generation by CAPCO stations, millions of kWh	**26,800**	26,019	26,410	25,722	26,698
Sent out, millions of kWh –					
From own generation	**24,955**	24,552	24,920	24,324	25,200
Net transfer from / (to)					
Landfill gas generation	**5**	5	5	5	6
GNPS / GPSPS	**10,558**	10,350	10,773	10,653	10,164
Total	**35,518**	34,907	35,698	34,982	35,370
Fuel consumed, terajoules –					
Oil	**1,044**	844	895	1,048	868
Coal	**188,407**	148,229	169,753	153,565	179,599
Gas	**57,665**	83,007	70,393	77,487	63,552
Total	**247,116**	232,080	241,041	232,100	244,019
Cost of fuel, HK$ per gigajoule – Overall	**35.33**	34.13	29.14	29.06	20.14
Thermal efficiency, % based on units sent out	**36.4**	38.1	37.2	37.7	37.2
Plant availability, %	**85.4**	79.2	83.0	85.8	90.0
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	554	555	554	554
132kV	**1,531**	1,528	1,488	1,386	1,346
66kV & 33kV	**27**	27	60	62	88
11kV	**11,809**	11,658	11,444	11,240	11,076
Transformers, MVA	**59,454**	58,929	57,700	57,187	56,423
Substations –					
Primary	**213**	213	214	214	202
Secondary	**13,361**	13,208	13,074	12,914	12,784
Employees and Productivity					
No. of SoC employees	**3,734**	3,709	3,708	3,758	3,861
Productivity, thousands of kWh per employee	**8,375**	8,340	8,189	7,892	7,755

* The Tariff Stabilisation Fund has replaced the Development Fund under the new SoC effective from 1 October 2008.

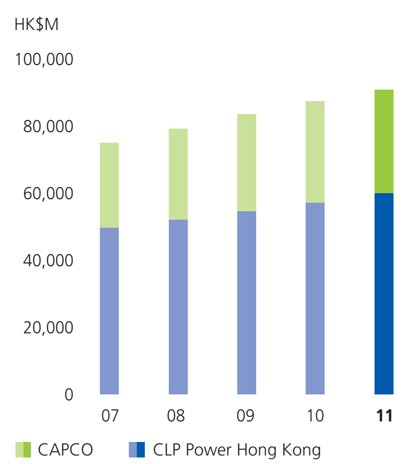
Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets



A ten-year summary is on our website