Financials

What was an accounting view of our financial performance during 2012 and how we stood at the end of the year?

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 differences arising from the translation of our Australia and India businesses and mark-to-market movements charged to hedging reserve in 2012. 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 2012. 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"

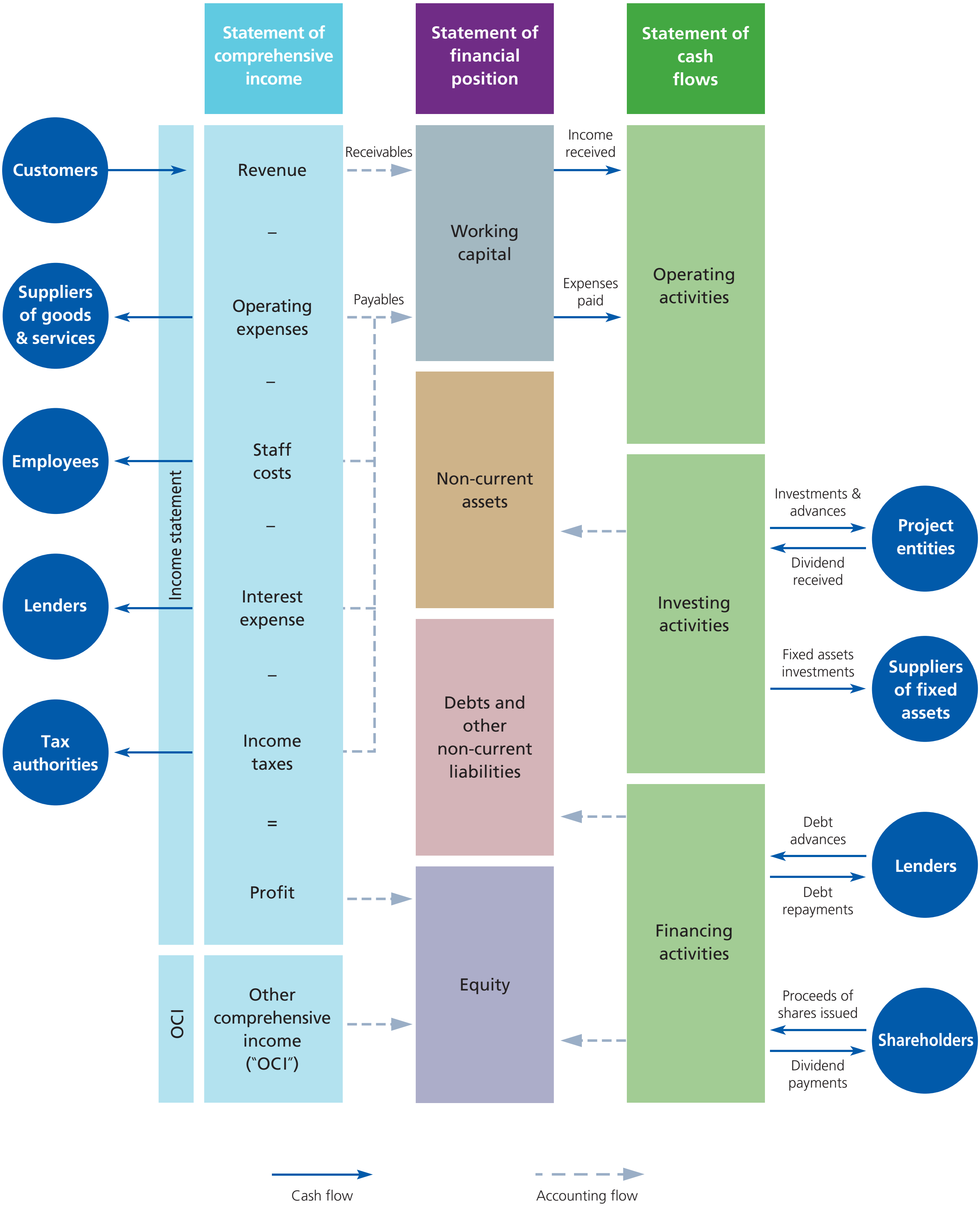
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the 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 and interest costs and also invests in additional non-current assets. The net balance of revenue, operating expenses, staff and interest costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. 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

Each year in our Annual Report we explain an aspect of our accounts which is of particular importance or relevance to our shareholders. In this year's "Accounting Mini-series", we have chosen to explain the concept of "deferred tax" and to provide some examples of its application throughout the Group.

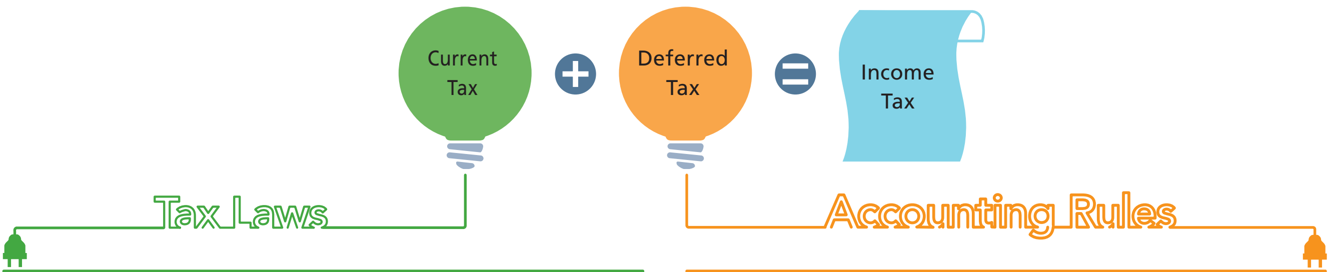
Why Can Tax be Deferred?

Tax laws and accounting rules seldom match with each other. Profits tax is payable or recoverable based on the taxable and deductible amounts assessed by a tax authority according to the prevailing tax laws of respective jurisdictions. However, the recognition of tax expense or credit in our financial statements is governed by accounting standards.

The accounting standard – HKAS 12 "Income Taxes" introduces the concept of "deferred tax" to reconcile this matching of transactions and events with their tax effects. Through the application of this accounting standard, CLP has recognised deferred tax assets of HK$1,025 million and deferred tax liabilities of HK$8,370 million at 2012 year end.

Income Tax

Income tax in the accounting regime comprises both the actual tax levied by a tax authority (i.e. current tax) and future tax consequences (i.e. deferred tax).

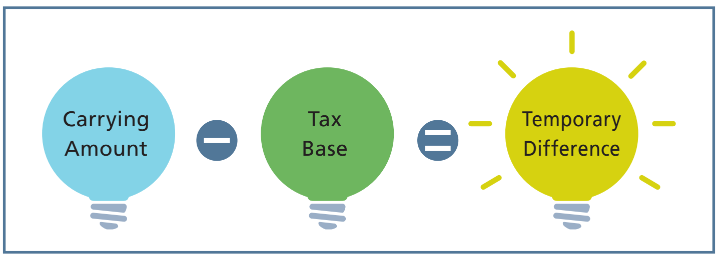


- Tax levied on taxable profit, which equals to accounting profit adjusted for taxable and tax-deductible items
- An unpaid amount is shown as a current tax liability, whereas a recoverable amount is shown as a current tax asset
- Measured at the tax rates and tax laws that have been enacted or substantively enacted

- Reconciles tax consequence from differences between taxable profit and accounting profit
- Reflects the tax consequence of a transaction in the year of its occurrence
- Derived from the temporary difference approach, which also called the balance sheet approach
- Measured at the tax rates that are expected to apply to the period when deferred tax is realised

The "Temporary Difference" Approach

Every asset and liability has a "shadow value" under tax laws for tax computation, which the accounting standard calls its "tax base". For example, the tax base of an asset means the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. The difference between the carrying amount of an asset or a liability in the financial statements and its tax base is referred to as a "temporary difference". A temporary difference can either be a taxable temporary difference or a deductible temporary difference.

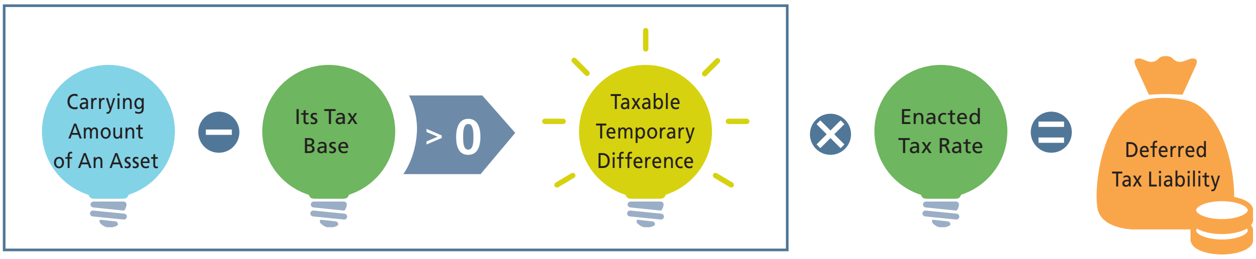


Deferred Tax Liability

A temporary difference that will result in taxable amounts in determining taxable profit of future periods when the carrying amount of an asset or a liability is recovered or settled is regarded as a "taxable temporary difference". It commonly arises from the differences between accounting depreciation and tax depreciation (i.e. capital allowances).

The accounting rules require an asset with a limited useful life to be subject to accounting depreciation. Concurrently, the asset may be eligible for capital allowances under the tax laws. Because governments often use tax policy to encourage capital investment, capital allowances usually depreciate an asset at a faster rate than accounting depreciation. This leads to a higher asset carrying amount (cost less accumulated accounting depreciation) compared to its tax base (cost less accumulated tax depreciation).

The accounting standard requires us to recognise all taxable temporary differences. They are recorded as deferred tax liabilities in the financial statements.



Example: Electricity Business in Hong Kong

Deferred tax liabilities of CLP arise mainly from our Hong Kong electricity business. One example where a deferred tax liability arises is the treatment of equipment such as switchgear and transformer installed in our substations. This equipment is subject to both accounting depreciation and capital allowances under the accounting and Hong Kong Profits Tax regime.

Hong Kong Tax Laws

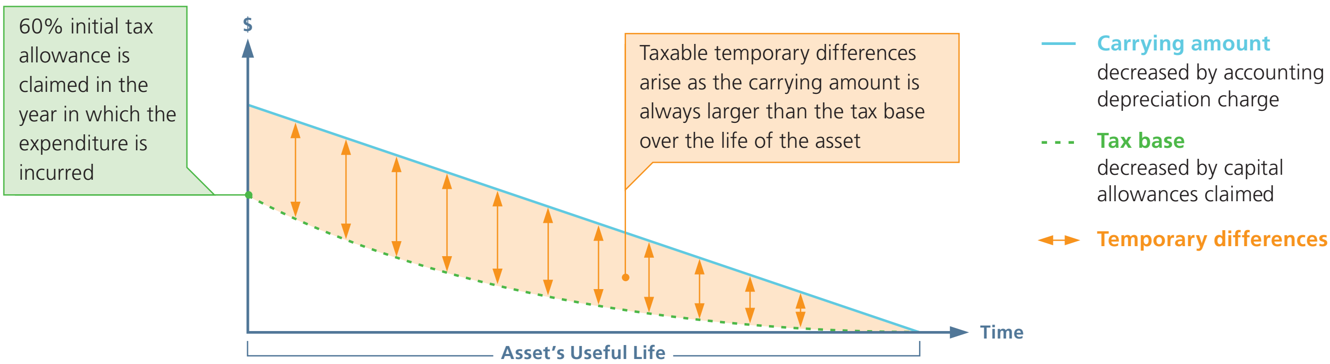
- Inland Revenue Rule No. 2
- 60% initial allowance on cost
- 10% annual allowance on written down value

Accounting Rules

- HKAS 16 Property, Plant and Equipment
- Straight-line depreciation over the estimated useful life of 50 years

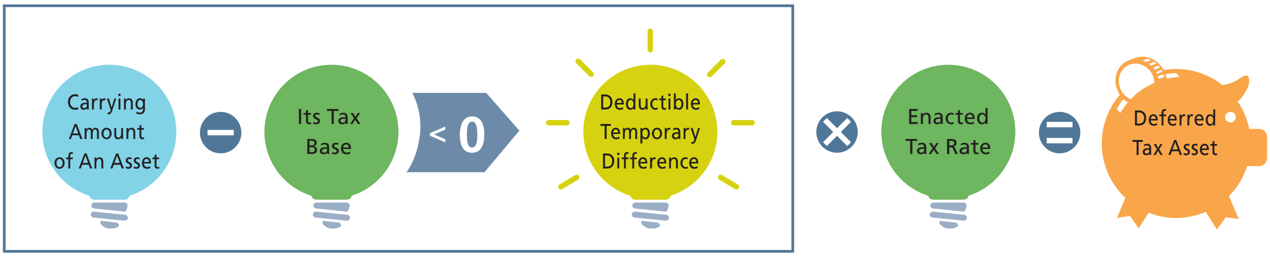
In this example, the Hong Kong tax regime allows for a 60% capital allowance in the year in which the expenditure is incurred, whereas for accounting purposes the equipment is depreciated on a straight-line basis over an estimated useful life of 50 years. This initial capital allowance reduces our current tax liability for that year and results in the tax bases of switchgear and transformer being lower than their carrying amounts throughout their useful lives.

These temporary differences will be reduced gradually to zero over time as accounting depreciation exceeds annual capital allowance. This means higher tax levies in future years, thereby reducing our deferred tax liability over time.



Deferred Tax Asset

A temporary difference which gives rise to deductions in calculating the taxable profit in future years is regarded as a "deductible temporary difference". One example of a deductible temporary difference is asset impairment, which reduces the carrying amount of an asset on the balance sheet, although its tax base under the tax computation is not affected. In other words, the impaired amount is still available for tax deductions in future years.



Deferred tax asset is also applied to unused tax losses and tax credits that are carried forward for tax purposes. This is another kind of deductible temporary difference.

The accounting standard sets out stringent rules on the recognition of a deferred tax asset. It can only be recognised if it is probable that future taxable profits will be available to utilise the deductible temporary differences. Every year, the carrying amount of a deferred tax asset will be reviewed and reduced, if appropriate, to the extent that sufficient taxable profits will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

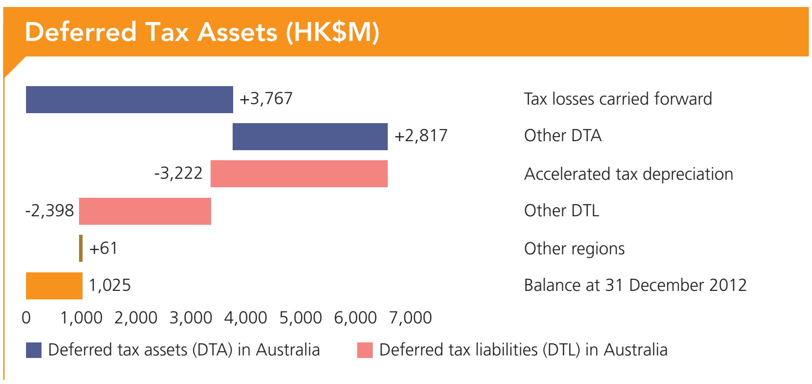
Example: Energy Business in Australia

Deferred tax assets recognised in our books mainly relate to tax losses carried forward in our Australia energy business of HK$3,767 million. The majority of these tax losses are operating losses of Yallourn Power Station accumulated in the years prior to its acquisition by the Group in 2003.

As mentioned above, deferred tax assets can only be recognised if it is probable that future taxable profits will be available. This recognition criterion must be satisfied on an ongoing basis. Through our annual Business Planning process, we forecast the taxable profits of EnergyAustralia and our ability to utilise the unused tax losses. In undertaking this assessment, consideration must be given to past performance and the accuracy of previous forecasts as indicators of the likelihood of the current forecasts being realised.

Netting-off Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are required to be disclosed separately in the financial statements. They are allowed to be presented on a net basis only if we have a legally enforceable right to set off current tax assets against current tax liabilities and they are levied by the same tax authority. The chart opposite illustrates the netting-off effect between deferred tax assets and liabilities of our Australia tax consolidation group.



Merits of Deferred Tax Accounting

Most transactions and events recorded in the financial statements have a tax consequence which may be immediate or may be deferred. By applying deferred tax accounting, the tax effects of all income and expenditure, gains and losses, assets and liabilities are recognised in the same period in which these items are recognised and not in the period in which they form part of taxable profit. This matching of transactions and events with their tax effects brings investors one step closer to understanding our underlying performance every year.

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 148 to 220 which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 25 February 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Note	2012 HK$M	2011 HK$M
Revenue	2	104,861	91,634
Expenses			
Purchases of electricity, gas and distribution services		(50,760)	(43,029)
Operating lease and lease service payments		(13,362)	(12,169)
Staff expenses		(2,935)	(2,623)
Fuel and other operating expenses		(17,682)	(12,287)
Depreciation and amortisation		(7,021)	(6,353)
		(91,760)	(76,461)
Other income		–	776
Other charge		–	(2,761)
Operating profit	4	13,101	13,188
Finance costs	5	(6,423)	(6,005)
Finance income	5	322	146
Share of results, net of income tax			
Jointly controlled entities	13	2,405	2,929
Associated companies	14	579	681
Profit before income tax		9,984	10,939
Income tax expense	6	(1,692)	(1,650)
Profit for the year		8,292	9,289
Earnings attributable to:			
Shareholders	7	8,312	9,288
Non-controlling interests		(20)	1
		8,292	9,289
Dividends	8		
First to third interim dividends paid		3,825	3,753
Fourth interim dividend declared		2,476	2,310
		6,301	6,063
Earnings per share, basic and diluted	9	HK$3.45	HK$3.86

The Income Statement is better known as the "Profit and Loss Account"

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	2012 HK$M	2011 HK$M
Profit for the year	8,292	9,289
Other comprehensive income		
Exchange differences on translation	626	(971)
Cash flow hedges	(501)	325
Net fair value gains on available-for-sale investments	4	27
Share of other comprehensive income of jointly controlled entities	7	(498)
Reclassification adjustments		
Sales of available-for-sale investments	–	(281)
Sale of a jointly controlled entity	–	(320)
Other comprehensive income for the year, net of tax	136	(1,718)
Total comprehensive income for the year	8,428	7,571
Total comprehensive income attributable to:		
Shareholders	8,447	7,565
Non-controlling interests	(19)	6
	8,428	7,571

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 142. Further details of other comprehensive income attributable to shareholders are presented in Note 27.

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2012

	Note	2012 HK$M	2011 HK$M
Non-current assets			
Fixed assets	10(A)	132,463	128,571
Leasehold land and land use rights under operating leases	10(B)	1,866	1,811
Goodwill and other intangible assets	11	28,479	27,369
Interests in jointly controlled entities	13	19,197	18,226
Interest in an associated company	14	1,856	1,465
Finance lease receivables	15	1,665	1,847
Deferred tax assets	23	1,025	1,276
Fuel clause account	24	337	212
Derivative financial instruments	16	3,285	5,027
Available-for-sale investments	17	1,289	1,288
Other non-current assets		141	141
		191,603	187,233
Current assets			
Inventories – stores and fuel		1,667	1,470
Renewable energy certificates		1,991	2,316
Trade and other receivables	18	18,552	17,103
Finance lease receivables	15	158	142
Derivative financial instruments	16	1,759	2,158
Bank balances, cash and other liquid funds	19	13,026	3,866
		37,153	27,055
Current liabilities			
Customers' deposits	18(a)	(4,420)	(4,297)
Trade and other payables	20	(21,732)	(16,990)
Income tax payable		(233)	(143)
Bank loans and other borrowings	21	(6,895)	(12,596)
Obligations under finance leases	22	(2,406)	(2,200)
Derivative financial instruments	16	(1,762)	(2,212)
		(37,448)	(38,438)
Net current liabilities		(295)	(11,383)
Total assets less current liabilities		191,308	175,850

The more familiar name for the Statement of Financial Position is the "Balance Sheet"

	Note	2012 HK$M	2011 HK$M
Financed by:			
Equity			
Share capital	*26*	12,632	12,031
Share premium		8,119	1,164
Reserves	*27*		
Declared dividends		2,476	2,310
Others		67,900	65,754
Shareholders' funds		91,127	81,259
Non-controlling interests		74	93
		91,201	81,352
Non-current liabilities			
Bank loans and other borrowings	*21*	59,303	52,925
Obligations under finance leases	*22*	24,649	25,196
Deferred tax liabilities	*23*	8,370	7,979
Derivative financial instruments	*16*	4,084	5,082
Scheme of Control (SoC) reserve accounts	*25*	1,245	643
Other non-current liabilities		2,456	2,673
		100,107	94,498
Equity and non-current liabilities		191,308	175,850

William Mocatta
Vice Chairman
Hong Kong, 25 February 2013

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Company Statement of Financial Position

as at 31 December 2012

	Note	2012 HK$M	2011 HK$M
Non-current assets			
Fixed assets	*10(A)*	171	117
Investments in subsidiaries	*12*	53,093	51,314
Advance to a subsidiary	*12*	39	39
Other non-current assets		25	34
		53,328	51,504
Current assets			
Trade and other receivables	*18*	45	55
Bank balances and cash		2	1
		47	56
Current liabilities			
Trade and other payables	*20*	(273)	(256)
Advances from subsidiaries	*30(D)*	(99)	(232)
Bank loans and other borrowings	*21*	–	(2,638)
		(372)	(3,126)
Net current liabilities		(325)	(3,070)
Total assets less current liabilities		53,003	48,434
Financed by:			
Equity			
Share capital	*26*	12,632	12,031
Share premium		8,119	1,164
Reserves	*27*		
Declared dividends		2,476	2,310
Others		26,876	27,889
		50,103	43,394
Non-current liabilities			
Bank loans and other borrowings	*21*	2,900	5,040
Equity and non-current liabilities		53,003	48,434

William Mocatta
Vice Chairman
Hong Kong, 25 February 2013

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 155 to 220 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Attributable to Shareholders					
	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Total HK$M	Non-controlling Interests HK$M	Total Equity HK$M
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
Balance at 1 January 2012	12,031	1,164	68,064	81,259	93	81,352
Profit for the year	–	–	8,312	8,312	(20)	8,292
Other comprehensive income for the year	–	–	135	135	1	136
Issue of shares (Note 26)	601	6,955	–	7,556	–	7,556
Dividends paid						
2011 fourth interim	–	–	(2,310)	(2,310)	–	(2,310)
2012 first to third interim	–	–	(3,825)	(3,825)	–	(3,825)
Balance at 31 December 2012	**12,632**	**8,119**	**70,376**	**91,127**	**74**	**91,201**

The notes and disclosures on pages 155 to 220 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	Note	2012 HK$M	2012 HK$M	2011 HK$M	2011 HK$M
Operating activities					
Net cash inflow from operations	*28*	24,438		18,717	
Interest received		281		145	
Income tax paid		(804)		(800)	
Net cash inflow from operating activities			23,915		18,062
Investing activities					
Capital expenditure		(9,056)		(12,109)	
Capitalised interest paid		(400)		(667)	
Proceeds from disposal of fixed assets		264		490	
Additions of other intangible assets		(985)		(534)	
Additions of available-for-sale investments		–		(7)	
Acquisition of business		–		(15,378)	
Acquisition of subsidiaries		(207)		123	
Asset acquisition in Eastern Star Gas Limited		–		(2,094)	
Reorganisation of OneEnergy Limited and proceeds from sale of interest in Electricity Generating Public Company Limited		–		2,192	
Deferred consideration paid		(540)		(443)	
(Investments in and advances to) / repayment from					
Jointly controlled entities		(272)		(87)	
Associated companies		–		25	
Dividends received from					
Jointly controlled entities		1,686		1,998	
Associated companies		523		1,232	
An available-for-sale investment		61		–	
Net cash outflow from investing activities			(8,926)		(25,259)
Net cash inflow / (outflow) before financing activities			14,989		(7,197)
Financing activities					
Proceeds from long-term borrowings		27,388		53,013	
Repayment of long-term borrowings		(24,698)		(34,588)	
Repayment of obligations under finance leases		(2,302)		(2,251)	
(Decrease) / increase in short-term borrowings		(2,106)		1,612	
Interest and other finance costs paid		(5,928)		(5,438)	
Issue of shares		7,556		–	
Dividends paid to shareholders		(6,135)		(5,967)	
Dividends paid to non-controlling interests of subsidiaries		–		(10)	
Net cash (outflow) / inflow from financing activities			(6,225)		6,371
Net increase / (decrease) in cash and cash equivalents			8,764		(826)
Cash and cash equivalents at beginning of year			3,104		4,023
Effect of exchange rate changes			22		(93)
Cash and cash equivalents at end of year			11,890		3,104
Analysis of balances of cash and cash equivalents					
Deposits with banks			11,961		1,983
Cash at banks and on hand			1,065		1,883
Bank balances, cash and other liquid funds	*19*		13,026		3,866
Excluding: cash restricted for specific purposes			(1,136)		(762)
			11,890		3,104

The notes and disclosures on pages 155 to 220 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 164 and 165.

2. Effect of New / Revised HKFRS and Comparative Information

(A) Adoption of amendments to HKFRS effective 1 January 2012

The Group has adopted the following amendments to HKFRS for the first time for the financial year beginning 1 January 2012:

- Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"
- Amendments to HKFRS 7 "Disclosures – Transfers of Financial Assets"

The adoption of these amendments to HKFRS has had no significant impact on the reported results and the financial position of the Group.

(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 2013 or later periods. However, the Group has not early adopted them:

- Amendments to HKAS 1 (Revised) "Presentation of Items of Other Comprehensive Income"
- Amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – "Investment Entities"
- Amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities"
- Annual Improvements to HKFRS 2009-2011 Cycle
- 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 (Revised 2011) "Employee Benefits"
- HKAS 27 (Revised 2011) "Separate Financial Statements"
- HKAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"
- HK(IFRIC)-Int 20 "Stripping Costs in the Production Phase of a Surface Mine"

2. Effect of New / Revised HKFRS and Comparative Information (continued)

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

Except for the following and certain presentational changes, the adoption of these new / revised HKFRS is not expected to have significant impact on the results and 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.

(C) Comparative Information

Certain comparative amounts have been presented in more detail to conform with current year's presentation. In particular, "Renewable energy certificates" of HK$2,316 million, which was previously included in "Trade and other receivables" on the consolidated statement of financial position at 31 December 2011, is separately presented.

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.

Acquisitions of subsidiaries are accounted for using the acquisition method. 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.

3. Consolidation (continued)

(B) Subsidiaries (continued)

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.

On 1 March 2011, the Group completed the acquisition of EnergyAustralia Retail, the Delta Western Gentrader contracts and Project Sites from the New South Wales Government. The related deferred consideration of HK$1,310 million, of which HK$750 million is included in other non-current liabilities, is provided as at 31 December 2012. The acquisition method applied on this acquisition in 2011 can be found in our accounting "mini-series" on our website.

Investments in subsidiaries together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, are carried on the statement of financial position of the Company at cost 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 using 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, 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.

3. Consolidation (continued)

(C) Jointly controlled entities, jointly controlled assets and associated companies (continued)

Jointly controlled entities and associated companies (continued)

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

Jointly controlled assets are interests in 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 among the venturers for financial and operating decisions. The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers is recognised in the financial statements of the relevant entity and classified according to its 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

Transactions with non-controlling interests are treated 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 intended 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 values of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, which offset any changes in the fair values 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.

5. Derivative Financial Instruments and Hedging Activities (continued)

(B) Cash flow hedges

The effective portion of changes in the fair values 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 as 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 values of these derivative financial instruments are recognised immediately in profit or loss.

The Group enters into sale and purchase transactions for commodities within the ordinary course of business. Transactions that take the form of contracts that are within the scope of HKAS 39 are fair valued at the end of each reporting period. Contracts that were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected sale, purchase or usage requirements are not within the scope of HKAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion shall be separated from its host contract and measured as if it were a stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

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. Renewable Energy Products

(A) Renewable energy schemes

Under the Australia Renewable Energy (Electricity) Act, the Group's Australia business is liable to surrender renewable and efficiency energy products under different renewable energy and energy efficiency schemes. The major schemes affecting the Group's Australia business are Renewable Energy Certificates (RECs), New South Wales Greenhouse Gas Abatement Certificates (NGACs) and Victorian Energy Efficiency Certificates (VEEC).

Forward purchased renewable and efficiency energy products are designated as held for trading or own use to satisfy relevant regulatory requirements. Renewable and efficiency energy products that are held for trading are held at fair value through profit or loss.

The renewable and efficiency energy products held for own use are accounted for on an accrual basis. That is, when a buy or sell contract is entered into, no recording is made until legal title transfers.

(B) Carbon units / certificates

As part of the Clean Energy Legislation Package which commenced on 1 July 2012, the Australian Government has announced the establishment of the Energy Security Fund (ESF). A component of the ESF is transitional assistance in the form of allocations of free carbon units and cash payments.

Carbon compensation in the form of cash received is recognised as a government grant in the profit or loss on a systematic basis over the relevant period. Carbon units or other compensation granted by the government free of charge are recognised at nil value. Purchased carbon units / certificates are measured at cost on initial recognition and carried at that cost.

The related liability at the end of each reporting period is recognised based on the expected weighted average price of carbon units for the obligation period. Purchased or earned carbon units / certificates are not treated as a reduction in the "net liability" of surrender obligations.

8. 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.

9. Employee Benefits

(A) Retirement benefits

The Group operates and/or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme (GPFS) and the Mandatory Provident Fund (MPF) scheme administered by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

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

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

(B) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the end of the reporting period, where there is a contractual obligation or past practice has created a constructive obligation.

10. 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 for the purpose of consolidation, 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.

10. Foreign Currency Translation (continued)

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.

11. 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 cumulative lease income / expense is 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 held 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 an exclusive 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.

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 key estimates and assumptions. The following is a review of the more significant judgments and uncertainties made, in respect of which different amounts may be reported under a different set of conditions or using different assumptions.

1. Deferred Tax

At 31 December 2012, a deferred tax asset of HK$3,797 million (2011: HK$5,018 million) in relation to unused tax losses (Note 23) 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 2012. However, any unexpected changes in assumptions and estimates and in tax regulations could 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 2012, 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 loss for the fixed assets of Jhajjar Power Limited (Jhajjar) of HK$350 million and CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing Biomass) of HK$119 million (2011: Yallourn of HK$2,761 million), there was no material impairment loss for SoC fixed assets of HK$88,909 million (2011: HK$85,836 million), goodwill of HK$22,225 million (2011: HK$21,616 million) and other long-lived assets. As the latest annual impairment models indicated that sufficient 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 2012 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 Tariff Stabilisation Fund and the Rate Reduction Reserve 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) as lessor (for the Power Purchase Agreement (PPA) 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 218.

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 221 and 222.

These financial statements have been approved for issue by the Board of Directors on 25 February 2013.

2. 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. Operating lease income is recognised on a straight-line basis over the term of the lease. Interest income is recognised on a time proportion basis using the effective interest method.

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

	2012 HK$M	2011 HK$M
Sales of electricity	91,351	79,922
Sales of gas	9,256	7,836
Lease service income under PPA	1,454	2,007
Finance lease income under PPA	287	347
Operating lease income under PPA	742	–
Other revenue (note)	2,075	936
	105,165	91,048
Transfer for SoC (from)/to revenue (Note 25)	(304)	586
	104,861	91,634

Note: Including cash assistance of HK$1,035 million (A$129 million) (2011: nil) received by EnergyAustralia Holdings Limited (EnergyAustralia) (formerly known as TRUenergy Holdings Pty Ltd) under the ESF with respect to Yallourn Power Station (Note 20(c)). The cash assistance received is being recognised as revenue over the relevant period from 1 July 2012 to 30 June 2013 on a systematic basis.

2. Revenue (continued)

The lease service income and finance lease income under PPA relate to Paguthan. In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by Paguthan from the lessee with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

The operating lease income under PPA recognised during the year relates to Jhajjar, whose PPA has been accounted for as an operating lease.

3. 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 costs 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.

3. Segment Information (continued)

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

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2012							
Revenue	33,873	66,843	943	3,178	19	5	104,861
Operating profit / (loss)	10,154	2,941	220	300	(24)	(490)	13,101
Finance costs	(3,565)	(1,843)	(213)	(709)	–	(93)	(6,423)
Finance income	8	208	5	77	5	19	322
Share of results, net of income tax							
Jointly controlled entities	1,253	(8)	898 (a)	–	262	–	2,405
Associated companies	–	–	579 (a)	–	–	–	579
Profit / (loss) before income tax	7,850	1,298	1,489	(332)	243	(564)	9,984
Income tax expense	(1,117)	(298)	(112)	(165)	–	–	(1,692)
Profit / (loss) for the year	6,733	1,000	1,377	(497)	243	(564)	8,292
Loss attributable to non-controlling interests	–	–	20	–	–	–	20
Earnings / (loss) attributable to shareholders	6,733	1,000 (b)	1,397	(497)	243	(564)	8,312
Capital additions	7,571	2,582	100	1,935	–	93	12,281
Depreciation and amortisation	4,068	2,357	209	355	–	32	7,021
Impairment provisions for fixed assets, receivables and others	–	869	119	441	–	–	1,429
At 31 December 2012							
Fixed assets	89,393	25,659	5,001	12,239	–	171	132,463
Goodwill and other intangible assets	–	28,408	39	32	–	–	28,479
Interests in							
Jointly controlled entities	9,294	99	8,049	–	1,755	–	19,197
Associated companies	–	–	1,856	–	–	–	1,856
Deferred tax assets	–	964	61	–	–	–	1,025
Other assets	12,847	18,781	2,861	7,148	77	4,022	45,736
Total assets	111,534	73,911	17,867	19,419	1,832	4,193	228,756
Bank loans and other borrowings	33,435	16,618	3,367	9,878	–	2,900	66,198
Current and deferred tax liabilities	7,852	–	176	575	–	–	8,603
Obligations under finance leases	26,987	68	–	–	–	–	27,055
Other liabilities	12,204	21,297	300	1,663	4	231	35,699
Total liabilities	80,478	37,983	3,843	12,116	4	3,131	137,555

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

3. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 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 provisions for fixed assets, receivables and others	–	3,210	–	23	–	–	3,233
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

Notes:

(a) Out of the total amount of HK$1,477 million (2011: HK$1,284 million), HK$659 million (2011: HK$715 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 costs of Yallourn mine flooding of HK$790 million (2011: impairment provision for Yallourn of HK$1,933 million) and other one-off items, the operating earnings of Australia were HK$1,685 million (2011: HK$2,911 million).

4. Operating Profit

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

	2012 HK$M	2011 HK$M
Charging		
Staff costs		
Salaries and other costs	2,725	2,431
Retirement benefits costs (a)	210	192
Auditor's remuneration		
Audit	39	42
Permissible non-audit services (b)	20	6
Operating lease expenditure on the agreement with Ecogen	331	328
Net loss on disposal of fixed assets	151	122
Yallourn mine flooding (c)	1,129	–
Impairment of fixed assets (d)	558	2,761
Impairment of other intangible assets	41	–
Impairment of inventories	27	–
Net fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(402)	(116)
Fuel and other operating expenses	(99)	(606)
Transactions not qualifying as hedges	570	141
Ineffectiveness of cash flow hedges	(74)	100
Net exchange loss / (gain)	50	(40)
Crediting		
Net rental income from properties	(13)	(18)

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$214 million (2011: HK$204 million), of which HK$63 million (2011: HK$59 million) was capitalised.

Staff employed by the Group entities outside Hong Kong are primarily covered by defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK$104 million (2011: HK$91 million).

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

(c) In June 2012, following heavy rain across Gippsland in Victoria, Australia and a subsequent breach in the Morwell River Diversion, the coal mine of Yallourn was flooded and the conveyors to supply coal from the mine to Yallourn Power Station were damaged, resulting in reduced operation of the Yallourn Power Station. Remediation work has been undertaken in order to allow Yallourn Power Station to resume safe and sustainable operations. Total costs of the incident charged to profit or loss, including a provision for river diversions, levees and dewatering and an impairment of fixed assets of HK$38 million (A$5 million) (2011: nil), amounted to HK$1,129 million (after tax: HK$790 million) (A$144 million (after tax: A$101 million)) (2011: nil).

(d) Including an impairment provision for the fixed assets of Jhajjar of HK$350 million (2011: nil) and Boxing Biomass of HK$119 million (2011: nil).

Jhajjar power plant declared commissioning for its first unit on 29 March 2012 and second unit on 19 July 2012. However, due to the low availability of the plant as a result of coal shortages and technical problems caused by the poor quality of coal supplied by Coal India Limited, Jhajjar reported an operating loss for the year. The impairment test for the Jhajjar power plant has resulted in an impairment provision for fixed assets of HK$350 million (after tax: HK$315 million) (Rs.2,470 million (after tax: Rs.2,227 million)) for the year ended 31 December 2012 (2011: nil). The recoverable amount tested for impairment has been determined based on value in use calculations. An estimated pre-tax discount rate of 11.61% has been utilised in estimating the value in use.

An impairment provision of HK$119 million (2011: nil) against the fixed assets of Boxing Biomass was made owing to sustained high fuel prices and low heat demand.

In 2011, an impairment provision for Yallourn's fixed assets of HK$2,761 million (after tax: HK$1,933 million) (A$350 million (after tax: A$245 million)) was recognised following the passing of the Australian Government's Clean Energy legislative package which imposes a cost on the emission of carbon dioxide (CO_2) equivalent, resulted in increased production costs and reduced generation over the longer term at Yallourn.

5. 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.

	2012 HK$M	2011 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	1,874	1,849
Other borrowings		
Wholly repayable within five years	578	628
Not wholly repayable within five years	909	642
Tariff Stabilisation Fund [(a)]	2	2
Customers' deposits, fuel clause over-recovery and others	1	–
Finance charges under finance leases [(b)]	2,735	2,735
Other finance charges	451	548
Fair value loss / (gain) on derivative financial instruments		
Cash flow hedges, reclassified from equity	478	(351)
Fair value hedges	(33)	(153)
Ineffectiveness of cash flow hedges	5	(65)
Loss on hedged items in fair value hedges	28	151
Other net exchange (gain) / loss on financing activities	(221)	718
	6,807	6,704
Less: amount capitalised [(c)]	(384)	(699)
	6,423	6,005
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	322	146

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 25).

(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 3.26% – 10.91% (2011: 3.09% – 10.98%) per annum.

6. Income Tax Expense

Accounting Policy No. 8

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

	2012 HK$M	2011 HK$M
Current income tax		
Hong Kong	654	489
Outside Hong Kong	228	126
	882	615
Deferred tax		
Hong Kong	463	385
Outside Hong Kong (note)	347	650
	810	1,035
	1,692	1,650

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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:

	2012 HK$M	2011 HK$M
Profit before income tax	9,984	10,939
Less: Share of results of jointly controlled entities and associated companies, net of income tax	(2,984)	(3,610)
	7,000	7,329
Calculated at an income tax rate of 16.5% (2011: 16.5%)	1,155	1,209
Effect of different income tax rates in other countries	363	362
Income not subject to tax	(75)	(199)
Expenses not deductible for tax purposes	296	387
Revenue adjustment for SoC not subject to tax (Note 25)	51	(97)
Over-provision in prior years	(3)	(32)
Tax losses not recognised	11	6
Derecognition of deferred tax assets	–	17
Utilisation of previously unrecognised tax losses	(1)	(3)
Tax consolidation benefit (note)	(105)	–
Income tax expense	1,692	1,650

Note: The amount included tax consolidation benefit of HK$105 million (A$14 million) (2011: nil) of EnergyAustralia. On 25 November 2011, the Australian Federal Government announced plans to amend the tax consolidation rules that were enacted in 2010 and the legislation was passed by the Senate on 27 June 2012. The change in legislation required a recalculation of the tax cost bases of certain assets of EnergyAustralia which resulted in a tax credit in current year.

7. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$5,288 million (2011: HK$5,599 million).

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

8. Dividends

	2012		2011	
	HK$ per share	HK$M	HK$ per share	HK$M
First to third interim dividends paid	1.59	3,825	1.56	3,753
Fourth interim dividend declared	0.98	2,476	0.96	2,310
	2.57	6,301	2.52	6,063

At the Board meeting held on 25 February 2013, the Directors declared the fourth interim dividend of HK$0.98 per share (2011: HK$0.96 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 2012.

9. Earnings per Share

The earnings per share are computed as follows:

	2012	2011
Earnings attributable to shareholders (HK$M)	8,312	9,288
Weighted average number of shares in issue (thousand shares) (note)	2,410,088	2,406,143
Earnings per share (HK$)	3.45	3.86

Note: The change in weighted average number of shares in issue is due to the share placement during the year (Note 26).

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 2012 (2011: nil).

10. 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 costs 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 – 35 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.

10. 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$134,329 million (2011: HK$130,382 million). Included in fixed assets is plant under construction with book value of HK$7,937 million (2011: HK$15,375 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 2011	849	412	10,817	5,907	76,517	21,229	115,731
Acquisition of business	120	–	–	–	–	6,039	6,159
Acquisition of subsidiaries	–	–	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	–	–	(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
Net book value at 1 January 2012	880	572	12,066	5,716	81,611	27,726	128,571
Acquisition of a subsidiary	1	–	–	–	38	–	39
Additions	8	–	1,631	246	7,496	1,748	11,129
Transfers and disposals	–	(19)	(64)	(7)	(219)	(149)	(458)
Depreciation	–	(15)	(308)	(338)	(3,759)	(1,996)	(6,416)
Impairment charge	(18)	–	(89)	–	(451)	–	(558)
Exchange differences	(6)	–	6	–	44	112	156
Net book value at 31 December 2012	865	538	13,242	5,617	84,760	27,441	132,463
Cost	883	623	16,913	11,875	131,452	51,976	213,722
Accumulated depreciation and impairment	(18)	(85)	(3,671)	(6,258)	(46,692)	(24,535)	(81,259)
Net book value at 31 December 2012	865	538	13,242	5,617	84,760	27,441	132,463

Note (a): These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK$26,987 million (2011: HK$27,328 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$5,804 million (2011: HK$5,838 million) 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.

10. 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$171 million (2011: HK$117 million), comprising mainly office furniture, fittings and equipment. The additions, disposals and depreciation for the year were HK$93 million (2011: HK$55 million), HK$7 million (2011: HK$2 million) and HK$32 million (2011: HK$21 million) respectively.

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

Group

	2012 HK$M	2011 HK$M
Net book value at 1 January	1,811	1,729
Additions	101	123
Amortisation	(46)	(44)
Exchange differences	–	3
Net book value at 31 December	1,866	1,811
Cost	2,250	2,149
Accumulated amortisation	(384)	(338)
Net book value at 31 December	1,866	1,811

(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:

	2012 HK$M	2011 HK$M
Held in Hong Kong		
On long-term leases (over 50 years)	123	125
On medium-term leases (10 – 50 years)	2,130	2,089
On short-term leases (less than 10 years)	7	33
	2,260	2,247
Held outside Hong Kong		
On medium-term leases (10 – 50 years)	144	136
	2,404	2,383

11. 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.

	Goodwill [a] HK$M	Licences [b] HK$M	Others [c] HK$M	Total HK$M
Net carrying value at 1 January 2011	7,701	–	1,449	9,150
Acquisition of business	14,011	–	1,797	15,808
Acquisition of subsidiaries	–	–	166	166
Additions	–	2,395	446	2,841
Amortisation	–	–	(496)	(496)
Exchange differences	(96)	17	(21)	(100)
Net carrying value at 31 December 2011	21,616	2,412	3,341	27,369
Cost	21,616	2,566	4,679	28,861
Accumulated amortisation	–	(154)	(1,338)	(1,492)
Net carrying value at 31 December 2011	21,616	2,412	3,341	27,369
Net carrying value at 1 January 2012	21,616	2,412	3,341	27,369
Acquisition of a subsidiary [d]	171	–	–	171
Additions	–	118	933	1,051
Cost adjustment	–	(66)	–	(66)
Amortisation	–	(6)	(553)	(559)
Impairment charge	–	–	(41)	(41)
Exchange differences	438	48	68	554
Net carrying value at 31 December 2012	**22,225**	**2,506**	**3,748**	**28,479**

11. Goodwill and Other Intangible Assets (continued)

	Goodwill [(a)] HK\$M	Licences [(b)] HK\$M	Others [(c)] HK\$M	Total HK\$M
Cost	22,225	2,669	5,516	30,410
Accumulated amortisation	–	(163)	(1,768)	(1,931)
Net carrying value at 31 December 2012	**22,225**	**2,506**	**3,748**	**28,479**

Notes:

(a) Goodwill predominantly arose from the previous acquisitions in Australia of the Merchant Energy Business (MEB) in 2005 and the energy retailing business from the New South Wales (NSW) Government in 2011. 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 2012 based on an approved Business Plan which has a forecast covering a period of ten years. Projections for a period of greater than five years have been used on the basis that a longer projection period represents a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry. The cash flow projections are discounted using a pre-tax discount rate of 13.30% (2011: 12.72%) for the retail business.

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

- Electricity pool prices, generation volumes, dispatch levels, carbon 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.
- Retail prices are sensitive to regulatory changes (i.e. regulation and deregulation of retail tariffs). In absence of any known or expected changes to the current pricing structure, our retail price path assumptions are based on management estimates and expectations on current market conditions and regulatory announcements.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the EnergyAustralia Business Plan. We also use external information to verify and where relevant update our internal estimates.
- 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 the relevant Consumer Price Index.
- Customer account numbers growth for electricity and gas aligns with the EnergyAustralia Business Plan.
- Retail operating costs are escalated by relevant cost drivers using activity-based costing principles.
- Terminal value growth rates have been utilised in estimating cash flows beyond a period of ten years. The terminal growth rate for the current period is 3.0% (2011: 3.0%) which primarily reflects inflation and expected population growth.

(b) Licences include a 20% working level interest in petroleum licences acquired in 2011, giving the Group the right to exploration, extraction and production of petroleum within the licence area, largely within the Gunnedah Basin of New South Wales. A cost adjustment of HK\$66 million (A\$8 million) was made upon the final settlement of the acquisition during the year.

(c) The balance includes a lease arrangement under the long-term Master Hedge Agreement with Ecogen arising from the acquisition of the MEB in May 2005 and contracted customers.

(d) In June 2012, EnergyAustralia acquired 100% interest in Enhance Place Pty Limited (which holds the Pine Dale coal mine) for consideration of HK\$214 million (A\$28.5 million). Goodwill of HK\$171 million (A\$23 million) was recognised which relates to synergy between the Pine Dale coal mine and the Mount Piper and Wallerawang power stations.

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

12. Investments in and Advances to Subsidiaries

Accounting Policy No. 3(B)

	2012 HK$M	2011 HK$M
Unlisted shares, at cost	**23,635**	23,635
Provision for impairment losses	**(100)**	(100)
Advances to subsidiaries, less provisions (note)	**29,558**	27,779
	53,093	51,314

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 30(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 (2011: HK$39 million), which is interest-free and due on or after 30 June 2014 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

The table below lists the principal subsidiaries of the Group at 31 December 2012:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2012	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 and Hong Kong	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

12. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2012	Place of Incorporation / Operation	Principal Activity
EnergyAustralia Holdings Limited (formerly known as TRUenergy Holdings Pty Ltd)	533,676,005 ordinary shares of A$1 each	100 [(a)]	Australia	Energy Business Investment Holding
EnergyAustralia Yallourn Pty Ltd (formerly known as TRUenergy Yallourn Pty Ltd)	15 ordinary shares of A$1 each	100 [(a)]	Australia	Generation and Supply of Electricity
EnergyAustralia Pty Ltd (formerly known as TRUenergy Pty Ltd)	3,368,686,988 ordinary shares of A$1 each	100 [(a)]	Australia	Retailing of Electricity and Gas
CLP India Private Limited	2,010,585,909 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; 2,240,582,458 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

TRUenergy was renamed as EnergyAustralia in October 2012.

13. Interests in Jointly Controlled Entities

Accounting Policy No. 3(C)

	2012 HK$M	2011 HK$M
Share of net assets	9,522	8,626
Goodwill	154	152
Advances	9,521	9,448
	19,197	18,226

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:

		2012				2011			
		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)	216	–	9,059	9,275	206	–	8,868	9,074
CSEC Guohua International Power Company Limited	(B)	2,963	109	–	3,072	2,855	107	–	2,962
CLP Guangxi Fangchenggang Power Company Limited	(C)	1,745	–	–	1,745	1,432	–	–	1,432
OneEnergy Taiwan Ltd	(D)	1,166	–	313	1,479	937	–	314	1,251
Shandong Zhonghua Power Company, Limited	(E)	996	–	–	996	924	–	–	924
PSDC	(F)	13	–	96	109	12	–	145	157
Others	(G)	2,423	45	53	2,521	2,260	45	121	2,426
		9,522	154	9,521	19,197	8,626	152	9,448	18,226

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:

	2012 HK$M	2011 HK$M
Non-current assets	35,023	35,036
Current assets	5,635	4,650
Current liabilities	(9,251)	(8,005)
Non-current liabilities	(20,029)	(21,301)
Non-controlling interests	(1,856)	(1,754)
Share of net assets	9,522	8,626

13. Interests in Jointly Controlled Entities (continued)

	2012 HK$M	2011 HK$M
Revenue	16,529	16,306
Expenses	(13,504)	(12,838)
Profit before income tax	3,025	3,468
Income tax expense	(474)	(409)
Non-controlling interests	(146)	(130)
Share of profit for the year	2,405	2,929
Share of capital commitments	1,756	2,093
Share of contingent liabilities	59	59

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 29.

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 10).

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.

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

	2012 HK$M	2011 HK$M
Results for the year		
Revenue	14,696	13,803
Profit after income tax	3,132	3,049

13. Interests in Jointly Controlled Entities (continued)

	2012 HK$M	2011 HK$M
Net assets (note)		
Non-current assets	29,620	28,845
Current assets	6,346	5,292
Current liabilities	(8,707)	(5,438)
Deferred tax	(3,572)	(3,582)
Non-current liabilities	(501)	(2,432)
	23,186	22,685
Group's share of profit after income tax	1,253	1,220

Note: The amounts exclude advances from shareholders.

(B) CSEC Guohua International Power Company Limited, a 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 Ltd 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 Power Company.

(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:

- 33.3% interest in the ordinary share capital of Natural Energy Development Co., Ltd., which is incorporated in Thailand and owns a solar farm in Lopburi Province in Central Thailand, with an installed capacity of 63MW;
- 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$1,357 million (2011: HK$1,348 million) in aggregate acquired in 2009. These 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.

14. Interest in an Associated Company

Accounting Policy No. 3(C)

The balance represents the Group's share of net assets of GNPJVC at the end of the year.

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

	2012 HK$M	2011 HK$M
Total assets	12,312	12,800
Total liabilities	(4,887)	(6,941)
Net assets	7,425	5,859
Group's share of associated company's net assets	1,856	1,465
Revenue	6,955	7,350
Profit after income tax	2,317	2,565
Group's share of profit after income tax	579	681

At 31 December 2012, the Group's share of capital commitments of its associated company was HK$166 million (2011: HK$95 million).

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.

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

	2012 HK$M	2011 HK$M
Results for the year		
Revenue	6,955	7,040
Profit after income tax	2,317	2,557
Net assets		
Non-current assets	3,227	3,676
Current assets	9,085	9,124
Current liabilities	(1,873)	(4,100)
Non-current liabilities	(3,014)	(2,841)
	7,425	5,859
Group's share of profit after income tax	579	639

15. Finance Lease Receivables

Accounting Policy No. 11

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Amounts receivable under finance leases				
Within one year	401	407	158	142
After one year but within five years	993	1,151	126	237
Over five years	1,745	2,036	1,539	1,610
	3,139	3,594	1,823	1,989
Less: unearned finance income	(1,316)	(1,605)		
Present value of minimum lease payments receivable	1,823	1,989		
Analysed as:				
Current (recoverable within 12 months)			158	142
Non-current (recoverable after 12 months)			1,665	1,847
			1,823	1,989

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 2012 and 2011. The carrying amounts of the finance lease receivables approximate to their fair values.

16. Derivative Financial Instruments

Accounting Policy No. 5

	2012 Assets HK$M	2012 Liabilities HK$M	2011 Assets HK$M	2011 Liabilities HK$M
Cash flow hedges (note)				
Forward foreign exchange contracts	1,414	73	1,752	28
Foreign exchange options	73	–	–	–
Cross currency & interest rate swaps	1,455	534	1,323	216
Interest rate swaps	–	1,564	2	899
Energy contracts	404	633	1,469	2,797
Fair value hedges				
Cross currency & interest rate swaps	258	73	242	39
Interest rate swaps	86	76	–	–
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	70	30	108	133
Energy contracts	1,284	2,863	2,289	3,182
	5,044	5,846	7,185	7,294
Analysed as:				
Current	1,759	1,762	2,158	2,212
Non-current	3,285	4,084	5,027	5,082
	5,044	5,846	7,185	7,294

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 2012 have a maturity of up to 15 years (2011: 15 years) from the end of the reporting period.

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

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

	2012 HK$M	2011 HK$M
Forward foreign exchange contracts	105,551	104,624
Foreign exchange options	939	–
Interest rate swaps / cross currency & interest rate swaps	44,790	36,598
Energy contracts	23,092	32,210

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

17. 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:

	2012 HK$M	2011 HK$M
CGN Wind Power Company Limited (CGN Wind)	1,190	1,190
Others	99	98
	1,289	1,288

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.

18. 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 uncollectable, 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	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Trade receivables [(a)]	15,536	12,702	–	–
Deposits, prepayments and other receivables	2,768	3,951	27	18
Dividend receivables from [(b)]				
Jointly controlled entities	124	36	–	–
An associated company	10	349	–	–
An available-for-sale investment	43	–	–	–
Current accounts with [(b)]				
Subsidiaries	–	–	18	37
Jointly controlled entities	71	65	–	–
	18,552	17,103	45	55

Trade and other receivables attributed to overseas subsidiaries amounted to HK$16,036 million (2011: HK$15,254 million). At 31 December 2012, CLP India has obtained payment for some of its receivables from GUVNL through bill discounting with recourse amounted to HK$213 million (2011: HK$58 million) and the transactions have been accounted for as collateralised borrowings (Note 21).

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

Notes:

(a) Trade receivables

13% (2011: 17%) and 73% (2011: 70%) 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 2012, such cash deposits amounted to HK$4,318 million (2011: HK$4,152 million) and the bank guarantees stood at HK$903 million (2011: HK$929 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 terms for trade receivables ranges from about 14 to 60 days.

18. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

EnergyAustralia 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 2012, EnergyAustralia held cash deposits of HK$102 million (2011: HK$145 million) and bank guarantees of HK$14 million (2011: HK$1 million) from Commercial and Industrial customers as security in relation to outstanding receivable balances.

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

	2012				2011			
	Not impaired HK$M	Subject to impairment testing HK$M	Provision for impairment HK$M	Total HK$M	Not impaired HK$M	Subject to impairment testing HK$M	Provision for impairment HK$M	Total HK$M
Not yet due	10,971	1,824	(76)	12,719	8,928	1,576	(103)	10,401
Overdue								
1 – 30 days	82	1,000	(53)	1,029	346	723	(86)	983
31 – 90 days	89	742	(157)	674	89	464	(123)	430
Over 90 days	770	1,175	(831)	1,114	652	617	(381)	888
	11,912	4,741	(1,117)	15,536	10,015	3,380	(693)	12,702

At 31 December 2012, trade receivables of HK$941 million (2011: HK$1,087 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 net of refund totalled HK$469 million (Rs.3,306 million) (2011: HK$482 million (Rs.3,306 million)) (Note 31(A)), which is included in the amount aged over 90 days.

According to the accounting standard requirement, when certain receivables are individually impaired, they are written off directly from the books or through the use of an allowance account. If no objective evidence of impairment exists for individual receivables, they are included in a group of receivables with similar credit risk characteristics and collectively assessed for impairment. A majority of the balances under the caption "Subject to impairment testing" relate to EnergyAustralia and are assessed for impairment under this collective approach.

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

	2012 HK$M	2011 HK$M
30 days or below	13,226	10,951
31 – 90 days	949	644
Over 90 days	1,361	1,107
	15,536	12,702

18. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment are as follows:

	2012 HK$M	2011 HK$M
Balance at 1 January	693	482
Acquisition of business	–	139
Provision for impairment	804	474
Receivables written off during the year as uncollectable	(387)	(362)
Amounts reversed	(1)	(2)
Exchange differences	8	(38)
Balance at 31 December	1,117	693

"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 of HKFRS.

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

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

19. 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.

	2012 HK$M	2011 HK$M
Trust accounts restricted under TRAA (note)	1,136	762
Bank deposits	10,884	1,272
Bank balances and cash	1,006	1,832
	13,026	3,866

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$1,515 million (2011: HK$1,087 million) which was mostly denominated in Renminbi (2011: Renminbi).

20. 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	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Trade payables [(a)]	9,704	8,824	–	–
Other payables and accruals	9,253	6,373	237	228
Current accounts with [(b)]				
Subsidiaries	–	–	35	27
Jointly controlled entities	1,447	1,656	1	1
An associated company	103	137	–	–
Deferred revenue [(c)]	1,225	–	–	–
	21,732	16,990	273	256

Notes:

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

	2012 HK$M	2011 HK$M
30 days or below	9,439	8,239
31 – 90 days	137	247
Over 90 days	128	338
	9,704	8,824

At 31 December 2012, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$291 million (2011: HK$311 million), which were mostly denominated in U.S. dollar of HK$173 million (2011: HK$198 million) and Japanese yen of HK$82 million (2011: HK$67 million).

(b) The amounts payable to subsidiaries, jointly controlled entities and an associated company are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,406 million (2011: HK$1,623 million) is due to CAPCO.

(c) The balance primarily represented cash assistance received by EnergyAustralia under the ESF with respect to Yallourn Power Station. The ESF was established under the Australian Government's Clean Energy Legislation, effected 1 July 2012, which provides transitional assistance over five years to promote the transformation of the electricity generation sector from high to low emissions generation, while addressing risks to energy security that may arise from the introduction of the carbon price. Under the ESF, the compensation is provided as cash compensation for the first year (paid in June 2012) and as permits available annually for four years. The cash assistance received is being amortised to profit or loss over the relevant period from 1 July 2012 to 30 June 2013 and HK$1,035 million (A$129 million) was recognised as revenue for the year (Note 2).

21. 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.

	Group		Company	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Current				
Short-term bank loans	835	2,802	–	2,638
Long-term bank loans	4,760	1,301	–	–
Other long-term borrowings				
Medium Term Note (MTN) programme (USD) due 2012	–	2,371	–	–
MTN programme (HKD) due 2013 / 2012	1,300	1,000	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012	–	5,122	–	–
	6,895	12,596	–	2,638
Non-current				
Long-term bank loans	26,988	30,298	2,900	5,040
Other long-term borrowings				
MTN programme (USD) due 2020 to 2027	11,020	6,376	–	–
MTN programme (HKD) due 2014 to 2041	10,440	9,095	–	–
MTN programme (JPY) due 2021 to 2026	2,789	2,502	–	–
MTN programme (AUD) due 2021 to 2022	725	434	–	–
EPN and MTN programme (AUD) due 2015	402	394	–	–
U.S. private placement notes (USD) due 2017 to 2027	6,939	3,826	–	–
	59,303	52,925	2,900	5,040
Total borrowings	66,198	65,521	2,900	7,678

21. Bank Loans and Other Borrowings (continued)

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK$12,918 million (2011: HK$11,151 million), analysed as follows:

	2012 HK$M	2011 HK$M
CLP India and its subsidiaries [(a)]	9,551	7,880
Subsidiaries in Chinese mainland [(b)]	3,367	3,271
	12,918	11,151

Notes:

(a) Bank loans for CLP India and its subsidiaries are secured by fixed and floating charges over their immovable and moveable properties with total carrying amounts of HK$14,106 million (2011: HK$12,976 million). Collateralised borrowings for CLP India were secured by trade receivables, the carrying amounts of which were HK$213 million (2011: HK$58 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$4,972 million (2011: HK$5,029 million).

Bank loans and other borrowings totalling HK$29,863 million (2011: HK$30,452 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2012, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
Within one year	5,595	4,103	1,300	8,493	6,895	12,596
Between one and two years	5,454	5,187	1,380	1,300	6,834	6,487
Between two to five years	13,775	16,872	4,464	4,114	18,239	20,986
Over five years	7,759	8,239	26,471	17,213	34,230	25,452
	32,583	34,401	33,615	31,120	66,198	65,521

Of the Company's borrowings, nil (2011: HK$2,638 million) is repayable within one year and HK$2,900 million (2011: HK$5,040 million) is repayable between two to five years.

Another presentation of the Group's liquidity risk is set out on page 217.

At 31 December 2012 and 2011, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

21. Bank Loans and Other Borrowings (continued)

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:

	2012		2011	
	HK$	A$	HK$	A$
Fixed rate loans and loans swapped from variable rates	2.5% – 5.0%	5.1% – 9.1%	2.3% – 5.0%	6.3% – 8.9%
Variable rate loans and loans swapped from fixed rates	0.7% – 2.2%	3.9% – 5.3%	0.6% – 1.7%	5.2% – 6.6%

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 2012, the Group had undrawn bank loans and overdraft facilities of HK$33,073 million (2011: HK$24,377 million).

22. Obligations under Finance Leases

Accounting Policy No. 11

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	
	2012 HK$M	2011 HK$M
Amounts payable under finance leases		
Within one year	2,406	2,200
After one year but within two years	2,404	2,197
After two years but within five years	7,093	6,565
Over five years	15,152	16,434
	27,055	27,396
Analysed as:		
Amount due for settlement within 12 months	2,406	2,200
Amount due for settlement after 12 months	24,649	25,196
	27,055	27,396

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 2012, the interest rate was 9.99% (2011: 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.

23. Deferred Tax

Accounting Policy No. 8

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:

	2012 HK$M	2011 HK$M
Deferred tax assets	1,025	1,276
Deferred tax liabilities	(8,370)	(7,979)
	(7,345)	(6,703)

Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

An elaboration of the accounting concepts on deferred tax can be found in our accounting "mini-series" on pages 144 to 146.

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:

	2012 HK$M	2011 HK$M
At 1 January	(6,703)	(3,380)
Charged to profit or loss (Note 6)	(810)	(1,035)
Credited to other comprehensive income	120	110
Acquisition of business	–	(2,640)
Acquisition of subsidiaries	(1)	26
Withholding tax	9	80
Exchange differences	40	136
At 31 December	(7,345)	(6,703)

23. Deferred Tax (continued)

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

Deferred tax assets (prior to offset)

	Tax Losses [(a)]		Accruals and Provisions		Others [(b)]		Total	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
At 1 January	5,018	5,636	1,027	471	1,564	675	7,609	6,782
(Charged) / credited to profit or loss	(1,318)	(597)	48	(51)	272	886	(998)	238
Credited to other comprehensive income	–	–	–	67	13	4	13	71
Acquisition of business	–	–	–	568	–	–	–	568
Acquisition of subsidiaries	–	–	1	–	–	27	1	27
Exchange differences	97	(21)	17	(28)	31	(28)	145	(77)
At 31 December	3,797	5,018	1,093	1,027	1,880	1,564	6,770	7,609

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others [(b)]		Total	
	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M	2012 HK$M	2011 HK$M
At 1 January	(9,106)	(7,668)	(378)	(429)	(1,717)	(578)	(1,250)	(148)	(1,861)	(1,339)	(14,312)	(10,162)
(Charged) / credited to profit or loss	(294)	451	(6)	(85)	206	(292)	(59)	(677)	341	(670)	188	(1,273)
Credited to other comprehensive income	–	–	–	–	–	–	–	–	107	39	107	39
Acquisition of business	–	(1,905)	–	–	–	(857)	–	(446)	–	–	–	(3,208)
Acquisition of subsidiaries	(2)	(1)	–	–	–	–	–	–	–	–	(2)	(1)
Withholding tax	–	–	9	80	–	–	–	–	–	–	9	80
Exchange differences	(38)	17	7	56	(34)	10	(25)	21	(15)	109	(105)	213
At 31 December	(9,440)	(9,106)	(368)	(378)	(1,545)	(1,717)	(1,334)	(1,250)	(1,428)	(1,861)	(14,115)	(14,312)

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 recognised, 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.

24. 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.

25. SoC Reserve Accounts

The Tariff Stabilisation Fund, Rate Reduction Reserve and Rent and Rates Interim Refunds 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:

	2012 HK$M	2011 HK$M
Tariff Stabilisation Fund (A)	712	637
Rate Reduction Reserve (B)	8	6
Rent and Rates Interim Refunds (C)	525	–
	1,245	643

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

(A) Tariff Stabilisation Fund

	2012 HK$M	2011 HK$M
At 1 January	637	1,505
Transfer under the SoC [(a)]		
– transfer for SoC from / (to) revenue (Note 2)	304	(586)
– charge for asset decommissioning [(b)]	(229)	(282)
At 31 December	712	637

Notes:

(a) Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the SoC. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 2).

(b) Under the SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. For CLP Power Hong Kong, the balance of the asset decommissioning liabilities account of HK$539 million (2011: HK$445 million) recognised under the SoC represents a liability of the Group and is classified in "Other non-current liabilities". The carrying amount of the asset decommissioning liabilities approximates to its fair value.

25. SoC Reserve Accounts (continued)

(B) Rate Reduction Reserve

	2012 HK$M	2011 HK$M
At 1 January	6	4
Interest expense charged to profit or loss (Note 5)	2	2
At 31 December	8	6

(C) Rent and Rates Interim Refunds

CLP Power Hong Kong is challenging the amount of Government rent and rates levied dating back to the year of assessment 1999/2000 and is awaiting the decision of the Lands Tribunal. CLP Power Hong Kong has committed to pass on to customers any refunds of rent and rates awarded through these appeals. During the year, interim refunds of HK$1,601 million were made by the Hong Kong Government without prejudice to the final outcome of the appeals which means that these amounts will be adjusted by reference to the decision of the Lands Tribunal and subsequent appeals.

On the basis of legal advice obtained, CLP Power Hong Kong considers that it has a strong case and that the final outcome of these appeals should see CLP Power Hong Kong recover no less than interim refunds received to date. Therefore, the interim refunds have been classified within the SoC reserve accounts.

While the final resolution of the appeals is pending, in 2012 CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate on the assumption of a favourable outcome of its appeals. In 2012, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate totalling HK$1,076 million and has announced the continuation of a Rent and Rates Special rebate in 2013. Management estimates that all of the interim refunds received to date will be returned to customers through this special rebate by the end of 2013.

In the 2012 accounts, the amount of the Government Rent and Rates Special Rebates made to customers has been offset against the interim refunds received:

	2012 HK$M
Rent and Rates Interim Refunds	
Interim Refunds Received	1,601
Rent and Rates Special Rebate	(1,076)
	525

In the event that the final amount recovered on conclusion of these appeals is less than the total amount rebated to customers, CLP Power Hong Kong will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, consistent with the commitment to pass on to customers any refunds of rent and rates awarded through these appeals, if the final amount recovered exceeds the special rebates paid out, these additional amounts will be rebated to customers.

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

26. Share Capital

	2012 Number of Ordinary Shares of HK$5 Each	2012 Amount HK$M	2011 Number of Ordinary Shares of HK$5 Each	2011 Amount HK$M
Authorised, at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid				
At 1 January	2,406,143,400	12,031	2,406,143,400	12,031
Issue of shares (note)	120,307,170	601	–	–
At 31 December	2,526,450,570	12,632	2,406,143,400	12,031

Note: On 20 December 2012, the Company completed the placement of 120,307,170 shares in accordance with the terms and conditions of the Placing Agreement dated 13 December 2012 at the price of HK$63.25 per share. The net proceeds from the placement, after deduction of all related costs, fees, expenses and commissions, amounted to HK$7,556 million. The Company intends to utilise the net proceeds to meet expected investment needs across the business including, but not limited to, ongoing investment in the Hong Kong electricity business, such as in infrastructure related to gas supply from the mainland, and in additional generating capacity in those markets where the Group is already present, such as the expansion of Fangchenggang and the development of renewable energy projects.

27. 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 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

27. 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 2012	2,492	6,016	1,533	458	57,565	68,064
Earnings attributable to shareholders	–	–	–	–	8,312	8,312
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	517	–	–	–	517
Jointly controlled entities	–	111	–	–	–	111
An associated company	–	(3)	–	–	–	(3)
Cash flow hedges						
Net fair value losses	–	–	(598)	–	–	(598)
Reclassification adjustment for amount included in profit or loss	–	–	(23)	–	–	(23)
Tax on the above items	–	–	120	–	–	120
Available-for-sale investments						
Fair value gains	–	–	–	4	–	4
Share of other comprehensive income of jointly controlled entities	–	–	6	1	–	7
Total comprehensive income attributable to shareholders	–	625	(495)	5	8,312	8,447
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves						
Subsidiaries	–	–	–	4	(4)	–
Jointly controlled entities	–	–	–	20	(20)	–
Dividends paid						
2011 fourth interim	–	–	–	–	(2,310)	(2,310)
2012 first to third interim	–	–	–	–	(3,825)	(3,825)
Balance at 31 December 2012	**2,492**	**6,641**	**1,038**	**485**	**59,720** [b]	**70,376**

27. Reserves (continued)

Company

	Capital Redemption Reserve [a] HK$M	Retained Profits HK$M	Total HK$M
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
Balance at 1 January 2012	2,492	27,707	30,199
Profit and total comprehensive income for the year	–	5,288	5,288
Dividends paid			
2011 fourth interim	–	(2,310)	(2,310)
2012 first to third interim	–	(3,825)	(3,825)
Balance at 31 December 2012	**2,492**	**26,860** [b]	**29,352**

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 2012 was HK$2,476 million (2011: HK$2,310 million). The balance of retained profits after the fourth interim dividend of the Group was HK$57,244 million (2011: HK$55,255 million) and of the Company was HK$24,384 million (2011: HK$25,397 million).

At 31 December 2012, distributable reserves of the Company amounted to HK$26,860 million (2011: HK$27,707 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.

28. Note to the Consolidated Statement of Cash Flows

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

	2012 HK$M	2011 HK$M
Profit before income tax	9,984	10,939
Adjustments for:		
Finance costs	6,423	6,005
Finance income	(322)	(146)
Dividend income from available-for-sale investments	(104)	–
Share of results of jointly controlled entities and associated companies, net of income tax	(2,984)	(3,610)
Depreciation and amortisation	7,021	6,353
Impairment charge	1,429	3,233
Net loss on disposal of fixed assets	151	122
Gains on sales of available-for-sale investments	–	(319)
Gain on sale of a jointly controlled entity	–	(457)
Fair value loss under fair value hedges and net exchange difference	568	134
SoC items		
Increase in customers' deposits	166	173
(Increase) / decrease in fuel clause account (under-recovery)	(122)	84
Increase in Rent and Rates Interim Refunds	525	–
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a jointly controlled entity	(135)	(128)
Transfer for SoC	304	(586)
	738	(457)
Increase in trade and other receivables	(1,956)	(3,539)
Decrease in finance lease receivables	114	61
Increase in cash restricted for specific purposes	(374)	(29)
Decrease in derivative financial instruments net liabilities	(917)	(440)
Increase in trade and other payables	4,883	589
(Decrease) / increase in current accounts due to jointly controlled entities and associated companies	(216)	278
Net cash inflow from operations	24,438	18,717

29. Commitments and Operating Lease Arrangements

(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	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Contracted but not provided for	**10,458**	10,158	**2**	54
Authorised but not contracted for	**11,347**	14,257	**45**	106
	21,805	24,415	**47**	160

(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 2012	Remaining Balance to be Contributed	Expected Year for Last Contribution
Haifang wind power project	RMB92 million	RMB18 million (HK$21 million)	RMB74 million (HK$93 million)	2014
CGN CLP Energy Services (Shenzhen)	RMB29 million	RMB14 million (HK$17 million)	RMB15 million (HK$18 million)	2013

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

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Within one year	**871**	883	**30**	7
Later than one year but not later than five years	**3,335**	2,862	**95**	5
Over five years	**7,102**	6,704	**94**	–
	11,308	10,449	**219**	12

Of the above amount with respect to the Group, HK$7,798 million (2011: HK$6,973 million) relates to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,118 million (2011: HK$2,421 million) relates to the 20-year Master Hedge Agreement between EnergyAustralia and Ecogen. Under the latter Agreement, EnergyAustralia 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.

The operating lease commitments of the Company primarily relate to a 10-year lease of the office at Laguna Verde at Hung Hom entered with Kar Ho Development Company Limited, a wholly-owned subsidiary of the Company.

29. Commitments and Operating Lease Arrangements (continued)

(D) The 25-year power purchase arrangements between Jhajjar and its off-takers are accounted for as operating leases. Under the agreements, the off-takers are obliged to purchase the output of Jhajjar power plant at predetermined price. The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2012 HK$M	2011 HK$M
Within one year	1,023	–
Later than one year but not later than five years	3,782	–
Over five years	11,269	–
	16,074	–

30. 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 an associated company

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

	2012 HK$M	2011 HK$M
Lease and lease service payment to CAPCO (a)	17,067	16,018
Purchases of nuclear electricity from GNPS (b)	4,636	4,879
Pumped storage service fee to PSDC (c)	528	512
	22,231	21,409

30. Related Party Transactions (continued)

(A) Purchases of electricity from jointly controlled entities and an associated company (continued)

(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 2012 are disclosed in Note 20.

(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$1,358 million (2011: HK$1,312 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 2012 are disclosed in Note 18.

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

(C) The advances made to jointly controlled entities totalled HK$9,521 million (2011: HK$9,448 million) (Note 13). Of these, HK$9,059 million (2011: HK$8,868 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2012, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2011: nil).

30. Related Party Transactions (continued)

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$29,558 million (2011: HK$27,779 million) made to its subsidiaries (Note 12), HK$20,143 million (2011: HK$19,981 million) and HK$5,256 million (2011: HK$5,541 million) were made to CLP Power Asia Limited and CLP Asia Finance Limited respectively to fund investments in overseas power projects. Another advance of HK$3,891 million (2011: HK$694 million) was made to CLP Treasury Services Limited for treasury operations purpose.

The Company also has advances from a subsidiary, CLP Properties Limited, of HK$99 million (2011: HK$232 million). These advances are unsecured, interest free and have no fixed repayment terms.

(E) Emoluments of key management personnel

Under HKAS 24 "Related Party Disclosures", key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. The total remuneration of the key management personnel shown below comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include the Executive Directors and six (2011: six) senior management personnel.

	2012 HK$M	2011 HK$M
Fees	9	8
Base compensation, allowances and benefits in kind	44	47
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	6	9
Performance bonus		
Annual incentive	45	49
Long-term incentive	20	30
Provident fund contributions	5	6
Final payment (note)	–	17
	129	166

Note: In 2011, the final payment included payment in lieu of notice, discretionary performance bonus, ex-gratia payment and compensation for loss of office paid to two former senior management personnel upon leaving.

At 31 December 2012, the CLP Holdings' Board was composed of 15 Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$54 million (2011: HK$51 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included three Directors (2011: one Director), one member of Senior Management (2011: three members) and a senior executive (2011: a former senior executive) of the Group. The total remuneration of these five highest paid individuals amounted to HK$83 million (2011: HK$108 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 127 to 129, 132 and 133 respectively. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

31. 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.

(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 of the Paguthan Plant (Paguthan) 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 Paguthan 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$1,029 million). CLP India's position, amongst other arguments, is that Paguthan 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$118 million) (2011: Rs.830 million (HK$121 million)).

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 Paguthan 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 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$410 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

31. Contingent Liabilities (continued)

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

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$529 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK$71 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$41 million) and interest of Rs.150 million (HK$21 million) in March 2011. However, during the first and last quarter of 2011, with the spot gas availability being constrained, Paguthan 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$2 million). At 31 December 2012, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$1,211 million) (2011: Rs.8,543 million (HK$1,245 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 concepts on provision and contingent liabilities 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 730MW of wind power projects to be developed with Wind World India Limited (formerly known as Enercon India Limited) (WWIL). WWIL's major shareholder, Enercon GmbH, has commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2012, 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.

31. Contingent Liabilities (continued)

(C) Land Premium of a Property in Hong Kong

The Group has received a demand note from the relevant authorities in the Hong Kong Government in an amount of HK$237 million as land premium relating to the Group's new office at Laguna Verde at Hung Hom. The Group considers, including on the basis of legal and other professional advice, that no payment is due. Exchanges are continuing regarding both the principle and quantum of any such premium.

(D) Redbank Power Purchase Hedge Agreement

A dispute exists between Redbank Project Pty Ltd (Redbank) and Ausgrid in connection with an existing Power Purchase Hedge Agreement (PPHA). The dispute relates to the entitlement of Redbank Project to pass through under the PPHA carbon costs incurred under the Australian Federal Government's Clean Energy Act, 2011 to Ausgrid. If Ausgrid is found to be liable to Redbank, under an On Sale Agreement between Ausgrid and EnergyAustralia as a result of the NSW acquisition in 2011, EnergyAustralia may be liable to Ausgrid.

At 31 December 2012, the parties had undertaken arbitration and are awaiting the outcome of the proceedings.

32. Reclassification of Assets Held for Sale

In July 2012, the Group classified the related assets and liabilities of Waterloo Wind Farm, in South Australia, as "held for sale" following completion of stage 1 of the sale process and the subsequent short listing of bidders.

Following negotiations with the short-listed bidders, as at 31 December 2012 no suitable outcome has been reached. At this date, the Group are not actively marketing Waterloo Wind Farm and there is no longer a process with a view to sale. As a result, Waterloo Wind Farm is no longer classified as held for sale.

There has been no impact in the financial statements in current year or any prior year as a result of this change in classification.

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 EnergyAustralia, 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. CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in foreign currencies for the full tenor, and a significant portion of its U.S. dollar obligations on fuel and nuclear power purchases, 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.

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:

	2012 HK$M	2011 HK$M
Increase / (decrease) in the hedging reserve		
Hong Kong dollar against U.S. dollar		
If Hong Kong dollar weakened by 0.6% (2011: 0.6%)	445	499
If Hong Kong dollar strengthened by 0.6% (2011: 0.6%)	(446)	(499)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 5% (2011: 7%)	51	77
If Hong Kong dollar strengthened by 5% (2011: 7%)	(46)	(67)

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 2012, the Group's net investment subject to translation exposure was HK$59,083 million (2011: HK$57,906 million), arising mainly from our investments in Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. This means that, for each 1% (2011: 1%) average foreign currency movement, our translation exposure will vary by about HK$591 million (2011: HK$579 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 and Renminbi, with all other variables held constant. The sensitivity rates in U.S. dollar and Renminbi used are considered reasonable given the current level of exchange rates and the volatility observed in the different functional currencies of the Group entities. These are 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 and Renminbi against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2012 HK$M	2011 HK$M
U.S. dollar		
If U.S. dollar strengthened by 5% (2011: 0.6% / 10%)		
Post-tax profit for the year	(42)	(31)
Equity – hedging reserve	(4)	10
If U.S. dollar weakened by 5% (2011: 0.6% / 10%)		
Post-tax profit for the year	42	35
Equity – hedging reserve	5	(3)
Renminbi		
If Renminbi strengthened by 3% (2011: 2%)		
Post-tax profit for the year	43	19
Equity – hedging reserve	–	–
If Renminbi weakened by 3% (2011: 2%)		
Post-tax profit for the year	(43)	(19)
Equity – hedging reserve	–	–

Energy price risk

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

In addition to hedging the physical market position through accounting hedge contracts, EnergyAustralia 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.

EnergyAustralia 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 an Audit & Risk Committee which acts on behalf of EnergyAustralia's Board.

EnergyAustralia 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. EnergyAustralia'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 EnergyAustralia's energy contract portfolio at 31 December 2012 was HK$474 million (2011: HK$679 million). The change reflects a reduction of holding volatile positions. During 2012, the VaR ranged between a low of HK$374 million (2011: HK$326 million) and a high of HK$772 million (2011: HK$809 million).

Analyses below show the effect on post-tax profit and equity if market prices were 15% (2011: 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% (2011: 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 on derivatives, with all other variables held constant, is as follows:

	2012 HK$M	2011 HK$M
If market prices were 15% (2011: 15%) higher		
Post-tax profit for the year	427	603
Equity – hedging reserve	(229)	(730)
If market prices were 15% (2011: 15%) lower		
Post-tax profit for the year	(453)	(591)
Equity – hedging reserve	229	730

Energy price risk (continued)

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, EnergyAustralia also uses Volumetric Limits. 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.

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 risks are managed by monitoring an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swaps.

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 2012, 57% (2011: 64%) 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 impact of shift in yield curve on energy contracts) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges). 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.

Interest rate risk (continued)

	2012 HK$M	2011 HK$M
Hong Kong dollar		
If interest rates were 0.1% (2011: 0.1%) higher		
Post-tax profit for the year	(15)	(13)
Equity – hedging reserve	(51)	–
If interest rates were 0.1% (2011: 0.1%) lower		
Post-tax profit for the year	15	13
Equity – hedging reserve	51	(1)
U.S. dollar		
If interest rates were 0.1% (2011: 0.1%) higher		
Post-tax profit for the year	–	–
Equity – hedging reserve	51	10
If interest rates were 0.1% (2011: 0.1%) lower		
Post-tax profit for the year	–	–
Equity – hedging reserve	(51)	(10)
Indian rupee		
If interest rates were 1% (2011: 0.2%) higher		
Post-tax profit for the year	(33)	(6)
Equity – hedging reserve	–	–
If interest rates were 1% (2011: 0.2%) lower		
Post-tax profit for the year	33	6
Equity – hedging reserve	–	–
Australian dollar		
If interest rates were 0.5% (2011: 0.5%) higher		
Post-tax profit for the year	8	(17)
Equity – hedging reserve	230	151
If interest rates were 0.5% (2011: 0.5%) lower		
Post-tax profit for the year	(8)	16
Equity – hedging reserve	(230)	(148)

The Company's sensitivity to interest rates was not significant and therefore is not presented at 31 December 2012 and 2011.

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. EnergyAustralia has policies in place to ensure that sales of products and services are made to customers of an appropriate credit quality. For EnergyAustralia, receivables are due for settlement no more than 14 to 30 days after issue and collectability is reviewed on an ongoing basis.

CLP India sell a majority of its electricity output to various state electricity boards in India through power purchase agreements for 13 to 25 years. Receivables are due for settlement in 15 to 60 days after billing and the management closely monitor the credit quality and collectability of receivables from those off-takers.

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 opposite 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 2012					
Non-derivative financial liabilities					
Bank loans	7,458	6,854	16,340	10,218	40,870
Other borrowings	2,595	2,606	7,650	30,771	43,622
Obligations under finance leases	4,988	4,744	12,683	23,647	46,062
Customers' deposits	4,420	–	–	–	4,420
Trade and other payables	21,732	–	–	–	21,732
SoC reserve accounts	–	–	–	1,245	1,245
	41,193	14,204	36,673	65,881	157,951
Derivative financial liabilities					
Net settled					
Interest rate swaps	364	353	560	387	1,664
Energy contracts	1,168	743	1,638	–	3,549
Gross settled					
Forward foreign exchange contracts	17,136	23,883	61,708	1,760	104,487
Cross currency & interest rate swaps	1,580	922	2,888	25,178	30,568
	20,248	25,901	66,794	27,325	140,268
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 2012, the maturity profile of the Company's bank loans (with current tenor less than one year under revolving facility with maturity falling beyond one year), included in the Group amounts shown above, was HK$29 million (2011: HK$2,720 million) repayable within one year, HK$29 million (2011: HK$72 million) between one and two years and HK$2,927 million (2011: HK$5,226 million) 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 2012				
Assets				
Available-for-sale investments	26	–	1,263	1,289
Forward foreign exchange contracts	–	1,484	–	1,484
Foreign exchange options	–	73	–	73
Cross currency & interest rate swaps	–	1,713	–	1,713
Interest rate swaps	–	86	–	86
Energy contracts	–	266	1,422	1,688
	26	3,622	2,685	6,333
Liabilities				
Forward foreign exchange contracts	–	103	–	103
Cross currency & interest rate swaps	–	607	–	607
Interest rate swaps	–	1,640	–	1,640
Energy contracts	–	40	3,456	3,496
	–	2,390	3,456	5,846

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 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

During 2012 and 2011, 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:

	2012			2011		
	Available-for-sale Investments HK$M	Energy Contracts HK$M	Total HK$M	Available-for-sale Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	1,263	(2,716)	(1,453)	1,264	247	1,511
Total (losses) / gains recognised in						
Profit or loss	–	(838)	(838)	(4)	627	623
Other comprehensive income	–	831	831	–	182	182
Acquisition of business	–	–	–	–	(3,338)	(3,338)
Purchases	–	774	774	3	181	184
Sales	–	–	–	–	(5)	(5)
Settlements	–	(85)	(85)	–	(610)	(610)
Closing balance	1,263	(2,034)	(771)	1,263	(2,716)	(1,453)
Total (losses) / gains for the year included in profit or loss and presented in fuel and other operating expenses	–	(838)	(838)	(4)	627	623
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	–	(391)	(391)	–	(534)	(534)

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 2012 and 2011.

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

	2012 HK$M	2011 HK$M
Total debt [(a)]	66,198	65,521
Net debt [(b)]	53,172	61,655
Total equity	91,201	81,352
Total capital (based on total debt) [(c)]	157,399	146,873
Total capital (based on net debt) [(d)]	144,373	143,007
Total debt to total capital (based on total debt) ratio (%)	42.1	44.6
Net debt to total capital (based on net debt) ratio (%)	36.8	43.1

The decreases of total debt to total capital and net debt to total capital ratios were mainly due to a 5% share placement by the Company to raise HK$7,556 million cash in December 2012. The proceeds from this placement reduced the debt amounts whilst the issued new shares increased the share capital and share premium accounts which are components of total equity.

Certain entities of the Group are subject to certain loan covenants. For both 2012 and 2011, there is no material non-compliance 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 2012 was 9.12% (2011: 9.10%).

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 2012, 64% (2011: 63%) of the net return was allocated to CLP Power Hong Kong and 36% (2011: 37%) 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 223 are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2012 HK$M	2011 HK$M
SoC revenue	33,944	30,928
Expenses		
Operating costs	3,698	3,516
Fuel	10,061	8,784
Purchases of nuclear electricity	4,636	4,879
Provision for asset decommissioning	229	282
Depreciation	4,146	3,863
Operating interest	783	742
Taxation	1,772	1,528
	25,325	23,594
Profit after taxation	8,619	7,334
Interest on increase in customers' deposits	–	–
Interest on borrowed capital	859	841
Adjustment for performance incentives / penalties	(47)	(45)
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(43)	(62)
Profit for SoC	9,388	8,068
Transfer (to) / from Tariff Stabilisation Fund	(75)	868
Permitted return	9,313	8,936
Deduct interest on / Adjustment for		
Increase in customers' deposits as above	–	–
Borrowed capital as above	859	841
Performance incentives / penalties as above	(47)	(45)
Tariff Stabilisation Fund to Rate Reduction Reserve	2	2
	814	798
Net return	8,499	8,138
Divisible as follows:		
CLP Power Hong Kong	5,425	5,139
CAPCO	3,074	2,999
	8,499	8,138
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	5,425	5,139
Interest in CAPCO	1,229	1,200
	6,654	6,339

Five-year Summary: CLP Group Statistics

Economic

	2012	2011	2010	2009	2008
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong (HK)	**33,643**	31,518	29,944	28,297	30,191
Energy business in Australia	**66,843**	56,325	25,182	19,166	19,432
Others	**4,375**	3,791	3,284	3,205	4,674
Total	**104,861**	91,634	58,410	50,668	54,297
Operating profit	**13,101**	13,188	12,397	10,847	13,307
Earnings					
Electricity business in HK	**6,654**	6,339	6,129	5,964	7,549
Energy business in Australia	**1,685**	2,911	1,303	736	604
Other investments / operations	**1,631**	1,581	2,173	2,271	1,960
Gains on sales of assets	**–**	876	356	153	657
Provisions for fixed assets / jointly controlled entities / associated companies	**(409)**	(1,933)	(258)	(477)	–
Valuation gain on Hok Un redevelopment	**–**	225	–	–	–
Tax consolidation benefit from Australia	**105**	–	989	–	–
Other one-off items from Australia	**(790)**	(192)	97	(17)	19
Unallocated net finance costs	**(74)**	(48)	(18)	(21)	(21)
Unallocated Group expenses	**(490)**	(471)	(439)	(413)	(345)
Total	**8,312**	9,288	10,332	8,196	10,423
Dividends	**6,301**	6,063	5,967	5,967	5,971
Capital expenditure, owned and leased assets	**11,230**	15,798	20,032	9,713	7,760
Depreciation & amortisation, owned and leased assets	**7,021**	6,353	5,065	4,332	4,055
Consolidated Statement of Cash Flows, HK$M					
Net cash inflow from operating activities	**23,915**	18,062	16,085	14,529	15,238
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**63,599**	60,142	57,247	54,712	52,132
Other fixed assets	**70,730**	70,240	60,213	44,146	36,991
Goodwill and other intangible assets	**28,479**	27,369	9,150	8,105	6,324
Interests in jointly controlled entities	**19,197**	18,226	20,476	18,838	17,791
Interests in associated companies	**1,856**	1,465	2,378	1,813	242
Other non-current assets	**7,742**	9,791	11,177	9,588	8,166
Current assets	**37,153**	27,055	18,714	19,329	11,185
Total assets	**228,756**	214,288	179,355	156,531	132,831
Shareholders' funds	**91,127**	81,259	79,661	70,761	63,017
Non-controlling interests	**74**	93	97	107	105
Equity	**91,201**	81,352	79,758	70,868	63,122
Bank loans and other borrowings	**66,198**	65,521	44,623	39,431	26,696
Obligations under finance leases	**27,055**	27,396	27,100	21,855	21,765
SoC reserve accounts	**1,245**	643	1,509	1,654	1,826
Other current liabilities	**28,147**	23,642	16,420	14,023	11,205
Other non-current liabilities	**14,910**	15,734	9,945	8,700	8,217
Total liabilities	**137,555**	132,936	99,597	85,663	69,709
Equity and total liabilities	**228,756**	214,288	179,355	156,531	132,831
Per Share Data, HK$					
Shareholders' funds per share	**36.07**	33.77	33.11	29.41	26.19
Earnings per share	**3.45**	3.86	4.29	3.41	4.33
Dividends per share	**2.57**	2.52	2.48	2.48	2.48

A ten-year summary is on our website

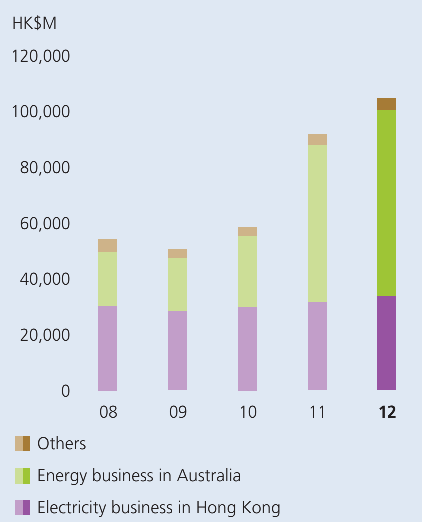
	2012	2011	2010	2009	2008
Per Share Data, HK$ (continued)					
Closing share price					
Highest	**68.95**	74.95	64.65	57.55	70.50
Lowest	**62.30**	59.95	52.15	51.15	42.85
As at year-end	**64.85**	66.05	63.10	52.45	52.60
Ratios					
Return on equity, %	**10.1** #	11.5	13.7	12.3	16.4
Total debt to total capital, %	**42.1**	44.6	35.9	35.7	29.7
Net debt to total capital, %	**36.8**	43.1	33.3	30.7	29.1
Interest cover, times	**4**	4	7	8	9
Price / Earnings, times	**19**	17	15	15	12
Dividend yield, %	**4.0**	3.8	3.9	4.7	4.7
Dividend pay-out (total earnings), %	**74.5**	65.3	57.8	72.8	57.3
Dividend pay-out (operating earnings), %	**65.9**	58.8	65.2	69.9	61.3
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**	5,616	3,211	3,188	3,132
Chinese mainland **	**5,911**	5,957	5,899	5,578	5,206
India **	**2,947**	2,594	2,461	2,420	2,183
Southeast Asia & Taiwan	**285**	282	868	832	796
	21,667	21,357	19,347	18,926	18,225
– by status					
Operational	**21,175**	19,707	17,145	16,473	15,636
Construction	**492**	1,650	2,202	2,453	2,589
	21,667	21,357	19,347	18,926	18,225

The 2012 figure excludes the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.

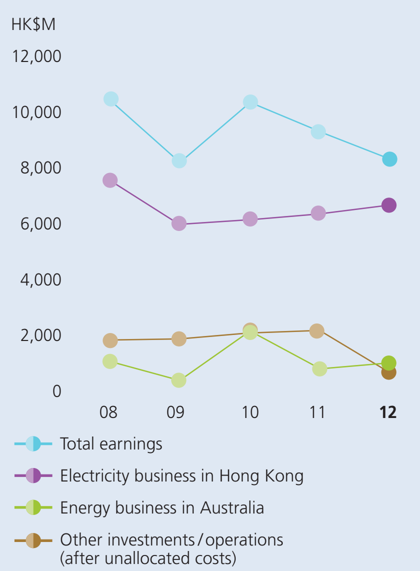
* Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC and Ecogen on 100% as having right to use; and (c) other stations on the proportion of the Group's equity interests.

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

Revenue



Earnings



Shareholders' Funds

Environmental

Performance Indicators	Units	2012	2011	2010	2009	2008	Global Reporting Initiative Reference	HKEx ESG Reporting Guide Reference
Resource Use & Emissions[1]								
Coal consumed (for power generation)	TJ	361,819	419,357	370,427	469,509	445,211	EN3	B2.1
Gas consumed (for power generation)	TJ	86,200	101,166	135,556	102,160	105,821	EN3	B2.1
Oil consumed (for power generation)	TJ	8,200	1,508	1,272	7,185	6,452	EN3	B2.1
Biomass consumed (for power generation)	TJ	1,745	1,848	1,375	1,012	–	EN3	B2.1
Carbon dioxide equivalent (CO_2e) emissions (from power generation)	kT	38,464	44,450	41,908	49,761	–	EN16	B1.2
Carbon dioxide (CO_2) emissions (from power generation)[2]	kT	38,319	44,298	41,784	49,631	44,251	EN16	B1.2
Nitrogen oxides emissions (NO_x)	kT	42.9	48.1	39.3	43.8	47.6	EN20	B1.1
Sulphur dioxide emissions (SO_2)	kT	35.1	35.8	37.4	53.0	55.3	EN20	B1.1
Total particulates emissions	kT	4.7	6.2	6.4	6.8	6.8	EN20	B1.1
Water withdrawal							EN8	B2.2
from marine water resources	Mm^3	4,648.6	4,688.6	4,670.7	3,163.9	–		
from freshwater resources	Mm^3	35.4	37.9	41.7	42.0	–		
from municipal sources	Mm^3	5.8	5.5	4.3	4.1	–		
Total	Mm^3	4,689.6	4,732.0	4,716.6	3,210.0	–		
Water discharged							EN21	
cooling water to marine water bodies	Mm^3	4,648.6	4,688.6	4,670.7	3,163.9	–		
treated wastewater to marine water bodies	Mm^3	1.1	0.8	0.8	1.0	–		
treated wastewater to freshwater bodies	Mm^3	14.0	18.1	18.4	15.5	–		
wastewater to sewerage	Mm^3	1.7	1.8	1.6	1.7	–		
wastewater to other destinations	Mm^3	0.3	0.6	0.7	0.7	–		
Total	Mm^3	4,665.7	4,710.0	4,692.1	3,182.9	–		
Hazardous waste produced[3]	T (solid) / kl (liquid)	262 / 1,500	799 / 912	803 / 1,167	771 / 1,011	–	EN22	B1.3
Hazardous waste recycled[3]	T (solid) / kl (liquid)	25 / 1,023	36 / 831	39 / 844	57 / 636	–	EN22	
Non-hazardous waste produced[3]	T (solid) / kl (liquid)	10,830 / 21	6,301 / 0	8,029 / 2	5,160 / 0	–	EN22	B1.4
Non-hazardous waste recycled[3]	T (solid) / kl (liquid)	2,719 / 4	3,699 / 0	3,199 / 0	2,369 / 0	–	EN22	
Environmental regulatory non-compliances resulting in fines or prosecutions	number	0	0	0	0	–	EN28	
Environmental licence limit exceedances & other non-compliances	number	1	5	3	1	–	EN28	
Climate Vision 2050 Target Performance (Equity Basis)[4]								
Total renewable energy generation capacity	% (MW)	20.2 (2,734)	18.3 (2,424)	16.8 (2,286)	11.3 (1,494)	8.4 (1,066)	EN6	
Non-carbon emitting generation capacity	% (MW)	23.8 (3,226)	22.0 (2,916)	20.4 (2,778)	15.0 (1,986)	12.3 (1,558)	EN6	
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	0.77	0.80	0.80	0.83	0.84	EN16	B1.2

Notes:

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

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

(3) Waste categorised in accordance with local regulations.

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

All 2012 environmental data on this page have been independently verified by AECOM Asia Company Limited.

Social

Performance Indicators	Units	2012	2011	2010	2009	2008	Global Reporting Initiative Reference	HKEx ESG Reporting Guide Reference
Employees								
Employees based on geographical location							LA1	A1.1
Hong Kong	number	4,345	4,259	4,228	4,164	4,165		
Chinese Mainland	number	539	552	574	546	525		
Australia	number	1,302	1,111	939	841	856		
India	number	391	374	309	207	143		
Other locations (Southeast Asia & Macau)	number	4	20	25	19	28		
Total	number	6,581	6,316	6,075	5,777	5,717		
Employees eligible to retire within the next five years(1)							EU15	
Hong Kong	%	14.0	13.4	12.5	11.4	9.9		
Chinese Mainland	%	11.9	9.6	11.3	7.3	2.1		
Australia	%	11.9	9.6	9.5	10.1	8.6		
India	%	0.8	1.1	1.3	1.5	1.4		
Other locations (Southeast Asia & Macau)	%	n/a(2)	0	0	0	0		
Group	%	12.6	11.6	11.3	10.3	8.8		
Voluntary staff turnover rate	%	5.2	4.9	5.3	2.7	5.8	LA2	A1.2
Training per employee	average man days	5.6	5.4	5.5	4.9	5.9	LA10	A3.2
Safety(3)								
Fatalities (employees only)	number	0	0	1	0	0	LA7	A2.1
Cases of disabling injuries (employees only)	number	5	9	2	3	9	LA7	
Days lost / charged (employees only)	number	240	674	6,010	45	109	LA7	A2.2
Governance								
Convicted cases of corruption	cases	0	0	0	0	0	SO4	C3.1
Breaches of Code of Conduct	cases	14	6	4	8	8		

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) Not applicable as there were no CLP full-time permanent staff in 2012.

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

All 2012 social data on this page have been independently verified by AECOM Asia Company Limited.

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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

	2012	2011	2010	2009	2008
SoC Financial Statistics, HK$M					
Combined Profit & Loss Statement					
Profit for SoC	9,388	8,068	8,420	8,052	10,418
Transfer (to) / from Tariff Stabilisation Fund / Development Fund *	(75)	868	148	103	(133)
Permitted return	9,313	8,936	8,568	8,155	10,285
Less: Interest on / Adjustment for					
Increase in customers' deposits	–	–	–	–	2
Borrowed capital	859	841	763	625	608
Performance incentives / penalties	(47)	(45)	(43)	(41)	–
Tariff Stabilisation Fund / Development Fund *	2	2	3	3	132
Net return	8,499	8,138	7,845	7,568	9,543
Combined Balance Sheet					
Net assets employed					
Fixed assets	95,243	91,187	87,713	83,811	79,445
Non-current assets	1,904	2,310	1,698	774	1,552
Current assets	11,530	4,913	4,367	3,929	3,612
	108,677	98,410	93,778	88,514	84,609
Less: current liabilities	22,248	17,439	15,194	17,658	14,394
Net assets	86,429	80,971	78,584	70,856	70,215
Exchange fluctuation account	(907)	(1,428)	(962)	(346)	(165)
	85,522	79,543	77,622	70,510	70,050
Represented by					
Shareholders' funds	43,070	41,845	39,960	37,197	42,366
Long-term loans and other borrowings	28,254	25,283	25,248	21,598	16,616
Deferred liabilities	13,486	11,778	10,909	10,062	9,312
Tariff Stabilisation Fund / Development Fund *	712	637	1,505	1,653	1,756
	85,522	79,543	77,622	70,510	70,050
Other SoC Information					
Total electricity sales	33,842	30,824	29,917	28,349	30,288
Capital expenditure	8,621	7,774	7,748	7,798	7,665
Depreciation	4,146	3,863	3,427	3,149	3,005
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	2,400	2,378	2,347	2,321	2,291
Sales analysis, millions of kWh					
Commercial	12,917	12,670	12,642	12,488	12,312
Manufacturing	1,890	1,886	1,952	1,938	2,202
Residential	8,900	8,594	8,457	8,331	7,890
Infrastructure and Public Services	8,288	8,018	7,878	7,813	7,661
Local	31,995	31,168	30,929	30,570	30,065
Export	1,838	2,957	2,609	3,731	3,552
Total Electricity Sales	33,833	34,125	33,538	34,301	33,617
Annual change, %	(0.9)	1.8	(2.2)	2.0	(1.1)
Local consumption, kWh per person	5,466	5,373	5,365	5,353	5,260
Local sales, HK¢ per kWh (average)					
Basic tariff	84.2	80.1	80.1	77.5	85.6
Fuel clause charge	17.8	14.1	11.5	11.8	7.3
SoC rebate	–	–	–	(0.2)	(0.8)
Special rebate	–	–	–	–	(1.6)
Total tariff	102.0	94.2	91.6	89.1	90.5
Rent & Rates Special Rebate **	(3.3)	–	–	–	–
Net tariff	98.7	94.2	91.6	89.1	90.5
Annual basic tariff change, %	5.1	–	3.4	(9.5)	(2.8)
Annual total tariff change, %	8.3	2.8	2.8	(1.5)	3.8
Annual net tariff change, %	4.8	2.8	2.8	(1.5)	3.8

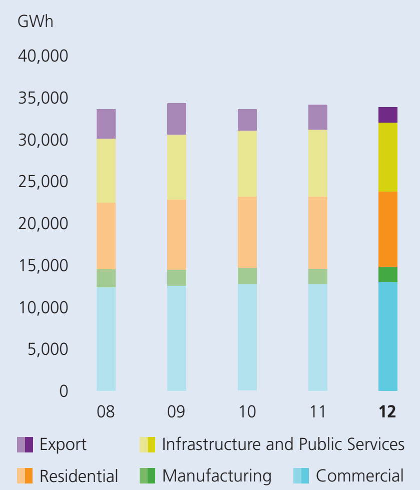
A ten-year summary is on our website

	2012	2011	2010	2009	2008
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	8,888	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	6,769	6,702	6,766	6,389	6,749
Annual change, %	1.0	(0.9)	5.9	(5.3)	7.4
Local and the Chinese mainland, MW	7,431	7,798	7,349	7,616	8,199
Annual change, %	(4.7)	6.1	(3.5)	(7.1)	6.1
System load factor, %	57.5	55.3	57.2	56.4	51.1
Generation by CAPCO stations, millions of kWh	25,894	26,800	26,019	26,410	25,722
Sent out, millions of kWh –					
From own generation	24,102	24,955	24,552	24,920	24,324
Net transfer from / (to)					
Landfill gas generation	3	5	5	5	5
GNPS / GPSPS / Others	11,172	10,558	10,350	10,773	10,653
Total	35,277	35,518	34,907	35,698	34,982
Fuel consumed, terajoules –					
Oil	7,900	1,044	844	895	1,048
Coal	182,651	188,407	148,229	169,753	153,565
Gas	50,420	57,665	83,007	70,393	77,487
Total	240,971	247,116	232,080	241,041	232,100
Cost of fuel, HK$ per gigajoule – Overall	40.56	35.33	34.13	29.14	29.06
Thermal efficiency, % based on units sent out	36.0	36.4	38.1	37.2	37.7
Plant availability, %	82.1	85.4	79.2	83.0	85.8
Transmission and Distribution					
Network, circuit kilometres					
400kV	555	555	554	555	554
132kV	1,581	1,531	1,528	1,488	1,386
33kV	27	27	27	60	62
11kV	12,074	11,809	11,658	11,444	11,240
Transformers, MVA	60,136	59,454	58,929	57,700	57,187
Substations –					
Primary	216	213	213	214	214
Secondary	13,536	13,361	13,208	13,074	12,914
Employees and Productivity					
No. of SoC employees	3,791	3,734	3,709	3,708	3,758
Productivity, thousands of kWh per employee	8,504	8,375	8,340	8,189	7,892

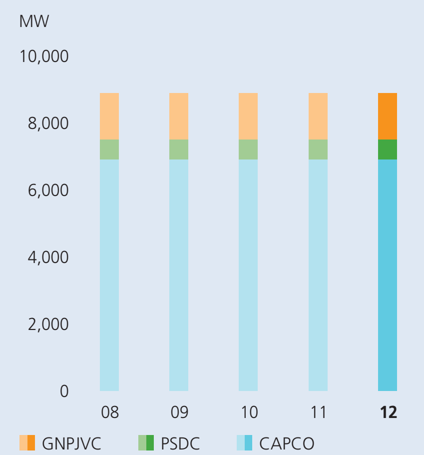
* The Tariff Stabilisation Fund has replaced the Development Fund under the new SoC effective from 1 October 2008.

** While pending the decision of the Lands Tribunal on our rent and rates appeals, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 3.3 cents per unit in 2012. In the event of an unfavourable outcome of the appeals, CLP Power Hong Kong will recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to the customers.

Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets