FINANCIALS

What is an accounting view of our financial performance for 2013 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 profit or loss and other 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 profit or loss and other 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 losses arising from the translation of our Australia and India businesses in 2013 which decreased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity.

Statement of financial position

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

This statement sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2013. 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"

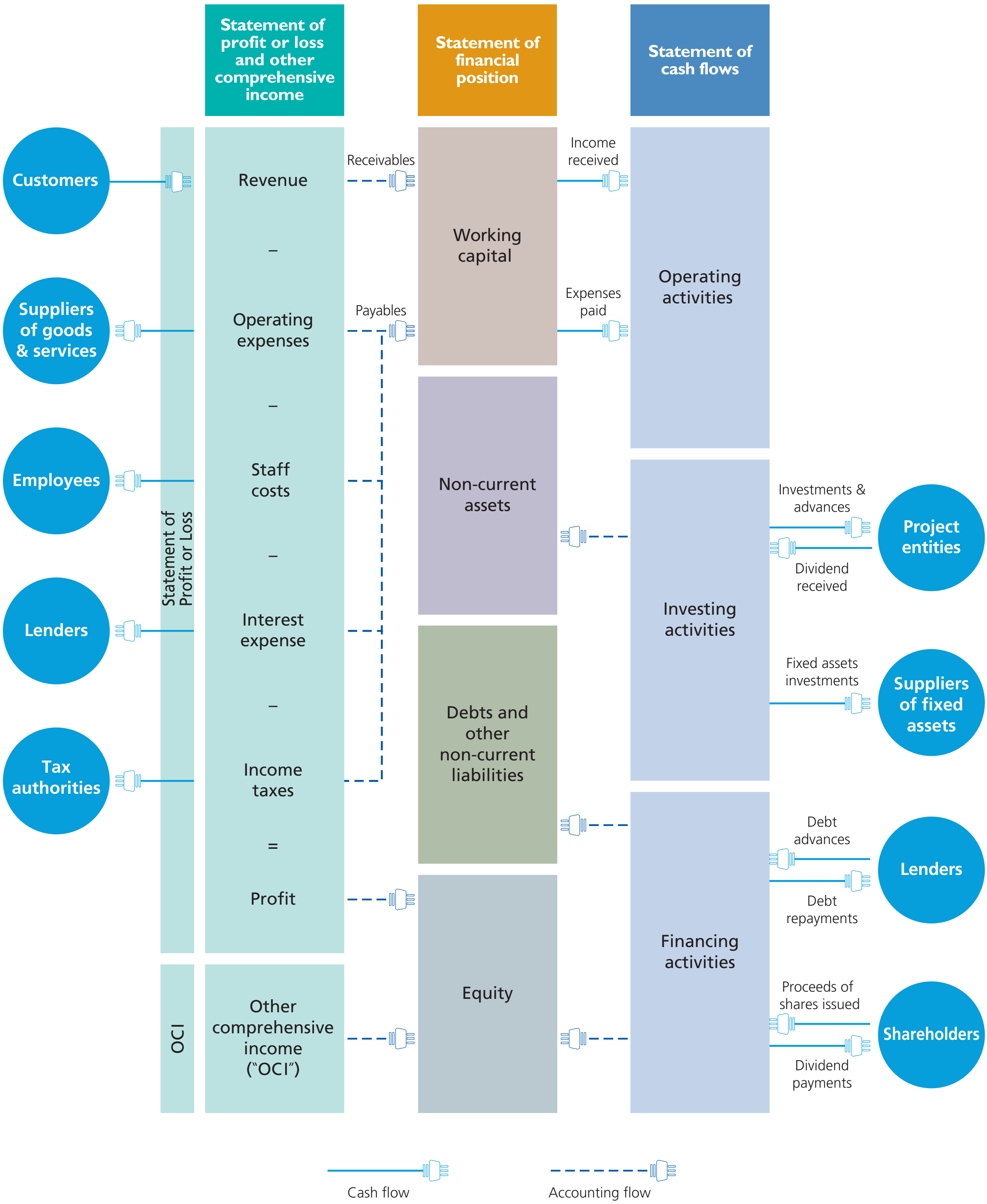
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the 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 profit or loss and other 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 and 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 would like to explain the principle of revenue recognition and how revenue is measured and recognised. As electricity business is our core business, our focus will be on the revenue derived from the sales of electricity.

When can revenue be recognised?

To recognise electricity sales revenue, there are two key conditions to be met according to Hong Kong Accounting Standard (HKAS) 18 "Revenue":

1. Significant risks and rewards of ownership of the goods have been transferred to the buyer. In our case, when the customers consume the electricity, we have performed our obligation.
2. It is probable that the economic benefits associated with the transaction will flow to us. This requires us to measure the electricity consumption and the corresponding revenue reliably. It involves a billing system and an estimation technique.

How do we measure electricity sales revenue?

Let us go through the way we measure our electricity sales.

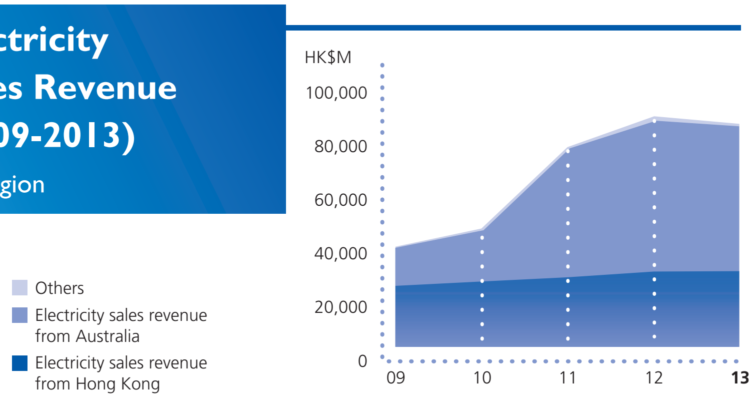
Billed revenue

We bill our customers when they consume electricity. We read the electricity meters which record the electrical power consumed by the customers for a fixed period. Obviously, our meter readers cannot read all the meters on the same day. Therefore, different customers may have different meter reading dates. Based on the meters read, we issue bills to our customers. The customers are notified to settle the bills within the prescribed credit period.

Unbilled revenue

For financial reporting purposes, we will close the accounting books for reporting to our shareholders twice a year (i.e. at 30 June for interim reports and 31 December for annual reports). The basic accounting principle applies an accrual method of accounting. We are required to estimate and accrue revenue between the meter reading dates and the book closing dates (i.e. unbilled revenue) in our financial statements.

Electricity Sales Revenue (2009-2013)
By Region

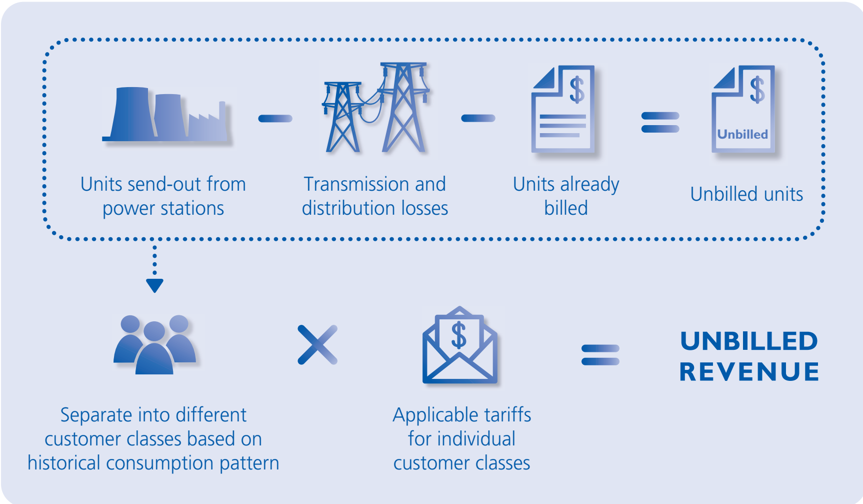


The challenges we face are to ensure that the unbilled revenue is estimated reliably and it is probable that the bills issued subsequently will be settled. Significant judgment is exercised on these aspects.

(a) Reliable measurement

To estimate the unbilled revenue, we need to know (1) the estimated units consumed and (2) the applicable tariffs.

Hong Kong electricity business has a comparatively simple tariff structure and stable electricity consumption. As a result, we can use the following top-down approach in estimating the unbilled revenue.



Electricity market in **Australia** is far more complicated. Our operations in Australia are separated into wholesale and retail segments.

For our wholesale business in Australia, electricity is sold to the National Electricity Market (NEM), where the prices of which are fixed every 5 minutes. As wholesale transactions are real-time transactions, both the units sold and prices are properly recorded. Estimation of wholesale revenue is more straightforward. However, estimation of unbilled revenue for retail business is a real challenge. Retail tariffs are variable for different customer segments and consumption periods to reflect the costs of electricity due to the demand and supply. For example, tariff for the commercial segment is higher during office hours (i.e. peak hours) while during the same period, it is lower for the residential segment (i.e. off peak hours). In Australia, it is not uncommon for the customers to switch from one energy supplier to another. As such, track records on the past consumption pattern of the customers may provide limited information for estimation. In that case, to measure the unbilled revenue reliably, a good billing system and a proven analytical model are essential. They should not only be able to provide the relevant information to estimate the units consumed, but also the applicable tariffs for that period.

(b) Probability that bills subsequently issued will be settled

The probability that the customers will pay for the bills issued subsequently is assessed taking into account the prevailing economic conditions, the credit risk characteristics of different groups of customers and on the basis of historical loss experience. For those customers who have placed cash deposits or bank guarantees to their accounts, the probability that we can collect the debts is high. However, there may still be issues such as disputes on measurement or financial liquidity problem which may jeopardise the collectability of the unbilled balances.

SMART METER – A SOLUTION JUST AROUND THE CORNER

The barrier of reliable measurement of revenue is the on-site meter readings. With the advancement of smart grid technology, smart meter is now available which enables two-way communication between the meter and the central system. It can record consumption of electric energy in intervals and communicates that information back to us for monitoring and billing purposes. With the expectation of the wider application of smart meters in the electricity infrastructure, hopefully in the near future, we can rely on this new technology in measuring the revenue efficiently, accurately and timely.

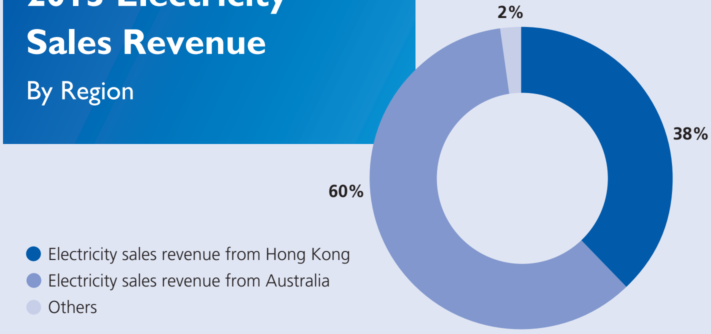
Smart meter

THE DIFFERENCES IN REVENUE RECOGNITION OF ELECTRICITY BUSINESSES IN HONG KONG AND AUSTRALIA

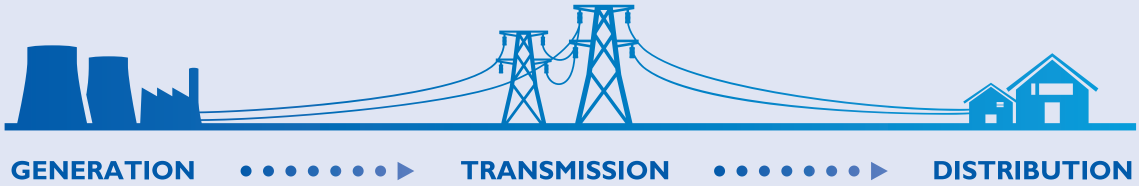
You may be curious why electricity sales revenue from Australia is much higher than from Hong Kong. Excluding the effect due to differences in sales volumes and tariffs of Hong Kong and Australia, this, in fact, reflects the different business models and market structures in these two regions.

2013 Electricity Sales Revenue

By Region



Electricity is provided to our customers through three main processes:



Hong Kong electricity business

In Hong Kong, we engage in the electricity generation, transmission and distribution business. We purchase electricity from Castle Peak Power Company Limited (CAPCO) (40% owned) and Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) (25% owned). Electricity purchased is then transmitted and distributed to the customers through our transmission and distribution networks.

According to the accounting standards, we account for the investments in CAPCO and GNPJVC by using the equity method of accounting. As such, wholesale revenues derived by CAPCO and GNPJVC are not consolidated to the Group's revenue. Instead, we share the net profits of CAPCO and GNPJVC. Our consolidated financial statements therefore only include the retail revenue derived from CLP Power's transmission and distribution business.

Australia electricity business

We own generation and retail businesses in Australia. Australian electricity market is substantially deregulated. Electricity generated from our power plants is sold to NEM, which is transported via high voltage transmission lines to electricity distributors, who deliver it to the customers.

The transport of electricity from the generators to the customers is facilitated through a spot market where the output from all generators is aggregated and instantaneously scheduled to meet demand through a centrally-coordinated dispatch process.

Under this market structure, our revenue from the electricity sales is attributed to two separate operating activities:

1. wholesale electricity revenue generated from the power plants for sales to NEM; and
2. retail electricity revenue for purchases from the spot market and sales to our customers.

The wholesale revenue will not be eliminated by the power purchases at the retail segment upon consolidation because the transactions are with different counterparties outside the Group. As a result, electricity revenue from Australia business, which includes both wholesale and retail revenues, is higher than from Hong Kong business.

"WE OWN GENERATION AND RETAIL BUSINESSES IN AUSTRALIA. AUSTRALIAN ELECTRICITY MARKET IS SUBSTANTIALLY DEREGULATED..."

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 174 to 252 which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 February 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2013

	Note	2013 HK$M	2012 HK$M
Revenue	3	104,530	104,861
Expenses			
Purchases of electricity, gas and distribution services		(49,040)	(50,760)
Operating lease and lease service payments		(12,963)	(13,362)
Staff expenses		(3,017)	(2,935)
Fuel and other operating expenses		(23,763)	(17,682)
Depreciation and amortisation		(7,592)	(7,021)
		(96,375)	(91,760)
Other income	5	751	–
Operating profit	6	8,906	13,101
Finance costs	7	(6,522)	(6,423)
Finance income	7	173	322
Share of results, net of income tax			
Joint ventures	15	2,671	2,405
An associate	16	612	579
Profit before income tax		5,840	9,984
Income tax credit / (expense)	8	232	(1,692)
Profit for the year		6,072	8,292
Earnings attributable to:			
Shareholders	9	6,060	8,312
Non-controlling interests		12	(20)
		6,072	8,292
Dividends	10		
First to third interim dividends paid		4,017	3,825
Fourth interim dividend declared		2,476	2,476
		6,493	6,301
Earnings per share, basic and diluted	11	HK$2.40	HK$3.45

Fuel and other operating expenses included the impairment and other provisions for Australia, the Chinese mainland and India. Please refer to Note 6 for details.

The notes and disclosures on pages 181 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013 HK$M	2012 HK$M
Profit for the year	6,072	8,292
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	(5,774)	626
Cash flow hedges	128	(501)
Fair value changes on available-for-sale investments	10	4
Reclassification adjustment upon sale of a subsidiary	(8)	–
Share of other comprehensive income of joint ventures	9	6
	(5,635)	135
Items that cannot be reclassified to profit or loss		
Fair value gain on revaluation upon transfer from fixed asset to investment property	2,055	–
Share of other comprehensive income of joint ventures	250	1
	2,305	1
Other comprehensive income for the year, net of tax	(3,330)	136
Total comprehensive income for the year	2,742	8,428
Total comprehensive income attributable to:		
Shareholders	2,727	8,447
Non-controlling interests	15	(19)
	2,742	8,428

This statement of profit or loss and other 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 168. Further details of other comprehensive income attributable to shareholders are presented in Note 29.

The notes and disclosures on pages 181 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Note	2013 HK$M	2012 HK$M
Non-current assets			
Fixed assets	12(A)	126,876	132,463
Leasehold land and land use rights under operating leases	12(B)	1,806	1,866
Investment property	12(C)	2,221	–
Goodwill and other intangible assets	13	23,847	28,479
Interests in joint ventures	15	19,940	19,197
Interest in an associate	16	1,675	1,856
Finance lease receivables	17	989	1,665
Deferred tax assets	25	3,084	1,025
Fuel clause account	26	–	337
Derivative financial instruments	18	3,118	3,285
Available-for-sale investments	19	1,263	1,289
Other non-current assets		147	141
		184,966	191,603
Current assets			
Inventories – stores and fuel		1,482	1,667
Renewable energy certificates		997	1,991
Trade and other receivables	20	17,953	18,552
Finance lease receivables	17	49	158
Derivative financial instruments	18	1,005	1,759
Bank balances, cash and other liquid funds	21	5,233	13,026
		26,719	37,153
Current liabilities			
Customers' deposits	20(a)	(4,506)	(4,420)
Trade and other payables	22	(19,325)	(21,732)
Income tax payable		(141)	(233)
Bank loans and other borrowings	23	(7,118)	(6,895)
Obligations under finance leases	24	(2,763)	(2,406)
Derivative financial instruments	18	(1,279)	(1,762)
		(35,132)	(37,448)
Net current liabilities		(8,413)	(295)
Total assets less current liabilities		176,553	191,308

	Note	2013 HK$M	2012 HK$M
Financed by:			
Equity			
Share capital	*28*	12,632	12,632
Share premium		8,119	8,119
Reserves	*29*		
Declared dividends		2,476	2,476
Others		64,134	67,900
Shareholders' funds		87,361	91,127
Non-controlling interests		120	74
		87,481	91,201
Non-current liabilities			
Bank loans and other borrowings	*23*	48,933	59,303
Obligations under finance leases	*24*	25,213	24,649
Deferred tax liabilities	*25*	8,548	8,370
Derivative financial instruments	*18*	3,440	4,084
Fuel clause account	*26*	1,464	–
Scheme of Control (SoC) reserve accounts	*27*	28	1,245
Other non-current liabilities		1,446	2,456
		89,072	100,107
Equity and non-current liabilities		176,553	191,308

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

William Mocatta
Vice Chairman
Hong Kong, 27 February 2014

Richard Lancaster
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 181 to 252 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Note	2013 HK$M	2012 HK$M
Non-current assets			
Fixed assets	*12(A)*	172	171
Investments in subsidiaries	*14*	52,350	53,093
Advance to a subsidiary	*14*	39	39
Other non-current assets		14	25
		52,575	53,328
Current assets			
Trade and other receivables	*20*	55	45
Bank balances and cash		3	2
		58	47
Current liabilities			
Trade and other payables	*22*	(223)	(273)
Advances from subsidiaries	*32(D)*	–	(99)
Bank loans and other borrowings	*23*	(816)	–
		(1,039)	(372)
Net current liabilities		(981)	(325)
Total assets less current liabilities		51,594	53,003
Financed by:			
Equity			
Share capital	*28*	12,632	12,632
Share premium		8,119	8,119
Reserves	*29*		
Declared dividends		2,476	2,476
Others		27,767	26,876
		50,994	50,103
Non-current liabilities			
Bank loans and other borrowings	*23*	600	2,900
Equity and non-current liabilities		51,594	53,003

William Mocatta

William Mocatta
Vice Chairman
Hong Kong, 27 February 2014

Richard Lancaster
Chief Executive Officer

Mark Takahashi

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 181 to 252 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Attributable to Shareholders				Non-controlling Interests	Total Equity
	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Total HK$M	HK$M	HK$M
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	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
Balance at 1 January 2013	12,632	8,119	70,376	91,127	74	91,201
Profit for the year	–	–	6,060	6,060	12	6,072
Other comprehensive income for the year	–	–	(3,333)	(3,333)	3	(3,330)
Sale of a subsidiary	–	–	–	–	35	35
Dividends paid						
2012 fourth interim	–	–	(2,476)	(2,476)	–	(2,476)
2013 first to third interim	–	–	(4,017)	(4,017)	–	(4,017)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	(4)	(4)
Balance at 31 December 2013	**12,632**	**8,119**	**66,610**	**87,361**	**120**	**87,481**

The notes and disclosures on pages 181 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	Note	2013 HK$M	2013 HK$M	2012 HK$M	2012 HK$M
Operating activities					
Net cash inflow from operations	*30*	21,798		24,438	
Interest received		205		281	
Income tax paid		(982)		(804)	
Net cash inflow from operating activities			21,021		23,915
Investing activities					
Capital expenditure		(8,462)		(9,056)	
Capitalised interest paid		(236)		(400)	
Proceeds from disposal of fixed assets		258		264	
Additions of other intangible assets		(1,144)		(985)	
Decrease in available-for-sale investments		21		–	
Acquisition of business	*2*	(954)		–	
Acquisition of subsidiaries		–		(207)	
Proceeds from sale of a subsidiary	*6(e)*	1,708		–	
Deferred consideration paid		(339)		(540)	
Investments in and advances to joint ventures		(185)		(272)	
Dividends received from					
Joint ventures		1,911		1,686	
An associate		803		523	
An available-for-sale investment		24		61	
Net cash outflow from investing activities			(6,595)		(8,926)
Net cash inflow before financing activities			14,426		14,989
Financing activities					
Proceeds from long-term borrowings		11,275		27,388	
Repayment of long-term borrowings		(18,712)		(24,698)	
Repayment of obligations under finance leases		(2,546)		(2,302)	
Increase / (decrease) in short-term borrowings		648		(2,106)	
Interest and other finance costs paid		(5,612)		(5,928)	
Issue of shares		–		7,556	
Dividends paid to shareholders		(6,493)		(6,135)	
Dividends paid to non-controlling interests of subsidiaries		(4)		–	
Net cash outflow from financing activities			(21,444)		(6,225)
Net (decrease) / increase in cash and cash equivalents			(7,018)		8,764
Cash and cash equivalents at beginning of year			11,890		3,104
Effect of exchange rate changes			(88)		22
Cash and cash equivalents at end of year			4,784		11,890
Analysis of balances of cash and cash equivalents					
Deposits with banks			3,510		11,961
Cash at banks and on hand			1,723		1,065
Bank balances, cash and other liquid funds	*21*		5,233		13,026
Excluding: cash restricted for specific purposes			(449)		(1,136)
			4,784		11,890

The notes and disclosures on pages 181 to 252 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) and investment property 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are especially significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgments on pages 189 to 191.

2. Changes in Accounting Policies

(A) Adoption of new standards, amendments to standards and interpretations effective 1 January 2013

The Group has adopted the following new standards, amendments to standards and interpretations effective 1 January 2013 for the first time for the financial year beginning on 1 January 2013:

- Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12)
- Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
- Annual Improvements to HKFRS 2009-2011 Cycle
- HKFRS 10 Consolidated Financial Statements
- HKFRS 11 Joint Arrangements
- HKFRS 12 Disclosure of Interests in Other Entities
- HKFRS 13 Fair Value Measurement
- HKAS 19 (2011) Employee Benefits
- HKAS 27 (2011) Separate Financial Statements
- HKAS 28 (2011) Investments in Associates and Joint Ventures
- HK(IFRIC)-Int 20 Stripping Costs in the Production Phase of a Surface Mine

The adoption of these new standards, amendments to standards and interpretations has not had any implication for the Group's accounting policies applied in these consolidated financial statements except for below:

HKFRS 10 Consolidated Financial Statements provides additional guidance on the determination of control. Under HKFRS 10, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has applied HKFRS 10 retrospectively in accordance with the standard which had no significant impact on the results and financial position of the Group.

HKFRS 11 Joint Arrangements classifies joint arrangements as either joint operations or joint ventures. The determination of whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement and the existence of a separate legal vehicle is no longer a key factor. The Group has applied HKFRS 11 retrospectively in accordance with the standard which has no significant impact on the results and financial position of the Group.

2. Changes in Accounting Policies (continued)

(A) Adoption of new standards, amendments to standards and interpretations effective 1 January 2013 (continued)

HKFRS 13 Fair Value Measurements defines fair value and provides a single source of fair value measurement and disclosure requirements for use across HKFRS. The requirements do not extend the use of fair value accounting. The Group has applied the new fair value measurement and disclosure requirements prospectively in accordance with the standard.

(B) New standards, amendments to standards and interpretations that have been issued but are not yet effective

The following new standards, amendments to standards and interpretations, have been issued and are mandatory for adoption by the Group for accounting periods beginning on or after 1 January 2014. The Group has not early adopted them:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities
- Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions
- Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendments to HKAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- HKFRS 9 Financial Instruments
- HKFRS 9 Financial Instruments (Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39)
- HK(IFRIC) – Int 21 Levies
- Annual Improvement to HKFRS 2010-2012 Cycle
- Annual Improvement to HKFRS 2011-2013 Cycle

HKFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The amendments to HKFRS 9 Financial Instruments (Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39) introduces a new hedge accounting model which represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The adoption of HKFRS 9 and amendments may have an effect on the Group's classification and the treatment of fair value changes of existing available-for-sale investments and the application of hedge accounting.

Apart from the aforementioned, the adoption of these new standards, amendments to standards and interpretations is not expected to have any significant impact on the results and financial position of the Group.

3. Consolidation

(A) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries made up to 31 December and include the Group's interests in joint ventures and associates and joint operations on the basis set out in (C) and (D) below.

The financial statements 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, joint ventures and associates.

3. Consolidation (continued)

(B) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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) Joint ventures and associates

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity over which the Group has significant influence but not control nor joint control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint ventures / associates are accounted for using the equity method. They are initially recognised at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of post-acquisition profit or loss and other comprehensive income, until the date on which joint control or significant influence ceases. Distributions received from an investee reduce the carrying amounts of the investments.

In the consolidated statement of financial position, interests in joint ventures / associates comprise the carrying amounts of the investments and its net advances made to the joint ventures / associates (where the advances are neither planned nor likely to be settled in the foreseeable future).

When the Group's share of losses of a joint venture / associate 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 joint ventures / associates.

Unrealised gains on transactions between the Group and its joint ventures / associates are eliminated to the extent of the Group's interest in the joint ventures / associates. 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 joint ventures / associates are recognised in profit or loss.

(D) Joint operations

A joint operation is an arrangement in which the Group has joint control (as explained in (C) above), whereby the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

When Group entity undertakes its activities under joint operations, the Group as a joint operator recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under appropriate headings.

3. Consolidation (continued)

(E) 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 joint venture or associate 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 joint ventures or loss of significant influence in associates, 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 joint venture, associate 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 → Joint Venture or Joint Operation
Significant Influence → Associate
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. Goodwill is tested annually for impairment.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill arising from a business combination is allocated to cash generating units that are expected to benefit from the synergies of the combination. An impairment loss is recognised for the amount by which the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset or a cash generating unit less costs of disposal and its value in use.

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 and 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 US 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.

(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 at the time of acquisition. 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, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, then hedge accounting is discontinued prospectively, 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. 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 (VEECs).

The renewable and efficiency energy products held for own use to satisfy relevant regulatory requirements 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 and free carbon units received through financial assistance is initially recognised at fair value as a government grant and subsequently released to the profit or loss on a systematic basis being a straight-line method over the relevant period. Carbon units / certificates held for own use (surrender) are subsequently measured at cost.

The carbon 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, joint ventures and associates, 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) administered by Bank Consortium Trust Company Limited 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, joint ventures and associates 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 statement of profit or loss 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.

10. Foreign Currency Translation (continued)

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

Upon disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary / loss of joint control over a joint venture / loss of significant influence over an associate 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 joint venture or associate 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 2013 a deferred tax asset of HK$2,542 million (2012: HK$3,797 million) in relation to unused tax losses (Note 25) 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 2013. 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 fixed assets, joint ventures and associates. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Group also tests annually whether goodwill has suffered any impairment in accordance with the relevant accounting standards.

Determining whether an asset or a cash generating unit 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 2013, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there was impairment for EnergyAustralia Holdings Limited (EnergyAustralia)'s generation assets of HK$4,347 million (Note 6(d)), investments in CSEC Guohua International Power Company Limited (CSEC Guohua) and CLP Guohua Shenmu Power Company Limited (Shenmu) totalled HK$297 million (Note 15) and finance lease receivables of Paguthan Plant (Paguthan) of HK$519 million (Note 17) (2012: impairment 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).

Apart from the assets impaired above, the latest annual impairment models for other relevant assets indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management believe that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2013 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, long unbilled customers and other measurable factors affecting consumption. Unbilled revenue for the Group (included in trade and other receivables) totalled HK$7,216 million at 31 December 2013 (2012: HK$8,669 million).

7. Cash Generating Units

The way that the Group defines its cash generating units (CGUs) in Australia is an area of considerable judgment, incorporating an assessment of various competing criteria. The Group is required to recognise its CGUs consistently from period to period, unless a change is justified.

In the current financial year the Group has re-assessed the formation of the Portfolio Gas CGU in Australia incorporating the Iona gas storage facility (Iona), the Tallawarra combined cycle gas turbine generation plant, the contract to operate the Newport and Jeeralang gas-fired plants (the Master Hedge Agreement (MHA) with Ecogen) and the Hallett gas-fired generation plant. It is now considered that each separate facility / plant should form its own separate CGU. This change is triggered by the recent and expected future decline in the operational interdependence between gas storage and gas-fired generation for the reasons detailed below:

- The expected changes to forward gas and electricity prices support a change in the sales mix for gas from the electricity market to other markets and therefore promoting a change in the role the Iona gas storage facility plays;
- The expected abolition of the carbon tax increases the short run marginal cost of our gas generators, relative to the other generators, hence making them less competitive;

7. Cash Generating Units (continued)

- The gas-fired generators are predominantly peaking plants. With the increasing electricity supply surplus in the market where these gas-fired generators operate, the reliance on gas supply as a primary point of interdependence within the portfolio of gas assets reduces; and
- Reduced demand from the factors above results in reduced interdependence between Iona and the gas-fired generators.

The change in CGU has been appropriately considered in the impairment testing that has identified 2013 impairment for EnergyAustralia's generation assets (Note 6(d)).

8. Fair Value Estimation of Derivative Financial Instruments and Investment Property

Please refer to "Financial Risk Management" No. 2 Fair Value Estimation for Financial Instruments on page 248 for derivative financial instruments. For fair value estimation of investment property, please refer to Note 12(C).

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 joint venture, 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 253 and 254.

These financial statements have been approved for issue by the Board of Directors on 27 February 2014.

2. Business Combination

Accounting Policy

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The consideration transferred for the acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

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

On 2 September 2013 the Group completed the acquisitions of the Mount Piper Power Station (Mount Piper) and the Wallerawang Power Station (Wallerawang) (both located in New South Wales (NSW), Australia) that underpin the existing Delta Western GenTrader contracts. Mount Piper is a 1,400MW power station comprising two 700MW black coal-fired steam turbine generators. Wallerawang is a 1,000MW power station comprising two 500MW black coal-fired generating units.

Under the terms of the Mount Piper GenTrader contract, it was determined that the Group had control over the underlying generation assets at Mount Piper and as a result recognised them as a finance lease. The Wallerawang GenTrader contract was accounted for as deferred consideration as the estimated unavoidable costs of meeting the obligations under the contract exceeding the economic benefits expected to be received under it.

2. Business Combination (continued)

These acquisitions are therefore incremental to the initial GenTrader contracts, whereby the consideration paid relates to net assets of Mount Piper and Wallerawang which were not previously controlled. These include deferred tax assets arising upon the transfer of legal title of tax bases, and other working capital related balances. The acquisitions have resulted in the Group being released from any committed expenditure to Delta Electricity under the terms of the GenTrader contracts.

The net cash consideration for the acquisitions is HK$954 million (A$138 million). The following table summarises the consideration paid and the incremental assets acquired and liabilities assumed:

	HK$M
Cash paid to vendor	1,089
Less: stamp duty paid through vendor	(135)
Cash consideration (a)	954
Less:	
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fixed assets	79
Deferred tax assets	1,185
Other current assets	80
Trade and other payables	(266)
Total identifiable net assets acquired	1,078
Release of deferred consideration payable to vendor with respect to the Wallerawang GenTrader contract (b)	627
Gain on bargain purchase (c)	(751)

Acquisition-related costs charged to profit or loss (included in fuel and other operating expenses) totalled HK$158 million (HK$151 million after tax), which comprised stamp duty of HK$135 million and other costs of HK$23 million (HK$16 million after tax).

Notes:

(a) The cash paid was HK$1,089 million (A$157 million), being HK$1,111 million (A$160 million) consideration paid less working capital completion amount subsequently received of HK$22 million (A$3 million). This cash paid included stamp duty of HK$135 million (A$19 million) paid through vendor as part of the purchase price.

(b) A deferred consideration liability with respect to Wallerawang of HK$627 million (A$90 million) (net of deferred tax of HK$269 million (A$39 million)) existed at 31 August 2013. The acquisition has resulted in the Group being released from any committed expenditure to Delta Electricity in relation to this amount under the terms of the GenTrader contract. The deferred consideration liability was deemed to be at fair value.

(c) The gain on bargain purchase of HK$751 million (A$108 million) (HK$600 million (A$87 million) after acquisition-related costs and tax) was recognised in profit or loss and presented in other income. It has been recognised as the consideration paid is less than the fair value of the identifiable net assets acquired. This was mainly due to the recognition of deferred tax assets of HK$1,185 million (A$171 million) related to the acquisition of tax bases underpinning both power stations, originally acquired the right to use under the GenTrader contracts.

The revenue and loss before income tax included in the consolidated statement of profit or loss from September 2013 to December 2013 contributed by the acquisitions were HK$1,572 million (A$221 million) and HK$240 million (A$34 million) respectively. As the Group had the rights to the assets under the GenTrader contracts, it is not possible to quantify the revenue and profit or loss which would have derived from them had they been consolidated from 1 January 2013.

3. Revenue

Accounting Policy

Revenue primarily represents sales of electricity and gas, engineering and maintenance service fees, other electricity-related revenue such as temporary electricity supply works and reconnection fees and adjustments stipulated under the SoC. It is measured at the fair value of the consideration received or receivable, net of applicable tax, discounts and rebates.

Sales of electricity and gas are based on actual and accrued consumption or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

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

	2013 HK$M	2012 HK$M
Sales of electricity	88,555	91,351
Sales of gas	8,388	9,256
Lease service income under PPA	626	1,454
Finance lease income under PPA	252	287
Operating lease income under PPA	2,778	742
Other revenue (note)	3,290	2,075
	103,889	105,165
Transfer for SoC to / (from) revenue (Note 27)	641	(304)
	104,530	104,861

Note: Including carbon compensation in the form of cash assistance and free carbon units totalling HK$1,923 million (A$259 million) (2012: HK$1,035 million (A$129 million)) received by EnergyAustralia under the ESF with respect to Yallourn Power Station (Note 22(c)). The compensation received was recognised as revenue over the relevant period on a systematic basis.

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 relates to Jhajjar, whose PPA has been accounted for as an operating lease.

4. Segment Information

Accounting Policy

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

Segment revenue is based on the geographical region in which the electricity is generated and / or services are rendered. Segment capital additions represent the total 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, joint ventures, joint operation and associate, in five major geographical regions – Hong Kong, Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions. Substantially all the principal activities of the Group in each region are for the generation and supply of electricity which are managed and operated on an integrated basis.

4. Segment Information (continued)

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

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2013							
Revenue	34,172	64,976	991	4,371	14	6	104,530
Operating profit / (loss)	10,439	(2,181)	407	690	(26)	(423)	8,906
Finance costs	(3,685)	(1,620)	(205)	(957)	–	(55)	(6,522)
Finance income	11	44	4	80	5	29	173
Share of results, net of income tax							
Joint ventures	1,235	(14)	1,188 [(a)]	–	262	–	2,671
An associate	–	–	612 [(a)]	–	–	–	612
Profit / (loss) before income tax	8,000	(3,771)	2,006	(187)	241	(449)	5,840
Income tax credit / (expense)	(1,010)	1,315	(151)	78	–	–	232
Profit / (loss) for the year	6,990	(2,456)	1,855	(109)	241	(449)	6,072
Earnings attributable to non-controlling interests	–	–	(12)	–	–	–	(12)
Earnings / (loss) attributable to shareholders	6,990	(2,456) [(b)]	1,843	(109)	241	(449)	6,060
Capital additions	9,292	2,139	483	1,243	–	39	13,196
Depreciation and amortisation	4,412	2,506	213	424	–	37	7,592
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	–	3,862	38	–	–	–	3,900
Interests in joint ventures	–	–	297	–	–	–	297
Receivables and others	–	1,670	3	716	–	–	2,389
At 31 December 2013							
Fixed assets	93,782	15,889	5,405	11,628	–	172	126,876
Goodwill and other intangible assets	–	23,778	40	29	–	–	23,847
Interests in joint ventures	9,478	324	8,349	–	1,789	–	19,940
Interest in an associate	–	–	1,675	–	–	–	1,675
Deferred tax assets	–	3,021	60	3	–	–	3,084
Other assets	10,044	15,702	3,177	5,443	87	1,810	36,263
Total assets	113,304	58,714	18,706	17,103	1,876	1,982	211,685
Bank loans and other borrowings	28,293	14,406	3,457	8,479	–	1,416	56,051
Current and deferred tax liabilities	8,193	–	188	308	–	–	8,689
Obligations under finance leases	27,947	29	–	–	–	–	27,976
Other liabilities	13,768	15,708	400	1,426	3	183	31,488
Total liabilities	78,201	30,143	4,045	10,213	3	1,599	124,204

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

4. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 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							
Joint ventures	1,253	(8)	898 (a)	–	262	–	2,405
An associate	–	–	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							
Fixed assets and leasehold land and land use rights under operating leases	–	89	119	350	–	–	558
Interests in joint ventures	–	–	–	–	–	–	–
Receivables and others	–	780	–	64	–	–	844
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 joint ventures	9,294	99	8,049	–	1,755	–	19,197
Interest in an associate	–	–	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

Notes:

(a) Out of the total amount of HK$1,800 million (2012: HK$1,477 million), HK$696 million (2012: HK$659 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 one-off items from Australia of a post-tax loss of HK$2,582 million (2012: HK$685 million), the operating earnings of Australia were HK$126 million (2012: HK$1,685 million).

5. Other Income

	2013 HK$M	2012 HK$M
Gain on bargain purchase of Mount Piper and Wallerawang (Note 2)	751	–

6. Operating Profit

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

	2013 HK$M	2012 HK$M
Charging		
Staff costs		
Salaries and other costs	2,715	2,725
Retirement benefits costs [(a)]	302	210
Auditor's remuneration		
Audit	34	39
Permissible non-audit services [(b)]	12	20
Operating lease expenditure on the agreement with Ecogen	311	331
Net loss on disposal of fixed assets	173	151
Loss on disposal of Boxing Biomass [(c)]	23	–
Yallourn mine flooding	110	1,129
Impairment of *		
Fixed assets and leasehold land and land use rights under operating leases	150	558
Other intangible assets	176	41
Finance lease receivables (Note 17)	519	–
Impairment and other provisions for EnergyAustralia's generation assets [(d)]	4,437	–
Net fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(437)	(402)
Fuel and other operating expenses	(201)	(99)
Transactions not qualifying as hedges	(91)	570
Ineffectiveness of cash flow hedges	(1)	(74)
Net exchange (gain) / loss	(73)	50
Crediting		
Gain on sale of interest in Waterloo [(e)]	(24)	–
Net rental income from properties	(7)	(13)

* Excluding the impairment of EnergyAustralia's generation assets detailed in note (d) below.

6. Operating Profit (continued)

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$218 million (2012: HK$214 million), of which HK$62 million (2012: HK$63 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$189 million (2012: HK$104 million).

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

(c) In November 2013, the Group transferred its entire 79% interest in Boxing Biomass to its joint venture partner for nil consideration. Together with provisions for various assets before the transfer, total loss from the divestment amounted to HK$75 million (2012: nil).

(d) During the current year the Group's view of the Australian energy sector has changed. This change has been driven by the continuation of certain trends, particularly in relation to wholesale electricity prices, that began several years ago. The key impacts from these changes include the following:

- Sharp increases in retail prices and the uptake of rooftop photovoltaic and energy efficiency products and services on the back of government-based subsidies over the last four years have changed energy consumption patterns;
- A change in composition of Australia's Gross Domestic Product (GDP) from manufacturing industries to service sectors, resulting in lower energy intensity. This has also led to a shift in the location of energy use by industry, particularly as China and India seek to utilise more and more of Australia's mineral resources;
- Together with falling demand, wholesale electricity prices have softened, resulting in lower revenue for generators. Some generators, including EnergyAustralia, have sought to either reduce output or reassess their reliability standard, with consequential flow-on impacts to planned maintenance programmes. Despite such measures, there has been little impact on the growing gap between available supply of generation and demand;
- Significant impacts have also been experienced on the supply side of the market, largely due to the Renewable Energy Target (RET). Substantial and unanticipated reductions on forecast energy demand in the National Energy Market has meant the current overall RET (20% of market share of renewable energy generation by 2020) is likely to be exceeded. One unintended consequence is that the RET leads to an over-supplied wholesale market, further dampening wholesale prices; and
- Transformational change is also being experienced in the gas market, driven primarily by domestic gas prices linking to world gas prices via liquefied natural gas (LNG) projects coming to market. The expansion and exploitation of unconventional gas in meeting global demand is also resulting in an increase in input costs above historical domestic levels adding further pressure to gas prices.

These factors, individually and in unison, have had a substantial impact on the valuation of each of our cash generating units in the current year. As a result, impairment and other provisions have been incurred across the majority of EnergyAustralia's generation assets and included in the Australia segment.

The impairment and other provisions for each individual CGU are presented below:

	Pre-tax HK$M	Post-tax HK$M
Yallourn (i) – coal-fired generation	3,043	2,130
Tallawarra (ii) – gas-fired generation	650	455
Ecogen (iii) – contract to operate two gas-fired generators	654	458
Hallett (iv) – gas-fired generation	90	63
	4,437	3,106

(i) Impairment of fixed assets of HK$3,010 million (A$435 million) and other intangible assets (mining licences) of HK$33 million (A$5 million). The impairment is triggered by the Group's view of lower future wholesale prices in Victoria.

(ii) Impairment of fixed assets of HK$650 million (A$94 million) which is triggered by the lowered forecast wholesale prices in NSW and forecast growth in gas prices.

(iii) Impairment of other intangible assets (MHA with Ecogen – including the right to operate the Newport and Jeeralang Power Stations) of HK$564 million (A$82 million) and provision for onerous contract of HK$90 million (A$13 million) in relation to committed premium payments till April 2019. The impairment is triggered by lower forecast wholesale prices in Victoria. In view of the unavoidable costs under MHA exceeding the expected benefits, the difference is recognised as a provision for onerous contract at year end.

(iv) Impairment of fixed assets of HK$90 million (A$13 million) which is triggered by lower forecast wholesale prices in South Australia.

In 2012, Tallawarra, Ecogen and Hallett were allocated to a Portfolio Gas CGU which also included Iona gas storage facility. These assets are now considered as separate CGUs as the interdependence of these assets no longer exists. Please refer to "Critical Accounting Estimates and Judgments" No. 7 for details of this revision.

The recoverable amount of the CGUs tested for impairment has been determined based on value in use calculations. The cash flow projections are discounted using pre-tax discount rates ranged from 9.1% to 12.1%. The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.

(e) In May 2013, the Group sold its 75% interest in Waterloo Investment Holdings Pty Ltd (Waterloo) for a consideration of HK$1,708 million (A$228 million) with a gain of HK$24 million (A$3 million) (2012: nil). Following the sale, Waterloo became a 25% owned joint venture of the Group.

7. 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.

	2013 HK$M	2012 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	1,537	1,874
Other borrowings		
Wholly repayable within five years	253	578
Not wholly repayable within five years	917	909
Tariff Stabilisation Fund [(a)]	1	2
Customers' deposits, fuel clause over-recovery and others	31	1
Finance charges under finance leases [(b)]	2,753	2,735
Other finance charges	444	451
Net fair value loss / (gain) on financing related derivative financial instruments		
Cash flow hedges, reclassified from equity	895	478
Fair value hedges	1,027	(33)
Not designated as hedges	(3)	–
Ineffectiveness of cash flow hedges	18	5
(Gain) / loss on hedged items in fair value hedges	(992)	28
Other net exchange gain on financing activities	(88)	(221)
	6,793	6,807
Less: amount capitalised [(c)]	(271)	(384)
	6,522	6,423
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	173	322

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 27).

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

(c) Finance costs have been capitalised at average interest rates of 3.17% – 10.68% (2012: 3.26% – 10.91%) per annum.

8. Income Tax (Credit) / Expense

Accounting Policy No. 8

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

	2013 HK$M	2012 HK$M
Current income tax		
Hong Kong	534	654
Outside Hong Kong	305	228
	839	882
Deferred tax		
Hong Kong	473	463
Outside Hong Kong (note)	(1,544)	347
	(1,071)	810
	(232)	1,692

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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:

	2013 HK$M	2012 HK$M
Profit before income tax	5,840	9,984
Less: Share of results of joint ventures and associate, net of income tax	(3,283)	(2,984)
	2,557	7,000
Calculated at an income tax rate of 16.5% (2012: 16.5%)	422	1,155
Effect of different income tax rates in other countries	(501)	363
Income not subject to tax	(182)	(75)
Expenses not deductible for tax purposes	178	296
Revenue adjustment for SoC not subject to tax (Note 27)	(105)	51
Over-provision in prior years	(53)	(3)
Tax losses not recognised	9	11
Utilisation of previously unrecognised tax losses	–	(1)
Tax consolidation benefit (note)	–	(105)
Income tax (credit) / expense	(232)	1,692

Note: In 2012, the amount included tax consolidation benefit of HK$105 million (A$14 million) 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 2012. In 2013, the income tax credit mainly related to EnergyAustralia.

9. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$7,384 million (2012: HK$5,288 million).

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

10. Dividends

	2013		2012	
	HK$ per share	HK$M	HK$ per share	HK$M
First to third interim dividends paid	1.59	4,017	1.59	3,825
Fourth interim dividend declared	0.98	2,476	0.98	2,476
	2.57	6,493	2.57	6,301

At the Board meeting held on 27 February 2014, the Directors declared the fourth interim dividend of HK$0.98 per share (2012: HK$0.98 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 2013.

11. Earnings per Share

The earnings per share are computed as follows:

	2013	2012
Earnings attributable to shareholders (HK$M)	6,060	8,312
Weighted average number of shares in issue (thousand shares)	2,526,451	2,410,088
Earnings per share (HK$)	2.40	3.45

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 2013 (2012: nil).

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property

Accounting Policy

(A) Fixed assets and leasehold land and land use rights under operating leases

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 below:

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

Accounting Policy (continued)

(A) Fixed assets and leasehold land and land use rights under operating leases (continued)

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.

(B) Investment Properties

Investment properties include properties that are being constructed or developed for future use as investment properties. Land held under operating leases is accounted for as an investment property when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties are measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Any gains and losses arising from changes in the fair value or from the retirement or disposal of an investment property are recognised in profit or loss in the period in which they arise.

If an item of owner occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised directly in revaluation reserve within equity.

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

Fixed assets, leasehold land and land use rights under operating leases and investment property totalled HK$130,903 million (2012: HK$134,329 million), which included assets under construction with book value of HK$11,597 million (2012: HK$7,937 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 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
Net book value at 1 January 2013	865	538	13,242	5,617	84,760	27,441	132,463
Acquisition of business (Note 2)	62	–	–	–	17	–	79
Sale of a subsidiary (Note 6(e))	–	–	(74)	–	(1,578)	(178)	(1,830)
Additions	41	–	964	363	7,542	3,139	12,049
Revaluation surplus [b]	–	2,055	–	–	–	–	2,055
Transfers and disposals	(34)	(2,073)	(190)	(7)	5,012	(5,422)	(2,714)
Depreciation	–	(14)	(323)	(358)	(3,825)	(2,127)	(6,647)
Impairment charge	–	–	(75)	–	(3,807)	–	(3,882)
Exchange differences	(108)	–	(71)	–	(4,058)	(460)	(4,697)
Net book value at 31 December 2013	826	506	13,473	5,615	84,063	22,393	126,876
Cost	842	601	17,462	12,219	135,460	48,126	214,710
Accumulated depreciation and impairment	(16)	(95)	(3,989)	(6,604)	(51,397)	(25,733)	(87,834)
Net book value at 31 December 2013	826	506	13,473	5,615	84,063	22,393	126,876

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

(A) Fixed Assets (continued)

Notes:

(a) These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK$27,947 million (2012: HK$26,987 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 in 2012, Delta Electricity's power station at Mount Piper of net book value of HK$5,804 million under the Delta Western GenTrader contract. These arrangements have been accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17. The Delta Western GenTrader contracts were terminated following the acquisitions of Mount Piper and Wallerawang (Note 2). The leased assets of Mount Piper were reclassified as owned assets.

(b) The property at the Argyle Street site was transferred from fixed asset to investment property during the year pursuant to its redevelopment. A revaluation surplus of HK$2,055 million was recognised in revaluation reserve upon the transfer. Whilst the use and development of the property is subject to both regulatory and statutory restrictions imposed by the Hong Kong Government, future use of the property is undetermined.

Company

The net book value of fixed assets of the Company was HK$172 million (2012: HK$171 million), comprising mainly office furniture, fittings and equipment. The additions, disposals and depreciation for the year were HK$39 million (2012: HK$93 million), HK$1 million (2012: HK$7 million) and HK$37 million (2012: HK$32 million) respectively.

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

Group

	2013 HK$M	2012 HK$M
Net book value at 1 January	1,866	1,811
Additions	3	101
Amortisation	(48)	(46)
Impairment charge	(18)	–
Exchange differences	3	–
Net book value at 31 December	1,806	1,866
Cost	2,237	2,250
Accumulated amortisation and impairment	(431)	(384)
Net book value at 31 December	1,806	1,866

(C) Investment Property

Group

	2013 HK$M	2012 HK$M
At 1 January	–	–
Transfers	2,221	–
At 31 December	2,221	–

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

(C) Investment Property (continued)

The Group's investment property is located at Argyle Street, Kowloon. They were revalued at 31 December 2013 and the valuations of the property were with reference to an independent valuation prepared by DTZ Debenham Tie Leung Limited ("DTZ") based on the highest and best use approach. In formulating the optimal development of the property, DTZ has taken into account the development constraints stipulated on the covenants of the Government Leases and subsequent modifications. DTZ has adopted the residual valuation method, which is a modification of income approach based on discounted cash flows, by making reference to the development potential of the subject property after deduction of other relevant costs for completion of the development. The valuation relies upon a series of assumptions which produce an estimation of the expected current market value of the property held for development or redevelopment. These assumptions include the statutory and non-statutory restrictions associated with development that may be imposed by the Government. Comparable transactions of similar development in the locality were gathered for gross development value assessment. The valuations are performed and reported twice a year, in line with the Group's reporting dates, to management.

The recurring fair value measurement of the Group's investment property is categorised within Level 3 of the fair value hierarchy at 31 December 2013. The significant unobservable input used other than assumptions made in relation to development potential of the property is discount rate, cost of development and estimated return in the future for the property. The discount rate used is 4% and the higher the rate, the lower the fair value of the property.

(D) Tenure of Leasehold Land and Land Use Rights

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

	2013 HK$M	2012 HK$M
Held in Hong Kong		
On long-term leases (over 50 years)	2,341	123
On medium-term leases (10 – 50 years)	2,063	2,130
On short-term leases (less than 10 years)	6	7
	4,410	2,260
Held outside Hong Kong		
On medium-term leases (10 – 50 years)	123	144
	4,533	2,404

13. Goodwill and Other Intangible Assets

Accounting Policy

(A) 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.

(B) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life of 1 – 34 years or using the unit of production method and carried at cost less accumulated amortisation and accumulated impairment losses.

	Goodwill [(a)] HK$M	Licences [(b)] HK$M	Others [(c)] HK$M	Total HK$M
Net carrying value at 1 January 2012	21,616	2,412	3,341	27,369
Acquisition of a subsidiary	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
Cost	22,225	2,669	5,516	30,410
Accumulated amortisation and impairment	–	(163)	(1,768)	(1,931)
Net carrying value at 31 December 2012	22,225	2,506	3,748	28,479
Net carrying value at 1 January 2013	22,225	2,506	3,748	28,479
Sale of a subsidiary (Note 6(e))	–	–	(112)	(112)
Additions	–	177	967	1,144
Amortisation	–	(5)	(892)	(897)
Impairment charge	–	(33)	(740)	(773)
Exchange differences	(3,116)	(365)	(513)	(3,994)
Net carrying value at 31 December 2013	**19,109**	**2,280**	**2,458**	**23,847**
Cost	19,109	2,458	5,500	27,067
Accumulated amortisation and impairment	–	(178)	(3,042)	(3,220)
Net carrying value at 31 December 2013	**19,109**	**2,280**	**2,458**	**23,847**

13. Goodwill and Other Intangible Assets (continued)

Notes:

(a) Goodwill predominantly arose from the previous acquisitions in Australia of the Merchant Energy Business (MEB) in 2005 and the energy retail business from the 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 2013 based on an approved Business Plan which has a forecast covering a period of ten years and necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long dated nature of our generation assets and 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 12.76% (2012: 13.30%) for MEB and 11.37% (2012: 11.85%) for energy retail business in NSW. The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.

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 modelling is prepared internally, where possible, using observable inputs. These inputs to the modelling are consistent with management's view of the electricity wholesales and gas markets based on past experience and observable market activity.
- 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 our expectation of regulatory outcomes.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the EnergyAustralia Business Plan. External information was used to verify and align internal estimates.
- Electricity and gas network (distribution) cost assumptions are based on published regulated price paths. 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. Non-contracted fuel cost of Mount Piper are based on management's estimation of the future coal price.
- 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% (2012: 3.0%) for MEB and 2.5% (2012: 3.0%) for energy retail business in NSW.

(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 NSW.

(c) The balance includes contracted customers and other identifiable intangible assets from EnergyAustralia.

A more detailed discussion and explanation on goodwill can be found on our website as part of our accounting "mini-series".

14. Investments in and Advances to Subsidiaries

Accounting Policy No. 3(B)

	2013 HK$M	2012 HK$M
Unlisted shares, at cost	23,635	23,635
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	28,815	29,558
	52,350	53,093

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 32(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 (2012: HK$39 million), which is interest-free and due on or after 30 June 2015 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

14. Investments in and Advances to Subsidiaries (continued)

The table below lists the principal subsidiaries of the Group at 31 December 2013:

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2013 and 2012	Place of Incorporation / Business	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
EnergyAustralia Holdings Limited	533,676,005 ordinary shares of A$1 each	100 [a]	Australia	Energy Business Investment Holding
EnergyAustralia Yallourn Pty Ltd	15 ordinary shares of A$1 each	100 [a]	Australia	Generation and Supply of Electricity
EnergyAustralia Pty Ltd	3,368,686,988 ordinary shares of A$1 each	100 [a]	Australia	Retailing of Electricity and Gas
EnergyAustralia NSW Pty Ltd	2 ordinary shares of A$1 each	100 [a], [b]	Australia	Generation of Electricity
CLP India Private Limited	2,368,909,677 equity shares of Rs.10 each	100 [a]	India	Generation of Electricity and Power Projects Investment Holding

14. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2013 and 2012	Place of Incorporation / Business	Principal Activity
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 2,324,882,458 compulsory convertible preference shares of Rs.10 each	100 [(a)]	India	Generation of Electricity
CLP Sichuan (Jiangbian) Power Company Limited [(c)]	RMB496,380,000	100 [(a)]	Chinese mainland	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited [(d)]	RMB69,098,976	84.9 [(a)]	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited [(d)]	RMB249,430,049	84.9 [(a)]	Chinese mainland	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited [(d)]	US$13,266,667	84.9 [(a)]	Chinese mainland	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited [(d)]	RMB141,475,383	84.9 [(a)]	Chinese mainland	Generation of Electricity

Notes:

(a) Indirectly held

(b) Incorporated on 27 May 2013

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

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

15. Interests in Joint Ventures

Accounting Policy No. 3(C)

	2013 HK$M	2012 HK$M
Share of net assets	10,186	9,522
Goodwill	162	154
Carrying amounts	10,348	9,676
Advances	9,592	9,521
	19,940	19,197

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

The Group's interests in joint ventures are analysed as follows:

		2013				2012			
		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)	199	–	9,178	9,377	216	–	9,059	9,275
CSEC Guohua and Shenmu	(B)	3,142	114	–	3,256	3,105	109	–	3,214
CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang)	(C)	1,767	–	–	1,767	1,745	–	–	1,745
OneEnergy Taiwan Ltd	(D)	1,340	–	192	1,532	1,166	–	313	1,479
Shandong Zhonghua Power Company, Limited	(E)	1,044	–	–	1,044	996	–	–	996
PSDC	(F)	13	–	69	82	13	–	96	109
Others	(G)	2,681	48	153	2,882	2,281	45	53	2,379
		10,186	162	9,592	19,940	9,522	154	9,521	19,197

15. Interests in Joint Ventures (continued)

Summarised financial information of joint ventures and the Group's share of results and net assets are as follows:

	2013				2012			
	CAPCO HK$M	Fangcheng-gang HK$M	Others HK$M	Total HK$M	CAPCO HK$M	Fangcheng-gang HK$M	Others HK$M	Total HK$M
Revenue	14,865	2,975	28,191	46,031	14,696	2,880	27,648	45,224
Depreciation and amortisation	(83)	(181)	(2,531)	(2,795)	(95)	(176)	(2,280)	(2,551)
Interest income	–	12	18	30	–	6	11	17
Interest expense	(16)	(193)	(1,312)	(1,521)	(20)	(211)	(1,345)	(1,576)
Other expenses	(11,042)	(1,742)	(19,244)	(32,028)	(10,795)	(2,077)	(20,488)	(33,360)
Profit before income tax	3,724	871	5,122	9,717	3,786	422	3,546	7,754
Income tax expense	(638)	–	(1,153)	(1,791)	(654)	4	(687)	(1,337)
Non-controlling interests	–	–	(679)	(679)	–	–	(485)	(485)
Profit for the year	3,086	871	3,290	7,247	3,132	426	2,374	5,932
Other comprehensive income	4	–	281	285	4	–	15	19
Total comprehensive income	3,090	871	3,571	7,532	3,136	426	2,389	5,951
Group's share								
Profit for the year (note)	1,234	610	827	2,671	1,253	298	854	2,405
Other comprehensive income	2	–	257	259	2	–	5	7
Total comprehensive income	1,236	610	1,084	2,930	1,255	298	859	2,412
Dividends from joint ventures	1,258	639	645	2,542	1,245	–	526	1,771
Non-current assets	28,346	5,118	63,488	96,952	29,620	4,967	60,452	95,039
Cash and cash equivalents	–	1,311	941	2,252	–	287	1,092	1,379
Other current assets	6,476	665	5,678	12,819	6,345	810	5,709	12,864
Current financial liabilities (excluding trade and other payables)	(5,077)	(267)	(11,940)	(17,284)	(6,180)	(312)	(11,768)	(18,260)
Other current liabilities	(1,516)	(1,275)	(3,347)	(6,138)	(2,526)	(254)	(3,861)	(6,641)
Non-current financial liabilities (excluding trade and other payables)	(800)	(2,995)	(18,130)	(21,925)	(1)	(2,982)	(18,756)	(21,739)
Other non-current liabilities	(3,987)	(32)	(2,678)	(6,697)	(4,072)	(22)	(2,159)	(6,253)
Shareholders' loans	(22,946)	–	(1,032)	(23,978)	(22,646)	–	(903)	(23,549)
Non-controlling interests	–	–	(6,775)	(6,775)	–	–	(6,185)	(6,185)
Net assets	496	2,525	26,205	29,226	540	2,494	23,621	26,655
Group's share of net assets	199	1,767	8,220	10,186	216	1,745	7,561	9,522
Goodwill	–	–	162	162	–	–	154	154
Carrying amounts	199	1,767	8,382	10,348	216	1,745	7,715	9,676
Advances	9,178	–	414	9,592	9,059	–	462	9,521
	9,377	1,767	8,796	19,940	9,275	1,745	8,177	19,197

Note: The Group's share of results of joint ventures included an impairment provision for CSEC Guohua and Shenmu of HK$297 million.

15. Interests in Joint Ventures (continued)

	2013 HK$M	2012 HK$M
Share of capital commitments	1,956	1,756
Share of contingent liabilities	61	59

The Group's capital commitments in relation to its interests in joint ventures are disclosed in Note 31.

Details of the joint ventures are summarised below:

(A) CAPCO is incorporated and operates in Hong Kong and its ordinary share capital is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited (EMEL). Its principal activity is the generation of electricity for the sole supply to CLP Power Hong Kong. While CAPCO owns the power generation assets, CLP Power Hong Kong builds and operates all CAPCO's power stations and is the sole off-taker. In accordance with HK(IFRIC)-Int 4 and HKAS 17, such arrangement is considered as a finance lease and the power generation assets are accounted for as leased fixed assets on the Group's statement of financial position (Note 12).

Pursuant to the terms of a bank covenant of CAPCO, CLP Power Hong Kong's advances to CAPCO will not be repaid without prior approval of certain lenders if a defined ratio of borrowed moneys to shareholders' funds of CAPCO is exceeded after repayment of the advances. 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.

In November 2013, the Group entered into an agreement to acquire an additional 30% interest in CAPCO from EMEL subject to certain conditions (Note 34).

(B) CSEC Guohua, 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.

Shenmu is incorporated in the Chinese mainland and 49% of its registered capital is owned by the Group. This company holds an interest in a coal-fired power station, Shenmu Power Station, with an installed capacity of 220MW.

(C) 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 joint venture.

(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.

15. Interests in Joint Ventures (continued)

(F) PSDC is incorporated in Hong Kong and its ordinary share capital is 49% owned by CLP Power Hong Kong and 51% owned by EMEL. 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.

In November 2013, the Group entered into an agreement to acquire remaining 51% interest in PSDC from EMEL subject to certain conditions (Note 34).

(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;
- 25% interest in the Waterloo Investment Holdings Pty Ltd, which is incorporated in Australia and owns a wind farm with a capacity of 111MW in South Australia, Australia;
- 51% interest in the registered capital of Jinchang Zhenxin PV Power Company Limited, which is incorporated in the Chinese mainland and owns Jinchang Solar Power Station, with an installed capacity of 100MW in Gansu; and
- 49% interests in the registered capital of various Chinese joint ventures at a carrying amount of HK$1,379 million (2012: HK$1,357 million) in aggregate. These joint ventures are incorporated in the Chinese mainland and hold interests in various wind power stations in Shandong and Jilin, with a total installed capacity of 593MW.

16. Interest in an Associate

Accounting Policy No. 3(C)

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

GNPJVC is unlisted, incorporated and operates 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.

Summarised financial information of GNPJVC and the Group's share of results and net assets are as follows:

	2013 HK$M	2012 HK$M
Revenue	6,829	6,955
Profit and total comprehensive income	2,447	2,317
Group's share of profit and total comprehensive income	612	579
Dividends from an associate	793	184

16. Interest in an Associate (continued)

	2013 HK$M	2012 HK$M
Non-current assets	**2,204**	3,227
Current assets	**9,417**	9,085
Current liabilities	**(1,731)**	(1,873)
Non-current liabilities	**(3,189)**	(3,014)
Net assets	**6,701**	7,425
Group's share of net assets	**1,675**	1,856

At 31 December 2013, the Group's share of capital commitments of its associate was HK$194 million (2012: HK$166 million).

17. Finance Lease Receivables

Accounting Policy No. 11

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Amounts receivable under finance leases				
Within one year	**187**	401	**49**	158
After one year but within five years	**1,470**	993	**989**	126
Over five years	**–**	1,745	**–**	1,539
	1,657	3,139	**1,038**	1,823
Less: unearned finance income	**(619)**	(1,316)		
Present value of minimum lease payments receivable	**1,038**	1,823		
Analysed as:				
Current (recoverable within 12 months)			**49**	158
Non-current (recoverable after 12 months)			**989**	1,665
			1,038	1,823

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 of Paguthan to its off-taker, Gujarat Urja Vikas Nigam Limited (GUVNL). The effective interest rate implicit in the finance lease is approximately 13.4% for both 2013 and 2012. The carrying amounts of the finance lease receivables approximate to their fair values.

Owing to shortage in long-term gas supply, Paguthan's dispatches continue to be very low. As a result, GUVNL has requested to revise certain terms of the PPA during the year and a supplementary agreement was subsequently signed in February 2014. In addition, Paguthan's residual value at the end of the PPA in 2018 has been reassessed. Taking into account the anticipated reduction in future cash flows, an impairment provision of HK$519 million (after tax: HK$293 million) (2012: nil) was recognised.

18. Derivative Financial Instruments

Accounting Policy No. 5

	2013 Assets HK$M	2013 Liabilities HK$M	2012 Assets HK$M	2012 Liabilities HK$M
Cash flow hedges (note)				
Forward foreign exchange contracts	1,339	32	1,414	73
Foreign exchange options	89	–	73	–
Cross currency interest rate swaps	1,399	649	1,455	534
Interest rate swaps	194	638	–	1,564
Energy contracts	176	263	404	633
Fair value hedges				
Cross currency interest rate swaps	250	940	258	73
Interest rate swaps	18	192	86	76
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	104	18	70	30
Interest rate swaps	77	74	–	–
Energy contracts	477	1,913	1,284	2,863
	4,123	4,719	5,044	5,846
Analysed as:				
Current	1,005	1,279	1,759	1,762
Non-current	3,118	3,440	3,285	4,084
	4,123	4,719	5,044	5,846

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 2013 have a maturity of up to 15 years (2012: 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:

	2013 HK$M	2012 HK$M
Forward foreign exchange contracts	105,081	105,551
Foreign exchange options	752	939
Interest rate swaps / cross currency interest rate swaps	49,289	44,790
Energy contracts	18,003	23,092

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

19. 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:

	2013 HK$M	2012 HK$M
CGN Wind Power Company Limited (CGN Wind)	1,190	1,190
Others	73	99
	1,263	1,289

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.

20. 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	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Trade receivables [(a)]	13,864	15,536	–	–
Deposits, prepayments and other receivables	3,187	2,768	29	27
Dividend receivables from [(b)]				
Joint ventures	760	124	–	–
An associate	–	10	–	–
An available-for-sale investment	82	43	–	–
Current accounts with [(b)]				
Subsidiaries	–	–	26	18
Joint ventures	58	71	–	–
An associate	2	–	–	–
	17,953	18,552	55	45

Trade and other receivables attributed to overseas subsidiaries amounted to HK$14,906 million (2012: HK$16,036 million). At 31 December 2013, CLP India has obtained payment for some of its receivables from GUVNL through bill discounting with recourse amounted to HK$88 million (2012: HK$213 million) and the transactions have been accounted for as collateralised borrowings (Note 23).

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

Notes:

(a) Trade receivables

15% (2012: 13%) and 69% (2012: 73%) 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 2013, such cash deposits amounted to HK$4,503 million (2012: HK$4,318 million) and the bank guarantees stood at HK$867 million (2012: HK$903 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 range from about 14 to 60 days.

20. 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 2013, EnergyAustralia held cash deposits of HK$3 million (2012: HK$102 million) and no bank guarantees (2012: HK$14 million) in relation to outstanding receivable balances.

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

	2013				2012			
	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	9,412	1,665	(88)	10,989	10,971	1,824	(76)	12,719
Overdue								
1 – 30 days	181	905	(67)	1,019	82	1,000	(53)	1,029
31 – 90 days	196	782	(167)	811	89	742	(157)	674
Over 90 days	626	1,481	(1,062)	1,045	770	1,175	(831)	1,114
	10,415	4,833	(1,384)	13,864	11,912	4,741	(1,117)	15,536

At 31 December 2013, trade receivables of HK$1,003 million (2012: HK$941 million) were past due but not considered impaired. These related to:

- a number of customers for whom there had been no recent history of default;
- an amount deducted by GUVNL from the past invoices of CLP India netted with refund totalled HK$415 million (Rs.3,306 million) (2012: HK$469 million (Rs.3,306 million)) (Note 33(A)) which is included in the amount aged over 90 days; and
- disputed charges between Jhajjar and its off-takers. Total disputed amounts were HK$180 million (Rs.1,433 million) at 31 December 2013 (2012: nil), of which HK$101 million (Rs.803 million) (2012: nil) aged over 90 days (Note 33(C)).

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. The amounts under the caption "Subject to impairment testing" mainly 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:

	2013 HK$M	2012 HK$M
30 days or below	11,366	13,226
31 – 90 days	1,292	949
Over 90 days	1,206	1,361
	13,864	15,536

20. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment are as follows:

	2013 HK$M	2012 HK$M
Balance at 1 January	1,117	693
Provision for impairment	1,098	804
Receivables written off during the year as uncollectable	(698)	(387)
Amounts reversed	(1)	(1)
Exchange differences	(132)	8
Balance at 31 December	1,384	1,117

"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, joint ventures and an associate are unsecured, interest-free and have no fixed repayment terms.

21. 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.

	2013 HK$M	2012 HK$M
Trust accounts restricted under TRAA (note)	449	1,136
Bank deposits	3,068	10,884
Bank balances and cash	1,716	1,006
	5,233	13,026

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$1,869 million (2012: HK$1,515 million) which was mostly denominated in Renminbi (2012: Renminbi).

22. 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	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Trade payables [(a)]	11,336	11,186	–	–
Other payables and accruals	5,436	7,771	190	237
Current accounts with [(b)]				
Subsidiaries	–	–	31	35
Joint ventures	1,474	1,447	2	1
An associate	55	103	–	–
Deferred revenue [(c)]	1,024	1,225	–	–
	19,325	21,732	223	273

Notes:

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

	2013 HK$M	2012 HK$M
30 days or below	10,641	10,921
31 – 90 days	472	137
Over 90 days	223	128
	11,336	11,186

At 31 December 2013, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$238 million (2012: HK$236 million), which were mostly denominated in US dollar of HK$143 million (2012: HK$115 million), Japanese yen of HK$12 million (2012: HK$82 million) and Euro of HK$40 million (2012: HK$31 million).

(b) The amounts payable to subsidiaries, joint ventures and an associate are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,441 million (2012: HK$1,406 million) is due to CAPCO.

(c) The balance primarily represented carbon compensation 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 carbon compensation is provided as cash compensation for the first year (paid in June 2012) and as free carbon units available annually for four years. The compensation received was amortised to profit or loss over the relevant period (Note 3).

23. Bank Loans and Other Borrowings

Accounting Policy

Borrowings are recognised initially at fair value of proceeds received, 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	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Current				
Short-term bank loans	1,296	835	816	–
Long-term bank loans	4,442	4,760	–	–
Other long-term borrowings				
Medium Term Note (MTN) programme (HKD) due 2014/2013	1,380	1,300	–	–
	7,118	6,895	816	–
Non-current				
Long-term bank loans	19,471	26,988	600	2,900
Other long-term borrowings				
MTN programme (USD) due 2020 to 2027	10,295	11,020	–	–
MTN programme (HKD) due 2015 to 2041	8,895	10,440	–	–
MTN programme (JPY) due 2021 to 2026	2,289	2,789	–	–
MTN programme (AUD) due 2021 to 2023	759	725	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2015	345	402	–	–
US private placement notes (USD) due 2017 to 2027	6,879	6,939	–	–
	48,933	59,303	600	2,900
Total borrowings	56,051	66,198	1,416	2,900

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK$11,782 million (2012: HK$12,918 million), analysed as follows:

	2013 HK$M	2012 HK$M
CLP India and its subsidiaries [(a)]	8,325	9,551
Subsidiaries in Chinese mainland [(b)]	3,457	3,367
	11,782	12,918

23. Bank Loans and Other Borrowings (continued)

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$14,089 million (2012: HK$15,193 million). Collateralised borrowings for CLP India were secured by trade receivables, the carrying amounts of which were HK$88 million (2012: HK$213 million).

(b) Bank loans for subsidiaries in Chinese mainland are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights of HK$5,434 million (2012: HK$5,016 million).

Bank loans and other borrowings totalling HK$26,342 million (2012: HK$29,863 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2013, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M	**2013 HK$M**	2012 HK$M
Within one year	**5,738**	5,595	**1,380**	1,300	**7,118**	6,895
Between one and two years	**5,271**	5,454	**1,686**	1,380	**6,957**	6,834
Between two to five years	**7,477**	13,775	**2,721**	4,464	**10,198**	18,239
Over five years	**6,723**	7,759	**25,055**	26,471	**31,778**	34,230
	25,209	32,583	**30,842**	33,615	**56,051**	66,198

Of the Company's borrowings, HK$816 million (2012: nil) is repayable within one year, HK$600 million (2012: nil) is repayable between one and two years and nil (2012: HK$2,900 million) is repayable between two to five years.

Another presentation of the Group's liquidity risk is set out on page 247.

At 31 December 2013 and 2012, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

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

	2013		2012	
	HK$	A$	HK$	A$
Fixed rate loans and loans swapped from variable rates	1.8% – 4.9%	3.5% – 9.1%	2.5% – 5.0%	5.1% – 9.1%
Variable rate loans and loans swapped from fixed rates	0.6% – 2.1%	4.2% – 4.8%	0.7% – 2.2%	3.9% – 5.3%

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

At 31 December 2013, the Group had undrawn bank loans and overdraft facilities of HK$33,218 million (2012: HK$33,073 million). The Group has also secured from HSBC an irrevocable written commitment to enter into loan facility agreements in agreed form for HK$10 billion to fund the proposed acquisitions of CAPCO and PSDC (Note 34). The HK$10 billion facilities will be available for drawdown at completion of the acquisitions and comprise a HK$5 billion facility with a maturity of one year from completion and a HK$5 billion facility with a maturity of two years from completion.

24. 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	
	2013 HK$M	2012 HK$M
Amounts payable under finance leases		
Within one year	**2,763**	2,406
After one year but within two years	**2,752**	2,404
After two years but within five years	**7,906**	7,093
Over five years	**14,555**	15,152
	27,976	27,055
Analysed as:		
Amount due for settlement within 12 months	**2,763**	2,406
Amount due for settlement after 12 months	**25,213**	24,649
	27,976	27,055

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 2013, the interest rate was 9.99% (2012: 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.

25. 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:

	2013 HK$M	2012 HK$M
Deferred tax assets	**3,084**	1,025
Deferred tax liabilities	**(8,548)**	(8,370)
	(5,464)	(7,345)

25. Deferred Tax (continued)

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

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:

	2013 HK$M	2012 HK$M
At 1 January	**(7,345)**	(6,703)
Credited / (charged) to profit or loss (Note 8)	**1,071**	(810)
(Charged) / credited to other comprehensive income	**(135)**	120
Acquisition of business (Note 2)	**916**	–
Acquisition of subsidiaries	**–**	(1)
Sale of a subsidiary (Note 6(e))	**56**	–
Withholding tax	**40**	9
Exchange differences	**(67)**	40
At 31 December	**(5,464)**	(7,345)

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	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
At 1 January	**3,797**	5,018	**1,093**	1,027	**1,880**	1,564	**6,770**	7,609
(Charged) / credited to profit or loss	**(791)**	(1,318)	**242**	48	**12**	272	**(537)**	(998)
(Charged) / credited to other comprehensive income	**–**	–	**(106)**	–	**(1)**	13	**(107)**	13
Acquisition of business	**–**	–	**(203)**	–	**24**	–	**(179)**	–
Acquisition of subsidiaries	**–**	–	**–**	1	**–**	–	**–**	1
Sale of a subsidiary	**–**	–	**–**	–	**(14)**	–	**(14)**	–
Exchange differences	**(464)**	97	**(4)**	17	**(487)**	31	**(955)**	145
At 31 December	**2,542**	3,797	**1,022**	1,093	**1,414**	1,880	**4,978**	6,770

25. Deferred Tax (continued)

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others (b)		Total	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
At 1 January	(9,440)	(9,106)	(368)	(378)	(1,545)	(1,717)	(1,334)	(1,250)	(1,428)	(1,861)	(14,115)	(14,312)
(Charged) / credited to profit or loss	801	(294)	(27)	(6)	355	206	199	(59)	280	341	1,608	188
(Charged) / credited to other comprehensive income	–	–	–	–	–	–	–	–	(28)	107	(28)	107
Acquisition of business	1,119	–	–	–	–	–	–	–	(24)	–	1,095	–
Acquisition of subsidiaries	–	(2)	–	–	–	–	–	–	–	–	–	(2)
Sale of a subsidiary	57	–	–	–	–	–	5	–	8	–	70	–
Withholding tax	–	–	40	9	–	–	–	–	–	–	40	9
Exchange differences	379	(38)	28	7	192	(34)	4	(25)	285	(15)	888	(105)
At 31 December	(7,084)	(9,440)	(327)	(368)	(998)	(1,545)	(1,126)	(1,334)	(907)	(1,428)	(10,442)	(14,115)

Notes:

(a) The deferred tax asset arising from tax losses mainly related to the electricity business in Australia. There is no expiry on the tax losses recognised. Apart from unrecognised tax losses arising from various capital transactions in Australia of HK$1,743 million (2012: nil), 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.

26. Fuel Clause Account

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

27. SoC Reserve Accounts

The Tariff Stabilisation Fund, 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:

	2013 HK$M	2012 HK$M
Tariff Stabilisation Fund (A)	19	712
Rate Reduction Reserve (B)	9	8
Rent and Rates Interim Refunds (C)	–	525
	28	1,245

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

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

(A) Tariff Stabilisation Fund

	2013 HK$M	2012 HK$M
At 1 January	712	637
Transfer under the SoC [(a)]		
– transfer for SoC (to)/from revenue (Note 3)	(641)	304
– charge for asset decommissioning [(b)]	(52)	(229)
At 31 December	19	712

Notes:

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

(b) Under the SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. For CLP Power Hong Kong, the balance of the asset decommissioning liabilities account of HK$539 million (2012: HK$539 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.

(B) Rate Reduction Reserve

	2013 HK$M	2012 HK$M
At 1 January	8	6
Interest expense charged to profit or loss (Note 7)	1	2
At 31 December	9	8

27. SoC Reserve Accounts (continued)

(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. While the original Lands Tribunal judgment and the subsequent judgment on the review of valuation matters were received in CLP Power Hong Kong's favour, final resolution of this case will be subject to the outcome of appeals to the Court of Appeal against the Lands Tribunal judgment on points of law.

In 2012, CLP Power Hong Kong received interim refunds of HK$1,601 million from the Hong Kong Government and in 2013, a further interim refund of HK$40 million was received. These interim refunds totalling HK$1,641 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.

Based on the latest development of the case, CLP Power Hong Kong maintains that it would recover no less than interim refunds received to date in the final outcome of these appeals. The interim refunds continued to be classified within the SoC reserve accounts.

While the final resolution of the appeals is pending, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of HK$1,076 million in 2012 and HK$565 million in 2013 on the assumption of a favourable outcome of its appeals. The Rent and Rates Special Rebate was ceased in October 2013 with the total amount of interim refunds received fully expended.

The amount of the Government Rent and Rates Special Rebate made to customers has been offset against the interim refunds received:

	2013 HK$M	2012 HK$M
At 1 January	525	–
Interim Refunds received	40	1,601
Rent and Rates Special Rebate	(565)	(1,076)
At 31 December	–	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.

28. Share Capital

	2013 Number of Ordinary Shares of HK$5 Each	Amount HK$M	2012 Number of Ordinary Shares of HK$5 Each	Amount HK$M
Authorised, at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid				
At 1 January	2,526,450,570	12,632	2,406,143,400	12,031
Issue of shares	–	–	120,307,170	601
At 31 December	2,526,450,570	12,632	2,526,450,570	12,632

29. 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 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
Joint ventures	–	111	–	–	–	111
An associate	–	(3)	–	–	–	(3)
Cash flow hedges						
Net fair value losses	–	–	(598)	–	–	(598)
Reclassification to 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 joint ventures	–	–	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)	–
Joint ventures	–	–	–	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 [(c)]	70,376

29. 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 2013	2,492	6,641	1,038	485	59,720	70,376
Earnings attributable to shareholders	–	–	–	–	6,060	6,060
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	(5,929)	–	–	–	(5,929)
Joint ventures	–	151	–	–	–	151
An associate	–	1	–	–	–	1
Cash flow hedges						
Net fair value losses	–	–	(104)	–	–	(104)
Reclassification to profit or loss	–	–	257	–	–	257
Tax on the above items	–	–	(25)	–	–	(25)
Available-for-sale investments						
Reclassification adjustment for amount included in profit or loss upon sale	–	–	–	10	–	10
Fair value gain on revaluation upon transfer from fixed asset to investment property	–	–	–	2,055	–	2,055
Reclassification adjustment upon sale of a subsidiary	–	(8)	–	–	–	(8)
Share of other comprehensive income of joint ventures	–	–	9	250	–	259
Total comprehensive income attributable to shareholders	–	(5,785)	137	2,315	6,060	2,727
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves						
Subsidiaries	–	–	–	12	(12)	–
Joint ventures	–	–	–	52	(52)	–
Dividends paid						
2012 fourth interim	–	–	–	–	(2,476)	(2,476)
2013 first to third interim	–	–	–	–	(4,017)	(4,017)
Balance at 31 December 2013	**2,492**	**856**	**1,175**	**2,862 [(b)]**	**59,225 [(c)]**	**66,610**

29. Reserves (continued)

Company

	Capital Redemption Reserve [(a)] HK$M	Retained Profits HK$M	Total HK$M
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 [(c)]	29,352
Balance at 1 January 2013	2,492	26,860	29,352
Profit and total comprehensive income for the year	–	7,384	7,384
Dividends paid			
2012 fourth interim	–	(2,476)	(2,476)
2013 first to third interim	–	(4,017)	(4,017)
Balance at 31 December 2013	**2,492**	**27,751 [(c)]**	**30,243**

Notes:

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

(b) Including fixed assets revaluation reserve of HK$2,055 million (2012: nil) arising from the revaluation of the Argyle Street site upon transfer from fixed asset to investment property (Note 12(A)(b)).

(c) The fourth interim dividend declared for the year ended 31 December 2013 was HK$2,476 million (2012: HK$2,476 million). The balance of retained profits after the fourth interim dividend of the Group was HK$56,749 million (2012: HK$57,244 million) and of the Company was HK$25,275 million (2012: HK$24,384 million).

At 31 December 2013, distributable reserves of the Company amounted to HK$27,751 million (2012: HK$26,860 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 retained profits of the Group are irrelevant in determining the amount of distributable reserves of the Company itself.

30. Note to the Consolidated Statement of Cash Flows

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

	2013 HK$M	2012 HK$M
Profit before income tax	5,840	9,984
Adjustments for:		
Finance costs	6,522	6,423
Finance income	(173)	(322)
Dividend income from available-for-sale investments	(61)	(104)
Share of results of joint ventures and an associate, net of income tax	(3,283)	(2,984)
Depreciation and amortisation	7,592	7,021
Impairment charge	6,289	1,402
Net loss on disposal of fixed assets	173	151
Gain on bargain purchase of Mount Piper and Wallerawang	(751)	–
Loss on disposal of Boxing Biomass	23	–
Gain on sale of interest in Waterloo	(24)	–
Fair value (gain) / loss under fair value hedges and net exchange difference	(284)	568
SoC items		
Increase in customers' deposits	185	166
Decrease / (increase) in fuel clause account	1,770	(122)
(Decrease) / increase in Rent and Rates Interim Refunds	(525)	525
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a joint venture	(52)	(135)
Transfer for SoC	(641)	304
	737	738
Increase in trade and other receivables	(1,175)	(1,929)
Decrease in finance lease receivables	90	114
Decrease / (increase) in cash restricted for specific purposes	687	(374)
Decrease in derivative financial instruments net liabilities	(564)	(917)
Increase in trade and other payables	171	4,883
Decrease in current accounts due to joint ventures and an associate	(11)	(216)
Net cash inflow from operations	21,798	24,438

31. Commitments and Operating Lease Arrangements

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

	Group		Company	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Contracted but not provided for	5,812	10,458	6	2
Authorised but not contracted for	9,834	11,347	61	45
	15,646	21,805	67	47

(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 2013	Remaining Balance to be Contributed	Expected Year for Last Contribution
Haifang wind power project	RMB92 million	RMB18 million (HK$24 million)	RMB74 million (HK$95 million)	2014
CGN CLP Energy Services (Shenzhen)	RMB29 million	RMB14 million (HK$17 million)	RMB15 million (HK$19 million)	2014
Hong Kong Branch Line project (Note)	RMB491 million	–	RMB491 million (HK$628 million)	2014

Note: CLP Energy Infrastructure Limited, an indirect wholly-owned subsidiary of the Company, has entered into a joint venture contract with PetroChina Company Limited to form a Sino-Foreign Joint Venture to own and operate the Second West-East Natural Gas Pipeline Hong Kong Branch Line (the "Hong Kong Branch Line project") for transportation of natural gas from Shenzhen to Hong Kong. In addition to the equity contribution, the Group also committed to contribute RMB981 million (HK$1,257 million) in the form of shareholders' loans.

(C) On 19 November 2013, CLP Power Hong Kong entered into agreements to acquire EMEL's 30% interest in CAPCO and 51% interest in PSDC for a total consideration of HK$14 billion (Note 34).

31. Commitments and Operating Lease Arrangements (continued)

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

	Group		Company	
	2013 HK$M	2012 HK$M	2013 HK$M	2012 HK$M
Within one year	843	871	27	30
Later than one year but not later than five years	2,993	3,335	89	95
Over five years	6,148	7,102	65	94
	9,984	11,308	181	219

Of the above amount of the Group, HK$7,433 million (2012: HK$7,798 million) relates to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$1,589 million (2012: HK$2,118 million) relates to the 20-year MHA 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 CLP Property Investment Limited (formerly "Kar Ho Development Company Limited"), a wholly-owned subsidiary of the Company.

(E) 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 prices. The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2013 HK$M	2012 HK$M
Within one year	886	1,023
Later than one year but not later than five years	3,315	3,782
Over five years	9,140	11,269
	13,341	16,074

32. Related Party Transactions

Accounting Policy

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, joint ventures, associates 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 joint ventures and an associate

Details of electricity supply contracts relating to the electricity business in Hong Kong with joint ventures and an associate are shown below:

	2013 HK$M	2012 HK$M
Lease and lease service payment to CAPCO (a)	17,324	17,067
Purchases of nuclear electricity from GNPS (b)	4,619	4,636
Pumped storage service fee to PSDC (c)	540	528
	22,483	22,231

(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 GNPS's 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 2013 are disclosed in Note 22.

32. Related Party Transactions (continued)

(B) Rendering of services to joint ventures

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$1,037 million (2012: HK$1,358 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 2013 are disclosed in Note 20.

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

(C) The advances made to joint ventures totalled HK$9,592 million (2012: HK$9,521 million) (Note 15). Of these, HK$9,178 million (2012: HK$9,059 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2013, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2012: nil).

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$28,815 million (2012: HK$29,558 million) made to its subsidiaries (Note 14), HK$20,141 million (2012: HK$20,143 million) and HK$4,932 million (2012: HK$5,256 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$1,623 million (2012: HK$3,891 million) was made to CLP Treasury Services Limited for treasury operations purpose.

The Company has also made advances to CLP Properties Limited of HK$2,040 million for property development purpose (2012: advances from CLP Properties Limited of HK$99 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 ten (2012: six) senior management personnel.

	2013 HK$M	2012 HK$M
Fees	10	9
Base compensation, allowances and benefits in kind	44	44
Tax equalisation, allowances and benefits in kind		
for secondment to overseas offices	2	6
Performance bonus		
Annual incentive	29	45
Long-term incentive	38	20
Provident fund contributions	4	5
	127	129

32. Related Party Transactions (continued)

(E) Emoluments of key management personnel (continued)

At 31 December 2013, the CLP Holdings' Board was composed of fifteen Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$63 million (2012: HK$54 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 (2012: three Directors), one member of Senior Management (2012: one member) and one former senior executive (2012: one senior executive) of the Group. The total remuneration of these five highest paid individuals amounted to HK$88 million (2012: HK$83 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 153 to 155 and 158 to 159 respectively. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

33. 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 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$912 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$104 million) (2012: Rs.830 million (HK$118 million)).

33. Contingent Liabilities (continued)

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

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to CLP India of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when 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.2,523 million (HK$317 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

CLP India filed an appeal with the Appellate Tribunal for Electricity (ATE) against the decision of the GERC. GUVNL also filed an appeal in the ATE against an order of the GERC rejecting GUVNL's claims on interest on deemed loans and the time barring of the deemed generation claim to 14 September 2002. On 19 January 2010, the ATE dismissed both CLP India and GUVNL's appeals and upheld the decision of the GERC. CLP India has filed an appeal against the ATE order in the Supreme Court of India. The appeal petition was admitted on 16 April 2010 but the next date of hearing has not yet been fixed by the court. GUVNL has also filed a cross appeal challenging those parts of the ATE judgment which held that GUVNL's claims before September 2002 were time barred and which disallowed its claims for interest on "deemed loans".

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million (HK$469 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK$63 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$37 million) and interest of Rs.150 million (HK$19 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 2013, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$1,073 million) (2012: Rs.8,543 million (HK$1,211 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".

33. Contingent Liabilities (continued)

(B) Indian Wind Power Projects – WWIL'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 681 MW of wind power projects to be developed with Wind World 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 2013, 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.

(C) Jhajjar – Disputed Charges with Off-takers

Jhajjar had disputes with its off-takers over applicable tariff of capacity charges, energy charges relating to transit loss, coal-handling agent charges and Unscheduled Interchange charges payable as per the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009. Total disputed amounts were Rs.1,433 million (HK$180 million) at 31 December 2013 (2012: nil). Jhajjar has filed a petition against its off-takers in March 2013. The Group considered that Jhajjar has a strong case and hence, no provision has been made.

(D) 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$280 million (2012: HK$237 million) as land premium relating to the Group's new office at Laguna Verde at Hung Hom. The Group considered, 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.

34. Event after the End of the Reporting Period

On 19 November 2013, CLP Power Hong Kong entered into: (a) an agreement whereby each of CLP Power Hong Kong and China Southern Power Grid International (HK) Co., Limited (CSG HK), a wholly-owned subsidiary of China Southern Power Grid Co., Limited (CSG), will acquire half of EMEL's 60% equity interest in, and associated shareholder's advances to, CAPCO; and (b) an agreement, whereby CLP Power Hong Kong agreed to acquire all of EMEL's 51% equity interest in, and associated shareholder's advances to, PSDC. Subject to the consideration adjustment mechanism set out in each of the agreements, the aggregate unadjusted consideration payable by CLP Power Hong Kong in respect of the acquisitions is HK$14 billion (HK$12 billion for the CAPCO acquisition and HK$2 billion for the PSDC acquisition), which will be payable to EMEL fully in cash at completion. After completion, CAPCO will be 70% and 30% owned by CLP Power Hong Kong and CSG HK respectively and PSDC will be 100% owned by CLP Power Hong Kong.

The acquisitions were approved by the shareholders of the Company at the Extraordinary General Meeting held on 22 January 2014. Completion of the acquisitions is still subject to CSG obtaining approvals from regulatory bodies in the PRC. The acquisitions are expected to be completed in the middle of 2014.

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, US 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 US dollar obligations on fuel and nuclear power purchases, provided that for US 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:

	2013 HK$M	2012 HK$M
Increase / (decrease) in the hedging reserve		
Hong Kong dollar against US dollar		
If Hong Kong dollar weakened by 0.6% (2012: 0.6%)	364	445
If Hong Kong dollar strengthened by 0.6% (2012: 0.6%)	(364)	(446)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 5% (2012: 5%)	45	51
If Hong Kong dollar strengthened by 5% (2012: 5%)	(41)	(46)

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 2013, the Group's net investment subject to translation exposure was HK$51,995 million (2012: HK$59,083 million), arising mainly from our investments in Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. This means that, for each 1% (2012: 1%) average foreign currency movement, our translation exposure will vary by about HK$520 million (2012: HK$591 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 US dollar and Renminbi, with all other variables held constant. The sensitivity rates in US 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 US dollar and Renminbi against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2013 HK$M	2012 HK$M
US dollar		
If US dollar strengthened by 5% / 10% (2012: 5% / 10%) (note)		
Post-tax profit for the year	(92)	(42)
Equity – hedging reserve	(135)	24
If US dollar weakened by 5% / 10% (2012: 5% / 10%) (note)		
Post-tax profit for the year	92	42
Equity – hedging reserve	26	(121)
Renminbi		
If Renminbi strengthened by 2% (2012: 3%)		
Post-tax profit for the year	53	43
Equity – hedging reserve	–	–
If Renminbi weakened by 2% (2012: 3%)		
Post-tax profit for the year	(53)	(43)
Equity – hedging reserve	–	–

Note: 5% against Indian rupee and 10% against Australian dollar.

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 2013 was HK$101 million (2012: HK$474 million). The change reflects a reduction of holding volatile positions and an update of the volatility assumption in the calculation. During 2013, the VaR ranged between a low of HK$82 million (2012: HK$374 million) and a high of HK$422 million (2012: HK$772 million).

Analyses below show the effect on post-tax profit and equity if market prices were 15% (2012: 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% (2012: 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:

	2013 HK$M	2012 HK$M
If market prices were 15% (2012: 15%) higher		
Post-tax profit for the year	199	427
Equity – hedging reserve	65	(229)
If market prices were 15% (2012: 15%) lower		
Post-tax profit for the year	(147)	(453)
Equity – hedging reserve	(64)	229

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. They are 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 2013, 67% (2012: 57%) 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)

	2013 HK$M	2012 HK$M
Hong Kong dollar		
If interest rates were 0.2% (2012: 0.1%) higher		
Post-tax profit for the year	(17)	(15)
Equity – hedging reserve	2	(51)
If interest rates were 0.2% (2012: 0.1%) lower		
Post-tax profit for the year	17	15
Equity – hedging reserve	(2)	51
US dollar		
If interest rates were 0.2% (2012: 0.1%) higher		
Post-tax profit for the year	–	–
Equity – hedging reserve	31	51
If interest rates were 0.2% (2012: 0.1%) lower		
Post-tax profit for the year	–	–
Equity – hedging reserve	(32)	(51)
Indian rupee		
If interest rates were 1% (2012: 1%) higher		
Post-tax profit for the year	(27)	(33)
Equity – hedging reserve	–	–
If interest rates were 1% (2012: 1%) lower		
Post-tax profit for the year	27	33
Equity – hedging reserve	–	–
Australian dollar		
If interest rates were 0.5% (2012: 0.5%) higher		
Post-tax profit for the year	(26)	(33)
Equity – hedging reserve	23	64
If interest rates were 0.5% (2012: 0.5%) lower		
Post-tax profit for the year	25	34
Equity – hedging reserve	(24)	(63)

The Company's sensitivity to interest rates was not significant and therefore is not presented at 31 December 2013 and 2012.

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

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 2013					
Non-derivative financial liabilities					
Bank loans	6,873	6,226	9,599	8,822	31,520
Other borrowings	2,602	2,828	5,811	29,891	41,132
Obligations under finance leases	5,409	5,124	13,412	22,710	46,655
Customers' deposits	4,506	–	–	–	4,506
Trade and other payables	19,325	–	–	–	19,325
Fuel clause account	–	–	1,464	–	1,464
SoC reserve accounts	–	–	28	–	28
	38,715	14,178	30,314	61,423	144,630
Derivative financial liabilities					
Net settled					
Interest rate swaps	283	218	294	263	1,058
Energy contracts	799	338	1,179	–	2,316
Gross settled					
Forward foreign exchange contracts	28,142	31,668	43,189	1,092	104,091
Cross currency interest rate swaps	853	888	4,238	24,605	30,584
	30,077	33,112	48,900	25,960	138,049
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 2013, 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$837 million (2012: HK$29 million) repayable within one year, HK$612 million (2012: HK$29 million) between one and two years and nil (2012: HK$2,927 million) between two to five years.

2. Fair Value Estimation for Financial Instruments

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 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.

For the Group's financial instruments that are not measured at fair value, their carrying values approximate 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$M	Level 2 [(a)] HK$M	Level 3 [(a), (b)] HK$M	Total HK$M
At 31 December 2013				
Financial assets				
Available-for-sale investments	–	–	1,263	1,263
Forward foreign exchange contracts	–	1,443	–	1,443
Foreign exchange options	–	89	–	89
Cross currency interest rate swaps	–	1,649	–	1,649
Interest rate swaps	–	289	–	289
Energy contracts	–	65	588	653
	–	3,535	1,851	5,386
Financial liabilities				
Forward foreign exchange contracts	–	50	–	50
Cross currency interest rate swaps	–	1,589	–	1,589
Interest rate swaps	–	904	–	904
Energy contracts	–	280	1,896	2,176
	–	2,823	1,896	4,719

3. Fair Value Hierarchy of Financial Instruments (continued)

	Level 1 HK$M	Level 2 [a] HK$M	Level 3 [a], [b] HK$M	Total HK$M
At 31 December 2012				
Financial 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
Financial 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

The Group's policy is to recognise transfers into / out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

During 2013 and 2012, there were no transfers between Level 1 and Level 2, or into or out of Level 3.

Notes:

(a) The valuation technique and inputs used in the fair value measurements within Level 2 and Level 3 are as follows:

	Valuation technique	Significant inputs
Available-for-sale investments	Discounted cash flow	Discount rate
Forward foreign exchange contracts	Discounted cash flow	Observable exchange rates
Foreign exchange options	Garman Kohlhagen Model	Observable exchange rates and volatility levels
Cross currency interest rate swaps	Discounted cash flow	Observable exchange rates and swap rates of respective currency
Interest rate swaps	Discounted cash flow	Observable swap rates of respective currency
Energy contracts	Discounted cash flow	Brokers' quotes and observable exchange traded swap and cap rates

(b) Additional information about fair value measurements using significant unobservable inputs (Level 3):

	Significant unobservable inputs
Available-for-sale investments [i]	Discount rate
Energy contracts [ii]	Discount rate and forward curves

(i) The valuations are performed and reported twice each year, in line with the Group's reporting dates, to Group management.

(ii) The finance department of EnergyAustralia includes a team that performs the valuations of non-property assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to EnergyAustralia's chief financial officer (CFO – EA) and Audit & Risk Committee (ARC – EA). Discussions of valuation processes and results are held between the CFO – EA, ARC – EA and the valuation team at least once every six months, in line with the Group's half-yearly reporting dates. Parameter calibrations are delegated to the team with back-testing and review of parameters to be performed annually. Fair value changes analysis are performed on a monthly basis for reasonableness.

3. Fair Value Hierarchy of Financial Instruments (continued)

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

	2013			2012		
	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	(2,034)	(771)	1,263	(2,716)	(1,453)
Total (losses) / gains recognised in						
Profit or loss	–	(971)	(971)	–	(838)	(838)
Other comprehensive income	–	450	450	–	831	831
Purchases	–	681	681	–	774	774
Settlements	–	566	566	–	(85)	(85)
Closing balance	1,263	(1,308)	(45)	1,263	(2,034)	(771)
Total losses for the year included in profit or loss and presented in fuel and other operating expenses	–	(971)	(971)	–	(838)	(838)
In respect of the assets and liabilities held at the end of the reporting period, the unrealised gains / (losses) for the year and presented in fuel and other operating expenses	–	237	237	–	(391)	(391)

Changing unobservable inputs used in the Level 3 valuation to reasonable alternative assumptions would not change significantly the fair values recognised.

4. Offsetting Financial Assets and Financial Liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements or similar agreements:

	Gross amounts of recognised financial assets/liabilities HK$M	Gross amounts of recognised financial liabilities/assets set off in the consolidated statement of financial position HK$M	Net amounts of financial assets/liabilities included in the respective line of the consolidated statement of financial position HK$M	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$M	Related amounts not set off in the consolidated statement of financial position: Financial collateral received/pledged HK$M	Net amount HK$M
At 31 December 2013						
Financial assets						
Bank balances, cash and other liquid funds	449	–	449	(449)	–	–
Trade and other receivables	7,164	–	7,164	(1,924)	(2,043)	3,197
Derivative financial instruments	2,021	(196)	1,825	(955)	–	870
	9,634	(196)	9,438	(3,328)	(2,043)	4,067
Financial liabilities						
Customers' deposits	4,506	–	4,506	(2,043)	–	2,463
Bank loans and other borrowings	11,272	–	11,272	–	(2,373)	8,899
Derivative financial instruments	3,948	(196)	3,752	(955)	–	2,797
	19,726	(196)	19,530	(2,998)	(2,373)	14,159
At 31 December 2012						
Financial assets						
Bank balances, cash and other liquid funds	1,136	–	1,136	(1,136)	–	–
Trade and other receivables	7,893	–	7,893	(1,886)	(2,092)	3,915
Derivative financial instruments	1,884	–	1,884	(711)	–	1,173
	10,913	–	10,913	(3,733)	(2,092)	5,088
Financial liabilities						
Customers' deposits	4,420	–	4,420	(2,092)	–	2,328
Bank loans and other borrowings	12,485	–	12,485	–	(3,022)	9,463
Derivative financial instruments	719	–	719	(711)	–	8
	17,624	–	17,624	(2,803)	(3,022)	11,799

4. Offsetting Financial Assets and Financial Liabilities (continued)

Note: For derivative financial instruments, the Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements in which there is a set-off provision. Under certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, a termination value is then assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position since the Group does not have any currently legally enforceable right to offset recognised amounts. The right to offset is enforceable only on the occurrence of future events such as a default on the bank transactions or other credit events. For other financial instruments, the rights to offset are enforceable in the event of default of payments.

5. Capital Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2013 and 2012.

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

	2013 HK$M	2012 HK$M
Total debt [(a)]	56,051	66,198
Net debt [(b)]	50,818	53,172
Total equity	87,481	91,201
Total capital (based on total debt) [(c)]	143,532	157,399
Total capital (based on net debt) [(d)]	138,299	144,373
Total debt to total capital (based on total debt) ratio (%)	39.1	42.1
Net debt to total capital (based on net debt) ratio (%)	36.7	36.8

Decrease in total debt to total capital was mainly due to part of the proceeds from the Company's 5% share placement in December 2012 was utilised to repay debts in 2013. Net debt to total capital remained at a similar level as 2012.

Certain entities of the Group are subject to certain loan covenants. For both 2013 and 2012, 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 2013 was 9.11% (2012: 9.12%).

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 2013, 65% (2012: 64%) of the net return was allocated to CLP Power Hong Kong and 35% (2012: 36%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Tariff Stabilisation Fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown on page 255 are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2013 HK$M	2012 HK$M
SoC revenue	33,184	33,944
Expenses		
Operating costs	3,711	3,698
Fuel	9,645	10,061
Purchases of nuclear electricity	4,619	4,636
Provision for asset decommissioning	52	229
Depreciation	4,475	4,146
Operating interest	863	783
Taxation	1,649	1,772
	25,014	25,325
Profit after taxation	8,170	8,619
Interest on borrowed capital	887	859
Adjustment for performance (incentives) / penalties	(48)	(47)
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(64)	(43)
Profit for SoC	8,945	9,388
Transfer from / (to) Tariff Stabilisation Fund	693	(75)
Permitted return	9,638	9,313
Deduct interest on / Adjustment for		
Borrowed capital as above	887	859
Performance (incentives) / penalties as above	(48)	(47)
Tariff Stabilisation Fund to Rate Reduction Reserve	1	2
	840	814
Net return	8,798	8,499
Divisible as follows:		
CLP Power Hong Kong	5,744	5,425
CAPCO	3,054	3,074
	8,798	8,499
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	5,744	5,425
Interest in CAPCO	1,222	1,229
	6,966	6,654

FIVE-YEAR SUMMARY: CLP GROUP STATISTICS

Economic

	2013	2012	2011	2010	2009
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong (HK)	33,840	33,643	31,518	29,944	28,297
Energy business in Australia	64,976	66,843	56,325	25,182	19,166
Others	5,714	4,375	3,791	3,284	3,205
Total	104,530	104,861	91,634	58,410	50,668
Operating profit	8,906	13,101	13,188	12,397	10,847
Earnings					
Electricity business in HK	6,966	6,654	6,339	6,129	5,964
Energy business in Australia	126	1,685	2,911	1,303	736
Other investments / operations	2,664	1,631	1,581	2,173	2,271
(Losses) / gains on sales of investments	(75)	–	876	356	153
Provisions for fixed assets, joint ventures and other assets	(3,696)	(409)	(1,933)	(258)	(477)
Valuation gain on Hok Un redevelopment	–	–	225	–	–
Tax consolidation benefit from Australia	–	105	–	989	–
Other one-off items from Australia	524	(790)	(192)	97	(17)
Unallocated net finance costs	(26)	(74)	(48)	(18)	(21)
Unallocated Group expenses	(423)	(490)	(471)	(439)	(413)
Total	6,060	8,312	9,288	10,332	8,196
Dividends	6,493	6,301	6,063	5,967	5,967
Capital expenditure, owned and leased assets	12,052	11,230	15,798	20,032	9,713
Depreciation & amortisation, owned and leased assets	7,592	7,021	6,353	5,065	4,332
Consolidated Statement of Cash Flows, HK$M					
Net cash inflow from operating activities	21,021	23,915	18,062	16,085	14,529
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	67,057	63,599	60,142	57,247	54,712
Other fixed assets	63,846	70,730	70,240	60,213	44,146
Goodwill and other intangible assets	23,847	28,479	27,369	9,150	8,105
Interests in joint ventures	19,940	19,197	18,226	20,476	18,838
Interests in associates	1,675	1,856	1,465	2,378	1,813
Other non-current assets	8,601	7,742	9,791	11,177	9,588
Current assets	26,719	37,153	27,055	18,714	19,329
Total assets	211,685	228,756	214,288	179,355	156,531
Shareholders' funds	87,361	91,127	81,259	79,661	70,761
Non-controlling interests	120	74	93	97	107
Equity	87,481	91,201	81,352	79,758	70,868
Bank loans and other borrowings	56,051	66,198	65,521	44,623	39,431
Obligations under finance leases	27,976	27,055	27,396	27,100	21,855
SoC reserve accounts	28	1,245	643	1,509	1,654
Other current liabilities	25,251	28,147	23,642	16,420	14,023
Other non-current liabilities	14,898	14,910	15,734	9,945	8,700
Total liabilities	124,204	137,555	132,936	99,597	85,663
Equity and total liabilities	211,685	228,756	214,288	179,355	156,531
Per Share Data, HK$					
Shareholders' funds per share	34.58	36.07	33.77	33.11	29.41
Earnings per share	2.40	3.45	3.86	4.29	3.41
Dividends per share	2.57	2.57	2.52	2.48	2.48

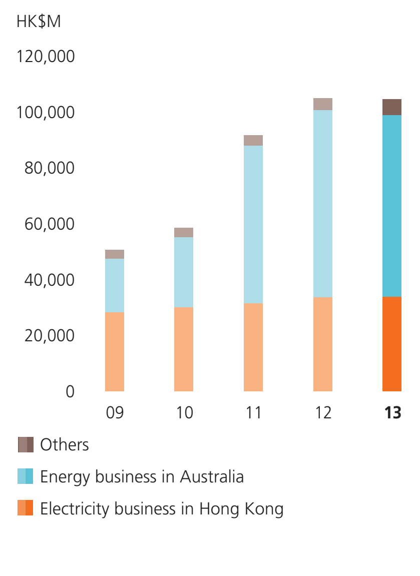
A ten-year summary is on our website

	2013	2012	2011	2010	2009
Per Share Data, HK$ (continued)					
Closing share price					
Highest	**69.85**	68.95	74.95	64.65	57.55
Lowest	**60.35**	62.30	59.95	52.15	51.15
As at year-end	**61.30**	64.85	66.05	63.10	52.45
Ratios					
Return on equity, %	**6.8**	10.1 #	11.5	13.7	12.3
Total debt to total capital, %	**39.1**	42.1	44.6	35.9	35.7
Net debt to total capital, %	**36.7**	36.8	43.1	33.3	30.7
Interest cover, times	**3**	4	4	7	8
Price / Earnings, times	**26**	19	17	15	15
Dividend yield, %	**4.2**	4.0	3.8	3.9	4.7
Dividend pay-out (total earnings), %	**107.1**	74.5	65.3	57.8	72.8
Dividend pay-out (operating earnings), %	**69.8**	65.9	58.8	65.2	69.9
Group Generating Capacity					
(owned / operated / under construction) *, MW					
– by region					
Hong Kong	**6,908**	6,908	6,908	6,908	6,908
Australia	**5,533**	5,616	5,616	3,211	3,188
Chinese mainland	**5,760**	5,911	5,957	5,899	5,578
India	**3,026**	2,947	2,594	2,461	2,420
Southeast Asia & Taiwan	**285**	285	282	868	832
	21,512	21,667	21,357	19,347	18,926
– by status					
Operational	**20,974**	21,175	19,707	17,145	16,473
Construction	**538**	492	1,650	2,202	2,453
	21,512	21,667	21,357	19,347	18,926

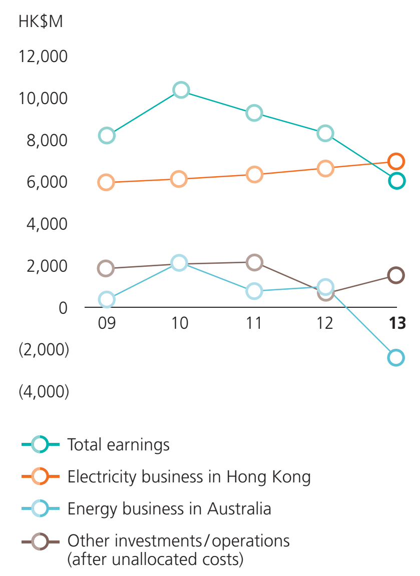
\# The 2012 figure excluded the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.

* 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.

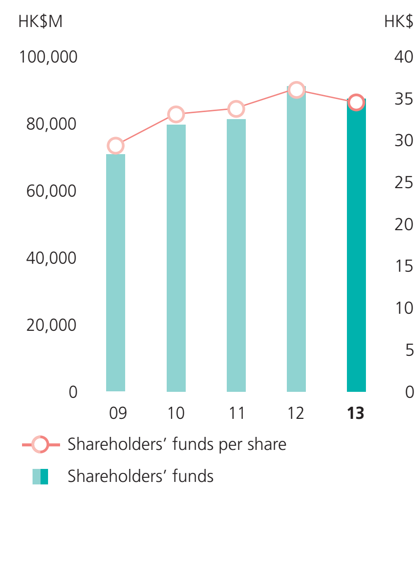
Revenue



Earnings



Shareholders' Funds



Environmental

Performance Indicators	Units	2013	2012	2011	2010	2009	Global Reporting Initiative (GRI) G3.1 Reference	HKEx ESG Reporting Guide Reference
Resource Use & Emissions[1]								
Coal consumed (for power generation)	TJ	433,763	361,819	419,357	370,427	469,509	EN3	B2.1
Gas consumed (for power generation)	TJ	73,510	86,200	101,166	135,556	102,160	EN3	B2.1
Oil consumed (for power generation)	TJ	1,973	8,200	1,508	1,272	7,185	EN3	B2.1
CO_2e emissions from power generation (Scopes 1 & 2)	kT	44,258	38,464	44,450	41,908	49,761	EN16	B1.2
CO_2 emissions from power generation (Scopes 1 & 2)[2]	kT	44,076	38,319	44,298	41,784	49,631	EN16	B1.2
Nitrogen oxides emissions (NO_x)	kT	50.2	42.9	48.1	39.3	43.8	EN20	B1.1
Sulphur dioxide emissions (SO_2)	kT	50.5	35.1	35.8	37.4	53.0	EN20	B1.1
Total particulates emissions	kT	5.5	4.7	6.2	6.4	6.8	EN20	B1.1
Water withdrawal							EN8	B2.2
from marine water resources	Mm^3	4,987.9	4,648.6	4,688.6	4,670.7	3,163.9		
from freshwater resources	Mm^3	24.2	35.4	37.9	41.7	42.0		
from municipal sources	Mm^3	19.2	5.8	5.5	4.3	4.1		
Total	Mm^3	5,031.0	4,689.6	4,732.0	4,716.6	3,210.0		
Water discharged							EN21	
cooling water to marine water bodies	Mm^3	4,987.9	4,648.6	4,688.6	4,670.7	3,163.9		
treated wastewater to marine water bodies	Mm^3	1.2	1.1	0.8	0.8	1.0		
treated wastewater to freshwater bodies	Mm^3	10.1	14.0	18.1	18.4	15.5		
wastewater to sewerage	Mm^3	1.5	1.7	1.8	1.6	1.7		
wastewater to other destinations	Mm^3	0.1	0.3	0.6	0.7	0.7		
Total	Mm^3	5,000.8	4,665.7	4,710.0	4,692.1	3,182.9		
Hazardous waste produced[3]	T (solid) / kl (liquid)	337 / 1,228	262 / 1,500	799 / 912	803 / 1,167	771 / 1,011	EN22	B1.3
Hazardous waste recycled[3]	T (solid) / kl (liquid)	34 / 981	25 / 1,023	36 / 831	39 / 844	57 / 636	EN22	
Non-hazardous waste produced[3]	T (solid) / kl (liquid)	7,700 / 0	10,830 / 21	6,301 / 0	8,029 / 2	5,160 / 0	EN22	B1.4
Non-hazardous waste recycled[3]	T (solid) / kl (liquid)	1,853 / 0	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	0	EN28	
Environmental licence limit exceedances & other non-compliances	number	4	1	5	3	1	EN28	
Climate Vision 2050 Target Performance (Equity Basis)[4]								
Total renewable energy generation capacity	% (MW)	16.3 (2,579)	20.2 (2,734)	18.3 (2,424)	16.8 (2,286)	11.3 (1,494)	EN6	
Non-carbon emitting generation capacity	% (MW)	19.4 (3,071)	23.8 (3,226)	22.0 (2,916)	20.4 (2,778)	15.0 (1,986)	EN6	
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	0.82[5]	0.77	0.80	0.80	0.83	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.
5 CGN Wind not included as per the Greenhouse Gas Protocol due to its accounting categorisation.

All 2013 environmental data on this page have been independently verified by ERM-Hong Kong, Limited.

Social

Performance Indicators	Units	2013	2012	2011	2010	2009	Global Reporting Initiative (GRI) G3.1 Reference	HKEx ESG Reporting Guide Reference
Employees [1]								
Employees based on geographical location							LA1	A1.1
Hong Kong	number	4,394	4,345	4,259	4,228	4,164		
Chinese Mainland	number	469	539	552	574	546		
Australia	number	1,745	1,302	1,111	939	841		
India	number	360	391	374	309	207		
Other locations (Southeast Asia & Macau)	number	0	4	20	25	19		
Total	number	6,968	6,581	6,316	6,075	5,777		
Employees eligible to retire within the next five years [2, 3]							EU15	
Hong Kong	%	15.2%	14.0%	13.4%	12.5%	11.4%		
Chinese Mainland	%	12.2%	11.9%	9.6%	11.3%	7.3%		
Australia	%	10.9%	11.9%	9.6%	9.5%	10.1%		
India	%	0.8%	0.8%	1.1%	1.3%	1.5%		
Other locations (Southeast Asia & Macau)	%	n/a	n/a	0%	0%	0%		
Total	%	13.0%	12.6%	11.6%	11.3%	10.3%		
Voluntary staff turnover rate [3]	%						LA2	A1.2
Hong Kong	%	1.9%	–	–	–	–		
Australia	%	9.4%	–	–	–	–		
Chinese Mainland	%	2.6%	–	–	–	–		
India	%	10.1%	–	–	–	–		
Other locations (Southeast Asia & Macau)	%	n/a	–	–	–	–		
Total [4]	%	n/a	5.2%	4.9%	5.3%	2.7%		
Training per employee [3]	average man days	5.5	5.6	5.4	5.5	4.9	LA10	A3.2
Safety [5]								
Fatalities (employees only) [6]	number	0	0	0	1	0	LA7	A2.1
Fatalities (contractors only) [6]	number	1	n/a	n/a	n/a	n/a	LA7	A2.1
Fatality Rate (employees only) [7]	rate	0.00	n/a	n/a	n/a	n/a	LA7	A2.1
Fatality Rate (contractors only) [7]	rate	0.01	n/a	n/a	n/a	n/a	LA7	A2.1
Cases of disabling injuries (employees only)	number	n/a	5	9	2	3	LA7	
Lost Time Injury (employees only) [8]	number	5	n/a	n/a	n/a	n/a	LA7	
Lost Time Injury (contractors only) [8]	number	28	n/a	n/a	n/a	n/a	LA7	
Lost Time Injury Rate (employees only) [7]	rate	0.06	n/a	n/a	n/a	n/a	LA7	
Lost Time Injury Rate (contractors only) [7]	rate	0.22	n/a	n/a	n/a	n/a	LA7	
Total Recordable Injury Rate (employees only) [7, 9]	rate	0.23	n/a	n/a	n/a	n/a	LA7	
Total Recordable Injury Rate (contractors only) [7, 9]	rate	0.5	n/a	n/a	n/a	n/a	LA7	
Days lost/charged (employees only) [10]	number	29	240	674	6,010	45	LA7	A2.2
Governance								
Convicted cases of corruption	cases	0	0	0	0	0	SO4	C3.1
Breaches of Code of Conduct	cases	12	14	6	4	8		

Notes:

1 For details of the Employee KPI reporting scope, please refer to the Reporting Methodology chapter of the 2013 Online Sustainability Report.

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

3 The Australia figures exclude Mount Piper and Wallerawang which were acquired in Q4 2013. There were no permanent staff in "other locations (Southeast Asia & Macau)" in 2012 and 2013.

4 The reporting approach has been updated to reflect employee turnover rates by country, which are more meaningful than a total turnover rate given the potential differences between countries.

5 For details of the Safety KPI reporting scope, please refer to the Reporting Methodology chapter of the 2013 Online Sustainability Report.

6 Fatality is the death of an employee or contractor personnel as a result of an occupational injury incident in the course of employment.

7 All Rates are normalised to 200,000 worked hours, which is approximately equal to the number of hours worked by 100 people in one year.

8 Lost Time Injury is an occupational injury sustained by an employee for which the employee misses one or more scheduled workdays after the day of the injury.

9 Total Recordable Injury is the sum of all injuries other than first aid cases, which includes all Fatalities, Lost Time Injury Incidents, Restricted Work Injury Cases, and Medical Treatment Cases.

10 Days lost/charged excludes one lost time injury which occurred at the Boxing Biomass plant in China due to the inability to verify because of plant divestment.

– Data not captured.

n/a Data not available for reporting or not verified by facility level verification.

All 2013 social data on this page have been independently verified by ERM-Hong Kong, Limited.

FIVE-YEAR SUMMARY: SCHEME OF CONTROL FINANCIAL & OPERATING STATISTICS

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

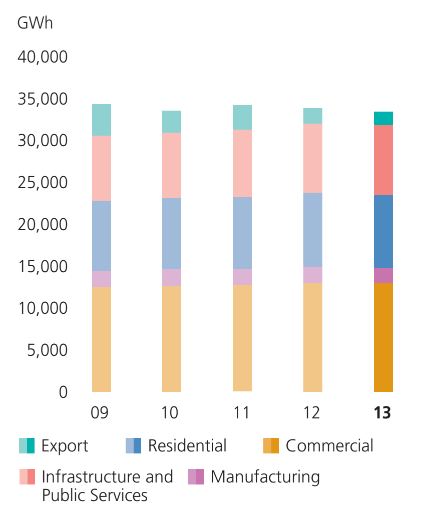
	2013	2012	2011	2010	2009
SoC Financial Statistics, HK$M					
Combined Profit & Loss Statement					
Profit for SoC	**8,945**	9,388	8,068	8,420	8,052
Transfer from / (to) Tariff Stabilisation Fund	**693**	(75)	868	148	103
Permitted return	**9,638**	9,313	8,936	8,568	8,155
Less: Interest on / Adjustment for					
Borrowed capital	**887**	859	841	763	625
Performance (incentives) / penalties	**(48)**	(47)	(45)	(43)	(41)
Tariff Stabilisation Fund	**1**	2	2	3	3
Net return	**8,798**	8,499	8,138	7,845	7,568
Combined Balance Sheet					
Net assets employed					
Fixed assets	**97,918**	95,243	91,187	87,713	83,811
Non-current assets	**1,091**	1,904	2,310	1,698	774
Current assets	**6,778**	11,530	4,913	4,367	3,929
	105,787	108,677	98,410	93,778	88,514
Less: current liabilities	**17,142**	22,248	17,439	15,194	17,658
Net assets	**88,645**	86,429	80,971	78,584	70,856
Exchange fluctuation account	**(939)**	(907)	(1,428)	(962)	(346)
	87,706	85,522	79,543	77,622	70,510
Represented by					
Shareholders' funds	**45,067**	43,070	41,845	39,960	37,197
Long-term loans and other borrowings	**26,873**	28,254	25,283	25,248	21,598
Deferred liabilities	**15,747**	13,486	11,778	10,909	10,062
Tariff Stabilisation Fund	**19**	712	637	1,505	1,653
	87,706	85,522	79,543	77,622	70,510
Other SoC Information					
Total electricity sales	**33,064**	33,842	30,824	29,917	28,349
Capital expenditure	**7,479**	8,621	7,774	7,748	7,798
Depreciation	**4,475**	4,146	3,863	3,427	3,149
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,429**	2,400	2,378	2,347	2,321
Sales analysis, millions of kWh					
Commercial	**12,935**	12,917	12,670	12,642	12,488
Manufacturing	**1,832**	1,890	1,886	1,952	1,938
Residential	**8,658**	8,900	8,594	8,457	8,331
Infrastructure and Public Services	**8,358**	8,288	8,018	7,878	7,813
Local	**31,783**	31,995	31,168	30,929	30,570
Export	**1,650**	1,838	2,957	2,609	3,731
Total Electricity Sales	**33,433**	33,833	34,125	33,538	34,301
Annual change, %	**(1.2)**	(0.9)	1.8	(2.2)	2.0
Local consumption, kWh per person	**5,379**	5,466	5,373	5,365	5,353
Local sales, HK¢ per kWh (average)					
Basic tariff	**84.0**	84.2	80.1	80.1	77.5
Fuel clause charge	**22.4**	17.8	14.1	11.5	11.8
SoC rebate	**–**	–	–	–	(0.2)
Total tariff	**106.4**	102.0	94.2	91.6	89.1
Rent & Rates Special Rebate *	**(1.7)**	(3.3)	–	–	–
Net tariff	**104.7**	98.7	94.2	91.6	89.1
Annual basic tariff change, %	**(0.2)**	5.1	–	3.4	(9.5)
Annual total tariff change, %	**4.3**	8.3	2.8	2.8	(1.5)
Annual net tariff change, %	**6.1**	4.8	2.8	2.8	(1.5)

A ten-year summary is on our website

	2013	2012	2011	2010	2009
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,888**	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	**6,699**	6,769	6,702	6,766	6,389
Annual change, %	**(1.0)**	1.0	(0.9)	5.9	(5.3)
Local and the Chinese mainland, MW	**7,615**	7,431	7,798	7,349	7,616
Annual change, %	**2.5**	(4.7)	6.1	(3.5)	(7.1)
System load factor, %	**55.7**	57.5	55.3	57.2	56.4
Generation by CAPCO stations, millions of kWh	**26,994**	25,894	26,800	26,019	26,410
Sent out, millions of kWh –					
From own generation	**25,084**	24,102	24,955	24,552	24,920
Net transfer from					
Landfill gas generation	**4**	3	5	5	5
GNPS / GPSPS / Others	**9,757**	11,172	10,558	10,350	10,773
Total	**34,845**	35,277	35,518	34,907	35,698
Fuel consumed, terajoules –					
Oil	**1,491**	7,900	1,044	844	895
Coal	**205,198**	182,651	188,407	148,229	169,753
Gas	**47,545**	50,420	57,665	83,007	70,393
Total	**254,234**	240,971	247,116	232,080	241,041
Cost of fuel, HK$ per gigajoule – Overall	**38.02**	40.56	35.33	34.13	29.14
Thermal efficiency, % based on units sent out	**35.5**	36.0	36.4	38.1	37.2
Plant availability, %	**85.2**	82.1	85.4	79.2	83.0
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	555	554	555
132kV	**1,587**	1,581	1,531	1,528	1,488
33kV	**27**	27	27	27	60
11kV	**12,328**	12,074	11,809	11,658	11,444
Transformers, MVA	**60,430**	60,136	59,454	58,929	57,700
Substations –					
Primary	**218**	216	213	213	214
Secondary	**13,692**	13,536	13,361	13,208	13,074
Employees and Productivity					
No. of SoC employees	**3,819**	3,791	3,734	3,709	3,708
Productivity, thousands of kWh per employee	**8,353**	8,504	8,375	8,340	8,189

* While the rent and rates appeals are still progressing, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 3.3 cents and 2.1 cents per unit in 2012 and January to mid October 2013 respectively, rebating to customers all interim refunds received from the Government to date for overcharged rent and rates.

Electricity Sales by Sector



Installed Capacity

SoC Net Fixed Asset