

1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim accounts are prepared in accordance with the Statement of Standard Accounting Practice (SSAP) No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies used in the preparation of these condensed accounts are consistent with those set out in the 2003 Annual Report.

During the 2003 Scheme of Control (SoC) Interim Review, agreement was reached with the Hong Kong Government to extend the useful life of the following fixed assets employed for the SoC business:

	<u>Original Life</u>	<u>Revised Life</u>
Buildings	33 years	35 years
Cable tunnels	33 years	100 years
Switchgear and transformers	25 years	35 years
Meters	10 years	15 years
Leasehold land	not depreciable	unexpired terms of the leases

The net book value of the above assets as at 31 December 2003 are being written off uniformly over the remainder of their extended useful lives.

The net decrease in depreciation charge as a result of the above changes for the six months ended 30 June 2004 was approximately HK\$110 million.

2. Acquisition of Remaining Shareholding in Yallourn Energy

In March 2004, the Group completed the acquisition of the remaining 8% interest in Yallourn Energy Pty Limited (Yallourn Energy) managed by Deutsche Asset Management (Australia) Limited. Following completion, the Group owns 100% of Yallourn Energy, the owner-operator of a 1,480MW coal-fired power station and a coal mine in Victoria, Australia.

The total cost of acquisition was HK\$376 million. The fair value of the net assets acquired was HK\$397 million, resulting in negative goodwill of HK\$21 million to be amortised on a straight-line basis over the remaining plant life of 28 years.

3. Turnover and Segment Information

An analysis of the Group's turnover, contribution to operating profit and profit before financing and taxation for the period, by principal activities, is as follows:

6 months ended 30 June	Turnover		Operating Profit/(Loss) (A)		Profit/(Loss) Before Financing and Taxation (B)	
	2004	2003	2004	2003	2004	2003
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
SoC business	11,870	11,333	2,542	2,609	3,420	3,436
Power projects outside						
Hong Kong	1,966	470	526	47	1,380	995
Other businesses	86	68	(61)	(11)	84	41
Unallocated Group expenses	–	–	(75)	(59)	(75)	(59)
	13,922	11,871	2,932	2,586	4,809	4,413

(A) Operating Profit/(Loss) is stated before taking into account the Group's share of profits less losses of jointly controlled entities and associated companies.

(B) Profit/(Loss) Before Financing and Taxation is stated after taking into account the Group's share of profits less losses of jointly controlled entities and associated companies.

3. Turnover and Segment Information (continued)

The Group operates, through its subsidiary companies, jointly controlled entities and associated companies, in three major geographical regions – Hong Kong, the Chinese mainland and the Asia-Pacific region. Information about the Group's operations by geographical regions is as follows:

6 months ended 30 June 2004					
	Hong Kong HK\$M	Chinese Mainland HK\$M	Asia-Pacific Region HK\$M	Unallocated Items HK\$M	Total HK\$M
Turnover	11,956	–	1,966	–	13,922
Segment results	2,481	(98)	624	(75)	2,932
Hok Un redevelopment profit	147	–	–	–	147
Share of profits less losses of jointly controlled entities	878	610 ^(a)	99	–	1,587
Share of profits less losses of associated companies	(2)	–	145	–	143
Profit/(Loss) before financing and taxation	3,504	512	868	(75)	4,809
Finance costs					(483)
Finance income					23
Taxation					(792)
Profit after taxation					3,557
Transfers under SoC					581
Earnings for the period					4,138
6 months ended 30 June 2003					
	Hong Kong HK\$M	Chinese Mainland HK\$M	Asia-Pacific Region HK\$M	Unallocated Items HK\$M	Total HK\$M
Turnover	11,401	–	470	–	11,871
Segment results	2,598	(54)	101	(59)	2,586
Hok Un redevelopment profit	63	–	–	–	63
Share of profits less losses of jointly controlled entities	825	661 ^(a)	225	–	1,711
Share of profits less losses of associated companies	(9)	–	62	–	53
Profit/(Loss) before financing and taxation	3,477	607	388	(59)	4,413
Finance costs					(223)
Finance income					35
Taxation					(728)
Profit after taxation					3,497
Transfers under SoC					217
Earnings for the period					3,714

Note (a): Out of the HK\$610 million (2003: HK\$661 million), HK\$427 million (2003: HK\$388 million) was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited and Hong Kong Pumped Storage Development Company, Limited, whose generating facilities serve Hong Kong.

4. Operating Profit

	6 months ended 30 June	
	2004	2003
	HK\$M	HK\$M
Operating profit is stated after charging/(crediting) the following:		
Charging		
Staff costs (A)		
Salaries and other costs	777	687
Retirement benefits costs	69	54
Loss on disposal of fixed assets	83	44
Unrealised loss on other investments	33	12
Crediting		
Other net exchange gains	(10)	(13)
Net rental income from properties	(7)	(8)
Gain on realisation of retirement benefit plan asset	–	(17)
Amortisation of goodwill and negative goodwill	(23)	(6)

(A) Staff costs include amounts recharged to jointly controlled entities for services provided.

5. Finance Costs and Income

	6 months ended 30 June	
	2004	2003
	HK\$M	HK\$M
Finance costs:		
Interest expenses on bank loans and overdrafts	373	177
Interest expenses on other borrowings		
wholly repayable within five years	82	82
not wholly repayable within five years	73	46
Interest expenses on customers' deposits and others	20	13
Finance charges	14	13
Exchange losses	62	12
	624	343
Less: amount capitalised	(141)	(120)
	483	223
Finance income:		
Net interest income from investment securities	–	20
Interest income on short-term investments and bank deposits	23	15
	23	35

6. Share of Results of Affiliated Companies

The share of profits less losses of jointly controlled entities and associated companies is determined based upon the management accounts of the respective affiliated companies, after making adjustments to conform with the Group's significant accounting policies, for the periods ended 30 June.

7. Taxation

	6 months ended 30 June	
	2004	2003
	HK\$M	HK\$M
Taxation in the condensed consolidated profit and loss account represents:		
Company and subsidiary companies		
– Hong Kong		
current	333	247
deferred	165	163
– outside Hong Kong		
current	15	4
deferred	59	20
	572	434
Jointly controlled entities		
– Hong Kong		
current	144	143
deferred	(44)	(16)
– outside Hong Kong		
current	110	125
deferred	(17)	30
	193	282
Associated company		
– outside Hong Kong		
current	10	1
deferred	17	11
	27	12
	792	728

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Taxation on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

8. Transfers under Scheme of Control

The financial operations of CLP Power Hong Kong are governed by the SoC Agreement. In accordance with the Agreement, transfers required under the SoC are shown below:

	6 months ended 30 June	
	2004	2003
	HK\$M	HK\$M
Transfers under SoC		
From Development Fund	597	263
From special provision account	96	102
To rate reduction reserve	(112)	(148)
	581	217

The Development Fund, special provision account and rate reduction reserve of CLP Power Hong Kong are collectively referred to as SoC reserve accounts in the condensed consolidated balance sheet and the respective balances at the end of the period/year are:

	30 June	31 December
	2004	2003
	HK\$M	HK\$M
SoC reserve accounts		
Development Fund (A)	2,355	2,960
Special provision account (B)	80	176
Rate reduction reserve (C)	505	471
	2,940	3,607

8. Transfers under Scheme of Control (continued)

Movements in the SoC reserve accounts are as follows:

	30 June 2004 HK\$M	31 December 2003 HK\$M
(A) Development Fund		
At beginning of period/year	2,960	3,372
Transfer (to)/from profit and loss account	(597)	572
One-off rebates	8	(308)
Business relief rebate	(1)	(42)
Special rebate to customers	(15)	(634)
At end of period/year	2,355	2,960
(B) Special provision account		
At beginning of period/year	176	670
Transfer to profit and loss account	(96)	(494)
At end of period/year	80	176
(C) Rate reduction reserve		
At beginning of period/year	471	458
Transfer from profit and loss account	112	287
One-off rebates	2	(101)
Rebate to customers (<i>note a</i>)	(80)	(173)
At end of period/year	505	471

Note (a): A rebate of HK¢0.6 per unit (2003: HK¢0.6 per unit) was made to customers during the period.

9. Non-SoC Operating Earnings

	6 months ended 30 June	
	2004 HK\$M	2003 HK\$M
Income from power projects outside Hong Kong		
Chinese mainland	423	516
Asia-Pacific region	404	190
	827	706
Sales to Chinese mainland	30	30
Other businesses	(66)	(26)
	791	710

10. Dividends

	6 months ended 30 June			
	2004		2003	
	HK\$ per share	HK\$M	HK\$ per share	HK\$M
First interim dividend paid	0.45	1,084	0.41	987
Second interim dividend	0.45	1,084	0.41	987
	0.90	2,168	0.82	1,974

At the Board meeting held on 4 August 2004, the Directors declared the second interim dividend of HK\$0.45 per share. The second interim dividend is not reflected as a dividend payable in these condensed accounts, but as a separate component of the shareholders' funds for the period ended 30 June 2004.

11. Earnings per Share

The earnings per share is based on earnings of HK\$4,138 million (2003: HK\$3,714 million) and the number of shares in issue of 2,408,245,900 (2003: 2,408,245,900) during the period. To enable investors to understand better the Group's results, an additional earnings per share figure, excluding the Hok Un redevelopment profit of HK\$124 million (2003: HK\$51 million), has been calculated.

Fully diluted earnings per share is not included as the Company did not have any diluting equity instruments as at 30 June 2004 (2003: nil).

12. Fixed Assets

	Land and Buildings HK\$M	Plant, Machinery and Equipment HK\$M	Total HK\$M
Net book value as at 1 January 2004	7,756	46,401	54,157
Additions (note a)	326	2,311	2,637
Transfers and disposals	(14)	(108)	(122)
Depreciation charge	(107)	(1,135)	(1,242)
Exchange differences	(17)	(844)	(861)
Net book value as at 30 June 2004 (note b)	7,944	46,625	54,569

Notes:

- (a) Capital expenditure incurred for the SoC business totalled HK\$2,313 million (2003: HK\$2,295 million) .
- (b) Fixed assets employed for the SoC business and non-SoC business amounted to HK\$40,567 million (December 2003: HK\$39,258 million) and HK\$14,002 million (December 2003: HK\$14,899 million) respectively. For the non-SoC business, HK\$13,830 million (December 2003: HK\$14,687 million) was attributed to Yallourn Energy and Gujarat Paguthan Energy Corporation Private Limited (GPEC).

13. Goodwill

Goodwill and negative goodwill arising from acquisition of interests in Yallourn Energy and GPEC are as follows:

	Goodwill HK\$M	Negative Goodwill HK\$M	Net Balance HK\$M
Net carrying value as at 1 January 2004	25	(1,042)	(1,017)
Acquisition of subsidiary (Note 2)	–	(21)	(21)
Amortisation (charge)/credit	(1)	24	23
Exchange differences	–	57	57
Net carrying value as at 30 June 2004	24	(982)	(958)

14. Investments in Jointly Controlled Entities

	30 June 2004 HK\$M	31 December 2003 HK\$M
Castle Peak Power Company Limited	6,080	5,983
Guangdong Nuclear Power Joint Venture Company, Limited	2,740	3,075
Shandong Zhonghua Power Company, Ltd.	1,233	1,341
Ho-Ping Power Company	1,174	1,294
CLP Guohua Power Company Limited	1,181	1,049
Guizhou CLP Power Company Limited	404	140
Hok Un joint venture	321	560
Hong Kong Pumped Storage Development Company, Limited	322	318
Others	875	927
	14,330	14,687

The amount of investments in the above jointly controlled entities include loan and advances as follows:

	30 June 2004 HK\$M	31 December 2003 HK\$M
Castle Peak Power Company Limited	5,768	5,768
Hong Kong Pumped Storage Development Company, Limited	303	306
Others	282	302
	6,353	6,376

15. Investments in Associated Companies

	30 June 2004 HK\$M	31 December 2003 HK\$M
Electricity Generating Public Company Limited (market value: HK\$1,554 million, 2003: HK\$2,080 million)	1,523	1,509
PowerCom Network Hong Kong Limited (A)	–	84
	1,523	1,593

- (A) Through participation in the sale of PowerCom Network Hong Kong Limited (PowerCom) by Cheung Kong Enterprises Limited to Hutchison Global Communications Holdings Limited (HGCH, formerly known as Vanda Systems & Communications Holdings Limited) in exchange for the issue of shares in HGCH, the Group's 19% equity interest in PowerCom was converted to an investment in HGCH in March 2004 and is therefore disclosed as Other Investments (Note 17) as at 30 June 2004.

16. Bank Balances, Cash and Other Liquid Funds

	30 June 2004 HK\$M	31 December 2003 HK\$M
Trust fund for unclaimed dividends	19	21
Trust accounts under TRAA (A)	567	131
Short-term investments and bank deposits	288	549
Bank balances and cash	391	86
	<u>1,265</u>	<u>787</u>

(A) Pursuant to a Trust and Retention Account Agreement (TRAA) between GPEC and its lenders, GPEC is required to deposit receipts from its offtaker, Gujarat Electricity Board (GEB), to various trust accounts for fuel, operating and major maintenance expenses and debt service payments.

17. Other Investments

	30 June 2004 HK\$M	31 December 2003 HK\$M
Equity securities listed in Hong Kong, at fair value	<u>24</u>	<u>10</u>

The 2004 figure represents the Group's investment in HGCH. Further to the disposal of PowerCom in exchange for HGCH shares (Note 15), the Group placed 37.7% of those shares in March 2004 and sold its remaining interest in HGCH in July 2004. The Group's investment in DataSys Technology Holdings Limited (valued at HK\$10 million at the beginning of the period) has now been fully provided for.

18. Trade and Other Receivables

	30 June 2004 HK\$M	31 December 2003 HK\$M
Trade receivables (ageing analysis is shown below)	3,433	3,201
Deposits and prepayments	983	1,161
Dividend receivable from jointly controlled entities	343	–
Current accounts with jointly controlled entities	7	62
	4,766	4,424

Trade and other receivables attributed to GPEC and Yallourn Energy amounted to HK\$2,254 million (2003: HK\$3,153 million).

The Group has established credit policies for customers in each of its core businesses. The credit term for trade receivables ranges from 15 to 60 days.

The ageing analysis of the trade receivables, after provisions, is as follows:

	30 June 2004 HK\$M	31 December 2003 HK\$M
Below 30 days	2,823	2,011
31 – 60 days	158	169
61 – 90 days	179	40
Over 90 days	273	981
	3,433	3,201

19. Trade and Other Payables

	30 June 2004 HK\$M	31 December 2003 HK\$M
Trade payables (ageing analysis is shown below)	1,370	1,719
Other payables and accruals	881	1,152
Current accounts with jointly controlled entities	1,090	1,123
	3,341	3,994

The ageing analysis of the trade payables is as follows:

	30 June 2004 HK\$M	31 December 2003 HK\$M
Below 30 days	1,358	1,671
31 – 60 days	1	41
61 – 90 days	1	7
Over 90 days	10	–
	1,370	1,719

20. Bank Loans and Other Borrowings

	30 June 2004 HK\$M	31 December 2003 HK\$M
Total facilities available	26,289	27,993
Facilities utilised		
Bank loans	13,457	13,017
Other borrowings	6,180	5,680
	19,637	18,697
Included in current liabilities		
Short-term loans	1,694	567
Current portion of long-term loans and borrowings	634	528
	2,328	1,095
Long-term loans and borrowings, repayable		
within one year	634	528
between one and two years	4,726	770
between two and five years	6,606	10,696
after five years	5,977	6,136
	17,943	18,130
Less: current portion of long-term loans and borrowings	(634)	(528)
	17,309	17,602
	19,637	18,697

Of the total bank loan facilities available, HK\$17,118 million (2003: HK\$19,326 million) are committed facilities.

Bank loans totalling HK\$7,167 million (2003: HK\$8,051 million) were attributed to Yallourn Energy and GPEC. Part of the loans (HK\$5,746 million at 2004 and HK\$6,444 million at 2003 for Yallourn Energy and HK\$539 million at 2004 and HK\$620 million at 2003 for GPEC) are secured by fixed and floating charges over the assets of Yallourn Energy and GPEC respectively.

21. Share Capital

	30 June 2004		31 December 2003	
	Number of Shares of HK\$5 Each	Amount HK\$M	Number of Shares of HK\$5 Each	Amount HK\$M
Authorised				
At end of period/year	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid				
At end of period/year	2,408,245,900	12,041	2,408,245,900	12,041

There was no movement in the share capital of the Company during the period (year 2003: nil).

22. Notes to the Condensed Consolidated Cash Flow Statement

Reconciliation of profit before taxation to net cash inflow from operations:

	6 months ended 30 June	
	2004	2003
	HK\$M	HK\$M
Profit before taxation	4,349	4,225
Adjustments for:		
Operating interest	409	198
Finance income	(23)	(35)
Hok Un redevelopment profit	(147)	(63)
Share of profits less losses of jointly controlled entities	(1,587)	(1,711)
Share of profits less losses of associated companies	(143)	(53)
Depreciation	1,242	1,005
Amortisation of goodwill and negative goodwill	(23)	(6)
Loss on disposal of fixed assets	83	44
Net loss on other investments	38	12
Realised gain on retirement benefit plan assets	–	(17)
Exchange losses/(gains)	61	(27)
SoC items		
Increase in customers' deposits	115	78
(Decrease)/Increase in fuel clause account	(149)	427
One-off rebates	(479)	(1,286)
Business relief rebate	(1)	(19)
Special rebate	(15)	(283)
Rebate to customers under SoC	(80)	(77)
	(609)	(1,160)
Operating profit before working capital changes	3,650	2,412
Decrease in debtors and prepayments	457	808
Decrease in creditors and other liabilities	(303)	(168)
Increase/(Decrease) in current accounts due to jointly controlled entities	22	(6)
Net cash inflow from operations	3,826	3,046

23. Commitments

- (A) Capital expenditure authorised but not brought into the accounts is as follows:

	30 June 2004 HK\$M	31 December 2003 HK\$M
Contracted but not provided for	2,771	2,984
Authorised but not contracted for	7,205	9,411
	9,976	12,395

- (B) Under the Equity Contribution Agreement and its amendment agreement relating to the BLCP Power project, the Group is required to make equity contributions of US\$165 million (approximately HK\$1,287 million). As at 30 June 2004, the Group's obligation as to US\$17 million (approximately HK\$132 million) had been fulfilled. The remainder will be contributed by 2007.
- (C) Pursuant to the relevant loan agreements for the refinancing of Yallourn Energy, shareholders of CLP AusPower Pty Limited (formerly known as AusPower Holdings Pty Limited), the immediate holding company of Yallourn Energy, agreed to provide the lenders with contingent equity support up to the sum of A\$200 million in respect of a senior debt facility. The contribution of contingent equity depends on certain minimum requirements regarding the availability of cash flows for debt service within five years from 27 February 2001. As at 30 June 2004, A\$44 million had been contributed by the Group.

Owing primarily to continued high capital expenditure requirements and a slightly lower than expected revenue so far this year, Yallourn Energy forecasts that in order to meet the debt service cover ratios as stipulated in the loan agreements, further contingent equity support of about A\$40 million may need to be provided in the six months to 31 December 2004.

24. Contingent Liabilities

- (A) GPEC has obtained payment for some of its receivables from GEB through bill discounting with recourse. The potential effect on the Group as at 30 June 2004 if these financing arrangements are not settled by GEB is that GPEC would be required to pay HK\$597 million (December 2003: HK\$538 million). There is no recourse to the Group beyond GPEC from these arrangements and to date there has been no incident where recourse to GPEC has been necessary.

The Directors are of the opinion that no provision is required to be made in the financial statements in respect of this matter.

- (B) In June 2004, Shandong Zhonghua Power Company, Ltd. completed refinancing its loans procured in 1998 with new term loan facilities. The undertakings given by the Company to the finance parties under the previous facilities effectively lapsed upon refinancing and arrangements are being made to obtain formal release from the lenders.

25. Related Party Transactions

In the normal course of business, the Group undertakes on an arm's length basis a wide variety of transactions with related parties. The more significant of such transactions during the period ended 30 June are described below:

(A) Purchases of electricity

	6 months ended 30 June	
	2004	2003
	HK\$M	HK\$M
Purchases of electricity from CAPCO	5,398	4,962
Purchases of nuclear electricity	2,046	2,029
Pumped storage service fee	186	121
	7,630	7,112

(B) Pursuant to the CAPCO Operating Service Agreement, the charges from CLP Power Hong Kong to CAPCO for the services rendered during the period amounted to HK\$541 million (2003: HK\$505 million).

26. Statement of Indebtedness, Contingent Liabilities and Capital Commitments of Affiliated Companies

The Company has obtained a waiver from The Stock Exchange of Hong Kong Limited under Rule 13.22 of the Listing Rules from disclosing a proforma combined balance sheet of affiliated companies. Affiliated companies include the Group's jointly controlled entities and associated companies. Instead, in accordance with the Rule, the Company discloses the following alternative information in relation to the affiliated companies as at 30 June 2004. This information has been extracted from the relevant management accounts of all affiliated companies.

	30 June	31 December
	2004	2003
	HK\$M	HK\$M
The Group's share of total indebtedness of affiliated companies is analysed as follows:		
Bank borrowings	15,233	15,050
Other borrowings including loans from shareholders	1,263	1,352
	16,496	16,402
The Group's share of contingent liabilities of affiliated companies	249	301
The Group's share of capital commitments of affiliated companies		
Contracted but not provided for	4,171	4,129
Authorised but not contracted for	943	1,012
	5,114	5,141