How did we do in 2004?

CLP Group

In this year's Management's Discussion and Analysis (MD&A) we have consolidated the discussion of operational performance with that of our financial performance – to explain better how the successes and setbacks in running our business flow through to the financial results and the creation of value for our shareholders.

We start by setting out the overall performance of the Group and then explain how our individual business streams, namely our electricity businesses in Hong Kong, Mainland China and the Asia-Pacific region and, on a smaller scale, our electricity-related activities in Hong Kong, have each contributed to that Group performance.

The Group's focus in 2004 has been the same as in previous years; overseeing the implementation of CLP's business strategy and the responsible stewardship of the Group's assets and investments.

There were a number of dimensions to this.

Group Strategy – the progress made in enhancing our core Hong Kong electricity business and in developing our portfolio of electricity businesses in the Mainland and the Asia-Pacific region is more fully described on pages 18 to 31 and can be readily measured by the meaningful contribution made by these businesses to the Group's consolidated earnings in 2004.

Effective management of stakeholder relationships – in this Annual Report we explain the efforts made by the Group to establish and maintain the trust and confidence of those stakeholders on whose continuing support we rely, including our employees, shareholders, customers and the communities we serve.

Enhanced organisational strength and people capabilities – during the year we moved further towards a Group-based functional structure, rather than one based on separate business units and legal entities. Functions such as finance, human resources, public affairs and environmental affairs are now managed and operated on a Group-wide basis. Our Management Development and Succession Planning is also centrally controlled, with a view to ensuring that our best human resources talent is identified, and their skills applied to optimum effect throughout the Group.

Exploiting synergies across business streams – certain aspects of our activities, such as relationship management, may demand specific local expertise. However, many of our skills, for example, in project management and engineering excellence, are relevant to our electricity activities wherever these are carried out. In 2004, we worked to make better use of these synergies by deploying the skills across the Group, rather than containing them within individual business units. Examples of this included the close liaison between our business units in areas such as corporate governance, insurance, coal and gas procurement, as well as the exchange of expertise in transmission engineering (where a team of CLP engineers from Hong Kong visited our Indian partners) and in power generation (where we have provided technical assistance to Mainland partners on combined cycle power plant construction).

Implementing the CLP Value Framework – the tone of our business and the corporate culture we require must be set by Group leadership and vigorously promoted throughout all our businesses. We attach a great deal of importance to the implementation of our value framework "From Vision to Reality". Examples of this in 2004 included the issue of the CLP Group's "Manifesto on Air Quality and Climate Change" where, in line with our corporate value of responsible management of the impact of our business on the environment, we committed to a series of specific actions intended to improve our performance in managing air emissions from our generating activities. Our value framework also embraces a determination to strive for good corporate governance. This requires the dedication and support of all our Management and staff in ensuring that checks and balances are in place, internal controls effectively applied and that the honesty and integrity of corporate information is always maintained. We were encouraged by the commendations which we received during 2004 from investors, professional associations and market commentators for our efforts in this respect.

The effective oversight of the Group's activities in 2004, combined with the efforts made by Management and staff at project and investment level, is demonstrated by the Group's consolidated financial results. Contributions of the Group's principal activities to the consolidated turnover and profit/loss before financing and taxation are as follows:

	Turnover		Profit/(Loss) Before Financing and Taxation[1]	
	2004 HK$M	2003 HK$M	**2004 HK$M**	2003 HK$M
Electricity business in Hong Kong	**26,773**	25,739	**8,826**	8,027
Electricity business in Chinese mainland[2]	**–**	–	**1,013**	1,145
Electricity business in Asia-Pacific region	**3,814**	2,310	**1,695**	1,415
Electricity-related activities	**193**	196	**331**	188
Unallocated Group items	**4**	3	**(157)**	(371)
	30,784	28,248	**11,708**	10,404

1 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.

2 The income from this business is derived from joint ventures. In accordance with generally accepted accounting principles in Hong Kong, their revenues are not consolidated in the Group's turnover.

How did we do in 2004?

In reviewing our financial results, readers may find it helpful to refer to the "CLP Group's Financial Results and Position at a Glance" chart on page 34. This includes an abridged profit and loss account.

Turnover increased by 9.0% to HK$30,784 million, mainly due to higher fuel clause charge for our electricity sales in Hong Kong and the incorporation of the first full year revenue of Yallourn Energy and GPEC after each became a subsidiary of the Group in April and June 2003 respectively.

The Group's expenses increased by HK$1,258 million to HK$22,894 million. The impact arising from the consolidation of the full year expenses of Yallourn Energy and GPEC in 2004 is summarised as follows:

	2004			2003		
	Yallourn Energy and GPEC HK$M	**Hong Kong Operations and Others HK$M**	**Total HK$M**	Yallourn Energy and GPEC HK$M	Hong Kong Operations and Others HK$M	Total HK$M
Purchase of electricity	**–**	**16,055**	**16,055**	–	15,873	15,873
Staff expenses	**216**	**1,068**	**1,284**	146	1,011	1,157
Fuel and other operating costs	**1,698**	**1,328**	**3,026**	800	1,449	2,249
Depreciation	**647**	**1,882**	**2,529**	372	1,985	2,357
	2,561	**20,333**	**22,894**	1,318	20,318	21,636

In 2004, the Group recorded a capital gain of HK$214 million from the sale of a former substation site at Castle Peak Road, Hong Kong. Share of pre-tax profits from Hok Un, jointly controlled entities and associated companies during the year decreased by HK$188 million to HK$3,604 million. Details about the contributions from these activities are further discussed under the MD&A of each business stream.

The net effect of the above changes in turnover, expenses, capital gain and share of affiliates' profits resulted in an increase in the Group's profit before financing and taxation of HK$1,304 million to HK$11,708 million.

The Group's net finance costs were HK$983 million, an increase of HK$343 million as compared to 2003 and was also in part attributable to full year interest expense and write-off of previously capitalised facility fee of Yallourn Energy.

The Group's effective tax rate for the year was 16.9% compared to 17.5% in 2003. The decrease in the effective tax rate was principally due to reduced dividend tax provision in GPEC.

Earnings

The Group achieved appreciable earnings growth in 2004, with total operating earnings increased by 10.7% to HK$8,241 million. The Hong Kong electricity business continued to provide stable earnings growth, with earnings increased by 8.1% to HK$6,788 million. Earnings from other activities, primarily from our electricity businesses in the Chinese Mainland and other Asia-Pacific region, were HK$1,671 million, an increase of 4.4%. Our overseas power projects and investments delivered meaningful contributions to overall Group profits, despite the current year earnings being adversely affected by higher coal costs and write-off of financing charges as a result of re-financing of project loans.

Total earnings, which include Hok Un redevelopment profit and property disposal gain, grew by 12.1% to HK$8,614 million. The increase in contribution from property business was largely due to the sale of a former substation site at Castle Peak Road.

Earnings Attributable to Shareholders

	2004		2003		Increase
	HK$M	**HK$M**	HK$M	HK$M	%
SoC earnings		**6,788**		6,281	8.1
Non-SoC operating earnings					
GNPJVC and PSDC	**727**		763		
Other power projects in Chinese mainland	**106**		172		
Power projects in Chinese mainland	**833**		935		
Power projects in Asia-Pacific region	**824**		710		
Sales to Chinese mainland	**90**		82		
Electricity-related activities	**(76)**		(127)		
		1,671		1,600	4.4
Unallocated net finance costs		**(61)**		(63)	
Unallocated Group expenses		**(157)**		(371)	
Total operating earnings		**8,241**		7,447	10.7
Hok Un redevelopment profit/ property disposal gain		**373**		240	
Group earnings attributable to shareholders		**8,614**		7,687	12.1
Weighted average number of shares in issue, million shares		**2,408.25**		2,408.25	
Earnings per share, HK$					
Including Hok Un redevelopment profit/ property disposal gain		**3.58**		3.19	12.1
Excluding Hok Un redevelopment profit/ property disposal gain		**3.42**		3.09	10.7

Recently Issued Accounting Standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards (HKFRSs) and Hong Kong Accounting Standards (HKASs) (which are collectively referred to as "new HKFRSs"). These are effective for accounting periods beginning on or after 1 January 2005. Initial assessment has indicated that the adoption of the new HKFRSs in 2005 would not have a significant impact on the Group's results of operations and financial position. Two accounting standards of particular importance, namely HKFRS 3 – Business Combination and HKAS 39 – Financial Instruments: Recognition and Measurement, are discussed further in this Report in the "Group's Financial Position" and "Risk Management" sections respectively. The Group will be continuing with the assessment of the impact of the new HKFRSs. Other significant changes may be identified as a result.