

# How did we do in 2004?

## CLP Group's Financial Results and Position at a Glance

<b>Last Year's Balance Sheet (Consolidated Balance Sheet as at 31.12.2003)</b>	
	HK\$M
<b>Assets</b>	
Fixed assets	54,157
Goodwill	(1,017)
Investments in affiliates and securities	16,289
Deferred tax assets	952
Cash & cash equivalents	787
Other current assets	4,664
	<u>75,832</u>
<b>Shareholders' Equity and Liabilities</b>	
Share capital, premium & reserves	16,074
Retained profits	24,167
Minority interest	393
Borrowings	18,697
SoC reserve accounts	3,607
Deferred tax liabilities	4,614
Customers' deposits	2,878
Other liabilities	5,402
	<u>75,832</u>

### Cash Flow For The Year (Consolidated Cash Flow Statement for the year ended 31.12.2004)

	HK\$M
<b>1</b> Cash inflow from operating activities	10,195
Dividends paid less dividends received	(1,931)
<b>2</b> Acquisition of remaining interest in a subsidiary	(376)
<b>3</b> Investments in/advances to affiliates	(565)
Capital expenditure	(5,292)
Net decrease in borrowings	(243)
Other net outflow, including exchange effect	(55)
Net increase in cash	<u>1,733</u>
Cash & cash equivalents at 31.12.2003	787
Cash & cash equivalents at 31.12.2004	<u>2,520</u>

### Earnings For The Year (Consolidated Profit and Loss Account for the year ended 31.12.2004)

	HK\$M
<b>4</b> Turnover	30,784
Expenses	(22,894)
<b>5</b> Property disposal gain	214
<b>6</b> Share of profits of affiliates	<u>3,604</u>
Profit before financing and taxation	11,708
Net finance costs	(983)
Taxation	(1,815)
Profit after taxation	<u>8,910</u>
<b>7</b> Transfers under SoC	(296)
<b>8</b> Total earnings	<u>8,614</u>

### Profits Retained For The Year (Consolidated Retained Profits for the year ended 31.12.2004)

	HK\$M
Total earnings	8,614
Dividends paid for the year	
2003 finals	(1,806)
2004 interims	(3,251)
Share of reserves of a jointly controlled entity	(42)
Net increase in retained profits	<u>3,515</u>
Retained profits at 31.12.2003	24,167
Retained profits at 31.12.2004	<u>27,682</u>

**Today's Balance Sheet**  
(Consolidated Balance Sheet  
as at 31.12.2004)

	HK\$M
<b>Assets</b>	
<b>9</b> Fixed assets	57,748
<b>10</b> Goodwill	(1,022)
Investments in affiliates and securities	16,647
Deferred tax assets	1,043
Cash & cash equivalents	2,520
<b>11</b> Other current assets	3,863
	80,799
<b>Shareholders' Equity and Liabilities</b>	
Share capital, premium & reserves	16,517
Retained profits	27,682
<b>12</b> Borrowings	18,774
<b>13</b> SoC reserve accounts	3,720
Deferred tax liabilities	5,084
Customers' deposits	3,119
<b>14</b> Other liabilities	5,903
	80,799

- 1** The Hong Kong operations continued to be our main source of cash inflow. Compared to 2003, the increase was in part attributable to the improved collection of receivables by GPEC.
- 2** In March 2004, the Group acquired the remaining 8% interest in Yallourn Energy. Total cash consideration paid for the acquisition was HK\$376 million.
- 3** Investments in affiliates included investment in Guizhou CLP Power (HK\$269 million) and advances to CAPCO (HK\$337 million).

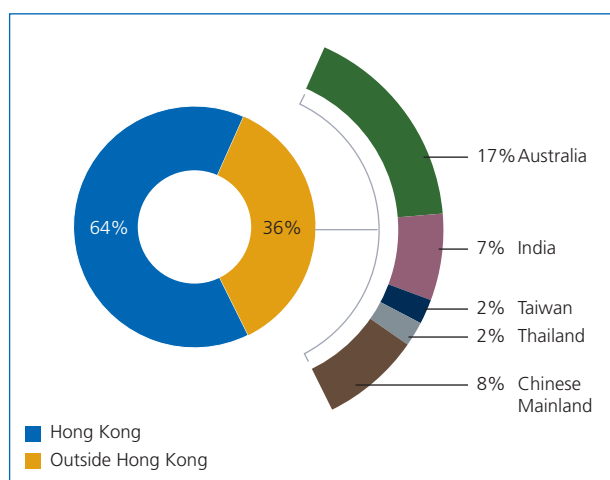
- 4** Turnover and expenses in 2004 incorporated the full year results of Yallourn Energy and GPEC.  
Turnover primarily represented sales revenue from the Hong Kong electricity business (HK\$26,773 million) and from Yallourn Energy and GPEC (HK\$3,813 million).
- 5** Property disposal gain represents the capital gain from disposal of a former substation site at Castle Peak Road, Hong Kong.
- 6** Pre-tax profits of affiliates were mainly contributed by CAPCO (HK\$1,773 million), GNPJVC (HK\$739 million) and Hok Un (HK\$187 million).
- 7** Transfers to Development Fund and rate reduction reserve were HK\$219 million and HK\$253 million respectively. Transfer from special provision account was HK\$176 million.
- 8** Earnings after taxation amounted to HK\$8,614 million, which comprised SoC earnings of HK\$6,788 million, non-SoC earnings of HK\$1,671 million, Hok Un redevelopment profit and property disposal gain of HK\$373 million, offset by unallocated net finance costs and unallocated Group expenses of HK\$218 million.

The current year results are further explained under the "MD&A-CLP Group" section on pages 16 and 17.

- 9** During the year, the Group invested HK\$5,823 million in fixed assets, mainly by CLP Power Hong Kong in its transmission and distribution networks.
- 10** The net negative goodwill resulted from the acquisitions of interests in Yallourn Energy and GPEC during the period 2001-2004.
- 11** Included trade and other receivables of HK\$3,564 million, of which HK\$1,610 million was attributable to Yallourn Energy and GPEC.
- 12** The Group's gearing, measured as total debt over total capital, was 29.8%.
- 13** Comprised the Development Fund balance of HK\$3,171 million and rate reduction reserve balance of HK\$549 million. The Development Fund represents a liability of the Group. Its purpose is to assist in the acquisition of SoC fixed assets.
- 14** Included trade and other payables of HK\$4,216 million.

## Group's Financial Position

The Group's balance sheet remains strong, with total assets improved by HK\$4,967 million to HK\$80,799 million. Gearing ratio was also improved from 31.5% in 2003 to 29.8% as a result of the increase in shareholders' funds from the earnings of the year but no material increase in borrowings. Most of our assets are long-term assets and include primarily generating plants and transmission and distribution networks as well as investments in CAPCO and overseas power projects. The distribution of the Group's assets by geographical location is as follows:



### Fixed Assets and Capital Expenditure

Fixed assets of the Group as at 31 December 2004 amounted to HK\$57,748 million (2003: HK\$54,157 million), and comprised HK\$42,415 million (2003: HK\$39,258 million) from the SoC business and HK\$15,333 million (2003: HK\$14,899 million) from the non-SoC business. For the non-SoC fixed assets, HK\$15,147 million (2003: HK\$14,687 million) was attributed to Yallourn Energy and GPEC.

During the year, we invested HK\$5,823 million (2003: HK\$5,594 million) in fixed assets, of which HK\$5,278 million (2003: HK\$5,125 million) were invested by CLP Power Hong Kong in the transmission and distribution networks as well as in customer services and other supporting facilities. Capital expenditure incurred by CAPCO was HK\$1,683 million (2003: HK\$2,148 million). The decrease was primarily due to the construction of Units 7 and 8 of the Black Point Power Station being

close to completion. The total SoC capital expenditures incurred in the current Financial Plan, which ran from October 1999 to December 2004, was HK\$29.6 billion and was slightly below the approved amount of HK\$30 billion.

Capital expenditure by Yallourn Energy was HK\$510 million (2003: HK\$460 million), with major projects including the upgrade of power station instrumentation and control systems and the development of new areas of the captive coal mine. GPEC invested HK\$13 million (2003: HK\$2 million) in plant and equipment.

Capital expenditure contracted but not provided for in the accounts as at 31 December 2004 amounted to HK\$2,207 million (2003: HK\$2,984 million). Other than HK\$240 million (2003: HK\$310 million) which was for Yallourn Energy and GPEC, these contracted amounts are primarily for enhancing our transmission and distribution systems in Hong Kong.

The sharp increases in electricity demand in Hong Kong in summer 2004 illustrate the importance of making the necessary investment in our electricity infrastructure in advance of demand in order to maintain and enhance supply reliability. We expect to finance our ongoing capital expenditure requirements, as well as investments in power projects, by using our internal resources and/or additional borrowings or issuance of debt securities.

### Goodwill

The net negative goodwill of HK\$1,022 million (2003: HK\$1,017 million) as at 31 December 2004 comprised goodwill of HK\$24 million and negative goodwill of HK\$1,046 million. The goodwill arose from the acquisitions of interests in Yallourn Energy and GPEC during the period 2001-2004. In 2005, upon the adoption of the new Hong Kong Financial Reporting Standard 3 – Business Combination, the unamortised negative goodwill of HK\$1,046 million will be derecognised with adjustment to the balance of retained profits on 1 January 2005.

## Interests in Jointly Controlled Entities and Associated Companies

Our Group's interests in each geographical region are summarised below:

	2004 HK\$M	2003 HK\$M
Electricity Business		
Hong Kong	6,296	5,983
Chinese mainland	6,643	6,400
Asia-Pacific region	3,101	2,951
	<b>16,040</b>	15,334
Property and other businesses	598	946
	<b>16,638</b>	16,280

In April 2004, we made the final share capital contribution of RMB286 million (about HK\$269 million) to the Anshun II project.

Pursuant to the Equity Contribution Agreement and its amendment agreement relating to the BLCP power project, we are required to make further equity contributions of US\$148 million by 2007. In respect of the investment in Changdao wind power project, we are required to contribute share capital of RMB45 million. The first contribution of RMB7 million (about HK\$6 million) was made in early February 2005, with the remainder to be contributed by the end of 2005.

As at 31 December 2004, our aggregate loan and advances to jointly controlled entities amounted to HK\$6,681 million, including HK\$6,115 million to CAPCO. CLP Power Hong Kong provides funds to CAPCO in the form of shareholders' advances and special loan. The advances are unsecured, interest free and have no fixed repayment terms whilst the special loan is unsecured, interest free and repayable in full on 30 September 2008. The increase in CLP Power Hong Kong's investment in CAPCO from HK\$5,983 million to HK\$6,296 million was mainly caused by the increase in advances for funding the construction of Units 7 and 8 of the Black Point Power Station.

### Deferred Tax Assets and Liabilities

The deferred tax assets of HK\$1,043 million (2003: HK\$952 million) related to Yallourn Energy and



represented principally the net tax losses that could be utilised in the future.

The deferred tax liabilities increased from HK\$4,614 million to HK\$5,084 million during the year, mainly due to temporary difference caused by accelerated tax depreciation for capital works of CLP Power Hong Kong and dividend distribution tax and withholding tax for investments outside Hong Kong.

### Current Assets and Liabilities

As at 31 December 2004, we had liquid funds of HK\$2,520 million (2003: HK\$787 million), of which 95% were denominated in foreign currency mainly held by GPEC and Yallourn Energy and deposited with highly-rated international or local banks. The remainder was in Hong Kong dollars. Trade and other receivables amounted to HK\$3,564 million (2003: HK\$4,424 million), of which HK\$1,610 million (2003: HK\$3,153 million) was attributed to GPEC and Yallourn Energy, with the decrease mainly resulting from improved collection from GPEC's off-taker, GEB.

Total current liabilities as at 31 December 2004 amounted to HK\$9,678 million (2003: HK\$8,905 million). With the projected cash flow from operations and credit facilities arranged, we expect to have sufficient funds to meet these liabilities.

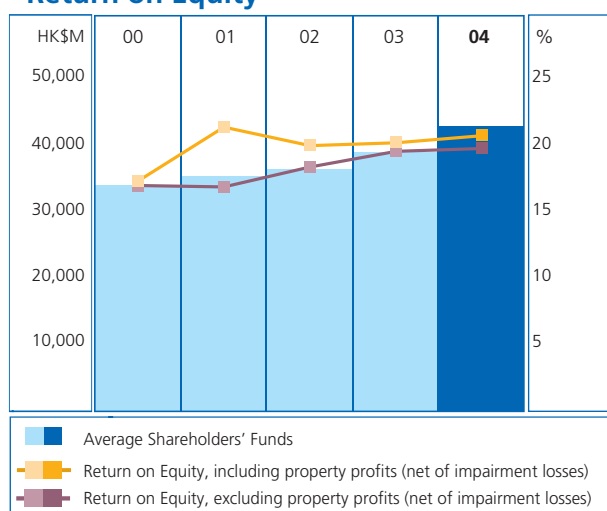
We do not have significant operating lease commitments or sale and leaseback arrangements.

## How did we do in 2004?

### Shareholders' Funds

The shareholders' funds as at 31 December 2004 increased 9.8% to HK\$44,199 million (2003: HK\$40,241 million). The increase was mainly attributable to the retained profits of HK\$3,557 million after dividend payments and an increase in reserves of HK\$431 million arising from translation of overseas investments to Hong Kong dollar. We achieved a return on equity of 20.4% when including Hok Un redevelopment profit and property disposal gain and of 19.5% when excluding those property profits.

#### Return on Equity



As at 31 December 2004, the distributable reserves of CLP Holdings amounted to HK\$17,616 million (2003: HK\$16,323 million).

### Borrowings

Total borrowings increased slightly from HK\$18,697 million to HK\$18,774 million. Details of the Group's borrowings are provided in the "Funding/Financing" section.

### Development Fund

The Development Fund balance as at 31 December 2004 was HK\$3,171 million, an increase of HK\$211 million mainly resulting from the transfer from profit and loss account during the year. The Development Fund balance represented 4.6% (2003: 4.6%) of the SoC average net fixed assets of CLP Power Hong Kong and CAPCO.

The Development Fund represents a liability of the Group and does not accrue to the benefit of shareholders. Its main purpose is to assist in financing the acquisition of SoC fixed assets.

### Special Provision Account

CLP Power Hong Kong and CAPCO agreed with the Hong Kong Government in December 1999 to further defer construction of Units 7 and 8 of the Black Point Power Station. A total of HK\$803 million was set aside from the Development Fund to a special provision account to absorb the deferral premium payments. The transfer from the special provision account to offset the deferral premium charges was completed by the end of 2004.

### Charges on Assets

The debts of Yallourn Energy and GPEC, which totalled HK\$7,503 million as at 31 December 2004, are without recourse to CLP Holdings. Of these borrowings, HK\$6,106 million of Yallourn's debts and HK\$512 million of GPEC's debts are secured by fixed and floating charges over their assets.

### Other Commitments and Contingent Liabilities

Pursuant to the relevant loan agreements of Yallourn Energy, we would have to provide the senior lenders with contingent equity support up to the sum of A\$200 million depending on certain minimum requirements regarding the availability of cash flows for debt service. Owing primarily to continued high capital expenditure requirements and lower than expected revenue, we provided A\$80 million (about HK\$460 million) and A\$29 million (about HK\$178 million) contingent equity support to the lenders in year 2004 and February 2005 respectively. Additional contingent equity support may need to be provided in the remaining 2005.

GPEC has obtained payment for some of its receivables from GEB through bill discounting with recourse. 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 potential effect if these financing arrangements are not settled by GEB as at 31 December 2004 was HK\$653 million (2003: HK\$538 million).

In respect of the Shandong joint venture which completed refinancing in June 2004, we obtained formal release of the undertakings given under the previous facilities and were not requested to provide any undertaking under the new loan arrangements.