Notes to the Accounts

1. Significant Accounting Policies

A. Basis of Preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention except that certain investments in securities are stated at fair value.

B. Scheme of Control

The financial operations of the Company's major subsidiary company, CLP Power Hong Kong Limited (CLP Power Hong Kong), and its jointly controlled entity, Castle Peak Power Company Limited (CAPCO), are governed by a Scheme of Control (SoC) Agreement entered into with the Hong Kong Government. Whilst the current SoC Agreement will expire on 30 September 2008, the accounts have been prepared on the basis that there will be no change to the current regulatory framework in the foreseeable future that would have a material effect on the accounts. The main features of the SoC are summarised on page 166.

C. Basis of Consolidation

The consolidated accounts of the Group incorporate the accounts of the Company and its subsidiary companies made up to the balance sheet date and include the Group's interests in jointly controlled entities and associated companies on the basis set out in Notes 1(E) and 1(F) below, respectively.

The results of subsidiary companies acquired during the year are included in the consolidated profit and loss account from the effective date of acquisition.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiary companies.

D. Subsidiary Companies

A subsidiary company is a company which is controlled by the Company and in which the Company has an interest, directly or indirectly, in more than 50% of the issued equity as defined in the Hong Kong Companies Ordinance. Control represents the power to govern the financial and operating policies of that company.

Investments in subsidiary companies are carried on the balance sheet of the Company at cost of equity capital together with advances from and loans to the Company, less provisions for impairment. Provision for investment in a subsidiary company is made when the recoverable amount of the subsidiary company is lower than the Company's respective cost of investment. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

E. Jointly Controlled Entities

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

1. Significant Accounting Policies (continued)

F. Associated Companies

An associated company is a company, not being a subsidiary company or jointly controlled entity, in which the Group holds equity share capital for the long term and can exercise significant influence in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

G. Goodwill/Negative Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary company, jointly controlled entity or associated company at the date of acquisition, and negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Goodwill is amortised on a straight-line basis over its estimated useful life. Negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining useful life of those assets.

H. Turnover

Turnover represents sales of electricity, other electricity-related revenue, property income, and supply and maintenance service fees. Sales of electricity are based on either actual and accrued consumption derived from meter readings 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.

I. Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Major renewals and improvements which will result in future economic benefits, in excess of the originally assessed standard of performance of the existing assets, are capitalised, while maintenance and repair costs are charged to the profit and loss account in the year in which they are incurred.

Fixed assets employed for the electricity business in Hong Kong, also referred to as SoC fixed assets, represent a substantial portion of the assets of the Group. Depreciation of these assets is based on the rates authorised under the SoC which reflect the pattern in which the assets' economic benefits are consumed. During the 2003 SoC interim review, the economic lives of certain fixed assets were reviewed and agreement was reached with the Hong Kong Government to depreciate land on lease terms over the unexpired terms of the leases and to extend the depreciation period of the following assets with effect from 1 January 2004:

	Original Period	Revised Period
Buildings	33 years	35 years
Cable tunnels	33 years	100 years
Switchgear and transformers	25 years	35 years
Meters	10 years	15 years

In respect of the above assets that were commissioned before 1 January 2004, their net book value as at 31 December 2003 is being written off uniformly over the remainder of their useful lives. The net decrease in depreciation charge for the year as a result of the above changes was HK$234 million. Assets commissioning after 1 January 2004 are depreciated on a straight-line basis over their revised lives.

1. Significant Accounting Policies (continued)

I. Fixed Assets and Depreciation (continued)

Other SoC fixed assets are depreciated on a straight-line basis over the useful lives as set out below commencing from the date of commissioning:

Overhead lines (132 kV and above)	35 years
Overhead lines (below 132 kV) and cables	30 years
Generating plant	25 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	5 years

Fixed assets used for the non-SoC business, which are primarily for the electricity business located outside Hong Kong, are also depreciated on a straight-line basis. Their estimated useful lives are similar to those of the SoC fixed assets and are set out as follows:

Buildings	30 – 33 years
Generating plant, switchgear and transformers	17 – 31 years
Mining machines and equipment	10 – 30 years
Furniture, fittings and other equipment	5 – 10 years
Computers and office equipment	3 – 7 years
Motor vehicles	3 – 8 years
Leasehold land	unexpired terms of the leases

For equipment awaiting installation and plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use.

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 the profit and loss account.

J. Impairment of Assets

The Group reviews the carrying amount of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such assets are considered to be impaired, the impairment loss to be recognised is measured by the amount by which the carrying amount of the assets exceeds the recoverable amount.

An impairment loss 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 that would have been determined had no impairment loss been recognised in prior years.

1. Significant Accounting Policies (continued)

K. Inventories

Inventories comprise stores and fuel and are valued at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores and the first-in, first-out or weighted average basis as appropriate for fuel. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

L. Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purposes of the cash flow statement, 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 and with a maturity of three months or less from date of investment, and bank overdrafts.

M. Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange prevailing at the balance sheet date or at the relevant forward contract rates where applicable. Exchange differences are included in the profit and loss account. Transactions during the year are converted into Hong Kong dollars at the rates of exchange ruling at the dates of transactions.

The accounts of subsidiary companies, jointly controlled entities or associated companies denominated in foreign currencies are translated into Hong Kong dollars using the year end rates of exchange for balance sheet items and the average rates of exchange for the year for the profit and loss items. Such exchange differences are dealt with as a movement in reserves.

N. Employee Benefits

(i) Retirement benefits

The Group operates and/or participates in a number of defined contribution plans in Hong Kong. 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.

Contributions to the defined contribution plans, including contributions to Mandatory Provident Funds, are recognised as an expense in the profit and loss account in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(ii) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and annual leave as a result of services rendered by employees up to the balance sheet date.

1. Significant Accounting Policies (continued)

O. Deferred Taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is also provided on temporary differences arising on investments in subsidiary companies, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

P. Borrowing Costs

Borrowing costs include interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are charged to the profit and loss account 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 complete.

Q. Related Parties

Related parties are individuals and companies, where the individual or company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

R. Comparatives

Where necessary, comparative figures have been restated to conform with changes in presentation in the current financial year.

S. 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 and Hong Kong Accounting Standards (new HKFRSs) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of the new HKFRSs would not have a significant impact on its results of operations and financial position.

The Group will be continuing with the assessment of the impact of the new HKFRSs and other significant changes may be identified as a result.

2. Turnover and Segment Information

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:

2004

	Hong Kong HK$M	Chinese Mainland HK$M	Asia-Pacific Region HK$M	Unallocated Items HK$M	Total HK$M
Turnover	26,966	–	3,814	4	**30,784**
Segment results	7,198	(181)	1,244	(157)	**8,104**
Hok Un redevelopment profit	187	–	–	–	**187**
Share of profits less losses of jointly controlled entities	1,774	1,194[(a)]	213	–	**3,181**
Share of profits less losses of associated companies	(2)	–	238	–	**236**
Profit/(Loss) before financing and taxation	9,157	1,013	1,695	(157)	**11,708**
Finance costs					**(1,046)**
Finance income					**63**
Taxation					**(1,815)**
Profit after taxation					**8,910**
Transfers under SoC					**(296)**
Earnings for the year					**8,614**
Capital expenditure	5,282	7	528	6	**5,823**
Depreciation	1,875	2	650	2	**2,529**
Amortisation of goodwill/negative goodwill and cost of investment	2	58	(19)	–	**41**
Impairment charges	11	15	–	–	**26**
As at 31 December 2004					
Segment assets	44,374	215	18,324	205	**63,118**
Investments in jointly controlled entities	6,894	6,643	1,461	–	**14,998**
Investment in an associated company	–	–	1,640	–	**1,640**
Tax assets	–	–	1,043	–	**1,043**
Consolidated total assets	51,268	6,858	22,468	205	**80,799**
Segment liabilities	10,731	60	1,482	66	**12,339**
Total borrowings	–	–	7,503	11,271	**18,774**
Tax liabilities	5,067	–	420	–	**5,487**
Consolidated total liabilities	15,798	60	9,405	11,337	**36,600**

Note (a): Out of the HK$1,194 million, HK$808 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.

2. Turnover and Segment Information (continued)

2003

	Hong Kong HK$M	Chinese Mainland HK$M	Asia-Pacific Region HK$M	Unallocated Items HK$M	Total HK$M
Turnover	25,935	–	2,310	3	28,248
Segment results	6,275	(145)	853	(371)	6,612
Hok Un redevelopment profit	291	–	–	–	291
Share of profits less losses of jointly controlled entities	1,715	1,290[(a)]	394	–	3,399
Share of profits less losses of associated companies	(66)	–	168	–	102
Profit/(Loss) before financing and taxation	8,215	1,145	1,415	(371)	10,404
Finance costs					(688)
Finance income					48
Taxation					(1,712)
Profit after taxation					8,052
Transfers under SoC					(365)
Earnings for the year					7,687
Capital expenditure	5,127	2	464	1	5,594
Depreciation	1,978	2	375	2	2,357
Amortisation of goodwill/negative goodwill and cost of investment	16	38	(15)	–	39
Impairment charges	62	–	–	–	62
As at 31 December 2003					
Segment assets	41,025	16	17,351	208	58,600
Investments in jointly controlled entities	6,845	6,400	1,442	–	14,687
Investments in associated companies	84	–	1,509	–	1,593
Tax assets	–	–	952	–	952
Consolidated total assets	47,954	6,416	21,254	208	75,832
Segment liabilities	10,232	78	1,441	72	11,823
Total borrowings	–	–	8,051	10,646	18,697
Tax liabilities	4,334	–	344	–	4,678
Consolidated total liabilities	14,566	78	9,836	10,718	35,198

Note (a): Out of the HK$1,290 million, HK$899 million was attributed to investments in GNPJVC and PSDC, whose generating facilities serve Hong Kong.

2. Turnover and Segment Information (continued)

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

	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	**26,773**	25,739	**7,053**	6,311	**8,826**	8,027
Power projects outside Hong Kong	**3,814**	2,310	**1,063**	708	**2,708**	2,560
Other businesses	**193**	196	**145**	(36)	**331**	188
Unallocated items	**4**	3	**(157)**	(371)	**(157)**	(371)
	30,784	28,248	**8,104**	6,612	**11,708**	10,404

(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.

The following shows the carrying amount of segment assets and capital expenditure incurred by business segments:

	Total Assets		Capital Expenditure	
	2004	2003	**2004**	2003
	HK$M	HK$M	**HK$M**	HK$M
SoC business	**44,414**	40,735	**5,278**	5,125
Power projects outside Hong Kong	**18,539**	17,367	**535**	466
Others	**165**	498	**10**	3
	63,118	58,600	**5,823**	5,594
Investments in jointly controlled entities	**14,998**	14,687		
Investments in associated companies	**1,640**	1,593		
Tax assets	**1,043**	952		
Total assets	**80,799**	75,832		

3. Operating Profit

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

	2004 HK$M	2003 HK$M
Charging		
Staff costs (A)		
Salaries and other costs	**1,564**	1,447
Retirement benefits costs (Note 9)	**138**	129
Auditors' remuneration	**9**	10
Impairment loss on fixed assets	**–**	9
Net loss on other investments	**38**	16
Net loss on disposal of fixed assets	**212**	152
Crediting		
Other net exchange gains	**(48)**	(15)
Net rental income from properties	**(14)**	(15)
Capital gains on disposal of properties	**(214)**	–
Gain on realisation of retirement benefit plan assets	**–**	(17)
Amortisation of goodwill and negative goodwill (Note 17)	**(44)**	(40)

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

4. Finance Costs and Income

	2004 HK$M	2003 HK$M
Finance costs:		
Interest expenses on bank loans and overdrafts	**713**	563
Interest expenses on other borrowings		
wholly repayable within five years	**166**	165
not wholly repayable within five years	**152**	107
Interest expenses on customers' deposits and others	**55**	31
Finance charges	**117**	43
Hedging costs and exchange gains/losses	**104**	37
	1,307	946
Less: amount capitalised	**(261)**	(258)
	1,046	688
Finance income:		
Net interest income from investment securities	**–**	18
Interest income on short-term investments and bank deposits	**62**	20
Interest income on advance to jointly controlled entities	**1**	10
	63	48

Finance costs have been capitalised at the average interest rate of 4.06% per annum for CLP Power Hong Kong and 7.90% per annum for Yallourn Energy Pty Limited (Yallourn Energy).

5. Hok Un Redevelopment Profit/Property Disposal Gain

	2004 HK$M	2003 HK$M
Property disposal gain *(note a)*	**214**	–
Hok Un redevelopment profit *(note b)*		
Share of profit before taxation	**187**	291
Taxation	**(28)**	(51)
Share of profit after taxation	**159**	240
	373	240

Notes:

(a) The Group recorded a capital gain from the sale of a former substation site in Hong Kong.

(b) Represents the Group's share of profit arising from the sale of the remaining units of Phases 4 and 5 and car parking spaces.

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 accounts of the respective affiliated companies, after making adjustments to conform with the Group's significant accounting policies, for the years ended 31 December.

7. Emoluments of Directors

The CLP Holdings' Board is currently composed of thirteen Non-executive Directors and four Executive Directors.

Remuneration for all Directors totalled HK$39 million (2003: HK$27 million). The remuneration in 2004 included the first payment of the long-term incentive plan totalling HK$6 million (2003: nil) to the eligible individuals. Details of directors' remuneration are disclosed in Sections 4, 6 and 7 of the Remuneration Report on pages 110, 112 and 113 respectively.

8. Emoluments of Highest Paid Employees

The six highest paid individuals in the Group during the year included four who served as Directors for the full year (2003: included three who served as Directors for the full year and one who served as a Director for part of the year). Total remuneration for these four Directors, including the long-term incentive plan payment mentioned in Note 7, and the other two highest paid individuals was HK$51 million (2003: HK$41 million). Further details are disclosed in Section 9 of the Remuneration Report on page 114.

9. Retirement Benefits

Commencing from 1 January 2003, the retirement benefit plans for staff employed by Group companies in Hong Kong are regarded as defined contribution schemes. The current scheme, named CLP Group Provident Fund Scheme (GPFS) and established on 25 June 2003, provides benefits linked to contributions and investment returns on the scheme. Contributions to defined contribution schemes, including GPFS and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$184 million (2003: HK$175 million), of which HK$61 million (2003: HK$58 million) was capitalised.

Staff employed by subsidiary companies outside Hong Kong are covered by appropriate local arrangements. Total contributions amounted to HK$15 million (2003: HK$12 million). The Group's financial obligations to these arrangements are not material.

10. Taxation

Taxation in the consolidated profit and loss account represents:

	2004 HK$M	2003 HK$M
Company and subsidiary companies		
– Hong Kong		
current	**869**	674
deferred	**399**	343
– outside Hong Kong		
current	**29**	16
deferred	**(1)**	108
	1,296	1,141
Jointly controlled entities		
– Hong Kong		
current	**306**	281
deferred	**(41)**	(37)
– outside Hong Kong		
current	**204**	210
deferred	**2**	81
	471	535
Associated company		
– outside Hong Kong		
current	**30**	15
deferred	**18**	21
	48	36
	1,815	1,712

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

10. Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2004 HK$M	2003 HK$M
Profit before taxation	**10,725**	9,764
Calculated at a taxation rate of 17.5% (2003: 17.5%)	**1,877**	1,709
Effect of different taxation rates in other countries	**(151)**	(161)
Income not subject to taxation	**(46)**	(3)
Expenses not deductible for taxation purposes	**23**	7
Tariff rebates deductible for taxation purposes	**(32)**	(220)
(Over)/Under-provision in prior years	**(37)**	35
Tax losses not recognised	**112**	173
Withholding/dividend distribution tax	**69**	172
Taxation charge	**1,815**	1,712

11. Transfers under Scheme of Control

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

	2004 HK$M	2003 HK$M
Transfers under SoC		
To Development Fund	**(219)**	(572)
From special provision account	**176**	494
To rate reduction reserve	**(253)**	(287)
	(296)	(365)

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 consolidated balance sheet and the respective balances at the end of the year are:

	2004 HK$M	2003 HK$M
SoC reserve accounts		
Development Fund (A)	**3,171**	2,960
Special provision account (B)	**–**	176
Rate reduction reserve (C)	**549**	471
	3,720	3,607

11. Transfers under Scheme of Control (continued)

Movements in the SoC reserve accounts are as follows:

		2004 HK$M	2003 HK$M
(A)	Development Fund		
	As at 1 January	**2,960**	3,372
	Transfer from profit and loss account	**219**	572
	One-off rebates	**8**	(308)
	Business relief rebate	**(1)**	(42)
	Special rebate to customers	**(15)**	(634)
	As at 31 December	**3,171**	2,960

		2004 HK$M	2003 HK$M
(B)	Special provision account		
	As at 1 January	**176**	670
	Transfer to profit and loss account	**(176)**	(494)
	As at 31 December	**–**	176

CLP Power Hong Kong and its jointly controlled generating company, Castle Peak Power Company Limited, agreed with the Hong Kong Government in December 1999 to further defer construction of Units 7 and 8 of the Black Point Power Station. It was also agreed that a total of HK$803 million be set aside from the Development Fund to a special provision account to which the deferral premium incurred will be charged. The deferral premium is a contractual obligation that corresponds to additional costs incurred by the vendors for delayed delivery of the two generating units. Under the arrangement, there is no permitted return to be earned on the deferral premium. During the year, HK$176 million (2003: HK$494 million) of deferral premium was charged to the special provision account.

		2004 HK$M	2003 HK$M
(C)	Rate reduction reserve		
	As at 1 January	**471**	458
	Transfer from profit and loss account	**253**	287
	One-off rebates	**2**	(101)
	Rebate to customers *(note a)*	**(177)**	(173)
	As at 31 December	**549**	471

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

12. Earnings

Of the consolidated earnings of HK$8,614 million (2003: HK$7,687 million), HK$6,350 million (2003: HK$4,727 million) has been dealt with in the accounts of the Company.

13. Non-SoC Operating Earnings

	2004 HK$M	2003 HK$M
Income from power projects outside Hong Kong		
GNPJVC	**663**	696
PSDC	**64**	67
Other projects in Chinese mainland	**106**	172
Projects in Asia-Pacific region	**824**	710
	1,657	1,645
Sales to Chinese mainland	**90**	82
Other businesses	**(76)**	(127)
	1,671	1,600

14. Dividends

	2004 HK$ per share	**2004 HK$M**	2003 HK$ per share	2003 HK$M
Interim dividends paid	**1.35**	**3,251**	1.23	2,962
Final dividend proposed	**0.73**	**1,758**	0.65	1,565
Special final dividend proposed	**0.15**	**361**	0.10	241
	2.23	**5,370**	1.98	4,768

At the Board meeting held on 28 February 2005, the Directors recommended a final dividend of HK$0.73 per share and a special final dividend of HK$0.15 per share. The proposed dividends are not reflected as dividends payable in these accounts, but as a separate component of the shareholders' funds for the year ended 31 December 2004.

15. Earnings per Share

The prescribed figure for earnings per share which includes the Hok Un redevelopment profit/property disposal gain (Note 5) is computed as follows:

	2004	2003
Earnings for the year (HK$M)	**8,614**	7,687
Weighted average number of shares in issue (thousand shares)	**2,408,246**	2,408,246
Earnings per share (HK$)	**3.58**	3.19

To enable investors to understand better the Group's results, an additional earnings per share figure, excluding the Hok Un redevelopment profit/property disposal gain, is provided below:

	2004 **HK$M**	2003 HK$M
Earnings for the year	**8,614**	7,687
Less: Hok Un redevelopment profit/property disposal gain	**(373)**	(240)
Earnings excluding Hok Un redevelopment profit/property disposal gain	**8,241**	7,447
Earnings per share excluding Hok Un redevelopment profit/ property disposal gain (HK$)	**3.42**	3.09

Fully diluted earnings per share is not included as the Company did not have any diluting equity instruments as at 31 December 2004 (2003: nil).

16. Fixed Assets

Group

	Land HK$M	Buildings HK$M	Plant, Machinery and Equipment HK$M	Total HK$M
Cost				
As at 1 January 2004	2,330	7,017	66,859	76,206
Additions	61	703	5,059	5,823[a]
Transfers and disposals	–	(104)	(834)	(938)
Exchange differences	4	18	817	839
As at 31 December 2004	2,395	7,634	71,901	81,930
Accumulated depreciation				
As at 1 January 2004	–	1,591	20,458	22,049
Depreciation charge	50	170	2,309	2,529
Transfers and disposals	–	(30)	(606)	(636)
Exchange differences	–	6	234	240
As at 31 December 2004	50	1,737	22,395	24,182
Net book value				
As at 31 December 2004	**2,345**	**5,897**	**49,506**	**57,748**[b]
As at 31 December 2003	2,330	5,426	46,401	54,157

Notes:

(a) Capital expenditure incurred in the year for the SoC business totalled HK$5,278 million (2003: HK$5,125 million).

(b) Fixed assets employed for the SoC business and non-SoC business amounted to HK$42,415 million (2003: HK$39,258 million) and HK$15,333 million (2003: HK$14,899 million) respectively. For the non-SoC business, HK$15,147 million (2003: HK$14,687 million) was attributed to Yallourn Energy and Gujarat Paguthan Energy Corporation Private Limited (GPEC).

Included in fixed assets is equipment awaiting installation and plant under construction, the book values of which as at 31 December 2004 were HK$328 million and HK$7,121 million respectively (2003: HK$335 million and HK$7,594 million respectively) for the Group.

16. Fixed Assets (continued)

The tenure of the land of the Group is as follows:

	2004 HK$M	2003 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	**152**	155
On medium-term leases (10-50 years)	**2,085**	2,071
On short-term leases (less than 10 years)	**2**	2
	2,239	2,228
Held outside Hong Kong:		
Freehold	**105**	101
On long-term leases (over 50 years)	**1**	1
	106	102
	2,345	2,330

Company

The fixed assets of the Company were HK$10 million (2003: HK$6 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$6 million and HK$2 million respectively.

17. 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**
Gross amount			
As at 1 January 2004	28	(1,109)	(1,081)
Acquisition of a subsidiary	–	(21)	(21)
Fair value adjustments	–	11	11
Exchange differences	1	(45)	(44)
As at 31 December 2004	29	(1,164)	(1,135)
Accumulated amortisation			
As at 1 January 2004	(3)	67	64
Amortisation (charge)/credit	(2)	46	44
Exchange differences	–	5	5
As at 31 December 2004	(5)	118	113
Net carrying value			
As at 31 December 2004	**24**	**(1,046)**	**(1,022)**
As at 31 December 2003	25	(1,042)	(1,017)

Goodwill is amortised over the useful life of 17 years while negative goodwill is amortised over the remaining plant lives of 16 to 31 years from the respective date of acquisition. The amortisation charge/credit is included within 'fuel and other operating costs' in the consolidated profit and loss account.

18. Investments in Subsidiary Companies

	2004 HK$M	2003 HK$M
Unlisted shares, at cost	**23,590**	23,589
Provisions for impairment losses	**(100)**	(100)
Advances to subsidiary companies, less provisions	**12,087**	11,356
Advances from subsidiary companies	**(20)**	(16)
	35,557	34,829

The advances to/from subsidiary companies are unsecured, interest free and have no fixed repayment terms except an advance from CLP Properties Group of HK$15 million (2003: HK$16 million), which is repayable on demand and bears interest of 0.75% (2003: 1.25%) per annum.

The table below lists the principal subsidiary companies of the Group:

Name	Issued Share Capital	Percentage of Issued Capital Held in 2004	Place of Incorporation/ Operation	Principal Activity
CLP Power Hong Kong Limited	2,488,320,000 shares of HK$5 each	100	Hong Kong	Generation and Supply of Electricity
Hong Kong Nuclear Investment Company Limited	300,000 shares of HK$1,000 each	100	Hong Kong/ Chinese mainland	Power Project Investment Holding
CLP Engineering Limited	410 shares of HK$10,000 each	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 shares of US$1 each	100	British Virgin Islands/ International and Chinese mainland	Power Projects Investment Holding
CLP Power China Limited	192,000,000 shares of US$1 each	100*	British Virgin Islands/ Chinese mainland	Power Projects Investment Holding
CLP Power International Limited	192,000 shares of US$1,000 each	100*	British Virgin Islands/ International	Power Projects Investment Holding
CLP Properties Limited	15,000,000 shares of HK$10 each	100	Hong Kong	Property Investment Holding
CLP Research Institute Limited	1 share of US$1	100	British Virgin Islands/ Hong Kong	Research and Development
Yallourn Energy Pty Limited (A)	15 shares of A$1 each	100*	Australia	Generation and Supply of Electricity
Gujarat Paguthan Energy Corporation Private Limited	728,000,000 shares of Rs.10 each	100*	India	Generation and Supply of Electricity

* Indirectly held

(A) In March 2004, the Group completed the acquisition of the remaining 8% interest in Yallourn Energy managed by Deutsche Asset Management (Australia) Limited. Following completion, the Group owns 100% of Yallourn Energy.

19. Investments in Jointly Controlled Entities

The table below lists the share of net assets of the jointly controlled entities of the Group:

	2004 HK$M	2003 HK$M
Castle Peak Power Company Limited (A)		
Share of net assets	**181**	215
Advances	**6,037**	5,690
Special loan	**78**	78
	6,296	5,983
Guangdong Nuclear Power Joint Venture Company, Limited (B)		
Share of net assets	**3,050**	3,075
Ho-Ping Power Company (C)		
Share of net assets other than goodwill	**1,083**	1,054
Unamortised goodwill on acquisition	**243**	240
	1,326	1,294
CLP Guohua Power Company Limited (D)		
Share of net assets other than goodwill	**1,104**	924
Unamortised goodwill on acquisition	**118**	125
	1,222	1,049
Shandong Zhonghua Power Company, Ltd. (E)		
Share of net assets	**1,132**	1,341
Guizhou CLP Power Company Limited (F)		
Share of net assets	**466**	140
Hok Un joint venture (G)		
Share of net assets	**343**	560
Hong Kong Pumped Storage Development Company, Limited (H)		
Share of net assets	**11**	12
Advances	**313**	306
	324	318
Others (I)		
Share of net assets other than goodwill	**525**	548
Unamortised goodwill on acquisition	**61**	77
Advances	**253**	302
	839	927
	14,998	14,687

19. Investments in Jointly Controlled Entities (continued)

The purchased goodwill of jointly controlled entities is amortised on a straight-line basis over its estimated useful economic life. Movement of goodwill is shown below:

	2004 HK$M	2003 HK$M
Gross amount	**484**	268
Accumulated amortisation	**(42)**	(16)
Balance at beginning of year	**442**	252
Addition	**–**	42
Transfer upon acquisition of subsidiary companies and disposal	**–**	156
Amortisation charge	**(20)**	(20)
Impairment charge	**(15)**	–
Exchange differences	**15**	12
Gross amount	**500**	484
Accumulated amortisation	**(78)**	(42)
Balance at end of year	**422**	442

(A) Castle Peak Power Company Limited (CAPCO) is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited and is incorporated in Hong Kong. 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.

Under the terms of the revised CAPCO Deed of Subordination, in the event of the winding up of CAPCO, CLP Power Hong Kong's advances to it would be subordinated to certain loans of CAPCO. CLP Power Hong Kong's advances to CAPCO may be withdrawn only to the extent that the shareholders' funds exceed two-thirds of the aggregate principal amount outstanding of the said loans. In this context the shareholders' funds represent the sum of the issued share capital, shareholders' advances, special advances, deferred taxation, retained profits and any proposed dividend.

The Special Loan to CAPCO is unsecured, interest free and repayable in full on 30 September 2008.

19. Investments in Jointly Controlled Entities (continued)

In view of the significance of this investment, an extract of the accounts of CAPCO for the years ended 31 December is set out as follows:

	2004 HK$M	2003 HK$M
Results for the year		
Turnover	**11,025**	10,523
Profit before taxation	**4,420**	4,278
Group's share of profit before taxation	**1,773**	1,716
Net assets as at year end		
Fixed assets	**27,467**	27,449
Current assets	**1,591**	1,536
Current liabilities	**(3,915)**	(4,348)
Deferred taxation	**(2,847)**	(2,827)
Long-term liabilities	**(6,684)**	(7,011)
	15,612	14,799

(B) Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited and is incorporated in the Chinese mainland. This company 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.

In view of the significance of this investment, an extract of the management accounts of GNPJVC, after making adjustments to conform with the Group's significant accounting policies, for the years ended 31 December is set out as follows:

	2004 HK$M	2003 HK$M
Results for the year		
Turnover	**6,700**	7,348
Profit before taxation	**2,956**	3,308
Group's share of profit before taxation	**739**	827
Net assets as at year end		
Fixed assets	**14,600**	16,034
Current assets	**5,411**	4,232
Current liabilities	**(1,530)**	(1,386)
Long-term liabilities	**(6,281)**	(6,566)
	12,200	12,314

19. Investments in Jointly Controlled Entities (continued)

(C) The Group has an interest in 40% of the issued share capital of Ho-Ping Power Company (Ho-Ping), a company which is incorporated in Taiwan. This company constructed, owns and operates a coal-fired power station and an associated 53km of 345kV transmission line at Ho-Ping in eastern Taiwan. Unit 1 and Unit 2 of the plant commenced operation in June and September 2002 respectively. All power generated is supplied to Taiwan Power Company (Taipower), the government-owned utility of Taiwan. Goodwill associated with the acquisition of Ho-Ping is amortised over a period of 25 years, which is the term of the power purchase agreement signed with Taipower.

(D) CLP Guohua Power Company Limited, the joint stock company with 51% owned by Beijing Guohua Electric Power Corporation and 49% by the Group, is incorporated in the Chinese mainland. It holds interests in three coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin and Sanhe Power Station in Hebei, with a combined installed capacity of 2,100MW, of which the joint stock company owns 1,285 equity MW. Goodwill is amortised over 20 years from the date of acquisition.

(E) Shandong Zhonghua Power Company, Ltd. is 29.4% owned by the Group and is incorporated in the Chinese mainland. This company owns four power stations (namely Shiheng I, Shiheng II, Heze II and Liaocheng) totalling 3,000MW. All power generated is for supply to the Shandong power grid.

(F) Guizhou CLP Power Company Limited (Guizhou CLP Power) is 70% owned by the Group and is incorporated in the Chinese mainland. This company constructed and operates a coal-fired power station, Anshun II Power Station, in Guizhou with an installed capacity of 600MW. The plant was in trial operation in 2003, and commenced commercial operations of Unit 1 and Unit 2 in March and November 2004 respectively. All power generated is for supply to the Guizhou power grid.

Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activity of Guizhou CLP Power; and hence, the Group's interest is accounted for as jointly controlled entity. In view of the significant shareholding in this investment, an extract of the management accounts of Guizhou CLP Power, after making adjustments to conform with the Group's significant accounting policies, for the years ended 31 December is set out as follows:

	2004 HK$M	2003 HK$M
Results for the year		
Turnover	**604**	104
Profit/(Loss) before taxation	**81**	(4)
Group's share of profit/(loss) before taxation	**57**	(3)
Net assets as at year end		
Fixed assets	**2,240**	2,132
Current assets	**295**	92
Current liabilities	**(153)**	(318)
Long-term liabilities	**(1,717)**	(1,768)
	665	138

19. Investments in Jointly Controlled Entities (continued)

(G) The Group entered into a joint venture agreement with a wholly-owned subsidiary company of Cheung Kong (Holdings) Limited in 1991 to develop the Hok Un site at Hung Hom (named Laguna Verde). Under the agreement, the Group has the right to share 50% of profits arising from the project, with a minimum overall profit guaranteed by the subsidiary company of Cheung Kong (Holdings) Limited which also provides all the necessary funding.

In 1999, the joint venture obtained an additional Plot Ratio from the Hong Kong Government. Under a separate agreement with the subsidiary company of Cheung Kong (Holdings) Limited, the Group shares 50% of the net proceeds of sale from this additional gross floor area and bears 50% of associated land premium, development and marketing costs.

(H) Hong Kong Pumped Storage Development Company, Limited is 49% owned by the Group and is incorporated in Hong Kong. This company has the right to use 50% of the capacity of Phase I of the Guangzhou Pumped Storage Power Station in Guangdong Province until 2034.

(I) The Group's other investments include:

- 41.5% interest in a number of hydro power projects in Huaiji County, Guangdong Province;

- 50% interest in a joint venture undertaken with a subsidiary company of Cheung Kong (Holdings) Limited in Hong Kong to provide second mortgage financing to purchasers of Laguna Verde;

- 49% interest in CLP Guohua Shenmu, which is incorporated in the Chinese mainland and holds an interest in a coal-fired power station, Shenmu Power Station, with an installed capacity of 200MW. Goodwill is amortised over 18 years from the date of acquisition;

- 40% interest in Ho-Ping Power Services Corporation to provide operation and maintenance services to Ho-Ping; and

- 50% interest in BLCP Power Limited (BLCP), which owns and will operate a 1,434MW coal-fired power station currently under construction in Thailand. Goodwill associated with the acquisition of BLCP is to be amortised over a period of 25 years from the date of commercial operation, which is the term of the power purchase agreement signed with Electricity Generating Authority of Thailand.

The advances to jointly controlled entities are unsecured, interest free and have no fixed repayment terms except for an advance of HK$253 million (2003: HK$302 million) to a joint venture undertaken with a subsidiary company of Cheung Kong (Holdings) Limited, of which HK$50 million (2003: HK$25 million) bears interest of 2.0% (2003: 5.0%) per annum.

20. Investments in Associated Companies

	2004 HK$M	2003 HK$M
Electricity Generating Public Company Limited (A)		
Share of net assets other than goodwill	**1,489**	1,346
Unamortised goodwill on acquisition	**151**	163
	1,640	1,509
PowerCom Network Hong Kong Limited (B)		
Share of net losses	**–**	(3)
Unamortised goodwill on acquisition	**–**	87
	–	84
	1,640	1,593

The purchased goodwill of associated companies is amortised on a straight-line basis over its estimated useful economic life of 10 to 16 years. Movement of goodwill is shown as below:

	2004 HK$M	2003 HK$M
Gross amount	**1,386**	1,373
Accumulated amortisation	**(1,136)**	(1,056)
Balance at beginning of year	**250**	317
Disposal	**(85)**	–
Amortisation charge	**(17)**	(31)
Impairment charge	**–**	(49)
Exchange differences	**3**	13
Gross amount	**1,255**	1,386
Accumulated amortisation	**(1,104)**	(1,136)
Balance at end of year	**151**	250

(A) Electricity Generating Public Company Limited (EGCO) is 22.4% (2003: 22.4%) owned by the Group and is incorporated and listed in Thailand. Its principal activity is the generation of electricity for supply to the Electricity Generating Authority of Thailand. The Group has nominated 4 directors to the EGCO Board out of the total of 15 Board members. The market value as at 31 December 2004 was HK$1,769 million (2003: HK$2,080 million).

(B) The Group completed the sale of its 19% equity interest in PowerCom Network Hong Kong 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 in March 2004. The Group then placed 37.7% of those shares and sold its remaining interest in HGCH in July 2004.

21. Bank Balances, Cash and Other Liquid Funds

	2004 HK$M	2003 HK$M
Trust fund for unclaimed dividends (A)	**16**	21
Trust accounts under TRAA (B)	**549**	131
Short-term investments and bank deposits	**1,857**	549
Bank balances and cash	**98**	86
	2,520	787

(A) As part of the restructuring arrangements in relation to the transfer of HK$10,116,789,910 from the share premium account to distributable reserves approved by the court in 2002, a trust fund was set up to cover unclaimed dividends. The Company has an obligation to pay such dividends until they can be forfeited after 6 years from the date they were declared.

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

22. Trade and Other Receivables

	2004 HK$M	2003 HK$M
Group		
Trade receivables (aging analysis is shown below)	**2,376**	3,201
Deposits and prepayments	**986**	1,161
Dividend receivable from a jointly controlled entity	**196**	–
Current accounts with jointly controlled entities	**6**	62
	3,564	4,424
Company		
Debtors, deposits and prepayments	**6**	7
Current accounts with subsidiary companies	**3**	1
	9	8

The Group has established credit policies for customers in each of its core 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 15 to 17 days after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees. For Yallourn Energy and GPEC, the credit term for trade receivables ranges from 30 to 60 days.

22. Trade and Other Receivables (continued)

The aging analysis of the trade receivables, after provisions, as at 31 December is as follows:

	2004 HK$M	2003 HK$M
Below 30 days	**2,332**	2,011
31-60 days	**15**	169
61-90 days	**7**	40
Over 90 days	**22**	981
	2,376	3,201

Trade and other receivables attributed to GPEC and Yallourn Energy amounted to HK$1,610 million (2003: HK$3,153 million). GPEC has obtained payment for some of its receivables from GEB through bill discounting with recourse. Details of these financing arrangements are disclosed in Note 30(A).

23. Fuel Clause Account

Costs of fuel consumed by CLP Power Hong Kong are 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 on the account (inclusive of interest) represents amounts over-recovered and is an amount due to customers of CLP Power Hong Kong.

24. Trade and Other Payables

	2004 HK$M	2003 HK$M
Group		
Trade payables (aging analysis is shown below)	**2,064**	1,719
Other payables and accruals	**1,053**	1,152
Current accounts with jointly controlled entities	**1,099**	1,123
	4,216	3,994
Company		
Creditors	**66**	72
Current accounts with subsidiary companies	**18**	6
	84	78

The aging analysis of the trade payables as at 31 December is as follows:

	2004 HK$M	2003 HK$M
Below 30 days	**2,043**	1,671
31-60 days	**2**	41
61-90 days	**4**	7
Over 90 days	**15**	–
	2,064	1,719

25. Share Capital

	2004 Number of Shares of HK$5 Each	2004 Amount HK$M	2003 Number of Shares of HK$5 Each	2003 Amount HK$M
Authorised, as at 31 December	**3,000,000,000**	**15,000**	3,000,000,000	15,000
Issued and fully-paid, as at 31 December	**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 year (2003: nil).

26. Bank Loans and Other Borrowings

	Group		Company	
	2004 HK$M	2003 HK$M	**2004 HK$M**	2003 HK$M
Total facilities available				
Bank overdrafts	**713**	703	**–**	–
Bank loans	**19,765**	21,610	**6,706**	7,000
US Dollar Notes due 2006 (US$300 million)	**2,340**	2,340	**–**	–
Notes issued under MTN programme *(note a)*	**4,340**	3,340	**–**	–
	27,158	27,993	**6,706**	7,000

Notes:

(a) Includes only the amount of the Notes issued up to the balance sheet date.

(b) Of the total bank loan facilities available to the Group, HK$17,489 million (2003: HK$19,326 million) are committed.

	Group		Company	
	2004 HK$M	2003 HK$M	**2004 HK$M**	2003 HK$M
Bank loans and other borrowings				
Unsecured	**12,156**	11,633	**2,206**	2,776
Secured	**6,618**	7,064	**–**	–
	18,774	18,697	**2,206**	2,776
Short-term loans	**(422)**	(567)	**–**	–
Current portion of long-term loans and other borrowings	**(756)**	(528)	**–**	–
	17,596	17,602	**2,206**	2,776
The analysis of the above is as follows:				
Bank loans				
Wholly repayable within five years	**6,908**	7,082	**2,206**	2,776
Not wholly repayable within five years	**5,186**	5,935	**–**	–
	12,094	13,017	**2,206**	2,776
Other borrowings				
Wholly repayable within five years	**2,340**	2,340	**–**	–
Not wholly repayable within five years	**4,340**	3,340	**–**	–
	6,680	5,680	**–**	–
	18,774	18,697	**2,206**	2,776

26. Bank Loans and Other Borrowings (continued)

As at 31 December 2004, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2004	2003	**2004**	2003	**2004**	2003
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
within one year	**1,178**	1,095	**–**	–	**1,178**	1,095
between one and two years	**2,973**	770	**2,340**	–	**5,313**	770
between two and five years	**6,027**	8,356	**–**	2,340	**6,027**	10,696
after five years	**1,916**	2,796	**4,340**	3,340	**6,256**	6,136
	12,094	13,017	**6,680**	5,680	**18,774**	18,697

The total borrowings of HK$18,774 million as at 31 December 2004 (2003: HK$18,697 million) comprised the following:

(i) US Dollar Notes of HK$2,340 million (2003: HK$2,340 million) with a coupon rate of 7.50% (2003: 7.50%) per annum; this liability was fully swapped into Hong Kong Dollars, at an average fixed rate of 7.07% per annum;

(ii) Under the MTN programme,

(a) US Dollar Notes of HK$2,340 million (2003: HK$2,340 million) with a coupon rate of 6.25% per annum; this liability was fully swapped into Hong Kong Dollars, with HK$1,000 million further swapped into 5-year fixed rate of 6.12% per annum and the balance kept at floating rate;

(b) Hong Kong Dollar Notes of HK$2,000 million (2003: HK$1,000 million) with coupon rates ranging from 4.28% to 5.00% per annum (2003: 4.45% to 5.00% per annum);

(iii) Australian dollar bank loans of HK$6,226 million (2003: HK$9,336 million), with interest rates at a fixed margin over Australian Bank Bill Swap Rates. HK$6,106 million (2003: HK$6,444 million) of the loans were attributed to Yallourn Energy, with about 80% swapped into fixed rate on a rolling 5-year basis and secured by a fixed and floating charge over the assets of Yallourn Energy;

(iv) Bank loans of HK$1,397 million (2003: HK$1,607 million), which are principally floating rate loans, were attributed to GPEC. Over half of this liability was in Indian Rupees after currency swaps, with the remaining amount in Euros. Part of the loans (HK$512 million) are secured by a fixed and floating charge over the assets of GPEC; and

(v) Others include floating rate loans of HK$4,469 million (2003: HK$2,070 million) and a fixed rate bank loan of HK$2 million (2003: HK$4 million).

27. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rates enacted or substantively enacted by the balance sheet date in the respective jurisdictions.

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

Deferred tax assets (prior to offset)

	Tax Losses		Accruals and Provisions		Others		Total	
	2004 HK$M	2003 HK$M	**2004 HK$M**	2003 HK$M	**2004 HK$M**	2003 HK$M	**2004 HK$M**	2003 HK$M
As at 1 January	**3,840**	–	**236**	–	**91**	–	**4,167**	–
Acquisition of subsidiaries	**–**	2,909	**–**	170	**–**	73	**–**	3,152
Fair value adjustments	**–**	–	**1**	(22)	**–**	1	**1**	(21)
(Charged)/credited to profit and loss account	**(130)**	240	**87**	53	**18**	16	**(25)**	309
Exchange differences	**141**	691	**14**	35	**5**	1	**160**	727
As at 31 December	**3,851**	3,840	**338**	236	**114**	91	**4,303**	4,167

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding/ Dividend Distribution Tax		Others		Total	
	2004 HK$M	2003 HK$M	**2004 HK$M**	2003 HK$M	**2004 HK$M**	2003 HK$M	**2004 HK$M**	2003 HK$M
As at 1 January	**(7,278)**	(3,610)	**(323)**	–	**(228)**	–	**(7,829)**	(3,610)
Acquisition of subsidiaries	**–**	(2,194)	**–**	(222)	**–**	(150)	**–**	(2,566)
Fair value adjustments	**–**	–	**2**	(3)	**–**	–	**2**	(3)
(Charged)/credited to profit and loss account	**(361)**	(623)	**(21)**	(97)	**9**	(40)	**(373)**	(760)
Effect of change in tax rate	**–**	(338)	**–**	–	**–**	–	**–**	(338)
Exchange differences	**(114)**	(513)	**(22)**	(1)	**(8)**	(38)	**(144)**	(552)
As at 31 December	**(7,753)**	(7,278)	**(364)**	(323)	**(227)**	(228)	**(8,344)**	(7,829)

Deferred tax balances predominantly comprise non-current items. Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately in the consolidated balance sheet:

	2004 HK$M	2003 HK$M
Deferred tax assets	**1,043**	952
Deferred tax liabilities	**(5,084)**	(4,614)
	(4,041)	(3,662)

28. Notes to the Consolidated Cash Flow Statement

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

	2004 HK$M	2003 HK$M
Profit before taxation	**10,725**	9,764
Adjustments for:		
Operating interest	**828**	622
Finance income	**(63)**	(48)
Hok Un redevelopment profit	**(187)**	(291)
Share of profits less losses of jointly controlled entities	**(3,181)**	(3,399)
Share of profits less losses of associated companies	**(236)**	(102)
Depreciation	**2,529**	2,357
Amortisation of goodwill and negative goodwill	**(44)**	(40)
Impairment loss on fixed assets	**–**	9
Net loss on disposal of fixed assets	**212**	152
Capital gain arising from disposal of properties	**(214)**	–
Net loss on other investments	**38**	16
Realised gain on retirement benefit plan assets	**–**	(17)
Hedging costs and exchange gains/losses	**52**	32
SoC items		
Increase in customers' deposits	**241**	194
(Decrease)/Increase in fuel clause account	**(152)**	894
One-off rebates	**(479)**	(1,368)
Rebate to customers under SoC	**(177)**	(173)
Business relief rebate	**(1)**	(42)
Special rebate	**(15)**	(634)
	(583)	(1,129)
Operating profit before working capital changes	**9,876**	7,926
Decrease/(Increase) in debtors and prepayments	**1,695**	(158)
Increase in creditors and other liabilities	**95**	29
Increase in dividend receivable from a jointly controlled entity	**(196)**	–
Increase in current accounts due to jointly controlled entities	**32**	61
Net cash inflow from operations	**11,502**	7,858

29. Commitments

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

	Group		Company	
	2004	2003	**2004**	2003
	HK$M	HK$M	**HK$M**	HK$M
Contracted but not provided for	**2,207**	2,984	**–**	–
Authorised but not contracted for	**9,670**	9,411	**2**	10
	11,877	12,395	**2**	10

(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. As at 31 December 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) In respect of the investment in Changdao wind power project, the Group is required to contribute share capital of RMB45 million. The first contribution of RMB7 million (approximately HK$6 million) was made in early February 2005, with the remainder to be contributed by the end of 2005.

(D) 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 senior debt lenders with contingent equity support up to A$200 million for a five-year period from 27 February 2001. Mandatory contribution of contingent equity depends on certain minimum requirements regarding the availability of cash flows for debt service, measured every six months. As at 31 December 2004, A$80 million (approximately HK$460 million) had been contributed by the Group, with A$120 million of commitment still outstanding.

Owing primarily to continued high capital expenditure requirements and a slightly lower than expected revenue this year, Yallourn Energy forecasts that the additional contingent equity support will need to be provided in 2005.

30. 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 31 December 2004 if these financing arrangements are not settled by GEB is that GPEC would be required to pay HK$653 million (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. Formal release of the undertakings given by the Company under the previous facilities was obtained from the lenders in October 2004 and there was no undertaking required from the Group under the new arrangements.

31. 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 year ended 31 December 2004 are described below:

(A) Purchases of electricity

	2004 HK$M	2003 HK$M
Purchases of electricity from CAPCO (I)	**10,923**	10,431
Purchases of nuclear electricity (II)	**4,763**	5,134
Pumped storage service fee (III)	**369**	308
	16,055	15,873

(I) 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, including fuel cost, depreciation, interest expenses and current and deferred taxes, as well as CAPCO's share of the return permitted under the SoC.

(II) Under the offtake and resale contracts, CLP Power Hong Kong is obliged to purchase the Group's 25% equity share of the output from Guangdong Daya Bay Nuclear Power Station (GNPS) and an additional 45% of such output from Guangdong Nuclear Investment Company, Limited. The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the power purchase agreements is determined by a formula based on GNPS's operating costs and a calculation of profits by reference to shareholders' funds and the capacity factor for that year.

(III) Under a capacity purchase contract, Hong Kong Pumped Storage Development Company, Limited (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.

(B) 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$1,071 million (2003: HK$1,025 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 (I) above.

32. Financial Assistance to Affiliated Companies and their Proforma Combined Balance Sheet (Rule 13.22 of the Listing Rules)

As at 31 December 2004, the Group had made loan and advances totalling HK$6,681 million to certain affiliated companies. Affiliated companies include the Group's jointly controlled entities and associated companies. This amount exceeds 8% of the total assets of the Group. In accordance with Rule 13.22 of the Listing Rules, a proforma combined balance sheet of those affiliated companies with financial assistance from the Group and the Group's attributable interest in those affiliated companies as at 31 December 2004 are presented below:

	Proforma Combined Balance Sheet HK$M	Group's Attributable Interest HK$M
Non-current assets	**29,191**	**11,836**
Current assets	**1,648**	**665**
Current liabilities	**(4,100)**	**(1,657)**
Non-current liabilities	**(9,958)**	**(4,022)**
Shareholders' loan and advances	**(16,316)**	**(6,681)**
	465	**141**

The proforma combined balance sheet of the affiliated companies is prepared by combining their balance sheets, after making adjustments to conform with the Group's significant accounting policies and regrouping into significant balance sheet classification, as at 31 December 2004.

33. Approval of Accounts

The accounts were approved by the Board of Directors on 28 February 2005.