



In 2003, each of the major business streams within the CLP Group performed satisfactorily and made an improved contribution to our earnings. This Management's Discussion and Analysis (MD&A) explains our performance in 2003 and describes the challenges and opportunities which lie ahead. Because of the increasing scope and scale of our activities, we have significantly expanded the information provided to shareholders on the measures that we are taking to manage risks and on the outlook for our business.

Andrew Brandler
Chief Executive Officer



Hong Kong



Chinese Mainland



Asia-Pacific Region

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CLP follows a clear, consistent and focused strategy to realise our vision of being a leading investor-operator in the Asia-Pacific electricity power sector.

Business Strategy

This is to:

Continuously enhance our core Hong Kong electricity business

This requires us to deliver reliable energy supplies and high quality services at competitive prices to our customers, while meeting or exceeding all safety and environmental requirements, and providing a challenging and rewarding work environment for our employees.

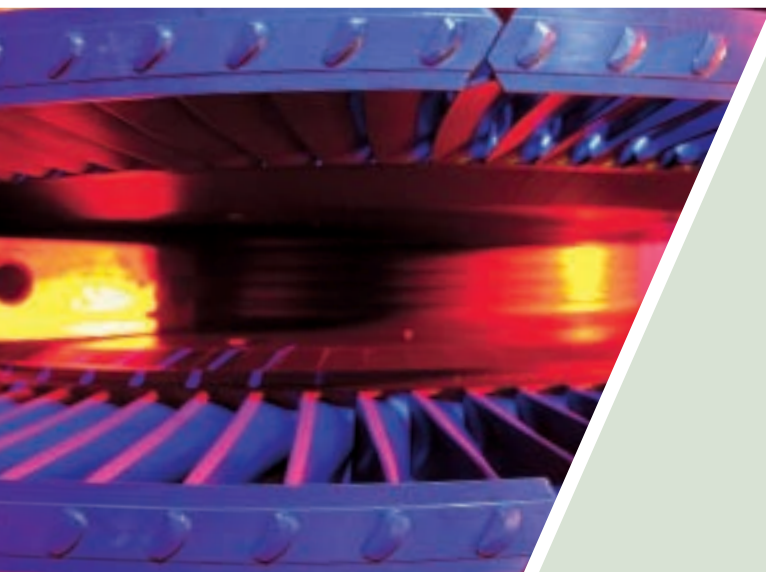
Develop our portfolio of electricity businesses in the Chinese mainland and the Asia-Pacific region

Implementation of this strategy is based on:

- active participation in the management of our Chinese joint venture companies to add value, deliver satisfactory returns on investment and meet safety, health and environmental objectives;
- building a balanced portfolio of:
 - greenfield, brownfield and operating projects, with a preference for evergreen ventures in the Chinese mainland; and
 - operating assets, projects under construction and development projects, with a suitable mix of plant and fuels across selected Asia-Pacific countries;

- establishing and reinforcing relationships with Chinese partners, government authorities and industry participants; and
- developing effective investment partnerships and establishing a meaningful presence in each of our target markets in the Asia-Pacific region.

Our emphasis remains upon improving the quality and returns of our existing businesses in the countries where we have already established a significant presence. We will be alert for opportunities in other countries in the region which meet our investment criteria in terms of price, earnings and risk profile. The challenges to the electricity business in our region come largely from political, economic and regulatory uncertainty. This mostly occurs, and must be managed, on a country by country basis. Before entering into new countries, we must have reasonable confidence in our ability to manage these risks, such as by joining with a capable local partner. Any such new ventures will be within the Asia-Pacific region – for the foreseeable future we do not envisage investing outside the region.



Our assets and investments are delivering value and provide a strong platform for further growth.

Assets/Investments (as at 31 December 2003)

Hong Kong

Investments	Equity Interest	Description
<p>1 CLP Power Hong Kong Limited (CLP Power Hong Kong)</p>	100%	<p>CLP Power Hong Kong owns and operates the transmission and distribution system covering a supply area of approximately 1,000 sq. km and which includes:</p> <ul style="list-style-type: none"> • 538 km of 400kV lines; • 1,079 km of 132kV lines; • 414 km of 33kV lines; • 9,614 km of 11kV lines; • 53,684 MVA transformers; • 196 primary substations in operation; and • 11,861 secondary substations in operation.
<p>2 Castle Peak Power Company Limited (CAPCO), 6,283 megawatts (MW) of installed generating capacity</p>	40%	<p>CAPCO owns:</p> <p>Black Point Power Station (2,500MW, when completed)</p> <ul style="list-style-type: none"> • Gas-fired power station (with distillate as back-up) comprising eight combined cycle turbines of 312.5MW each; and • Six units in operation, with the final two units to be commissioned in 2005 and 2006 respectively. <p>Castle Peak Power Station (4,108MW)</p> <ul style="list-style-type: none"> • Commissioned between 1982 and 1990; • One of the world's largest coal-fired power station complexes, comprising eight units ranging from 350MW to 677MW; and • Two of the 677MW units are capable of burning gas and oil as alternative fuels. <p>Penny's Bay Power Station (300MW)</p> <ul style="list-style-type: none"> • Three diesel oil-fired units of 100MW each, commissioned in 1992.

Note: CLP Power Hong Kong operates CAPCO's power stations and purchases its power from CAPCO and Guangdong Daya Bay Nuclear Power Station. These sources of power, together with CLP's right to use 50% of the capacity of Phase 1 of the Guangzhou Pumped Storage Power Station, amount to a total installed capacity of 8,263MW.

Chinese Mainland

Investments (Gross/Equity MW)	Equity Interest	Description
3 CLP Guohua Power Company Limited (CLP Guohua) 2,100/630MW	49%	CLP Guohua holds interests in three coal-fired power stations, namely Beijing Yire in Beijing, Panshan in Tianjin, and Sanhe in Hebei, with a combined installed capacity of 2,100MW.
4 Shandong Zhonghua Power Company (SZPC) 3,000/882MW	29.4%	SZPC owns four coal-fired power stations, Shiheng I and II (totalling 1,200MW), Liaocheng (1,200MW) and Heze II (600MW).
5 CLP Guohua Shenmu Power Company Limited (Shenmu) 200/98MW	49%	Shenmu II Power Station, Shaanxi has two 100MW coal-fired units. It is managed as part of CLP Guohua.
6 Guizhou CLP Power Company Limited (Guizhou CLP Power) 600/420MW	70%	Guizhou CLP Power develops, constructs and operates two 300MW coal-fired generating units to supply the Guizhou power grid and, through it, to supply Guangdong Province.
7 Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) 1,968/492MW	25%	GNPJVC was established in 1985 to construct and operate Guangdong Daya Bay Nuclear Power Station (GNPS) at Daya Bay. GNPS is equipped with two 984MW Pressurised Water Reactors. The majority of the GNPS equipment was imported from France and the United Kingdom. The two units at GNPS commenced commercial operation in 1994. 70% of electricity generated is supplied to Hong Kong, with the remaining 30% sold to Guangdong.
8 Hong Kong Pumped Storage Development Company, Limited (PSDC) 1,200/600MW	49%	CLP has the right to use half of the 1,200MW pumped storage capacity of Phase I of the Guangzhou Pumped Storage Power Station until 2034.
9 Huaiji Power Project (Huaiji) 98/41MW	41.5%	Eight small hydro power stations in operation and one under construction, amounting to a total of 98MW.

Asia-Pacific Region

Investments (Gross/Equity MW)	Equity Interest	Description
10 Gujarat Paguthan Energy Corporation Private Limited (GPEC), India 655MW	100%	GPEC operates a 655MW gas-fired combined cycle power station in Gujarat, India.
11 Ho-Ping Power Company (Ho-Ping), Taiwan 1,320/528MW	40%	Ho-Ping owns a 1,320MW coal-fired power station at Ho-Ping, Taiwan. This started operations in 2002.
12 Electricity Generating Public Company Limited (EGCO), Thailand 2,422/543MW	22.4%	EGCO operates two gas-fired combined cycle power stations in Thailand (2,056MW). It has also invested in a number of small power projects in Thailand and the Philippines, totalling 366 equity MW.
13 BLC Power Limited (BLC), Thailand 1,434/717MW	50%	BLC is the developer of a 1,434MW coal-fired power station now under construction at Map Ta Phut, Thailand.
14 Yallourn Energy Pty Limited (Yallourn Energy), Australia 1,480/1,362MW	92%	Yallourn Energy owns and operates a 1,480MW coal-fired plant and dedicated coal mine in Victoria, Australia.





During 2003, there was high reliability and availability from our generating assets in Hong Kong, the Mainland and Asia-Pacific region.

Operational Performance

Electricity Business in Hong Kong

CLP's generating plants performed well in 2003. The average availability for service of each of our Hong Kong generating units was 90.3% (up from 87.7% in 2002). The downtime was mainly due to scheduled maintenance. Unplanned outages, using the standard measure of "equivalent forced outage rate", represented 0.43% of the total operating period, compared to 0.28% in 2002.

Local Hong Kong demand and system demand (which includes sales to the Chinese mainland) reached historical peaks of 5,874MW and 7,646MW respectively in July (up from 5,829MW and 6,897MW reached in 2002).

In order to enhance our plant performance, supply quality and reliability, as well as to provide for demand created by new residential and infrastructure development projects in our supply area, CLP, together with CAPCO, carried out a capital works programme amounting to HK\$7.3 billion. Major projects included construction of Black Point Units 7 and 8, Tseung Kwan O to Tai Wan 1,000 MVA 400kV Circuit, 2nd Yau Ma Tei to Tai Wan 700MVA Circuit and Hung Hom Bay Bulk Substation. We have successfully rolled out an Enterprise Work Management System which can capture asset operation and maintenance information for optimisation of total asset life cycle cost.

We also invested in customer services and other supporting facilities. A major project was the successful launch of our Customer Care and Marketing System. This is an on-line integrated and user-friendly information management system intended to enhance our customer service and metering operations. The security and control features of this new system had been reviewed by internal and external auditors before production launch.

During the year, CLP conducted a comprehensive transmission benchmarking study. This covered our transmission design, construction, operation and maintenance activities. For most of the activities studied, we were within the best performing comparison group (which included electricity utilities in Western Europe, U.K., North America and Australia).

The Scheme of Control (SoC) Interim Review took place in 2003. This is a regular review every five years whereby the Hong Kong Government and the parties to the SoC may request modification to the SoC, subject to mutual agreement. The changes to the SoC made as a result of the SoC Interim Review included revised depreciation periods for certain assets, an upper limit of the Development Fund set at 12.5% of annual total revenues from sales of electricity to Hong Kong customers and enhanced disclosure of capital and operating expenditure. The key terms of the SoC remained unchanged.

Cable-laying in Hong Kong



Our System Control Centre
in the New Territories

During 2003, a technical study commissioned by the Government concluded that while increasing the existing interconnection between Kowloon and Hong Kong Island is technically feasible, there are important and complicated issues to be addressed, beyond the technical considerations. Amongst a range of financial, operational, regulatory and liability issues, specific concerns exist in respect of economic justification of the new interconnectors. We continue to work constructively with Government on this matter.

More information about our operational performance in 2003, including on tariff and reliability, is set out in the "CLP and our Customers" section of this Annual Report.

Electricity Business in the Chinese Mainland

During 2003, progress in sourcing new development projects was slow and opportunities for creating new strategic partnerships in the Mainland power sector did not materialise. This reflected CLP's prudent approach to development in view of the re-organisation and changes in ownership of generating assets in the Mainland, consequent upon the on-going reform of the PRC power industry and

the establishment of five national generating companies. Moreover, the successful flotation on Mainland and Hong Kong stock exchanges of various Mainland power generators, and the current strong market appetite for initial public offerings (IPOs) of Mainland companies across all industry sectors, created an environment where Mainland owners of generating assets are primarily focused on expanding their businesses and leveraging value from their assets by direct access to domestic and international capital markets. This reduced CLP's perceived appeal as a long-term strategic partner.

Nonetheless, CLP is taking forward a new greenfield development opportunity at Fangchenggang in Guangxi province, which would involve an initial capacity of 1,200MW. We have signed a Letter of Intent with the Guangxi Development and Planning Commission to conduct further feasibility studies.

CLP remains the largest external investor in the Mainland power sector and throughout 2003 reinforced its reputation for excellence in project management and efficient station operation by active participation in the safe and reliable performance of the operating power stations in which we hold an interest. Further details of this performance are set out later in this section.



CLP Guohua's Sanhe Power Station



During 2003, all of the operating power stations were covered by tariff arrangements which have been approved by the relevant authorities and implemented accordingly.

CLP Guohua Power Company Limited

Beijing Yire, Panshan, Sanhe and Shenmu II power stations, which are operated by CLP Guohua, achieved high standards of availability and performance throughout the year. There was high demand on the grid system supplied by these units and they were all despatched above the planned levels of utilisation.

CLP contributed to initiatives to introduce industry best practice into the CLP Guohua operations. As a result, all stations have achieved internationally recognised safety standards and are implementing industry-best management systems in areas such as reliability-centred maintenance, benchmarking and information technology.

Shandong Zhonghua Power Company

The Shiheng units maintained steady operation throughout the year at high levels of availability. During the year, the 2 x 300MW units at Heze power station were completed and achieved full commercial operation. The 2 x 600MW units at Liaocheng both entered trial operation.

CLP has been a sponsor and active participant in these projects from the very earliest stages. Their progress into operation significantly increases our earnings from this joint venture.

Guizhou CLP Power Company Limited

The Anshun II project in Guizhou province represents the first time we have taken a majority shareholding in a Mainland joint venture. Construction has progressed within the target schedule and both units are now in trial operation. The boilers are fitted with flue gas desulphurisation systems that are currently being commissioned.

Guangdong Nuclear Power Joint Venture Company, Limited

GNPS operated smoothly with high levels of safety and reliability. In 2003, a total of 14,384GWh of electricity (2002: 14,116GWh) was sent out by GNPS. The annual station capacity factor was 87%.

Hong Kong Pumped Storage Development Company, Limited

In 2003, the pumped storage units at Conghua, Guangzhou generated 318GWh for CLP with an overall efficiency above 75%, a similar level to 2002. There were over 2,000 unit starts during the year to fulfill our system requirements, mainly during peak lopping and backup operations.

Huaiji Power Project

The new units at Changdiao, Gaotang and Yutiao have all entered operation. The collection of electricity charges from the offtaker remained a challenge. Considerable management effort resulted in a slight improvement in payments during the year.

Electricity Business in the Asia-Pacific Region

Market reform towards privatisation of state-owned assets and the development of competitive markets has slowed across the Asia-Pacific region. This restricted opportunities for an independent power producer (IPP) such as CLP, although our success in achieving financial close on the BLCP project in Thailand, demonstrated our competitiveness and strength in project development.

Gujarat Paguthan Energy Corporation Private Limited, India

The GPEC plant has operated for the entire year on its new supply of natural gas, thereby making a substantial contribution to the Gujarat electricity grid and with reduced environmental emissions. Plant availability at 94.9% was exceptionally high.

GPEC's offtaker, the Gujarat Electricity Board (GEB), has been taking resolute action to reform its retail operation. Technical losses and power theft are being reduced and GEB's own financial position is therefore improving. However, until this process moves further forward, GEB has had cashflow problems and a balance of overdue receivables has accumulated. Nevertheless, relations between GPEC and GEB are good and we have reached an agreement for GEB to issue a Rupee 4,000 million bond (approximately HK\$680 million), the proceeds of which have cleared a significant part of the overdue payments due to GPEC.



GPEC





Inside and outside the coal storage facilities at Ho-Ping

We recognise that a power business in India will only be sustainable if it is able to deliver electricity at a realistic price level. GEB approached the State regulator to seek a dialogue with GPEC that would amend certain terms of the power purchase agreement (PPA) to make the energy purchases more affordable. We decided to participate in such discussions. The outcome has been an amended PPA entered into at the end of 2003. This is intended to strike a balance between the respective interests of GPEC and GEB by:

- producing a meaningful reduction in the cost of power supplied by GPEC to GEB;
- maintaining an acceptable return on CLP's investment in GPEC; and
- promoting improved performance by GEB in meeting its obligations to pay on a timely basis for the electricity supplied by GPEC.

Ho-Ping Power Company, Taiwan

The Ho-Ping power station has operated for its first full year after commissioning. We experienced some plant problems that were fairly typical for the early stages of a new power station, but also one turbine blade failure that required a significant unplanned shutdown. Overall availability exceeded 80% and was substantially higher during the periods of highest priority for the Taiwan system. Root cause solutions to technical issues have been effective and performance has now improved significantly.

Electricity Generating Public Company Limited, Thailand

The overall performance of EGCO was satisfactory and its core generating assets continued to perform well. Strong growth has been re-emerging in the Thai economy and EGCO has been positioning itself to develop new greenfield projects as opportunities arise.

BLCP Power Limited, Thailand

Together with our partner Banpu Public Company, CLP has been developing the 1,434MW coal-fired project at Map Ta Phut for some time. This plant will sell its output to the Electricity Generating Authority of Thailand (EGAT) under a long-term power purchase agreement and will help restore the balance of different fuel use within the Thai system.

A major achievement of 2003 was to reach financial close on the BLCP project with Thai and international banks, providing US\$1.13 billion of limited recourse project financing, the largest financing in the Asian power sector in 2003. Construction, which is managed by CLP, is underway and the two generating units will enter commercial service in 2006/07.

Yallourn Energy Pty Limited, Australia

The plant performed well and achieved a generated output of 11,368GWh, representing the highest annual production in its history. This was due to good operational availability of all the generating units. Total revenue was the highest since privatisation in 1996.

The Morwell River Diversion project, which will secure access to a long-term reserve of coal for the station, and the upgrade of the station's instrumentation and control systems are on schedule and within budget.

Spot prices in the Australian markets have been below projections and are at levels that we believe are unsustainable. However, our revenue from Yallourn Energy in 2003 has been substantially protected by a strong position in the contract market that was established during previous years. As a result, lower pool prices during 2003 have not had a significant effect on the overall revenue.

In January 2004, CLP entered into an agreement to acquire the remaining 8% shareholding in Yallourn Energy held by Deutsche Asset Management (Australia) Limited. On completion of the purchase, which is expected by the end of March 2004, CLP will own 100% of Yallourn Energy.



Yallourn Energy

Electricity-Related Business

CLP pursues selective opportunities in Hong Kong and the Chinese mainland beyond our conventional electricity business, by leveraging off our existing businesses, assets, expertise and relationships. These activities are carried out on a limited and selected basis, in line with the Group's overriding focus on its electricity business.

Property Business

CLP redevelops sites in Hong Kong which are no longer required for electricity purposes.

Our major project is the residential redevelopment of the former power station site at Hok Un, Kowloon. This 50/50 joint venture project, known as Laguna Verde, led by CLP and a wholly-owned subsidiary of Cheung Kong (Holdings) Limited, comprises 4,735 flats, 1,692 parking spaces and 270,000 sq. ft. of commercial space. About 98% of the residential units in the redevelopment had been sold by the end of 2003.

Public Lighting and Engineering Services

CLP offers contracting and consultancy services in power engineering, telecommunications, building services, energy services and road lighting and facility management for customers in Hong Kong and neighbouring areas.

Four railway-related projects were completed successfully in 2003, with a further four projects underway towards target completion dates in or after 2004. Our contracting business has been further extended to electrical installations and

control systems associated with major road systems and other infrastructure projects. Private lighting activities have increased after the Public Lighting Contract for Kowloon and the New Territories East was secured in October 2002.

Our energy services focus on opportunities where fuel switching produces cost and energy savings and/or environmental benefits. Our activities include a number of successful contracts in hotels, hospitals and institutes with the application of heat pump technology. We have also secured a project with a business customer to replace diesel generators with electricity supply. This will not only generate additional sales of 4.3GWh per annum, but also contribute to a cleaner environment.

Telecommunications

CLP owns and operates “ChinaLink”, a small-scale operation which provides cross-border communications services to Hong Kong corporations operating in the Chinese mainland. Stringent cost control measures have been taken to minimise operating loss.

PowerCom Network Hong Kong Limited, our joint venture with Cheung Kong Enterprises Limited, has made good progress in the roll-out of broadband services to Hong Kong customers using powerline telecommunications technology. By the end of 2003, these services were available to more than 300 buildings.

However, CLP’s focus is on our electricity business. For that reason, in January 2004, we reduced our involvement in PowerCom by participating in a sale of PowerCom by Cheung Kong Enterprises to Vanda Systems & Communications Holdings Ltd. (Vanda) in exchange for the issue of shares in Vanda. We also agreed to place 37.7% of those shares, which would leave CLP holding less than a 1% interest in Vanda. The transaction is subject to a number of conditions, including approval by Vanda’s shareholders.

Information Technology

CLP holds a small strategic investment (5.23%) in DataSys, an IT company listed on the Hong Kong Growth Enterprise Market, which is engaged in IT solutions for the power industry in the Mainland. This investment is closely monitored to verify that operational synergies can be obtained.

As a result of a strategic review of our 40% investment in Precision Marketing Inc. (PMI), a market research company which provided CLP with access to database management skills and technology, we sold all our shareholding in PMI in 2003. The skill transfer from PMI to CLP had been completed.



Heat pump commissioning in a hotel

CLP provides electrical engineering services to railway-related projects in Hong Kong

