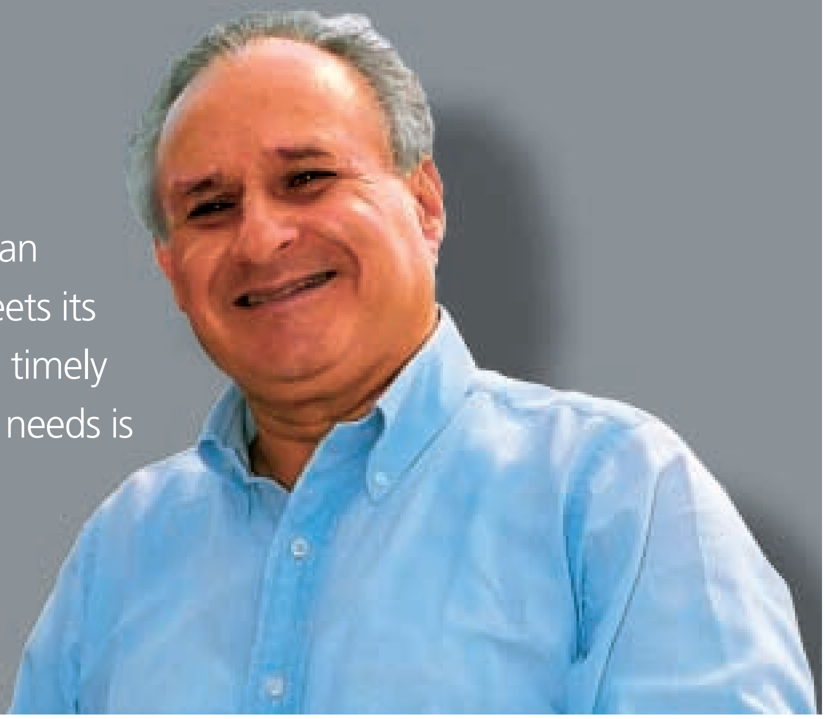
Chairman's Statement



Providing our society with an electricity supply which meets its present needs and making timely investment to meet future needs is an unceasing task.

The Hon. Michael D. Kadoorie

Dear Shareholders,

On behalf of your Board, I am pleased to report that, during the year to 31 December 2004, CLP continued to deliver a solid financial and operational performance.

Year 2004 Results

In 2004, the operating earnings of the Group increased by 10.7% to HK$8,241 million. Earnings from our Hong Kong electricity business increased 8.1% to HK$6,788 million (2003: HK$6,281 million) as a result of ongoing investment in its transmission and distribution network to expand and improve services to customers as well as investment by Castle Peak Power Company Limited (CAPCO), our jointly controlled entity, in generation facilities. Earnings from our other activities recorded a moderate increase, from HK$1,600 million in 2003 to HK$1,671 million. Our portfolio of power investments outside Hong Kong performed satisfactorily, although earnings were adversely affected by a substantial increase in coal and freight costs and the write-off of previously capitalised financing charges as a result of the re-financing of project loans.

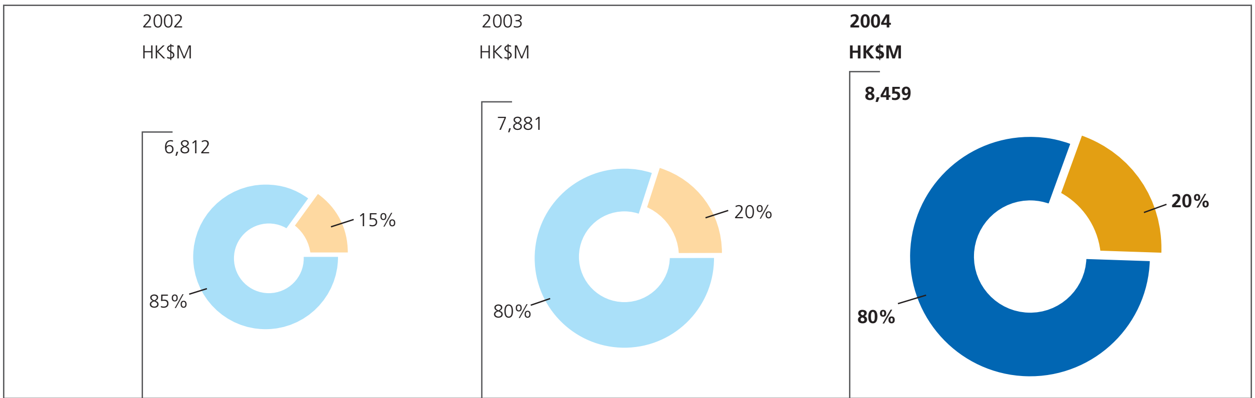
Total earnings were HK$8,614 million, an increase of 12.1% as compared to HK$7,687 million in 2003. The 2004 earnings include profit of HK$159 million from the Hok Un redevelopment and gain of HK$214 million from the sale of a surplus former substation site at 305 Castle Peak Road, Hong Kong.

Operating earnings per share and total earnings per share increased by 10.7% to HK$3.42 (2003: HK$3.09) per share and 12.1% to HK$3.58 (2003: HK$3.19) per share respectively, as compared with last year.

The Board has recommended a final dividend for 2004 of HK$0.73 per share and a special final dividend of HK$0.15 per share paid out of the profits of the Hok Un redevelopment and sale of 305 Castle Peak Road. These final dividends, together with the three interim dividends, each of HK$0.45 per share, result in a total dividend of HK$2.23, as compared to HK$1.98 per share for 2003.

Although in recent years our policy of investment in both the Mainland and the Asia-Pacific region has led to diversification in the source of our earnings, the revenues from our Hong Kong electricity business continue to represent by far the largest part of the CLP Group's total earnings. In 2004, the Hong Kong business generated 80% of the Group's operating earnings before deduction of unallocated expenses. Hong Kong has also remained the primary focus of our investments, with 64% of the Group's total assets being located within the Special Administrative Region (SAR).

Scheme of Control (SoC) and Non-SoC Operating Earnings (excluding property profits and unallocated costs)



	2002 HK$M	2003 HK$M	2004 HK$M
SoC	5,814	6,281	**6,788**
Non-SoC	998	1,600	**1,671**

These figures underline the importance to the Company and its shareholders of the Hong Kong electricity business and of the nature of the regulatory regime to which that business is subject.

Post-2008 Hong Kong Electricity Business Regulatory Regime

Since 1964, this business has been regulated by the Hong Kong Government under a Scheme of Control (SoC), which has remained largely unchanged over that period. Although many of our shareholders will be familiar with the central provisions of the SoC, it may be helpful if I briefly recap these:

- Profits – CLP's annual profits are capped at an amount equal to 13.5% of average net fixed assets (15% for assets acquired by using shareholders' funds) less some deductions – a net return. For reference, in 2004 CLP's net return was 13.05% on those assets;

- Tariffs – periodically approved by Government under financial reviews and reviewed annually by the Government under tariff reviews;

- Financial and Operating Performance – reviewed by Government in annual auditing reviews;

- Investment – CLP is obliged to contribute to Hong Kong's development by providing facilities to meet the future demand for electricity. Government approves all capital expenditure before it is made and scrutinises it afterwards;

- Service Quality – in return for recognising CLP and its shareholders' rights to earn a reasonable return, Government must be assured that service to the consuming public is adequate to meet demand, efficient and of high quality and is provided at the lowest reasonable cost; and

- Environment – CLP will make continuing efforts to improve its environmental performance and promote efficient energy use, as well as work closely with Government in its efforts in reducing emissions and exploring renewable energy sources.

The SoC regulates every significant aspect of CLP's business of supplying electricity in Kowloon and the New Territories.

The current Scheme of Control Agreement took effect on 1 October 1993 and will expire on 30 September 2008. The Agreement provides that, during the three years prior to that date, CLP and Government will institute discussions regarding revision and extension of the SoC with a view to agreeing mutually acceptable terms and conditions.

On 31 January 2005, Government launched a process of public consultation on the future regulation of Hong Kong's electricity industry. The consultation is to be in two phases – the first, which will end on 30 April 2005, solicits the public's views on options for the future development of Hong Kong's electricity market after 2008, whilst the second phase will consult the public on Government's proposals for the post-2008 regulatory framework.

On 1 February 2005, I wrote to all shareholders outlining CLP's position on the future regulation of our business. I invited shareholders to make their views known to Government in this consultation process. A much fuller account of the Company's perspective is set out in our brief "A World Class Electricity Supply for a World Class City – Powering Hong Kong's Future" which is available on our website at www.clpgroup.com or by writing to the Company Secretary at our Head Office, 147 Argyle Street, Kowloon, Hong Kong.

There is a great deal at stake for CLP and its shareholders in the outcome of Government's review of the future regulatory regime. There is also a great deal at stake for Hong Kong as a whole – the continued provision of a quality electricity supply at reasonable cost is essential for our community's social and economic well-being.

For this reason, in this Chairman's Statement I wish to reinforce the key messages that I and my colleagues have already contributed to the public discussion on our industry, as well as to pick up on some of the points that have been raised since the consultation process started last month.

Balance

The SoC has been a durable and successful system of regulation because it recognises and promotes the balance of the interests of all the stakeholders in Hong Kong's electricity sector:

- 2.2 million customers – who are entitled to receive a high quality of electricity supply and excellent customer service in return for reasonable tariffs;
- 5.5 million citizens in our supply area – who depend upon a reliable, adequate and environmentally responsible electricity supply;
- The Hong Kong Government (including the administration and legislators alike) – who must be satisfied that a regulatory regime is in place which supports their duty to the people of the SAR to ensure the efficient and effective provision of an essential public service;
- CLP's employees – the "people capital" without which our electricity system cannot function. The skills of our present 3,900 employees must be retained in Hong Kong to serve our community. A durable and balanced regulatory system enables our industry to attract, train and retain future employees to serve that community in the years ahead;

- CLP's shareholders – the 22,000 shareholders (representing many thousands more with a beneficial or other interest in our shares) who, on the basis of their trust and confidence in Hong Kong, a fair regulatory system and CLP itself, have an investment currently in excess of HK$100 billion in our company;

- CLP's longstanding partner – ExxonMobil, the owner of a 60% interest in the power stations in Hong Kong operated by CLP. ExxonMobil is the largest U.S. investor in Hong Kong and over the past 40 years has shown an unwavering commitment to investment in electricity generation on the basis of a balanced and stable regulatory regime; and

- CLP's lenders – the providers of HK$18 billion of funds to enable the infrastructure to be built which powers our society today and into the future. Together with our shareholders, they have financed that infrastructure through private sector investment alone – no call for funds or subsidies, direct or indirect, has ever been made on Government and taxpayers.

It is to be expected that, in expressing their views on the future of our industry, particular stakeholders may look to what they perceive as their own immediate interests. It is CLP's responsibility to emphasise and explain the balance of all those interests which must ultimately be achieved and respected.

Quality

In this Annual Report and in our brief of 1 February 2005 we demonstrate how, within a stable and fair regulatory system in the shape of the SoC, competently administered by Government and responsibly operated by CLP we have provided the people of Kowloon and the New Territories with an electricity service characterised by the qualities set out below. There seems to be a perception that regulation in the form of the SoC is in some way outdated or old-fashioned. This is not so – this Annual Report highlights the measurable achievements of recent years alone:

High reliability	Reliability, in terms of unplanned customer minutes lost, is world-class and in 2004 reached its best level yet. Unplanned supply interruptions are less than 1/10th of those in an average U.S. urban area.
Reasonable and affordable tariffs	Tariffs have been frozen since 1998 and decreased in real terms by 37% since 1983. On average, electricity represents less than 2% of monthly household expenditure.
High productivity and efficiency	Productivity, measured by electricity output per employee, has risen 127% in the past 10 years.
Good customer service	Customer satisfaction, as measured by independent survey, has reached its highest level during the past two years and is amongst the best of the major utilities in the Asia-Pacific region.
Environmental responsibility	Total air emissions from our power stations in 2004 were lower than in 1990, despite an increase of about 65% in local electricity sales.
Sustained private sector investment	As at the end of 2004, CLP and our partners ExxonMobil have invested HK$70 billion in our electricity system.

Although in recent times, Hong Kong has not seen the tremendous economic growth (with corresponding increases in electricity demand) of the 1960's and 1970's, our society, which is increasingly sophisticated and demanding, continues to require constant excellence and improvement in the provision of its public services, such as that achieved by CLP under the SoC. Our community's expectations of its public service providers and intolerance of any shortcomings in those services are extremely high, to the point where considerable criticism is generated for problems or difficulties which might well pass unnoticed elsewhere in the world.

Electricity Tariffs and CLP's Profits

Todate, the public and political comments made in the consultation process have focused only on two issues – electricity tariffs and CLP's level of return. It is natural that these should be matters of close scrutiny. CLP welcomes informed discussion on these, just as much as on other aspects of Hong Kong's electricity service. We have explained in our public discussion and in our briefing that our tariffs are reasonable and affordable and that our returns are fair.

However, what must not be forgotten is that tariffs and returns are only two of the issues which must be considered; they cannot be examined in isolation from the other qualities which our community needs and demands from its electricity supply. Hong Kong enjoys an electricity supply, which is world-class when compared to electric utilities elsewhere, because its customers pay fair prices and investors earn reasonable returns. It might be possible for our society to have lower reliability and a second-class electricity network in return for lower prices. That is not the choice Hong Kong has made; nor is it the choice we should make if we want to preserve the quality of our infrastructure which is one of Hong Kong's competitive advantages.

The Future

The achievements made under the SoC are such that Hong Kong may take the excellence of its electricity supply for granted and feel that there is no longer any need to continue such an arrangement – that somehow the SoC 'has done its job'. This would be a dangerous conclusion to draw.

Providing an electricity supply which meets our society's needs and making timely investment to meet future needs is an unceasing task. The post-2008 regulatory regime must both preserve the achievements of the past and promote the substantial investment and commitments which will need to be made in the coming years, such as:

- Meeting forecast growth in electricity demand of 2% to 3% per annum (including bringing on additional generating capacity to meet this growth);
- Bringing liquefied natural gas (LNG) to Hong Kong, involving the provision of the necessary infrastructure such as a receiving and storage terminal and a long-term commitment to gas supply agreements;
- Large-scale investment in emissions reduction plant and equipment to improve environmental performance;
- Adding substations at the rate of seven per week and over 800 km of transmission line over the next decade; and
- Strengthening customer services to respond to an expected rise in our customer base to 2.6 million accounts and a doubling in daily enquiries by 2014.

The post-2008 regulatory regime must recognise and enable these investments to be made – if it does not, the consequences may not be immediately apparent, but the long-term effects will be severe. Experience worldwide has shown that problems of adequacy or reliability in the energy and infrastructure fields are often the result of under-investment over a number of years; that a significant period elapses before those problems become evident, that these then take a long time to fix and at considerable cost to society.

Planning and investment in the electricity business is long-term in nature, with considerable lead-times for projects to move from conception to completion. Decisions about the regulation of our industry must take this into account.

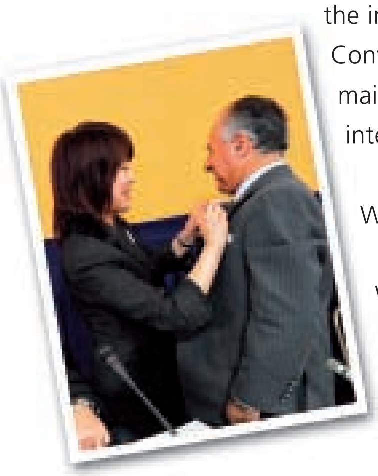
CLP's Participation in the Debate on our Industry

CLP and its shareholders support a reasoned debate on the future regulation of our Hong Kong electricity business and the close scrutiny of our activities that this involves. A better understanding of our performance, the needs of our industry and of our stakeholders can contribute to establishing a regulatory regime after 2008 which matches the durability and fairness of the SoC.

We do have concerns as to whether the consultation process, associated political debate and Government response will give rise to fair and balanced reflection on the long-term needs and issues which must be addressed. Those of our shareholders resident in Hong Kong will be familiar with issues in the past year such as the Hung Hom Peninsula redevelopment, West Kowloon cultural centre development, the Harbour reclamation and the "Link" real estate investment trust listing. None of these issues was of such lasting importance to every member of our community as that of the regulatory regime required to ensure the provision of an adequate and reliable electricity supply. However, and irrespective of whether one agreed with the eventual outcome reached on these recent issues, the decision-making processes, whether judged in terms of structure, predictability or balance, fell short of the standards for which either the Hong Kong Government or our community might have wished.

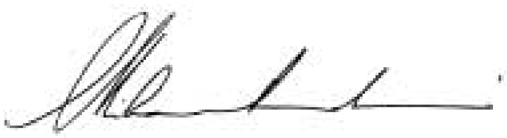
I hope that the discussion and decision-making process on the post-2008 electricity regulatory framework will be of a quality and objectiveness which reflects the importance of the issues at stake. I believe it will – and the clear and tangible merits of the present regulatory regime and CLP's standing as a competent, responsible and responsive operator are powerful arguments in favour of a regime on the lines of the present SoC.

In my Chairman's Statement in last year's Annual Report I promised shareholders that, in the debate on our industry, CLP would be a strong voice against any regulatory change which puts in doubt our ability to continue to provide a first-class service to the community and fails to allow our shareholders to make a proper return on the investment which they have made in providing the necessary infrastructure. Conversely, we would be a strong voice in supporting any regulatory regime which maintains and builds upon our past and current achievements and respects the interests of all concerned, including shareholders and customers.



We are making good on this promise.

With your support, I am confident that our voice will be heard and that the strength of our Hong Kong electricity business, combined with further progress in our activities in the Mainland and elsewhere, will carry CLP forward to realise its vision of being a leading investor-operator in the Asia-Pacific electric power sector.



The Hon. Michael D. Kadoorie
Hong Kong, 28 February 2005