How did we do in 2004?

Chinese Mainland

Throughout 2004 we continued to promote excellence in project management and station operation in those assets in which we hold an interest. Overall those stations performed well, with good levels of availability and reliability.

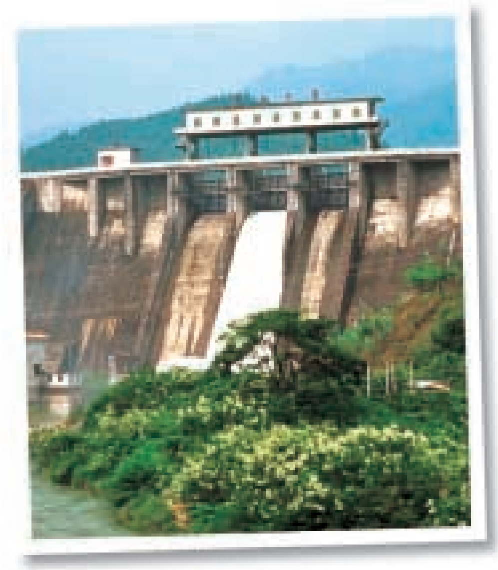
Station	Rating (MW)	Generation (GWh)	Utilisation (%)	Availability (%)	Note
Shiheng	1,200	6,616	63	82	Generation similar to 2003
Heze	600	3,204	61	87	Generation higher than 2003 by 6%
Liaocheng	1,200	3,269	57	85	Units 1 and 2 started commercial operation in June and July 2004
Yire	400	2,566	73	95	Generation higher than 2003 by 8%
Sanhe	700	4,624	75	91	Generation higher than 2003 by 9%
Panshan	1,000	6,394	73	87	Generation higher than 2003 by 9%
Shenmu	200	1,671	95	96	Generation higher than 2003 by 7%
Huaiji	82	205	29	33	Utilisation and availability severely affected by low rainfall
Anshun II	600	3,261	78	82	Units 1 and 2 started generating in October 2003 and June 2004

Since 2002 when we acquired our interest in the Anshun II power station project, CLP has made only limited progress in sourcing new development projects and creating new partnerships in the Mainland's power sector. This remained so in 2004, reflecting our prudent approach to investment in additional generating assets in the Mainland. We considered this approach to be the right one to take in the long-term interests of our shareholders, given

- the continuing lack of transparency and predictability in the tariff setting process;
- uncertainties as to the project approval process. Unlike other competitors in the Mainland, CLP does

not enter into substantial commitments on greenfield power projects in advance of necessary regulatory approvals. We do not believe that this is a risk which our shareholders would expect us to run;

- the potential for sharp swings in the electricity supply/demand balance on a regional or provincial basis, due to mismatches between electricity demand and the timing and volume of the introduction of new generating capacity; and
- domestic power producers, focused on market share, bidding for existing stations or pursuing greenfield opportunities on a basis which may not properly reflect the risks involved over the longer term and the need to earn meaningful returns on investments.



In this context, 2004 was characterised by limited development activity, save for the work being undertaken to obtain the regulatory approvals necessary for a 2x600MW greenfield project at Fangchenggang in Guangxi, in which CLP will hold a 70% interest. This project is now awaiting verification from the National Development and Reform Commission before work proceeds at site and equipment manufacture commences.

Two aspects of asset management were particularly challenging in 2004:

- Tariff management – approval and implementation of tariffs requires discussion and agreement with the authorities. However, all of the operating power stations are covered by tariff arrangements which have been approved and implemented; and
- Coal supply – generation was occasionally constrained by coal supply difficulties, most notably at Shandong. The overall effect on production was not material but higher coal costs affected the earnings from all the power stations in which CLP holds an interest.

This table summarises the status of these two issues at each of these power stations.

Station	Approved Tariff* (fen/kWh)	Status of Tariff	Coal Sources	Coal Supply Status in 2004
Shiheng I and II	41.0	Implemented	Shandong mines	Price increases of around 40% Some shortages, but not significant so far
Heze Liaocheng	36.0 36.0	Implemented	Shanxi mines	Price increases of around 40%
Yire Sanhe Panshan	41.2 33.4 36.5	Increased slightly due to coal price and implemented	Supplied by Shenhua from Shaanxi and Inner Mongolia	Adequate supply but around 12% increase in price, partially offset by tariff adjustment
Shenmu	29.5	Implemented	Local mines	Adequate supply but increasing prices
Huaiji	35.1	Implemented	N/A – hydro	N/A
Anshun II	25.0	Implemented	Guizhou local mines	Supply just adequate but some variations in quality. Price increases around 15%

* On-Grid tariff as at 31 December 2004. This relates to planned generation approved by the relevant authorities and paid by the power off-taker. Tariff for generation above the planned generation is lower. On-Grid tariff does not include transmission, distribution and other costs as paid by end-customers.

CLP Guohua Power Company Limited

Beijing Yire, Panshan, Sanhe and Shenmu power stations, which are operated by CLP Guohua, all achieved high reliability and operating hours during the year. When compared with 2003, generation in 2004 increased by about 8.8% to 15,255GWh. In particular, Shenmu Power Station generated 1,671GWh, representing an extremely high capacity factor of 95%. This has been made possible by the power shortage in the areas and, more importantly, the reliable operation of the generating units. New and slightly higher tariffs were implemented at Panshan, Sanhe and Yire. A slightly higher effective tariff at Shenmu was also implemented, although the nominal tariff was reduced due to cancellation of on-grid charges.

The management of fuel costs was a particular challenge in 2004 and will continue into 2005. Since Spring 2004, the coal supply situation in the Mainland has been very tight due primarily to transportation bottlenecks and strong demand from power and other industries. This has led to a surge in coal prices and, in some cases, affected production of power stations. The impacts to Yire, Panshan and Sanhe were minimised through leveraging on stable and competitive coal supply from Shenhua, the parent company of our partner, Beijing Guohua, in CLP Guohua.

As part of the continuing effort to manage foreign currency risk, CLP Guohua has successfully re-financed all of its foreign currency loans into RMB loans.

On safety, health and environment performance, Sanhe and Panshan power stations became the first power stations in the Mainland awarded the NOSA Five Stars, while Yire and Shenmu power stations were awarded Four Stars.

Shandong Zhonghua Power Company

Both units at Liaocheng (2x600MW) were taken over for commercial operation, meaning that all of the units at the four stations comprised within this joint venture are now operating.

After considerable negotiation, new tariffs have been approved by the State Price Bureau for Liaocheng and Heze II stations. The Shiheng stations have been operating for some years at stable tariffs. The financial results for 2004 have been materially affected by higher coal costs and the write-off of previously capitalised financing charges as a result of the re-financing of the project loans.

Affected by the tight coal supply situation in the Mainland, the four power stations operated by SZPC saw an increase in coal prices of about 40% in 2004. While the increase in costs is partly recovered by the new tariff approved for Liaocheng and Heze, the profit of SZPC was significantly affected.

SZPC has also successfully re-financed all of its foreign currency loans into RMB and USD loans which have lower costs, longer tenors and help manage foreign currency risk on the project.

Guizhou CLP Power Company Limited

Unit 1 of the 2x300MW Anshun II Power Station was taken over for commercial operation in March, with the second Unit following in November. Both units have already been operating at high dispatch levels and new tariffs have now been agreed and implemented.

The units are equipped with FGD equipment. This equipment gave rise to technical problems during commissioning. These have largely been overcome, but ways to further improve the performance of the FGD system are being evaluated.

Has CLP been able to capture the opportunities offered by the continued economic expansion and the demand for infrastructure development in China?

Ms. Vivian Lau
Chief Operating Officer,
Hong Kong Petrochemical Co. Ltd.
Business Customer

In our 2002 Annual Report, I advised that a combination of factors, including the availability of funding in the Mainland domestic capital markets, the perception of continuous growth in electricity demand and the newly established national generating companies competing for market share, might create a market in which bids were being made for assets at prices which did not properly reflect the risk involved over the long periods required to earn a meaningful return. I also commented on the underlying regulatory risks and tariff uncertainties. In these circumstances, CLP has been extremely selective in its choice of new investments in the Mainland. We have been prepared to slow the pace of investments, rather than compromise on their quality. The result may have been that we missed opportunities, but we also avoided pitfalls. The way that the Mainland's electricity sector has developed since 2001 suggests that our cautious approach has been the right one.

Andrew Brandler
Chief Executive Officer

Guangdong Nuclear Power Joint Venture Company, Ltd.

The Guangdong Daya Bay Nuclear Power Station continued to operate well with good safety and environmental performance. In May, whilst Unit 2 was on a scheduled outage, an incident resulting in a bent fuel assembly, which had no safety or environmental impact, led to the outage being extended by about 2 months, with the Unit returning to service towards the end of July. In 2004, a total of 13,311GWh of electricity (2003: 14,384GWh) was sent out by the nuclear power station. The annual station capacity factor was 80% (2003: 87%).

Hong Kong Pumped Storage Development Company, Ltd.

In 2004, the pumped storage units at Conghua, Guangzhou generated 493GWh for CLP with an overall efficiency above 76.5%, slightly better than 2003. There were over 2,265 unit starts during the year to fulfill system requirements, mainly during peak lopping and backup operations.

Huaiji Power Project

Generation from this group of small hydro-electric plants was severely affected by abnormally low rainfall, with the output reduced from 246GWh in 2003 to 205GWh in 2004. Plant performance itself was generally satisfactory.

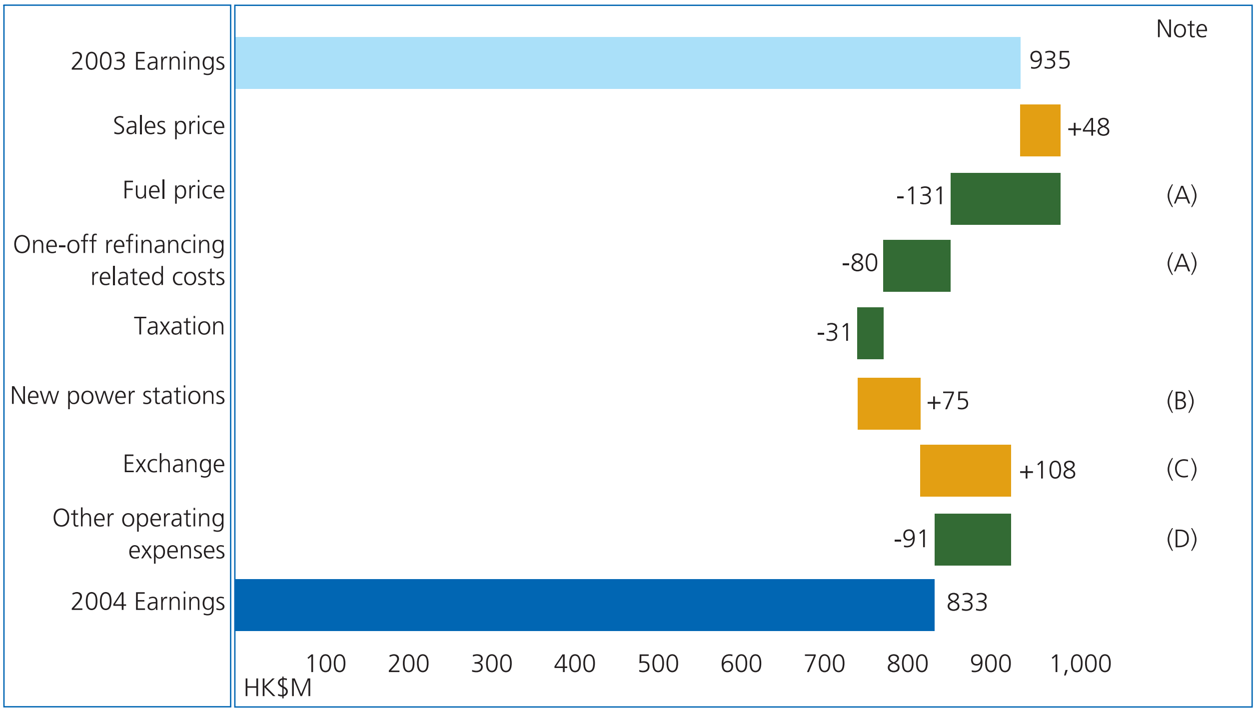
In our Annual Report 2003 we advised that collection of electricity charges from the off-taker was a challenge. This remained the case during the year, although the overall level of outstanding payments did not significantly increase. We consider this project to be technically and environmentally sound. We have been actively pursuing a project restructuring, to increase our shareholding and management control and to place the project on a sustainable economic footing.

Changdao Wind Power Project

As part of our commitment to develop renewable energy projects, in December 2004 we established HNEEP-CLP Changdao Wind Power Company Limited, in which we own 45%, with our partner, Huaneng New Energy Industrial Co. Ltd., to own and operate a 27MW wind farm in Changdao, Shandong. The wind farm will be commissioned in 2005.

Earnings

Earnings from our electricity business in the Chinese mainland were HK$833 million, a decrease of HK$102 million. The following chart highlights the various elements that impacted the current year results:



Notes:
(A) Contributions from SZPC and CLP Guohua were adversely affected by high coal costs, with SZPC's earnings reduced further after one-off expenses associated with refinancing of project loans.
(B) This represented earnings from newly-commissioned Anshun II and Liaocheng power stations.
(C) There was an exchange gain from full conversion of the foreign currency loans to RMB loans of CLP Guohua in 2004, as opposed to unrealised exchange loss in 2003.
(D) Mainly due to higher provision for environmental charges and increase in repair and maintenance and depreciation expenses.