

Dear Shareholders,

I am pleased to present our Interim Report for the half year ended 30 June 2005 and to record a strong performance by the CLP Group over this period.



Financial Results for the Six-month Period

Total operating earnings for the six months ended 30 June 2005 increased by 9.7% to HK\$4,403 million, as compared with the corresponding period in 2004.

This growth in earnings came from across all our investments in the energy sector, whether these be our electricity business in Hong Kong or our interests in the electricity sector in the Mainland and elsewhere in the Asia-Pacific Region.

Further details of the Group's financial performance are set out in the Management's Discussion and Analysis which forms part of this Interim Report. In this Chairman's Statement, I wish to focus on three aspects of our activities which have been of particular significance during the first half of 2005. These are:

- The Hong Kong Government's public consultation on the development of the electricity market in Hong Kong after 2008;
- The progress made by the Group in continuing to make good on its commitment to manage responsibly the environmental aspects of our activities; and
- The completion of CLP's acquisition of Singapore Power's merchant energy business in Australia.

Hong Kong Electricity Business

Stage I of the Hong Kong Government's public consultation on the development of the electricity market in Hong Kong after 2008 concluded at the end of April. I wrote to shareholders in May to advise that, as promised, CLP has been an active, informed and authoritative participant in the public discussion to date. Our response to Stage I of the consultation, "A Balanced Deal – A Bright Future", was submitted to Government on 26 April. In this, we emphasised that the keys to the excellence of Hong Kong's electricity supply were found in a regulatory system which delivers practicality, service excellence, a fair deal for investors and clear accountability and responsibility.

In June, Government published its summary of the views received in response to Stage I of its consultation. These included 766 written submissions from many sectors of our community – ranging from businesses to individuals, from trade organisations to environmental groups, as well as 175 messages through the discussion forums on Government's website. We welcome this wide participation in the debate on the future of our industry.

It has been noticeable that the majority of those who participated in the consultation consider reliability and the safety of electricity supply to be the most important objectives of the future regulation of Hong Kong's electricity sectors – in line with the views which CLP itself has already expressed. We are also encouraged that most respondents consider our tariff to be reasonable and affordable.

Opinions were expressed that the post-2008 regulatory regime should provide for lowered returns for investors, and for that regime to be subject to a shortened review period. In these respects, CLP's position is clear – returns must not be judged in isolation, nor should they be reset at unduly frequent intervals. The reliability of Hong Kong's electricity supply has not happened by chance. It has stemmed from timely and adequate investment in Hong Kong's electricity infrastructure. This, in turn, depends on a clear and stable regulatory system which offers reasonable returns to investors to facilitate such investment. After all, no other private industry in Hong Kong requires such continuous, large-scale and long-term investment as does the electricity sector.

We understand that Government is now taking into consideration the views collected during its Stage I consultation, so as to map out its proposals for the broad framework of development of the post-2008 electricity market, and that Stage II of the consultation will be launched later this year. CLP will continue its vigorous participation in this debate, and we will continue to report to shareholders on developments in this key issue for CLP's future.

Environment

A number of respondents to the public consultation on Hong Kong's electricity sector highlighted the importance of managing the environmental impact of electricity generation and of developing renewable energy sources.

I am pleased to report that CLP continues to move ahead on both these issues – in Hong Kong and elsewhere.

In Hong Kong, our proposals to retrofit flue gas desulphurisation (FGD) equipment at Castle Peak Power Station have now been approved by Government as part of the 2005-8 Financial Plan for our Hong Kong electricity business. This is a major project, and a challenging one – requiring substantial engineering works to be undertaken at the power station, whilst maintaining the availability of its essential generating capacity. Design and planning work is already underway.

The first half of 2005 also saw a significant step forward in our plans to develop the infrastructure needed to assure the availability of natural gas in Hong Kong for our electricity generation, with the start of the environmental review and approval procedures needed for site selection of the liquefied natural gas (LNG) receiving terminal which we will need in order to bring our LNG supply on stream early next decade.

As those shareholders who live in Hong Kong will know, local climatic, geographical and physical characteristics place significant constraints on the extent to which renewable energy can be developed in Hong Kong with existing technology. However, CLP remains keen to increase its participation in renewable energy projects – wherever these are economically, technically and environmentally feasible. In recent months, we have increased our investment in renewable energy projects in the Mainland, both wind and hydro. In addition, we are exploring new opportunities elsewhere, notably in Australia and India, where suitable natural resources are available. We aim to report further progress in this area by the end of 2005.

Australia

In April, a circular to shareholders advised you of the details of the proposed acquisition by CLP of Singapore Power's merchant energy business in Australia.

This acquisition was completed, as targeted, on 31 May 2005. When coupled with CLP's existing Yallourn Power Station, CLP is well on the way towards building a diversified and integrated energy business in Australia, focusing on electricity and gas retail, with a portfolio of physical assets in support of that retail business.

This business, which was rebranded as "TRUenergy" in June, constitutes the fifth largest energy retailer in Australia. The acquisition of the merchant energy business has also brought into the CLP Group a 1,280MW gas-fired power station at Torrens Island in South Australia – meaning that we have moved forward from reliance only on coal-fired generation at Yallourn. We believe that this diversified fuel mix promotes a better balance in our electricity generation activities in Australia, including from an environmental perspective.

Given that the acquisition of the merchant energy business was completed only at the end of May, considerable work is underway to integrate that business both with our existing investment at Yallourn and with the standards of operational excellence, financial control and corporate values of the CLP Group as a whole. I will report more fully to shareholders on the progress being made in this regard in our next Annual Report.

As in previous years, this Interim Report explains the wider environmental and social aspects of our activities, in addition to our financial and operational performance. 2005 has started well at the CLP Group – we are determined to carry this performance forward through the remainder of this year and beyond.



The Hon. Sir Michael Kadoorie
Hong Kong, 23 August 2005



CLP ambassadors serving in the "Shareholders' Corner" at our 2005 Annual General Meeting