Australia

CLP in Australia – now a vertically integrated and diversified energy business.

The scale and shape of CLP's business in Australia was fundamentally altered by the acquisition in 2005 of the MEB in Australia for a total cash consideration of HK$13,013 million. The merger of this business with CLP's wholly-owned generating business, Yallourn Energy, creates a vertically integrated and diversified electricity and gas company.

In September we signed a shareholders' agreement with Hydro Tasmania establishing a 50/50 joint venture in Roaring 40s to take forward renewable energy projects, particularly wind power, in Australia and elsewhere in Asia Pacific.

The major themes of our Australian activities in 2005 have included:

- the integration of the MEB with Yallourn Energy;
- risk management and energy trading;
- asset management; and
- development of the Roaring 40s renewable energy platform.

Business Integration

Integration of the MEB with Yallourn Energy has commenced. In October we initiated a strategic review of the combined businesses to determine optimised organisation and functional structures. The review will help to identify the skills, competencies and capabilities which we need to support future growth in the business and will also look at the most efficient cost structure and opportunities to realise savings in operating expenditure.

As the most visible expression of the integration of CLP's activities in Australia, in June all of our operating companies were successfully rebranded as 'TRUenergy'. This new brand replaced the TXU, Yallourn and AusPower brands which had previously been used by the various components of the Australian businesses. By the end of 2005, total awareness of the new brand had reached 68% in Victoria and 76% in South Australia. A successful brand launch was considered to be critical in assisting the retail business to retain its overall market share in the face of fierce mass market competition in Victoria and South Australia. These are regarded as being amongst the most contested energy retail markets in the world.

Following the acquisition of the MEB, it became apparent that there were material inaccuracies in key information provided by Singapore Power during CLP's due diligence. CLP undertook detailed due diligence prior to its acquisition of the MEB, covering financial, operational, legal and a range of other matters. CLP has raised this matter with Singapore Power and discussions are continuing.

With total assets of approximately A$5.5 billion, the merged business has been given an A- (Stable) rating by Standard & Poor's. This assisted us in obtaining A$2.2 billion of term facilities, with no recourse to CLP Holdings. A new debt funding was used to refinance the existing Yallourn financing and, together with A$910 million of new investment from CLP Holdings, to fund the acquisition of the MEB.

left Call Centre at TRUenergy
right TRUenergy's Torrens Island Power Station

The facilities were provided by three joint lead arrangers, and subsequently A$1.6 billion was syndicated to 16 further banks. The remaining A$600 million bridging facility was refinanced in November 2005 through a A$700 million Australian domestic bond issue. This issue was completed in November and was the largest of its type in the utility sector in Australian domestic capital markets.

Following repayment of the bridging loan, remaining funds were used to repay a revolving debt facility. The issue comprised A$650 million in seven year fixed and floating rate tranches, maturing in 2012 and a A$50 million in ten year floating rate tranche maturing in 2015.

We were encouraged by the capital markets' positive assessment of the quality and credit-worthiness of CLP's integrated Australian business, which has helped us to put in place effective long-term financing arrangements for that business.

Risk Management and Energy Trading

As part of the integration process, Yallourn Energy's trading and industrial and commercial retail business, AusPower, has been merged with the Portfolio Management function from the MEB business. The two businesses were complementary, with the MEB Portfolio Management business bringing its strong gas position into the portfolio, whilst AusPower's position in the electricity market is strengthened by the MEB's significant trading capabilities and proven track record. The combined business now has 200 large-scale industrial and commercial electricity customers and 400 gas customers, with the added advantage of being able to cross sell electricity and gas.

TRUenergy now has access to 10% of the national electricity market in Australia through ownership of generating assets, as well as a long-term contract for access to further generating capacity. TRUenergy's portfolio represents the fourth largest generating business in Australia, with access to 20 generating units in two states. The merged group also has a balanced generation portfolio, with units distributed across the merit order – from baseload, to intermediate and peaking capacity – and a mix of fuel sources with both gas and coal generation.

In August 2005, as the final element of the acquisition of the MEB from Singapore Power, we completed the purchase of a 33% interest in SEAGas – a partnership that owns and operates the 690 km pipeline system transporting natural gas from Victoria to South Australia. The project had a construction cost of approximately A$450 million, funded by A$214 million of project financed bank debt. Non-recourse project re-financing for the project was successfully put in place in September 2005. As a result, TRUenergy received A$92.4 million by way of proceeds from the refinancing.

As part of our portfolio management activities, we began preparations to manage new natural gas contracts for supplies from new gas fields from the offshore Otway basin (the Casino, Geographe and Thylacine gas fields) in Bass Strait off the Victorian coast. These fields are expected to come into production in 2006. When this occurs, TRUenergy will have access to further diversified gas supplies from Otway basin, complementing existing supplies from the mature Gippsland and Copper/Eromanga basins. Our Iona Gas Storage Facility, near Port Campbell in south-west Victoria, is strategically positioned close to the new Casino field, which will provide 35 petajoules (PJ) a year of peaking capacity to TRUenergy. New processing and sales earnings are expected to be realised from 2006 onwards.

TRUenergy has also started discussions to secure additional gas for the Tallawarra Power Station, which we expect will enter service in 2008.

Asset Management

TRUenergy is focused on optimising the performance of its physical assets, so that these in turn can support and enhance effective portfolio management.

The following chart provides an overview of the operating characteristics of major assets during 2005.

Asset/Station	Rating (MW)		Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Yallourn Power Station	**1,480**	1,480	**11,207**	11,402	**86.4**	87.7	**86.8**	88.4	**7,572**	7,704
Torrens Island Power Station*	**1,280**	1,280	**2,408**	3,304	**21.5**	29.5	**84.9**	90.1	**1,881**	2,086
	Terajoule/Day		**Throughput (PJ)**		**Utilisation (%)**		**Availability (%)**		**Compressor Hours**	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Iona Gas Storage Facility	**320**	N/A	**16.8**	28.6	**14.5**	24.5	**91.1****	98.3	**9,900**	19,300

* Intermediate to peaking plant
** Construction outage

The upgrade of Yallourn's instrumentation and control systems continued, with work on Unit 3 being completed during the year. Work commenced on moving the remaining two units across to the Distributed Control System, which will allow more effective control of plant operations. This project is expected to be completed in 2007.

An overhaul of Unit 3 at Yallourn, intended to improve its operating efficiency, was completed in November. This reduced the power station's CO_2 emissions by 0.7%. The project involved the refurbishment of the complete generator set, including the removal and inspection of the high and intermediate pressure turbine, the two low-pressure turbine rotors and the generator rotor, resulting in improved efficiency.

At Torrens Island, a major outage to restore Unit B4 to its full 200MW capacity was completed ahead of schedule and prior to the peak Australian summer demand period. The unit's high pressure turbine had failed in late 2004 and the first nine rows of turbine blades were replaced. Apart from restoring the unit to full output, its efficiency has been improved.

We now have a more balanced fuel mix within our Australian generation portfolio, as opposed to reliance solely on coal-fired generation at Yallourn.

Station	Fuel Type	Supply Status	Future Development/Outlook
Yallourn	Coal	Captive mine	Long term supply is assured by the implementation of the mine plan
Torrens Island	Gas	Contract	Long term contracts
Woolnorth Bluff Point	Wind	Renewable	
Cathedral Rocks	Wind	Renewable	

At the Yallourn Power Station, the A$120 million Morwell River Diversion Project which secures access to a long-term coal reserve adjacent to the existing area of coal extraction was completed in May 2005, on time and on budget. This project was one of the largest earthmoving exercises ever undertaken in Victoria. A specialist team of 150 contracted staff took four years to create a new 3.5 km riverbed which passes through the Yallourn East Field coal mine and over the mine's coal conveyors. The conveyors now pass through 1.2 km of underground concrete tunnels.

The A$19 million upgrade of the Iona Gas Plant was completed, including the installation of new control equipment to prepare for the processing of additional gas from the offshore Casino gas field in the Otway Basin. Under a Gas Sales Agreement with Santos, Australian Worldwide Exploration and Mitsui, TRUenergy will process raw gas from Casino at Iona. This agreement will allow the supply of up to 420 PJ over 12 years for the Victorian and South Australian markets, commencing in 2006.

TRUenergy has announced its intention to develop a 400MW power station on a former power station site at Tallawarra, near Wollongong in New South Wales. This will be a gas-fired combined cycle plant and will incorporate the most efficient power generating technology so far in Australia. The use of natural gas also enables the environmental impact to be reduced to a minimum.

Construction is expected to start in the first half of 2006, subject to finalising the relevant contracts. The generating plant will occupy 18 hectares of the 600 hectare site. Discussions have been held with the local community on the development and possible alternative uses for surplus land and, in September 2005, the Wollongong City Council approved the continued assessment of rezoning parts of the site for development. Successful rezoning would allow TRUenergy to realise additional value from the site.

Morwell River Diversion Project – before, during and after (from left to right)

Wind Farms at Woolnorth Bluff Point (left) and Cathedral Rocks (right)

Renewable Energy

Our acquisition of a 50% interest in the Roaring 40s joint venture provides a platform for the continued development of CLP's renewable energy business in Australia and elsewhere in the Asia-Pacific region. Roaring 40s, was originally established as the renewable energy development arm of Hydro Tasmania, the Tasmania state-owned hydroelectric generator. Performance of Roaring 40s wind farms is world class, as summarised below.

Wind Farm	Installed Capacity (MW)	Number x Wind Turbine Size	Generation at Farm Gate (GWh)		Availability (%)		Note
			2005	2004	**2005**	2004	
Woolnorth Bluff Point	65	37 x 1.75MW	**245**	172	**97.2**	95.3	Stage 1 of 6 wind turbines was completed in October 2002 and Stage 2 of 31 units was completed in May 2004
Cathedral Rocks	66	33 x 2MW	**76**	N/A	**73.2**	N/A	Commenced partial operation since June 2005

In addition, Roaring 40s has two wind power projects at Woolnorth Studland Bay (75MW) and Musselroe (129MW) under construction in Australia, and has committed investment in a wind farm under development in Shuangliao, China.

Roaring 40s has a team of approximately 30 staff, including management, project development, finance and asset management specialists – all with skills and capabilities in the field of renewable energy, particularly wind power. In addition, it has the benefit of a five-year consulting contract with Hydro Tasmania, allowing it to call on further specialist resources to support the management of existing operating assets and the evaluation of potential development projects.

Since December 2005 Roaring 40s has established an office in Hong Kong for its Asia business development team. CLP has seconded staff to work closely with Roaring 40s on pursuing business opportunities in Asia.

Earnings

The earnings of HK$200 million (2004: HK$118 million) from our energy business in Australia incorporated the post-acquisition earnings of MEB for the period from June to December 2005 amounting to HK$38 million. The MEB's 2005 earnings were largely in line with our plan after taking into account the one-off restructuring cost and certain accounting charges. The earnings from Yallourn were affected by depressed pool prices and forced outage.

Q: **Mr. Kwan Yue Yui** *Shareholder* (right)

Are the investment projects in Australia progressing well with expected profits registered?

A: **Richard McIndoe** *Group Director – Managing Director Asia Pacific* (left)

The acquisition of the MEB from Singapore Power in May 2005 has enabled CLP to build an integrated energy business, comprising coal and gas-fired generation together with a substantial electricity and gas retail business. We expect this integrated business will both increase overall earnings and also allow us to reduce the volatility of those earnings from our Australian subsidiary.

While the business we acquired in 2005 has been performing largely to plan, the availability of Yallourn generation facility has been somewhat below target. We are addressing this through a revised operating and capital expenditure programme which is designed to improve reliability and performance at Yallourn to high industry standards over the next few years.