

Chinese Mainland



Proactive management of our existing assets and projects and significant growth in our renewable energy portfolio.

During 2005 we maintained our prudent approach to investment in additional generating assets in the Mainland, in light of continuing uncertainties in key aspects of the electricity sector, such as supply/demand fluctuations, opaque tariff-setting mechanisms and coal supply issues.

Against this background, the focus of our Mainland activities in 2005 included:

- continued excellence in station management and operation;
- management of tariff issues, particularly in the context of high coal prices;
- progress on the greenfield project in Fangchenggang, Guangxi (in which CLP holds a 70% interest);
- ongoing development of our renewable energy activities; and
- maintaining a meaningful earnings contribution to the Group.

Excellence in Station Management and Operation

The following table demonstrates that, in 2005, all of the power stations in which CLP holds an interest achieved high levels of utilisation and availability.

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2005	2004	2005	2004	2005	2004	2005	2004
Daya Bay	1,968	14,848	13,311	90	80	90	81	7,918	7,184
Guangzhou Pumped Storage (Phase I)	1,200	1,403	1,291	13*	12*	89	87	2,801*	2,644*
Shiheng	1,200	7,164	6,616	68	63	91	82	5,970	5,513
Heze II	600	3,462	3,204	66	61	95	87	5,770	5,340
Liaocheng	1,200	6,844	3,269	65	57	95	85	5,703	2,724
Yire	400	2,664	2,566	76	73	96	95	6,660	6,415
Sanhe	700	4,563	4,624	74	75	90	91	6,519	6,606
Panshan	1,000	6,295	6,394	72	73	90	87	6,295	6,394
Shenmu	200	1,486	1,671	85	95	95	96	7,430	8,355
Anshun II	600	3,602	3,261	69	78	88	82	6,003	5,435
Huaiji	82	284	205	39	29	49	33	3,465	2,500

* Generating and pumping modes

Particular points to note regarding plant operation in 2005 included:

- Daya Bay contributed about 30% of total electricity generated to supply our Hong Kong electricity business;
- a significant improvement in plant utilisation at Shiheng, Heze II and Liaocheng, as a result of high demand growth in Shandong;
- the start of the flue gas desulphurisation (FGD) retrofit project at Shiheng to reduce environmental emissions and to improve environmental performance;
- at CLP Guohua and Shenmu, the plant management system was reviewed and revamped as part of our drive for continuous improvement and a computerised work management system was successfully launched for all power stations;
- the high availability of the 2x300MW units at Anshun II was occasionally interrupted by coal shortages, which led to unit shutdowns and lower despatch allocation by the Guizhou Provincial Dispatch Centre;
- the FGD plant at Anshun II operated at low availability through 2005, due to the effects of poor coal quality. The FGD is being upgraded to remove higher sulphur levels than those envisaged in the original design, so that emissions can be brought back to a low level; and
- the capacity factor at Huaiji was affected by annual variations in water resources.

Management of Tariff Issues and Coal Costs

Continuing increases in coal prices in the Mainland affected the earnings from all our coal-fired generation joint ventures, most notably in Shandong where coal prices rose by over 20% during the year. These problems least affected the stations operated by CLP Guohua. In close collaboration with our joint venture partner Shenhua (which itself has interests in coal resources), we were able to maintain a stable coal supply to CLP Guohua with more moderate increases in price.

The station by station position on tariff levels and fuel supply is set out in the following table:

Station	Approved Tariff (fen/kWh)	Status of Tariff	Fuel Type	Future Development/ Outlook
Daya Bay	Determined at Guangdong Nuclear Power Joint Venture Co., Ltd according to its JV Contract with consideration to the competitiveness of its electricity	Implemented	Uranium – various supplies	Fuel supply adequate
Guangzhou Pumped Storage	Based on service charge per installed capacity	Agreed under long-term agreements	Pumped storage between dedicated reservoirs	
Shiheng I and II	41.0	No tariff increase in 2005	Coal – Shandong mines	Considering application for a single unified tariff for all the power stations in the joint venture
Heze II Liaocheng	37.85 37.85	Increased by 1.85 fens/kWh for planned generation due to coal price	Coal – Shanxi mines	Considering application for a single unified tariff for all the power stations in the joint venture
*Yire *Sanhe *Panshan	43.6 35.8 38.9	Increased by 2.4 fens/kWh due to coal price	Coal – Supplied by Shenhua from Shaanxi and Inner Mongolia	Adequate and stable coal supply
Shenmu	29.45	No tariff increase in 2005	Coal – Local mines	Adequate coal supply but much increased price
*Anshun II	26.7	Increased by 1.7 fens/kWh due to coal price	Coal – Guizhou local mines	Some coal shortages may continue
Huaiji	38.53 (4 different tariffs for peak/off-peak periods and dry/wet seasons)	Higher tariffs achieved by use of reservoir regulating capability	Small hydropower	Renewable energy source

* From mid 2005 onwards, the above tariffs applied to all units sold for both planned and excess generation

All of the power stations in which we hold an interest are subject to tariff levels which have been approved by the relevant authorities and implemented.

The tariff increases allowed at the Shandong and Anshun stations by the relevant authorities were not set at levels which fully compensated for the substantial increases in coal costs. This is an issue which we will continue to pursue in 2006.

Fangchenggang

State approval for this 2x600MW coal-fired power station project was obtained in March 2005, which then allowed the formal establishment of the joint venture company, CLP Guangxi Fangchenggang Power Company Ltd. This is the first greenfield project in China where CLP has a majority shareholding and will lead the construction and operation. Our aim is to complete the project at a cost and to a schedule that is competitive in the PRC domestic market.

Piling work has already been completed. Seawall construction and land reclamation are well underway. Construction is also in progress on the chimney, boiler/turbine units and main plant house foundations. As at 31 December 2005 contracts representing 68% by value of total project costs had been signed and work to a value of 4% had been completed.

The project remains on schedule to bring the first unit into commercial operation by the end of 2007, with the second unit coming on line in 2008.

Renewable Energy

We believe that the Mainland offers significant opportunities for investment in renewable energy, principally wind and hydro-power.

For some time, CLP's stake in the Huajji hydro-power joint venture in Guangdong acquired in 1997 constituted the Group's only investment in renewable energy in the Mainland. Recent years have seen CLP exploring wind power projects along the South China coast. 2005 was marked by good progress in pursuing renewable energy opportunities in the Mainland.



Fangchenggang project – well on track



The completion of a restructuring of the Huaiji Project resulted in an increase in CLP's interest from 41.5% to 75%. The joint venture period was extended by 20 years to 2047 and a more robust financing structure was arranged to refinance the existing debt and provide new capital. The commercial and operational performance of this project has significantly improved. We are now resuming the construction of the Xinwan 16MW station which had previously been deferred until the joint venture had been put on a more sustainable footing.

On the Changdao Wind Power Project, construction of the 110kV substation and erection of the wind turbine generator was completed. Testing and commissioning work is now underway, aiming at commercial operations in the first quarter of 2006.

Earnings

Earnings from generating facilities in the Chinese mainland serving Hong Kong, i.e. GNPJVC and PSDC, were HK\$760 million, an increase of HK\$33 million resulting from higher generation from GNPJVC.

Earnings from other projects in the Chinese mainland were affected by sustained increases in coal prices. The tariff adjustment allowed in these projects, in particular Shandong and Anshun, during the year were not adequate to compensate for the increase in fuel costs which in turn adversely impacted their earnings contributions to the Group. The increase in earnings of HK\$99 million to HK\$205 million in 2005 was largely due to a lower profit base in 2004 as a result of the one-off hedging breakage cost and write-off of the previously capitalised loan arrangement fee of Shandong when the loans were refinanced.

On the development side:

- the equity joint venture for the Weihai wind power project has been formed and the procurement of wind turbine generators is being arranged;
- the Nanao joint venture company was established in late 2005 and construction work will start soon; and
- our Roaring 40s joint venture is developing the Shuangliao wind farm in partnership with the Datang Group.

When these projects are completed, CLP will hold a total of about 118 equity MW of renewable energy generating capacity in the Mainland – a substantial increase from the 34.2 equity MW we held as recently as 2004.