



I am pleased to present our Interim Report for the half year ended 30 June 2004 and to record a satisfactory performance by the CLP Group over this period.

Financial Results for the six-month period

The operating earnings of CLP Holdings for the six months ended 30 June 2004 increased by 9.6% to HK\$4,014 million, as compared with the corresponding period in 2003. It was encouraging to see that this growth in earnings came from both our Hong Kong electricity business (regulated by the Government of the Hong Kong Special Administrative Region under the Scheme of Control) and our non-Scheme of Control businesses, notably our investments in the electricity sector in the Asia-Pacific region.

Total earnings (which include Hok Un redevelopment profit) for this interim period were HK\$4,138 million (HK\$1.72 per share), an increase of 11.4%, compared to HK\$3,714 million (HK\$1.54 per share) in 2003.

Earnings from our electricity business in Hong Kong increased by 9.6% to HK\$3,337 million, whilst operating earnings from non-Scheme of Control activities grew by 11.4% to HK\$791 million, an increase of HK\$81 million compared to the same period in 2003.

Hong Kong

The Hong Kong electricity business remained the main source of the Group's earnings, contributing 81% of our operating earnings before deduction of unallocated expenses (2003: 81%). Overall, sales of electricity in Hong Kong in the first half of 2004 grew by 2.5% compared with the same period last year. Slow growth earlier in the period was attributable to temperatures being cooler than normal. However, the strength of underlying demand, and Hong Kong's gradual economic recovery, was dramatically illustrated on 2 July 2004, when our local demand reached a historical peak of 6,329MW. This represented an increase of 7.7% from the previous maximum demand of 5,874MW in summer 2003.

In my Chairman's Statement to our 2003 Annual Report, I commented on the likelihood that discussions with the Hong Kong Government on the future electricity regulatory regime would move forward during the course of this year. I also noted that any regulatory regime which



is introduced after the expiry of the present Scheme of Control in 2008 should be on terms which ensure that the quality of electricity supply is maintained in Hong Kong and that the necessary investments continue to be made.

The sharp and significant growth in maximum electricity demand which has occurred in summer 2004 shows the importance of making the necessary investment in our electricity infrastructure in advance of demand. It also demonstrates that increases in demand can be steep and unexpected and that, even for a mature economy such as Hong Kong, it is unwise to assume that demand in growth will be slow and predictable, and to under-invest accordingly. The increase in maximum demand compared to 2003 was 455MW. To put this in context, this increase alone is equivalent to almost a quarter of the current generating capacity at our Black Point Power Station. On an overall basis, our reserve margin of generating capacity to meet local demand has now fallen from 40.7% to 30.6%.

Increases in electricity demand bear not only upon our generating capacity, but also upon the adequacy and reliability of our transmission and distribution network in Hong Kong. The weather during the last week in June was continually hot and humid. Consequently some significant incremental load increases, up to 38% in some locations, were observed in a variety of residential areas, particularly over the evening periods. Such sharp increases present challenges to any

electricity network, yet reliability and availability of electricity supplies were maintained at the customary high levels.

These figures illustrate the straightforward point that present demand can only be met by past investment. CLP's policy of prudent and continuing investment, backed by certainty in the regulatory regime which enables those investments to be made and for reasonable returns to be earned by our investors, continues to provide the foundation for ensuring that Hong Kong has an electricity infrastructure which meets the needs of our community.

Chinese Mainland and Asia Pacific

The performance of the Group's investments in the Mainland and the Asia-Pacific region is described in more detail later in this Interim Report.

I wish to note that these activities, whilst more volatile in nature than the Hong Kong Scheme of Control business, are now contributing sustainable and significant income to the Group. This indicates the progress that has been made in CLP's policy of diversifying its investments, such that we no longer solely rely on the earnings from our Hong Kong electricity business.

The increase in Hong Kong's domestic demand reflects economic trends that extend across much of the Asia region, including some of the countries where CLP has

a presence and is ready to consider further investment. There is very considerable activity in new projects in the Chinese mainland, due to high demand growth, and opportunities for CLP to maintain its position in this market. Similarly, the economic growth in India, Thailand and Taiwan is increasing pressure for further private sector power projects to support the state utilities. Whilst sustainable economic growth creates the basis for expanding our business outside Hong Kong, we will approach all such opportunities cautiously to ensure that any new investment is supported by strong fundamentals of providing power at affordable and competitive prices, and delivering an acceptable return.

This Interim Report explains not only our financial and operational performance, but also the broader environmental and social aspects of our activities. Your Board and I remain committed to the careful stewardship of your Company's affairs and to overseeing a performance in the second half of this year, and beyond, which builds upon the good results achieved in the first half of 2004.



The Hon. Michael D. Kadoorie

Hong Kong, 4 August 2004



The Chairman engaged in a lively exchange with a shareholder during questions at the Annual General Meeting.