How did we do in 2004?

Asia-Pacific Region

CLP has a significant presence in the electricity generation business in Australia, India, Taiwan and Thailand. With the exception of Australia, we are now the leading international investor in the power sectors of all these countries. The broad regional trends we have seen in 2004 may be summarised as follows:

- the continued withdrawal of US and European power investors owing to financial pressures and strategic changes in their domestic markets;
- in most cases, no meaningful initiatives towards the privatisation of state-owned assets and the development of competitive markets; and
- the return of economic growth to the region, which may gradually create new greenfield opportunities for the private sector.

During 2004 CLP has continued to explore opportunities to develop greenfield projects, acquire further operating assets and develop further strategic partnerships, consistent with our objective to build meaningful and sustainable businesses in all our target countries. However, conditions were not yet favourable to bring any such opportunities to closure and the net result in terms of new business development in 2004 was disappointing.

The major focus of CLP's activities in 2004 has been to optimise the performance and value of our existing assets. The table below summarises the operating performance of those stations in which CLP has a stake. In the following paragraphs we give further background on those assets.

Station	Rating (MW)	Generation (GWh)	Utilisation (%)	Availability (%)	Note
GPEC	655	3,717	64.6	92.9	Gas-fired
Ho-Ping	1,320	8,706	90.1*	91.9*	Guaranteed hours*
Rayong (EGCO)	1,232	7,516	69.5	90.8	Gas-fired
Khanom (EGCO)	824	6,168	85.2	90.4	Gas-fired
Yallourn	1,480	11,402	87.7	88.4	Record output

These assets have power off-take arrangements, which vary significantly from country to country, ranging from a deregulated electricity market in Australia to long-term power purchase agreements with a state-owned national electricity utility, such as in Taiwan. These arrangements are summarised in the following table.

Station	Off-taker	Off-take Arrangement	Duration
GPEC	Gujarat Electricity Board	Power Purchase Agreement	20 years
Ho-Ping	Taipower	Power Purchase Agreement	25 years
EGCO	Electricity Generating Authority of Thailand	Power Purchase Agreements	20 years
Yallourn	National Electricity Market	Merchant Energy Market	N/A

Gujarat Paguthan Energy Corporation Private Limited, India

High reliability and safety standards were maintained at GPEC in 2004, accompanied by improvements in the economic performance of this investment.

An amended power purchase agreement (PPA) with the off-taker, Gujarat Electricity Board (GEB) was concluded at the end of 2003. This was intended to strike a more sustainable balance between the interests of GPEC and GEB by:

- producing a meaningful reduction in the cost of power supplied by GPEC to GEB;
- maintaining an acceptable return on CLP's investment in GPEC; and
- promoting improved performance by GEB in meeting its obligations to pay GPEC on a timely basis.

The implementation of this amended PPA proceeded satisfactorily with an improvement in the monthly collection of payments to GPEC, as compared to previous years. GEB also successfully issued a Rupee 3 billion bond and applied the proceeds of approximately HK$500 million to reduce overdue receivables. However, a number of outstanding amounts are still under dispute with GEB.

The improvement in GPEC's financial performance and in the business environment generally in Gujarat is such that we have started to explore the possibility of developing a second phase to the GPEC plant. The feasibility of doing so clearly depends on being able to offer competitively priced energy, and our ability to obtain secure fuel and off-take commitments and payments.

Ho-Ping Power Company, Taiwan

The Ho-Ping Power Station was commissioned in 2002. Since then the major operational focus has been on bringing the plant to higher reliability levels. During 2004, the experience and capabilities of the operators increased significantly and this has contributed to achieving more stable operation. However, there are still a number of issues relating to the plant design and manufacture, such as boiler tube leaks, that continue to cause the units to trip more frequently than is acceptable. We are giving close attention to resolving these issues.

On 25 October 2004, the roof of Coal Dome B was ripped off during the passage of typhoon "Nock Ten". Once the immediate damage was cleared, the station was able to return to normal operation, making use of the two other coal domes which were undamaged. Action in respect of insurance and equipment warranties is under consideration.

The surge in coal prices and freight costs over 2004 had a significant financial impact on earnings from Ho-Ping. Coal prices have roughly doubled and freight costs increased by up to four times compared to historical levels. The PPA with Taipower allows at least partial recovery of these additional costs in subsequent years, depending on the coal prices actually paid by Taipower.

In July 2004 we completed a partial refinancing of the project which is estimated to result in future interest cost savings of NT$116 million (approximately HK$28 million) over a seven-year period.

Electricity Generating Public Company Limited, Thailand

The operations of EGCO's plant and the implementation of the PPA with the Electricity Generating Authority of Thailand (EGAT) continued smoothly during the year.

There was mixed progress on broader issues relating to CLP's investment in EGCO. CLP is represented on the EGCO Board and its subcommittees, with four directors out of a total of 15, and is able to participate meaningfully in supervising the existing assets and developing new business. However, a proposed share swap between EGAT and Banpu (CLP's partner in the BLCP project) did not proceed due to an unrelated issue of value added tax on fuel.

The reform of the Thai electricity industry which would have included the privatisation of EGAT has been on hold for some time. However, following its re-election in February 2005 the Thai government has announced that it would proceed with the plan to privatise EGAT and other state-owned enterprises. In the meantime, relations with EGAT which is both the largest single shareholder in EGCO, as well as being its off-taker and potential major competitor in generation, have been affected by the position on the BLCP project. Under the terms of a Joint Development Agreement, EGCO may acquire half of CLP's 50% interest in the BLCP project (discussed further below). Todate no agreement has been reached regarding the price for any such transfer. CLP will respect its obligations under the Agreement and will make all efforts to resolve this matter amicably so as to transfer its shareholding in BLCP at a market value.

EGCO's track record of new business development has historically been less than satisfactory. 2004 saw significant improvement in this area with the start of construction of Kaeng Khoi 2, a 1,400MW combined cycle gas-fired station developed by EGCO's 50% owned subsidiary, Gulf Electric. The 1,070MW Nam Theun 2 hydro project in Laos, in which EGCO holds a 25% stake, has also made progress.

BLCP Power Limited, Thailand

Progress on the construction of BLCP project, which CLP is managing on behalf of our joint venture with Banpu Public Company Ltd., remains satisfactory and to a schedule which would see the two units entering service in 2006/7. A slight delay was caused by late shipping of major electrical equipment, but is not expected to affect the installation schedule. As at end-December 2004 the design and construction of the power station was 23.7% complete. Capital costs remain within the budgeted amount.

CLP also has the lead role in a separate operating company for the plant. Establishment of the operations organisation is proceeding smoothly.

Following financial close of this project, achieved in 2003, we welcomed the widening of the lender base in 2004 by the participation of the Asian Development Bank and the Japan Bank for International Cooperation.

Yallourn Energy Pty Limited, Australia

The acquisition of the remaining 8% shareholding in Yallourn Energy was completed in March 2004, meaning that this business is now wholly-owned by CLP.

The plant set a new production record for the third year in succession, even though planned and unplanned outages were marginally higher than expected. One particular reason was a decision to shut down a unit to inspect a turbine rotor and confirm its integrity for continuing operation. Although this was a matter of low risk we applied CLP's principle to put safety above all other issues. The inspection established that the rotor was safe. A broader issue at Yallourn is the aging of the plant and the need for adequate capital expenditure to ensure safe and reliable operation over its planned life. This is an area that will be subject to further detailed review in 2005.

The Morwell River Diversion project, which will secure access to a long-term coal reserve adjacent to the existing area of coal extraction, is nearing completion and remains on schedule and within budget. The upgrade of the station's instrumentation and control systems is progressing, although issues have arisen concerning the cost of the project and the timetable for completion. These are being addressed.

During the year, prices in the National Electricity Market in Australia remained lower than expected, with some impact on earnings from Yallourn. We mitigate market price volatility as far as it is prudent to do so by selling around 80% of the plant's output on a forward contract basis, but the contract prices will inevitably reflect trends in the pool prices.

The 2004 earnings from Yallourn were also adversely impacted by an accelerated amortisation of financing charges in anticipation of re-financing its project loans in 2005.

In August 2004, Yallourn Energy obtained certification from the Australian Industrial Relations Commission of a three-year enterprise bargaining agreement to replace the previous three year agreement, which ended in September 2004. The signing of this new agreement with the various labour unions reflected the constructive approach adopted by all parties involved.

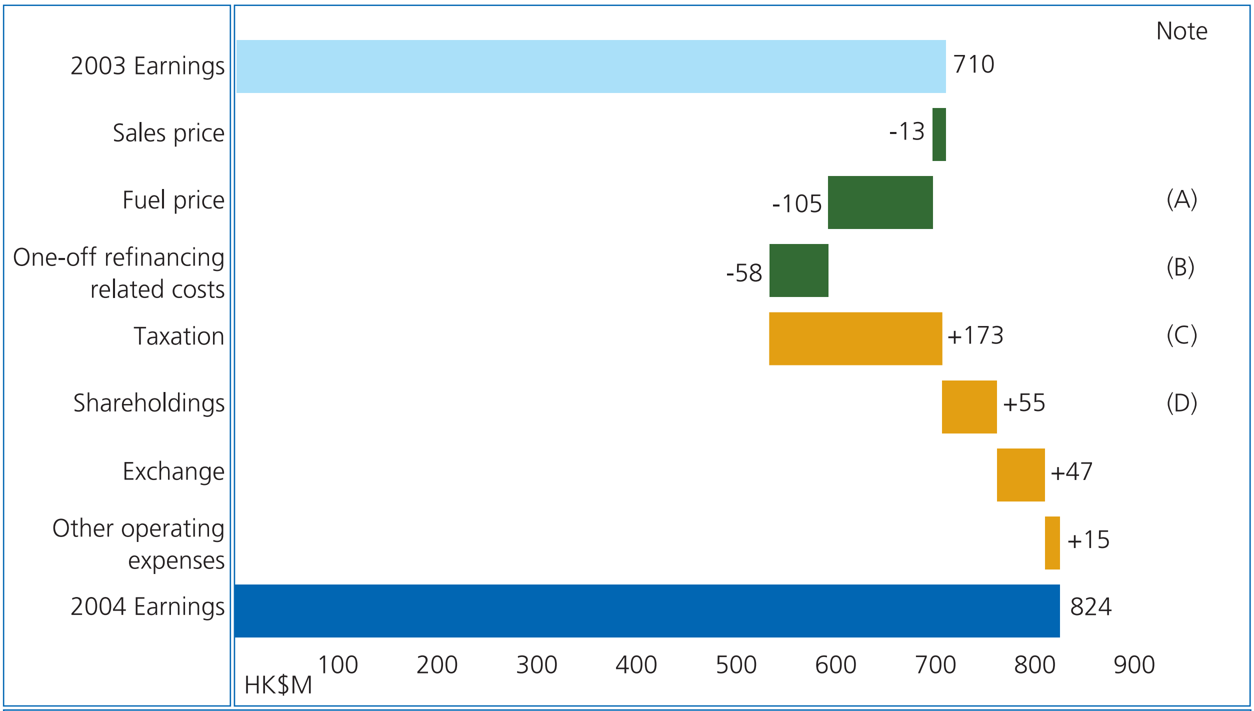
On 7 March 2005, as this Report was on the verge of being finalised, CLP signed an agreement with Singapore Power to acquire its merchant energy business division in Australia for a price of A$2,128 million (HK$12,981 million) subject to adjustment. This business is the fifth largest energy retailer in Australia and sells gas and electricity to over 1.1 million customers in Victoria, New South Wales, South Australia and Queensland. It also owns a 1,280 MW gas-fired power station at Torrens Island, South Australia, an interest in a long-term hedge contract for up to 966 MW, a gas storage facility and rights relating to a 33% interest in a 685 kilometre natural gas transmission line between Victoria and South Australia.

The acquisition, which is targeted for completion by end May 2005, is in line with CLP's strategy in Australia, as advised in this and previous Annual Reports, of moving beyond our single asset position at Yallourn Energy to build a more diversified portfolio, including both retail and generation activities.

The acquisition is a "discloseable transaction" under the Listing Rules of the Hong Kong Stock Exchange. Shareholders will receive further information by a circular likely to be sent out in April. We will also report on this at our forthcoming Annual General Meeting and in our 2005 Interim Report.

Earnings

Earnings from our electricity business in the Asia-Pacific region grew 16.1% to HK$824 million. Factors impacting the earnings growth are explained in the following chart:



Notes:
- (A) Higher coal costs and freight charges adversely affected the earnings contribution from Ho-Ping.
- (B) This represented the accelerated amortisation of the capitalised facility fee of Yallourn Energy as a result of the planned debt refinancing.
- (C) Lower tax provision primarily for Yallourn Energy and lower withholding/dividend distribution tax for GPEC and Ho-Ping.
- (D) This arose from increased shareholdings in Yallourn Energy and GPEC.