

What are we going to deliver in 2005 and beyond?

Business Outlook

In this section we describe the outlook for the CLP Group as a whole and then, in respect of each of our three major business streams,

the business environment and challenges for that business

our objectives and activities for 2005

those envisaged for the medium to longer term

CLP Group

The regulated electricity business in Hong Kong remains the major source of income for the CLP Group. The increasing maturity of this business, evidenced by slowdown of the growth in electricity demand since the early 1990's, coupled with a degree of regulatory uncertainty post-2008, has led us to diversify the Group's activities through investment in the power sector in the Chinese mainland and Asia-Pacific region.

Against this background, the CLP Group's overall objectives for 2005 and beyond are to:

(1) operate the Hong Kong electricity business effectively and achieve a satisfactory and viable post-2008 regulatory regime.

This is discussed more fully on pages 46 to 48 below.

(2) develop substantial and sustainable earnings from our electricity businesses in the Mainland and Asia-Pacific region.

This will require us both to improve the returns from our existing assets as well as to make additional investments. The ability to maintain our earnings per share growth will depend critically on our success in making incremental investments generating quality earnings. Our plans in this respect are set out below on pages 49 to 57.

(3) promote the effective management of our stakeholder relationships.

Our progress and future plans regarding the management of our relationships with shareholders and other key stakeholders whose goodwill and support is essential for the long-term success of the CLP Group are set out on pages 68 to 89.

(4) ensure the ongoing responsible management of the environmental impact of all our operations and projects.

The visible, meaningful and continued improvement in the management of environmental issues has always been a major consideration for CLP. In recent years this has become of increasing importance to the Company and the communities in which we operate. For this reason, our plans and actions on environmental matters are dealt with extensively in our Social and Environmental Report 2004, as well as being outlined on pages 84 to 87 of this Annual Report.

(5) maintain and enforce cost control disciplines, including in respect of corporate overheads, across the entirety of our activities.

Cost control disciplines have long been embedded in CLP. For example, the number of employees engaged in our Hong Kong electricity business has been reduced from 6,502 in 1993 to 3,873 as at the end of December 2004. During 2005 and beyond we will continue to pay close attention to our costs. In particular we will continue to “de-layer” the management structures between the centre and the operating units and to strengthen our matrix management system. By doing so, we intend to avoid duplication of resources within different business units and subsidiaries, reduce corporate overheads and optimise our functional skills, including engineering and operating competences, on a Group-wide basis.

(6) continue to implement a prudent financial strategy.

Our financial strategy aims at balancing the enhancement of shareholder value and prudent financial risk. The main elements of this strategy will be to:

- maintain financial strength through careful control of our debt to total capital ratios at three categories of debt – the borrowings of CLP Holdings and its principal subsidiaries, those of CAPCO and PSDC and the non-recourse borrowings of our subsidiaries, Yallourn and GPEC (see categories 1 to 3 on the chart at pages 42 and 43);
- ensure sufficient liquidity;
- preserve financial flexibility until clarity emerges about the nature of the regulatory regime for our Hong Kong electricity business post-2008; and
- implement a cautious financing strategy for our activities in the Mainland and Asia-Pacific region, including the use of non-recourse debt. Over time, we look to create self-financing capability at local operating unit level and to limit Group funding obligations.

In the medium to longer-term we will reassess our financing strategy, including capital structure optimisation, dividend policy and the return of “excess” capital to shareholders in light of both the regulatory regime in Hong Kong and the quality and availability of investment opportunities outside Hong Kong.

Our intention is also that, in the medium to long-term, growth in the Mainland and Asia-Pacific will be largely financed by self-standing operating units accessing local capital markets as businesses mature, while maintaining effective Group control.

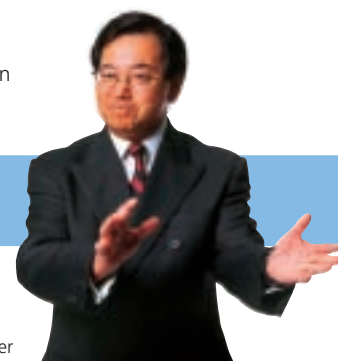
How do you see the company's SoC and non-SoC earnings split in 3 years' time?



Mr. Patrick Lo
Country Fund Manager,
Fidelity Investments Management (H.K.) Ltd.

We are not targeting a particular split between CLP's SoC and non-SoC earnings over the medium to longer-term. Earnings from the Hong Kong electricity business contributed about 80% of total Group operating earnings in 2004. For the next few years, I expect that Hong Kong earnings will remain the major source of Group earnings, even if there is some slowdown in the growth in such earnings.

As regards income from our electricity businesses in the Mainland and Asia Pacific region, growth will depend on the availability of opportunities, whether greenfield projects or acquisitions of existing assets, which meet our investment criteria. We would not be prepared to compromise on the quality of our investments in order to meet a pre-set target for the proportion of such investments within the Group's portfolio.



Peter P. W. Tse
Chief Financial Officer