

# Our Strategy – CEO's Overview

CLP has a clear strategy. We are determined to implement this effectively and are committed to reporting to shareholders honestly on our performance.

Andrew Brandler



Shareholders will be aware of the clear and consistent strategy followed by CLP in recent years to realise our vision of being a leading investor-operator in the Asia-Pacific power sector.

The strategy rests on two pillars:

- the ongoing enhancement of our Hong Kong electricity business, which continues to make the largest single contribution to the Group's earnings; and
- the development of our growing portfolio of electricity businesses in Australia, the Chinese mainland and elsewhere in the Asia region.

The achievement of this strategy requires the effective management by my colleagues and I, under the direction of the Board, of a number of key implementation issues. These include:


- promoting a balanced, durable and viable post-2008 regulatory regime for the Hong Kong electricity business;
- progress towards building self-financing businesses in Australia, the Mainland and in the Asia region and accessing local capital markets;
- focussing on markets with growth opportunities, where CLP can add value and achieve a meaningful and influential presence. This involves a disciplined investment approach in selected markets, while maintaining flexibility for opportunistic investments;
- adopting business models which are tailored to specific markets, but nonetheless allow CLP to apply its core skills and exploit the Group's synergies;

- visible, meaningful and continual improvement on environmental issues, including proactive management of climate change risks associated with the electricity business;
- effective management of stakeholder relationships, including in relation to Hong Kong regulatory affairs. Our activities, and the manner in which we conduct ourselves, affect government and communities across the region – we must manage these relationships fairly and responsibly;
- continued operational excellence. This is one of our core skills and an area where we can add value to the businesses in which we invest and the partners with whom we do business;
- enforcement of cost control disciplines across the Group;
- excellence in safety performance – nothing can be more important to us in the daily carrying on of our business than safety;
- maintaining a prudent financial structure ahead of regulatory clarity for the Hong Kong electricity business;
- maximising the potential of our organisation and of all our colleagues who can contribute to our ongoing success; and
- maintaining high ethical standards, exercising good disciplines of corporate governance and being open and transparent about our performance – whether good or bad.

In 2005 we reinforced our organisational and functional capability to meet our commitment of 5% of our generating capacity coming from renewable energy sources by 2010 with the establishment of a CLP Renewables group.

The CLP Renewables group has been tasked to build up our renewable energy portfolio and will operate along the strategic lines which are summarised below:

Fuel	–	primary focus on run-of-river/small hydro and wind; where available biomass, solar
Approach	–	principally greenfield development; partnership such as our Roaring 40s development platform
Sustainability	–	our investments must be financially, operationally and environmentally viable and sustainable
Value enhancement	–	restructuring opportunities built on CLP core competence, especially for acquisition/expansion projects
Geographic coverage	–	focus on countries where CLP has existing assets or is currently developing, and where available resources and government policies are favourable
Portfolio of assets	–	develop and manage a portfolio of renewables assets; sharing resources/expertise between assets
Local support	–	leverage off our local expertise and relationships
Local partnership	–	develop joint ventures with strong local partners
Robust financing package	–	enhance project economics to protect our return

This Annual Report and the accompanying Social and Environmental Report aim to give you an honest and full account of CLP's performance in 2005 and of our challenges and prospects for the years ahead in the continuing implementation of our business strategy for the benefit of the Company, its shareholders and other stakeholders. 



**Andrew Brandler**  
 Chief Executive Officer  
 Hong Kong, 28 February 2006

 **Mr. Eric Bohm** *Chief Executive Officer, WWF Hong Kong (left)*

Would CLP commit to increased investment in renewable energy generation if the rates of return for "green" generation were higher? How much higher?

 **Andrew Brandler** *Chief Executive Officer (right)*

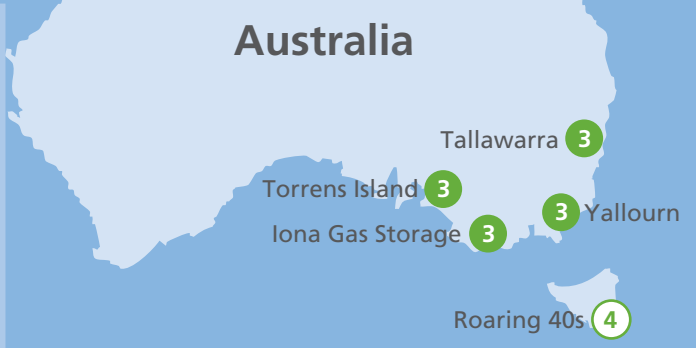
Rates of return are just one factor which we must take into account when reviewing potential renewable energy projects. Such projects must also be viable from an operating perspective (such as the availability of wind resources in the case of wind turbines) and from an environmental viewpoint – from your own work in this area you know that green generation, such as wind or hydro, can have significant local environmental impacts. So higher rates of returns would not, in isolation, allow CLP to increase its investment in renewable energy – and, of course, could lead to increased competition amongst generating companies for those sites and opportunities which become available. Nonetheless, in the long run, substantial and sustainable investment in renewable energy depends on proper returns. We are already seeing some governmental recognition of this. For example the Mainland authorities have recently promulgated the "PRC Renewable Energy Law" (effective 1 January 2006) which stipulates the preferential treatment for renewable projects.

This strengthens my confidence that CLP will meet its target of developing generating capacity from renewable energy sources such that by 2010 this represents 5% of our existing total generating capacity. What's more, if an improved economic climate for renewables continues to emerge, I believe we may revisit that target so that it becomes not a ceiling, but a base from which we can move on to do more.



# Assets / Investments

- Assets in which CLP has a majority shareholding and/or operational control
- Assets in which CLP has no majority shareholding and/or operational control



# Assets / Investments as at 31 December 2005

## Hong Kong

Investments		Equity Interest
<b>1</b>	<p><b>CLP Power Hong Kong Limited (CLP Power Hong Kong)</b> CLP Power Hong Kong owns and operates the transmission and distribution system, covering a supply area of approximately 1,000 sq. km and which includes:</p> <ul style="list-style-type: none"> <li>• 554 km of 400kV lines</li> <li>• 1,167 km of 132kV lines</li> <li>• 274 km of 33kV lines</li> <li>• 10,328 km of 11kV lines</li> <li>• 55,953 MVA transformers</li> <li>• 210 primary substations in operation</li> <li>• 12,434 secondary substations in operation</li> </ul>	<b>100%</b>
<b>2</b>	<p><b>Castle Peak Power Company Limited (CAPCO), 6,596 megawatts (MW) of installed generating capacity</b> CAPCO owns:</p> <p><b>Black Point Power Station (2,500MW, when completed)</b></p> <ul style="list-style-type: none"> <li>• Gas-fired power station (with distillate as back-up) comprising eight combined cycle turbines of 312.5MW each</li> <li>• Units 1 to 7 in operation, Unit 7 commenced operation in August 2005 and Unit 8 is to be commissioned in 2006</li> </ul> <p><b>Castle Peak Power Station (4,108MW)</b></p> <ul style="list-style-type: none"> <li>• Commissioned between 1982 and 1990</li> <li>• One of the world's largest coal-fired power station complexes, comprising eight units ranging from 350MW to 677MW</li> <li>• Two of the 677MW units are capable of burning gas as backup fuel. All units can burn oil as a backup fuel</li> </ul> <p><b>Penny's Bay Power Station (300MW)</b></p> <ul style="list-style-type: none"> <li>• Three diesel oil-fired units of 100MW each, commissioned in 1992</li> </ul>	<b>40%</b>

Note:

CLP Power Hong Kong operates CAPCO's power stations and purchases its power from CAPCO and Guangdong Daya Bay Nuclear Power Station. These sources of power, together with CLP's right to use 50% of the capacity of Phase 1 of the Guangzhou Pumped Storage Power Station, amount to a total installed capacity of 8,576MW.

## Australia

Investments Gross/Equity MW		Equity Interest
<b>3</b>	<p><b>TRUenergy, Australia 3,726MW</b> TRUenergy is an integrated wholesale and retail gas and electricity business in Victoria and South Australia, comprising:</p> <ul style="list-style-type: none"> <li>• 1,480MW coal-fired <b>Yallourn Power Station</b> and mine in Victoria</li> <li>• 1,280MW gas-fired <b>Torrens Island Power Station</b> in South Australia</li> <li>• Ecogen long-term hedge agreement that allows TRUenergy to purchase up to 966MW gas-fired capacity</li> <li>• <b>Iona Gas Storage facility</b> in Victoria</li> <li>• Various long-term gas supply contracts</li> <li>• 33% interest in the SEAGas pipeline between Victoria and South Australia</li> <li>• Over 1.1 million retail electricity and gas customer accounts, mainly in Victoria</li> <li>• Development rights for the 400MW gas-fired <b>Tallawarra project</b> in New South Wales</li> </ul>	<b>100%</b>
<b>4</b>	<p><b>Roaring 40s Renewable Energy Pty Ltd (Roaring 40s), Australia 180/61MW</b> Roaring 40s Renewable Energy Pty Ltd. is a 50:50 joint venture partnership between CLP Power Asia Limited and Hydro Tasmania. CLP has subscribed A\$110 million (approximately HK\$650 million) new capital to become a 50% partner in Roaring 40s.</p> <p>Roaring 40s currently owns 100% of the 65MW Woolnorth Bluff Point wind farm in Tasmania and 50% of the 66MW Cathedral Rocks wind farm in South Australia. Other renewables projects include 49% of the 49MW China Datang Shuangliao wind farm in Jilin Province (吉林省), China, as well as the rights to a number of development sites in Australia and New Zealand.</p>	<b>50%</b>

## Chinese Mainland

	Investments Gross/Equity MW	Equity Interest
5	<b>CLP Guohua Power Company Limited (CLP Guohua) 2,100/630MW</b> CLP Guohua holds interests in three coal-fired power stations, namely Beijing Yire in Beijing (北京), Panshan in Tianjin (天津), and Sanhe in Hebei (河北), with a combined installed capacity of 2,100MW.	49%
6	<b>CLP Guohua Shenmu Power Company Limited (Shenmu) 200/98MW</b> Shenmu Power Station, in Shaanxi (陝西), has two 100MW coal-fired units.	49%
7	<b>Guizhou CLP Power Company Limited (Guizhou CLP Power) 600/420MW</b> Guizhou CLP Power owns and operates two 300MW coal-fired generating units which supply the Guizhou (貴州) power grid and, indirectly, Guangdong Province (廣東省).	70%
8	<b>Shandong Zhonghua Power Company, Ltd. (SZPC) 3,000/882MW</b> SZPC owns four coal-fired power stations, Shiheng I and II (totalling 1,200MW), Liaocheng (1,200MW) and Heze II (600MW), in Shandong Province (山東省).	29.4%
9	<b>Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) 1,968/492MW</b> GNPJVC was established in 1985 to construct and operate Guangdong Daya Bay Nuclear Power Station (GNPS) at Daya Bay (大亞灣). GNPS is equipped with two 984MW Pressurised Water Reactors for which the majority of the equipment was imported from France and the United Kingdom. 70% of electricity generated is supplied to Hong Kong, with the remaining 30% sold to Guangdong.	25%
10	<b>Hong Kong Pumped Storage Development Company, Limited (PSDC) 1,200/600MW</b> PSDC has the right to use half of the 1,200MW pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station until 2034.	49%
11	<b>Huaiji Small Hydropower Stations (Huaiji) 98/74MW</b> Eight small hydro power stations in Huaiji County (懷集縣), Guangdong Province are in operation, with one under construction, amounting to a total of 98MW.	75%
12	<b>HNEEP-CLP Changdao Wind Power Co., Ltd. (Changdao Wind Power) 27/12MW</b> Changdao wind farm is planned to start operation in the first quarter of 2006 and will have a generating capacity of 27MW. It is connecting to the Shandong provincial grid to serve Yantai City (煙台市).	45%
13	<b>CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) 1,200/840MW</b> Construction of a new power station with two 600MW coal-fired units at Fangchenggang (防城港), Guangxi (廣西) is in progress. The first unit will be commissioned by end of 2007.	70%
14	<b>HNNE-CLP Weihai Wind Power Company Limited (Weihai Wind Power) 20/9MW</b> Weihai wind farm is located in Shandong Province and has an initial capacity of 20MW due for commissioning in 2006/7. The power will serve local electricity needs.	45%
15	<b>Huaneng Shantou Wind Power Company Limited (Nanao II Wind Power) 45/11MW</b> Nanao II wind power project of 45MW is located on Nanao Island off Shantou (汕頭), Guangdong Province. The power generated from this wind farm, which is targeted for commissioning in 2007, will serve the local electricity needs of Shantou City.	25%

## Asia

	Investments Gross/Equity MW	Equity Interest
16	<b>Gujarat Paguthan Energy Corporation Private Limited (GPEC), India 655MW</b> GPEC owns and operates a 655MW gas-fired combined cycle power station in Gujarat, India.	100%
17	<b>Ho-Ping Power Company (Ho-Ping), Taiwan 1,320/528MW</b> Ho-Ping owns a 1,320MW coal-fired power station at Ho-Ping, Taiwan. Operation started in 2002 and is by a separate joint venture, with the same shareholdings as Ho-Ping, but with CLP management leadership.	40%
18	<b>Electricity Generating Public Company Limited (EGCO), Thailand 5,630/770MW</b> EGCO owns and operates the REGCO and KEGCO gas-fired combined cycle power stations in Thailand (2,056MW). It also has a 25% interest in the 1,070MW Nam Theun 2 hydro project in Laos and a 50% interest in the 1,468MW Kaeng Khoi 2 CCGT project in Thailand, both under construction. It has invested in a portfolio of small power projects operating and under construction in Thailand and the Philippines, totalling 1,036MW.	22.4%
19	<b>BLCP Power Limited (BLCP), Thailand 1,434/717MW</b> BLCP is the developer of a 1,434MW coal-fired power station now under construction at Map Ta Phut, Thailand. CLP is responsible for construction management and is the major shareholder in the operating company.	50%