

CLP Group

In the following pages, we explain the outlook for the CLP Group as a whole, as well as the business environment for each of the four major business streams and how we envisage these will contribute to our performance during 2006 and in the medium to longer term.

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 the slow-down 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 Australia, the Chinese mainland and elsewhere in Asia.

Against this background, and in line with the business strategy set out on pages 8 and 9 of this Annual Report, the overall business outlook for the CLP Group in 2006 and beyond will include:

- effective operation of the Hong Kong electricity business and the achievement of a satisfactory regulatory regime for that business for the period beyond 2008;
- the continued development of substantial and sustainable earnings from our electricity businesses in the Mainland and Asia as well as a significant contribution from our vertically integrated gas and electricity activities in Australia;
- the effective management of our stakeholder relationships – for a business such as ours, the management of relationships with shareholders and other key stakeholders is essential for our long-term success;
- ensuring the ongoing responsible management of the environmental impact of all our operations and projects;
- the maintenance and enforcement of cost control disciplines, including in respect of corporate overheads, across the entirety of our activities;
- the application of international safety standards to all Group-wide operations; and
- the continued implementation of a prudent financial strategy. In the medium to longer term, our financing strategy may be reassessed in the light of both the regulatory regime in Hong Kong and the quality and availability of investment opportunities elsewhere.

Applying Our Expertise Across the Group

Central to the success of the Group's future activities will be our ability to apply and exploit the expertise we have gained through our existing operations and projects to new ventures and investments. This expertise is substantial, measurable and increasing. It forms one of the major intangible assets of the Group. The improvements we have achieved in project construction are but one example of this:



Extension of Our Experience to Projects Outside Hong Kong

We also have extensive experience in generating electricity from a variety of fuel sources and plant. The following chart explains how, starting from a Hong Kong base, the scope of our expertise has steadily expanded. We believe that we can continue this trend, so that our project management, construction and operational skills can be deployed in new areas of the electricity business in the years ahead.

| Experience in | CLP in Hong Kong | Plus CLP in Australia, Chinese Mainland & Asia | Future? |
|--------------------------|--|--|---|
| Coal-fired plant | Sub-critical steam cycles | FGD* SCR* Super-critical steam cycles | Ultracritical steam cycles Fluidised bed Gasification |
| Gas-fired combined cycle | Original GT* technology Advanced GT* technology | | Further advances in materials and temperatures |
| Coal types | Bituminous Sub-bituminous | Lignite Anthracite | Clean use of low grade coal |
| Gas supply | Pipeline | Initial use of LNG* | Wide use of LNG* |
| Renewables | Small hydro | Wind | Biomass, Waste to energy, Large hydro, Geothermal and Solar |
| Nuclear | Pressurised Water Reactor | | Possible re-emergence of nuclear power |

* FGD – Flue Gas Desulphurisation
 SCR – Selective Catalytic Reduction
 GT – Gas Turbine
 LNG – Liquefied Natural Gas

Our expertise and experience lies in the energy sector, principally electricity. For the foreseeable future we do not envisage undertaking activities outside the energy business. Nor do we intend to pursue investments beyond Hong Kong and the region. We are confident that we have the ability effectively to deploy and exploit our strengths in the energy sector beyond our existing investments and that our region will continue to offer sufficient and attractive opportunities for future growth.