



In 2003, our Hong Kong electricity business and our activities in the Mainland and the Asia-Pacific region all delivered increased value to our shareholders.

Alan Shum

I am pleased to present our Annual Report for the year ended 31 December 2003 and to record a strong financial and operational performance over that period.

Year 2003 Results

In 2003, earnings per share for recurring operations increased by 13.6% to HK\$3.09 per share compared to the previous year. The Scheme of Control (SoC) earnings for the year ended 31 December 2003 grew 8% to HK\$6,281 million. Earnings from non-SoC activities increased by 60.3% from HK\$998 million to HK\$1,600 million.

Total earnings for 2003 were HK\$7,687 million, compared to HK\$7,104 million for 2002. These took into account the Group's share of profit of the Hok Un redevelopment of HK\$240 million. By comparison, the property profits in 2002 were HK\$546 million. The total earnings per share in 2003 were HK\$3.19, an increase of 8.1%.

The Board has recommended a final dividend for 2003 of HK\$0.65 per share and a special final dividend of HK\$0.10 per share paid out of profits of the Hok Un redevelopment. These final dividends, together with the three interim dividends paid during the year, result in a total dividend of HK\$1.98 per share.

In reviewing the financial results for 2003, the Board and I were particularly encouraged by the improvement to Group earnings made by each of our three major business streams:

- the electricity business in Hong Kong regulated under the SoC;
- our investments in the power sector in the Chinese mainland; and
- our presence in the private sector power industry in a number of countries in the Asia-Pacific region.

In recent years, our activities in both the Mainland and the wider Asia-Pacific region have been pursued with increasing emphasis. This policy of diversification has been the result of our awareness of the potential offered by these markets, as well as the risk of solely relying on earnings from our Hong Kong electricity business which may be affected by both regulatory change and the slowdown in local electricity demand as the economy matures.

Nonetheless, the Hong Kong electricity business continues to be the major source of our earnings (80% of the Group's operating earnings before deduction of unallocated expenses in 2003) and represents the primary focus of our investments (62% of the Group's total assets).

Shareholders' Views

Following an invitation issued to shareholders with last year's Interim Report, over 1,100 shareholders are currently participating in a series of visits to our facilities in Hong Kong. We have taken this opportunity to ask for their views and concerns about CLP's business and its outlook. The comments received have centred on the future electricity regulatory regime in Hong Kong and on CLP's environmental performance. This focus from our shareholders comes as no surprise. Both the Board and Management have been giving close attention to these matters for quite some time. I would like to highlight some of our thoughts, actions and initiatives in these two areas.

Post-2008 Hong Kong Electricity Business Regulatory Regime

Since 1964, our electricity business in Hong Kong has been regulated by the Hong Kong Government under an SoC Agreement.

CLP, working within the framework of a stable regulatory regime, has provided our community with an electricity supply characterised by:

- high reliability;
- reasonable and affordable tariffs;
- high productivity and efficiency;
- good customer service; and
- environmental responsibility.

During the past 40 years, the social and economic life of our community has never been constrained or inconvenienced by shortcomings in electricity supply. As will be apparent to those shareholders and stakeholders who travel widely, Hong Kong's performance in this respect has been markedly different from that in other countries within our region and elsewhere. Moreover, unlike other countries, and, for that matter, other public services here, Hong Kong's electricity infrastructure has been entirely funded by private sector investment. Taxpayers have never been called upon to subsidise, directly or indirectly, the provision of Hong Kong's electricity service.

In previous years, CLP has cautioned against the risk of hasty and ill-advised changes to the electricity regulatory regime. During 2003, a series of dramatic blackouts in North America and western Europe underlined the importance of a reliable electricity supply and that, even in developed countries, this should not be taken for granted. There are lessons to be drawn from these incidents, including:

- the severe consequences to a developed economy of electricity failures, including the massive social and economic costs;
- the community's intolerance to interruptions in supply;
- the cumulative negative effects of under-investment and inadequate maintenance and the consequences of regulatory disincentives to invest in and properly maintain electricity systems;

- the dangers of using electricity infrastructure, such as by complex interconnection of pre-existing systems, in a manner for which it was not originally designed;
- multiple participants in electricity supply blurs accountability to the community for the reliability of supply and responsibility for failures; and
- the significant risks associated with electricity sector reform. Such reform is irreversible and yet the resultant risks are not necessarily apparent at the outset, but materialise over the medium to longer term.

It seems likely that discussions with the Government of the Hong Kong Special Administrative Region on the future electricity regulatory regime will move forward during the next year or so. CLP intends to be an active and constructive participant in these discussions. We are entitled to play an influential role because we, together with our longstanding partner, ExxonMobil, who holds a 60% stake in the power stations in Hong Kong, have invested in, own and operate all of the electricity infrastructure within our supply area. Even more importantly, during the past century, we have demonstrated an unwavering commitment and ability to provide our community with an electricity supply which meets its needs.

It is clearly in the interest of both shareholders and customers that a quality electricity supply is maintained in Hong Kong, that the necessary investments continue to be made and that reasonable returns are earned by those investors who make this possible. CLP will be a strong voice against any regulatory change which puts in doubt our ability to continue to provide a first-class service to the community and fails to allow our shareholders to make a proper return on the investment which they have made in providing the necessary infrastructure. Conversely, we will be a strong voice in supporting any regulatory regime which maintains and builds upon our past and current achievements and respects the interests of all concerned, including shareholders and customers.

Environmental Responsibility

Details of the many practical steps that CLP has been taking to meet its environmental responsibilities are set out in the "CLP and our Environment" section of this Annual Report and, above all, in our [Social and Environmental Report](#), which will be published in March 2004.

I wish to touch on two aspects of CLP's environmental performance, which I know are of interest to our shareholders and other stakeholders.

The first relates to CLP's involvement in renewable energy. We are keen to make use of renewable energy opportunities. We have a policy of active involvement and encouragement of renewable energy sources. This has led us to invest in a set of hydro power stations in Guangdong, to work on developing new hydro power projects in Sichuan, as well as pursuing wind power initiatives in Hong Kong and commercial wind power projects along the Guangdong coast. I hope to see material progress on these activities during the coming year.

The second of these environmental issues is that of air quality in Hong Kong. As a resident, I share the community's concerns about the worsening visibility in Hong Kong over the past two decades. As the Chairman of CLP, I expect the Company to continue to contribute to improving this situation.

The background to the problem is quite clear – the majority of all emissions which affect Hong Kong originates from elsewhere in the Pearl River Delta. For this reason, the Hong Kong Government has recognised that this matter must be tackled on an integrated basis within the Delta, including through close co-operation with the Guangdong Provincial Government.

CLP must play its part by improving its own emissions performance – not only because this is the right thing to do, but also because this supports the efforts of the Hong Kong Government in promoting improved performance in Guangdong.

Emissions from power stations in Hong Kong operated by CLP are lower today than they were 10 years ago. Through operational measures such as fuel diversification and the application of practical international standards and technology, we are confident that we can continue to improve our emissions performance. We believe this can best be done within the framework of a practical and stable emissions policy across all industries. This should clearly set out long-term emissions targets for all sectors, with the electricity sector being given the flexibility to choose and pursue the most effective compliance strategies, including retrofitting of existing equipment.

This requires not only a clear emissions policy, but also recognition that significant shareholder investment will need to be made to existing plant in terms of retrofitting environmental technology. This brings me back to the point I made earlier, namely the importance of establishing a clear and balanced post-2008 electricity regulatory regime, which promotes the long-term investment required to support a first-class electricity supply, including one characterised by continued improvements in environmental performance.

This year's results show that, building on a century of experience in the electricity business, CLP continues to deliver value to our shareholders – both from our activities in Hong Kong and, increasingly, those pursued in the Mainland and Asia-Pacific region. Our continued success and prosperity depends upon excellence in the performance of all aspects of our business and the delivery of social, economic and environmental value to all our stakeholders.



The Hon. Michael D. Kadoorie
Hong Kong, 25 February 2004

Visiting Ho-Ping Power Station,
Taiwan



CLP Centenary Scholarship
Presentation