

## Chairman's Statement



Alan Shau

I am pleased to present our  
Interim Report for the six months  
to 30 June 2006.

### Financial Results for the Six-month Period

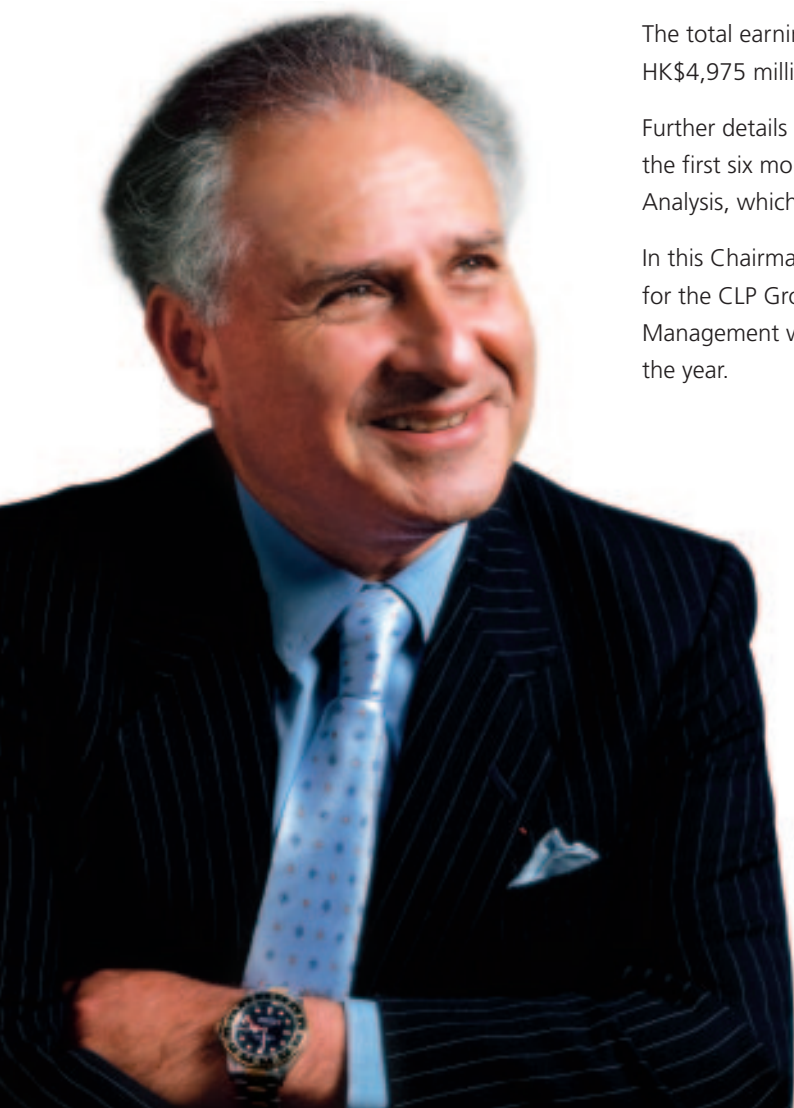
CLP Group's total operating earnings for the first half of 2006 increased by 11.2% to HK\$4,936 million, as compared to the corresponding period in 2005. Included in the total operating earnings is a one-off item relating to a premium gain of HK\$291 million on the formation of OneEnergy.

The growth in these earnings mainly arose from our investments in the electricity sector in the Asia-Pacific region. It is encouraging to note that CLP's policy of diversifying its business beyond our home base in Hong Kong, which we have been pursuing for several years, is now contributing to the delivery of significant and ongoing value to our shareholders.

The total earnings, which include Hok Un redevelopment profit, amounted to HK\$4,975 million, representing a growth of 7.9%.

Further details of the financial and operational performance of the Group in the first six months of 2006 are set out in the Management's Discussion and Analysis, which forms part of this Interim Report.

In this Chairman's Statement, I wish to look forward and explain the outlook for the CLP Group, including the key tasks and issues to which the Board and Management will be giving particular attention during the second half of the year.



## Hong Kong – Regulatory Regime

Shareholders will recall that the Hong Kong Government initiated a two-stage public consultation process on the future of Hong Kong's electricity industry, as an important step in the development of the regulatory regime for the electricity sector upon the expiry of the current Scheme of Control agreement in 2008.

The Stage II Consultation ended on 31 March 2006. CLP and Government have commenced discussions on the post-2008 regulatory arrangements. CLP would like to see these discussions move forward as soon as possible. The electricity industry provides a vital service to Hong Kong. It is an industry which demands ongoing, large-scale investment and long-term planning. 2008 is fast approaching. In order to ensure the continuing security, quality and efficiency of Hong Kong's electricity supply through to the end of this decade and beyond, it is critical that the future regulation of the power industry be clarified in a timely manner to remove unnecessary uncertainties.

Whilst I cannot predict the outcome of the discussions between CLP and Government, I can say with certainty that CLP will adopt a constructive, positive and realistic approach in these negotiations.

At its heart, our position is quite straightforward – the existing Scheme of Control has served Hong Kong extremely well. Together with strong environmental performance, it has enabled our community to enjoy a first-class and reliable electricity service at reasonable tariffs, whilst offering fair returns to the investors who have funded the necessary investments in the Special Administrative Region's electricity infrastructure. The merits of the Scheme of Control are visible, measurable and enduring. We will work hard with Government to amend the existing arrangements, where this is necessary to reflect changes and challenges arising from the economic and social development of Hong Kong. However, it is important that the post-2008 arrangements retain the present balance between the interests of CLP's shareholders, our customers and the community as a whole, and that these arrangements promote continued excellence in the electricity supply, on which Hong Kong's well-being depends.

## Hong Kong – Liquefied Natural Gas (LNG)

A good example of the long-term decision-making which the electricity business requires is the steps we are taking to bring LNG to Hong Kong in order to succeed the depleting gas resource in the South China Sea that is currently supplying the Black Point Power Station.

The completion of an LNG receiving terminal in Hong Kong and the availability of LNG supply by 2011 are crucial to our customers from the perspective of both environmental performance and reliability of electricity supply.

The Environmental Impact Assessment (EIA) studies for two potential sites for the LNG receiving terminal are scheduled for completion in August this year. By early 2007 we must have the site acquired and relevant government approvals in place, so that commercial contracts can be awarded to tie in with the significant amount of work required by the suppliers on upstream gas development, shipbuilding and site construction.

Our timetable for this project is challenging but achievable. It is right that a project of this size and nature should be subject to Government oversight and approval. We have kept Government informed of our plans from a very early stage, starting almost three years ago, including the importance of the arrival of LNG in Hong Kong by the end of this decade. As the EIA studies are being completed, we will be consulting the public and we will continue to work hard with various government bureaux and departments throughout the second half of this year to ensure that the LNG project stays firmly on course.

## Hong Kong – Emissions Reductions

Our Hong Kong power plants recorded a substantial reduction of emissions during the first six months of the year. This is largely due to the increased use of ultra-low sulphur coal, which is by far the cleanest coal available around the world for power generation.

We are moving forward with the retrofit of additional emissions reduction facilities at Castle Peak Power Station. We have submitted the EIA report to Government and are on track with our front end work.

## Chairman's Statement

Our present programme envisages four major emissions reduction facilities being completed from 2009 onwards. This is a challenging programme, given the significant demolition and plant relocation work needed, and the required operation of these units to meet the summer peak demand means that much of the work must be carried out in winter.

We believe that our efforts in reducing emissions can only be effective in improving air quality as part of a wider and sustained effort by governments on both sides of the boundary and all sectors of the community to improve air quality throughout the Pearl River Delta air shed. In line with this, CLP was one of the early supporters of the Clean Air Charter established in 2005 by the business community in Hong Kong, and which now binds more than 280 leading businesses and organisations in Hong Kong in a shared commitment to develop and implement fair, practical and cost-effective environmental and emissions management policies.

### Asia – OneEnergy

The success of "OneEnergy", our recently-established 50:50 joint venture with Mitsubishi Corporation of Japan, will be measured by its ability to combine the two partners' expertise, capital and local relationships to expand its presence in the power sector in Southeast Asia and Taiwan.



Our Chairman meeting Mr. Yorihiro Kojima, President and CEO of Mitsubishi Corporation

In the coming months, we aim to complete OneEnergy's integration period, with the establishment of key policies, procedures and systems, as well as the further injection of assets currently owned by the joint venture partners. At the same time, we shall be looking to see progress in the pursuit of new development and acquisition opportunities, so that OneEnergy starts to deliver on its potential as an effective

platform for enhancing our stake in its target markets and generating added value to its shareholders.

### Australia – TRUenergy

The process of integrating, within TRUenergy, our existing Yallourn business with the merchant energy business acquired last year from Singapore Power has made significant progress. Over the latter half of this year we will be monitoring the success of this exercise in delivering operating cost savings and providing an organisation capable of responding effectively and rapidly to the challenges and opportunities of Australia's power business and growing its share of that business.

Major activities will include the retention of retail market share in the core Victoria and South Australia markets. We will aim to progress expansion opportunities in New South Wales, in conjunction with our 400MW Tallawarra combined-cycle gas-fired power station which has moved into construction this year, as well as exploring the opportunity to enter the Queensland market, which the government has announced will be open to full retail contestability in mid-2007.

In addition to substantial and positive developments on each of the issues that I have highlighted in this Chairman's Statement, the Board and I will be looking for progress on the other projects and development opportunities we have in hand, such as the construction of our 1,200MW coal-fired power station at Fangchenggang in the Chinese mainland and our renewable energy projects. And at all times, we must maintain the foundations of our business, namely continued excellence in plant and system operation, customer service, safety and environmental performance, as well as financial discipline and prudence – the core attributes on which CLP's reputation and long-term success rests.

I am confident that CLP's Management and staff have the skill and dedication to carry through the challenging tasks of the months ahead. I look forward to reporting to you at the end of the year on the progress that your Company has made.

The Hon. Sir Michael Kadoorie  
Hong Kong, 15 August 2006