

# Chairman's Statement



**In a challenging year,  
CLP continued to meet  
its obligations to our  
stakeholders.**

The Hon. Sir Michael Kadoorie

*Dear Shareholders,*

In the Chairman's Statement which introduced our 2005 Annual Report, I expressed the belief that 2006 would be an extremely important and challenging year for CLP – whether in terms of the shaping of the future electricity regulatory regime in Hong Kong, the effective management of our assets elsewhere or in meeting the expectations of society for the responsible management of the environmental aspects of our business.

In 2006, your Company faced up to these challenges squarely and effectively and, as our results for the year indicate, continued to create and deliver value to our shareholders.

This Annual Report and the accompanying Social and Environmental Report explain, in much greater detail, CLP's progress during the past year and the outlook for the years ahead. In this Chairman's Statement, I wish to concentrate on the status of those major challenges which I highlighted last year. <SER

## **Post-2008 Regulatory Regime for our Hong Kong Electricity Business**

During the year, the Hong Kong Government concluded Stage II of its public consultation on the future of Hong Kong's electricity business, in light of the expiry in 2008 of the Scheme of Control (SoC) agreement which regulates that business. As shareholders know, CLP has been an active participant in the public debate on our industry. We are now engaged in discussions with Government on the post-2008 arrangements. Although this is not a process which we control, there is a reasonable prospect that the future regulatory framework will be settled during the course of 2007.

We have maintained a positive and constructive approach to our dialogue with Government, based on our longstanding view that preserving the quality of Hong Kong's electricity service requires a stable and long-term regulatory regime which continues to strike a fair balance between the interests of all stakeholders.

We must not lose sight of the outstanding quality of the electricity supply which CLP delivers to the Hong Kong community under the present SoC – a supply which is world-class in terms of reliability, cost-effectiveness, affordability, customer service and environmental performance. It is vital that these achievements are recognised and safeguarded.

We must give proper regard to the legitimate interests of the investors in the electricity sector. Hong Kong's electricity infrastructure has been funded entirely by the private sector. It receives no financial support from Government, directly or even indirectly. The nature of our business, involving forward planning and large-scale investment in plants and assets whose economic life may last over decades, depends on the support of our capital providers – both shareholders and lenders, all of whom have many alternatives available as to how and where they invest their funds.

In the electricity industry, investors' decisions can be influenced by factors such as longer-term regulatory and commercial uncertainty, fuel availability and pricing, the prospect of intervention by governments, unpredictable and punitive environmental policy and market development activities. Continued investor support for Hong Kong's electricity business requires such risks to be clearly defined, mitigated where possible and fairly allocated between industry stakeholders, including Government, shareholders and consumers. If investors' interests are not properly respected in the regulatory balance, the danger is that an environment will be created where investments are not made at all, or at the least, are made just too late, rather than just in time, with corresponding consequences for reliability of supply.

In the long run, the interests of investors and consumers are complementary, not contradictory. Over the past 40 years, the SoC has ensured that our investors are fairly rewarded for their commitment in funding the timely and adequate provision of Hong Kong's electricity infrastructure, whilst our community has enjoyed the benefits, through reasonable tariffs, reliability and environmental performance, of the responsible operation of that infrastructure.

In our submissions to Government during the public consultation process and in our ongoing discussions, we have stressed the importance of recognising and balancing the interests of all stakeholders, including CLP and its investors. I remain confident that the outcome of the dialogue with Government, and public and political scrutiny of the agreement which eventually emerges, will reflect a shared determination to ensure that Hong Kong's people continue to enjoy a world-class electricity supply, by safeguarding the achievements already made under the SoC and putting in place a durable regulatory framework which allows us to build on those achievements.



→ (Left) Visiting BCLP Power Station, Thailand  
→ (Right) Being briefed by one of the winners of the Safety Circle Champions Awards


## Environmental Performance

The promotion of ongoing improvement in the environmental performance of our Hong Kong electricity business, above all with respect to air emissions from our power stations, will be an important element of the post-2008 regulatory framework. We need clear policy direction regarding Hong Kong's long-term fuel mix, supported by emissions regulations and standards that recognise the role of each of the components of that fuel mix and the technical and operating capabilities and constraints associated with electricity generation from coal, gas, nuclear and renewable energy sources.

Government, on behalf of the community, will need to support and facilitate the actions necessary to implement its policy decisions. For example, if Government wishes to reduce over time the role of coal-fired generation in Hong Kong, then it must allow the steps necessary to bring liquefied natural gas (LNG) in as a replacement fuel source, such as the establishment in Hong Kong of an LNG receiving terminal. Backing this must be a regulatory regime which enables us to enter long-term contracts with overseas gas suppliers and which promotes the investments needed to further reduce emissions from our generating plant and to fully exploit the potential for use of LNG.

Despite uncertainties about the electricity regulatory framework, we made progress in 2006 in the preparatory work for bringing an LNG receiving terminal to Hong Kong and entering into gas supply agreements. Our emissions reduction programme at Castle Peak Power Station also moved forward, with the issue of an environmental permit for the construction works. The retrofitting of emissions reduction equipment at the station with the latest technology will allow us to maximise the reduction of emissions of NO<sub>x</sub> and SO<sub>2</sub> from our coal-fired units.

Environmental issues, including the risks associated with climate change, will continue to have a growing impact on CLP's activities beyond Hong Kong. They offer both challenges and opportunities. I welcome the success of the CLP Renewables Group, which was established in June 2005, in managing and developing CLP's portfolio of renewable energy assets. We have an increasing presence and expertise in this field, both in terms of the types of renewable energy generation which we develop (hydro, wind and, more recently, biomass) and the diversity of countries in which we own or are pursuing renewable energy opportunities. Our efforts in this area are starting to receive international recognition, as evidenced by CLP being named as "Corporate Developer of the Year" in the Euromoney and Ernst & Young Global Renewable Energy Awards 2006. We are in the process of building a position as a leading developer of renewable energy in Asia.

In our Social and Environmental Report we describe CLP's environmental performance in greater depth, together with the community initiatives which CLP pursues wherever we carry on business – all as part of our commitment to be a responsible energy supplier, adding value to the communities to which we belong. 

## Operating our Assets

Our long-term success, and our credibility vis-à-vis all the stakeholders in our business, be they shareholders, governments, communities and customers, depend on the effective management, operation and maintenance of our assets. The Board and I were encouraged by CLP's performance in 2006, as demonstrated by objective measures and standards, such as the availability of our generating plant, the reliability of our transmission systems and the quality of our customer service. In Hong Kong, our performance in these areas is one of the strongest factors in ensuring continued support from the community for CLP's role in providing them with an essential public service.



→ (Left) Safety Performance Award Ceremony 2006  
→ (Right) Meeting Mr. Yorihiro Kojima, President and CEO of Mitsubishi Corporation, our partner in OneEnergy

Elsewhere, in Australia, the Chinese mainland, Taiwan, Thailand and India, demonstrable expertise in the operation of our assets confirms our standing, with our business partners and local and national governments, as a competent and responsible energy provider with the ability and commitment to meet our engagements to them and to the communities we serve. However, fatal accidents to contractors' staff at Yallourn, Anshun and Fangchenggang during the last quarter of 2006 served as tragic reminders of the need to maintain safety disciplines and to reinforce a safety culture which embraces all those who work at our power stations. I have asked for a thorough review of our policies and practices in this area. The Board and I will be looking for an improved safety performance in 2007.

### Year 2006 – Financial Results

The careful and responsible stewardship of CLP's assets was reflected in a good financial performance in 2006. Given that total earnings in 2005 included a one-off tax consolidation benefit of HK\$2,004 million from Australia, 2006 earnings showed a decrease of 13.3%. However, excluding this tax consolidation benefit and Hok Un redevelopment profit, the Group's operating earnings increased by 7.7% to HK\$9,856 million.

The Board has recommended a final dividend for 2006 of HK\$0.89 per share and a special final dividend of HK\$0.02 per share paid out of the profit from Hok Un redevelopment. These final dividends, together with the three interim dividends paid during the year, result in a total dividend of HK\$2.41 per share, as compared to HK\$2.38 per share for 2005.

The CEO's Review and the following sections of this Annual Report will more fully explain the details of the business and operating performance which lies behind the Group's improved earnings. I am pleased to see a meaningful earnings contribution from all of our main business streams, in Hong Kong and beyond. This provides support for the decision that we took some years ago to diversify CLP's activities beyond Hong Kong, so that shareholders might benefit from a wider earnings base offering a measure of protection against market, regulatory or other risks in any single jurisdiction.

I believe that in 2006, CLP continued to meet its obligations to our stakeholders. We provided excellent service to our customers, we supplied power reliably to the communities we serve, we operated our assets responsibly and we delivered value to our shareholders. With your continuing support, the oversight of the Board and the commitment of its management and staff, CLP is determined to continue to meet those obligations throughout 2007 and beyond.

A handwritten signature in black ink, appearing to be 'Michael Kadoorie'.

**The Hon. Sir Michael Kadoorie**

Hong Kong, 28 February 2007