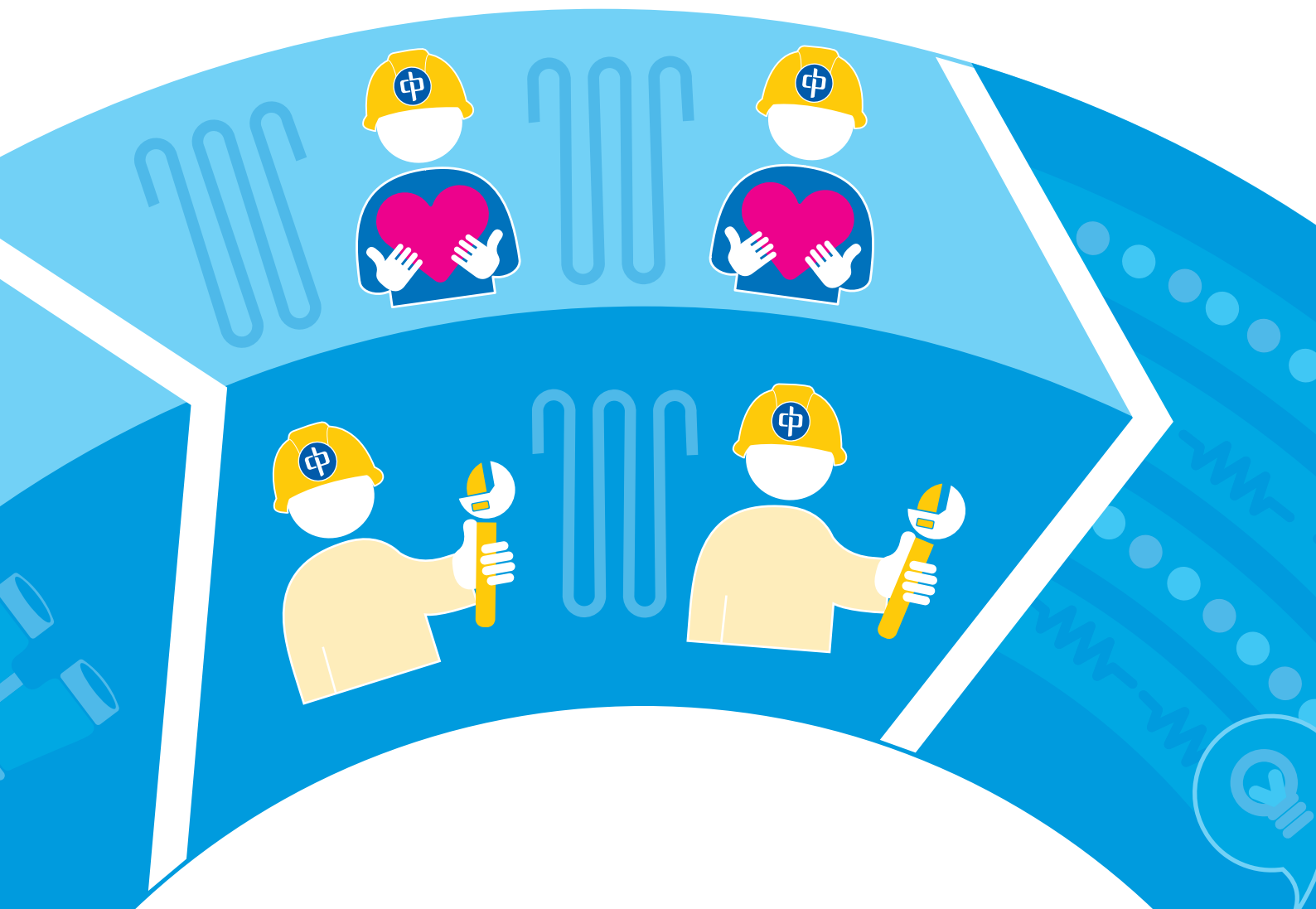


Values and Abilities

The starting point to our “corporate cycle” is the identification of our values (what is important to us and how should we behave?) and an objective and self-critical assessment of our abilities (what are we good at?).



Chairman's Statement

Dear Shareholders,

In this year's Annual Report we explain how, starting with a set of values and an objective assessment of our abilities, CLP can establish and sustain key relationships, build and buy electricity assets, operate them well and create economic, social and environmental value for our shareholders and stakeholders alike. All of this creates a positive outlook for our business. Taking our business forward we can then revisit our abilities (our values should not change much) to assess whether these have improved with experience.


In this Chairman's Statement, I wish to say a little more about the values and abilities on which our business is built.



The Hon. Sir Michael Kadoorie, Chairman

Values

A firm commitment to a set of business principles and ethics which help drive the Company forward has been central to CLP's success over the past century. These principles extend to all aspects of our operations – whatever they may be and wherever they are carried out. They cover how we treat our own people and our relationships with investors, business partners, governments, the wider communities in which we operate and the natural environment.

In 2003, we issued "From Vision to Reality", CLP's value framework, in order to present our corporate values in a comprehensive and structured way. This framework is set out in full on our website so that our shareholders and all stakeholders can see the standards we have set ourselves and judge whether our actions reflect those standards. 

In 2008, we revisited the value framework to see whether it had stood the test of time and experience. To ensure that this review was critical and objective, we consulted internal and external stakeholders, such as staff, academics and non-governmental organisations. The feedback we received gave us new ideas on how better to express some of our existing values. It was clear from this feedback that our value framework was welcomed by our stakeholders and that it continued to represent the right commitments to business principles and ethics, as well as a vision of what we wished to be as a business and as individuals. However, while our values are constant and consistent, the business environment and social attitudes change and evolve – as they always have and will. We thus made a few changes to the value framework to reflect this and the input from our stakeholders, such as further strengthening our emphasis on managing the long-term environmental implications of our activities, especially with regard to climate change, and a growing awareness of our role in helping our employees maintain a proper work-life balance.

However, most elements of the value framework remained unchanged. This included our Code of Conduct which translates our commitments to all our stakeholders into a set of formal written requirements and reminds us that CLP is committed to act with integrity in all its activities. In other words, we care how results are obtained, not just that they are obtained. This is both right in itself and supports a vital company asset, our reputation, which helps our business prosper.

Abilities

Having a clear understanding of our strengths and weaknesses is the first step to success. We have made a rational, self-critical assessment of our own abilities. We concentrate on what, in our best judgment, we are good at (and focus our energies and resources on this). Conversely, we understand and recognise those things that we are not good at (and which we should either get better at doing or avoid). Within the range of our abilities, we aim to look most closely at those areas where we have strengths and advantages relative to other competitors.

Chairman's Statement

I have no doubt that CLP has world-class skills and abilities in the construction, operation and maintenance of electricity supply infrastructure. I believe that these skills extend across the "electricity value chain", from fuel procurement, through generation and transmission to distribution and customer service. The history of CLP and the quality of the asset portfolio and operating performance described in this Annual Report, are the best evidence for this belief. We have also noted that whenever we have moved beyond the reach of our electricity-based skills, such as our venture into a Hong Kong-based telecommunications business in the early 2000s, our efforts have not usually been accompanied by success.

Even within the power business, we must adapt and extend our abilities to new trends, technologies, markets and regulations. CLP does have the capability to exploit its existing capabilities and anticipate or respond to transformation in our business environment. For example, we have steadily moved from almost entirely coal-based generation towards nuclear and gas-fired generation. Our total renewable energy portfolio, which consisted of just over 100 equity MW in 2004 when "Our Manifesto on Air Quality and Climate Change" was published, now comprises more than 1,400 equity MW, with a range of renewable energy sources such as wind, hydro and biomass. We believe that we have become the largest external investor in renewable energy in the Chinese mainland and the largest investor, foreign or domestic, in wind energy in India. However, whilst we have the ability to move into new technologies, we should again be conscious of the limits of our capabilities. Our unsuccessful investment in Solar Systems, which is reflected in a loss of HK\$346 million recorded in our 2009 accounts, reminds us of the care we must take when considering investments in early stage technology development, as compared to the deployment of more mature and proven technology.

We demonstrate responsibility in managing the environmental implications of our business. In doing so, we respect one of our core values, namely care for the environment. The growth of our renewable energy portfolio is one example of this. Another example is the massive reductions we have achieved in emissions from power generation in our Hong Kong electricity business. Since 1990, our emissions of sulphur dioxide (SO₂), nitrogen oxides (NO_x) and particulates have fallen by 64%, 78% and 73% respectively, despite an 83% increase in local electricity consumption over that period. Our Climate Vision 2050, which expresses our goal of making massive cuts in the carbon emissions intensity of our generating portfolio, also shows our determination to be amongst leading companies in the effective management of the environmental aspects of our business.

This leads me to a further area which I think is amongst CLP's strengths – our knowledge of, commitment to, and standing within our markets. Electricity is a public service. There is a strong political and community dimension to our activities. If we do not recognise this we will not understand these markets and we will not be welcome within them. A combination of honesty, good operating skills, environmental responsibility and a commitment to a long-term presence has enabled us to move outwards from our base in Hong Kong and establish a presence in the Chinese mainland, Taiwan, Thailand, India and Australia on such a scale that we are now one of the largest external investors in each of these electricity markets. Set against our strength within the Asia-Pacific region is our lack of familiarity with markets elsewhere. We recognise this. There are plenty of opportunities within our existing markets. I do not expect CLP to pursue investments beyond the Asia-Pacific region in the foreseeable future.



○ Sir Michael with students at CLP's Engineering Studies Award

Of course, we know that whilst market understanding is a strength, it will not always operate as an absolute defence to external influences. The most notable example of this is the continuing vulnerability of our electricity business in Australia, TRUenergy, to political intervention in the form of the Federal Government's Carbon Pollution Reduction Scheme (CPRS). This, if implemented in its proposed form, would have a major adverse impact on the operations of our brown coal-fired power station at Yallourn and the value of that asset. To put it politely, the Australian political scene is unpredictable and volatile. At times, the political discourse about emissions from brown coal-fired generation has been frankly surprising – with unwillingness to consider the implications of policy on electricity supply reliability being accompanied by a willingness, perhaps almost eagerness, to destroy the value of the investments made by existing asset-owners, particularly foreign shareholders. But even here, we have been a strong voice in the debate on the treatment of the power generation sector as this embarks on the transition to cleaner generation – a transition in which CLP would like to play a full part, if a sensible legislative framework ultimately emerges.

Economic Performance

Strong values and a clear awareness of our abilities are worth little unless these translate into the delivery of economic value to our shareholders. Our performance in this regard is set out in considerable detail later in this Annual Report (from pages 58 to 79) and in our Financial Statements. Nonetheless, I wish to add a few words here.

The Group's operating earnings in 2009 were HK\$8.5 billion, a decline of 12.4% compared to the previous year. This was predominantly due to the reduced rate of permitted return under the new Scheme of Control (SoC) in Hong Kong which took effect on 1 October 2008. The Group's total earnings which take into account the provisions associated with CLP's investment in Solar Systems and OneEnergy were HK\$8.2 billion, a decline of 21.4% against 2008. Even so, against a volatile and challenging financial and market environment in recent months, CLP's financial performance has been resilient.

This particularly manifested itself in the significant improvement in our earnings over the second half of 2009, notably in our Chinese mainland activities. Earnings from Australia, India, Southeast Asia and the Chinese mainland all showed substantial increases from the previous year. The improved earnings from these businesses reinforces the decision that we took some years ago to diversify our activities beyond our Hong Kong electricity business and to persevere with these activities, even though they have presented a higher level of risk, uncertainty and volatility compared to our more mature Hong Kong business.

Despite the fall in total earnings, the Board has been able to recommend a final dividend for 2009 of HK\$0.92 per share. This together with the three interim dividends paid during the year, would result in a total dividend of HK\$2.48 per share, the same as in 2008.

Since the outlook for CLP is well described later in this Annual Report, in closing this Chairman's Statement, I will simply express the Board's confidence that all of our major business streams, in Hong Kong and elsewhere, present investment opportunities with the potential to create shareholder value. The combination of our values and our abilities will continue to enable CLP to exploit those opportunities during the years ahead.



The Hon. Sir Michael Kadoorie

Hong Kong, 25 February 2010