



CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), which is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2008 (2008 SoC), immediately after the expiry of the previous SoC which covered the period from 1 October 1993 to 30 September 2008 (1993 SoC). The 2008 SoC covers a period of 10 years to 30 September 2018, with the Hong Kong Government having the right to extend by 5 years on the same terms to 30 September 2023 by giving notice before 1 January 2016. In the event that the 5 years extension option is not exercised by the Hong Kong Government, the SoC Companies will continue to earn the permitted return until 30 September 2023 on all approved investments.

The current SoC includes a provision to give the SoC Companies protection for stranded costs, which may arise as a result of future changes to the market structure which adversely impact on the SoC Companies' ability to recover and to earn returns on existing investments made in good faith in accordance with the SoC. These costs will include the costs of investments, fuel and power purchase agreements previously approved by the Hong Kong Government. If stranded costs arise after the SoC Companies have implemented mitigation measures reasonably required by the Hong Kong Government, the SoC Companies are entitled to recover them from the market, consistent with international practice. Three years before market changes are introduced, the SoC Companies and the Hong Kong Government will agree on the amount of stranded costs and the mechanism for their recovery by the SoC Companies.

Tariff Setting Mechanism

For each year, CLP Power Hong Kong designs the net tariff it charges to cover the SoC Companies' operating costs and allowed net return. The net tariff consists of the following three components:

- (i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula $\frac{(a-b)}{c}$:
 - (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;
 - (b) 80% of the profit on electricity sale to the Chinese mainland; and
 - (c) local unit sales as determined by the load forecast.
- (ii) fuel clause charge or rebate which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate; and
- (iii) SoC rebate from the Rate Reduction Reserve.

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund (1993 SoC: named as Development Fund). The Tariff Stabilisation Fund/Development Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power Hong Kong. A charge on the average balance of the Tariff Stabilisation Fund/Development Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power Hong Kong and is applied as SoC rebates to customers as shown above.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the 2008 SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments (1993 SoC: annual permitted return of 13.5% plus a further 1.5% on the average net fixed assets financed by shareholders' investments).
- The net return is the permitted return after the deduction or adjustment of the following items:
 - (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
 - (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the 2008 SoC (1993 SoC: a charge of 8% per annum on the average balance of the Development Fund), which is credited to the Rate Reduction Reserve;
 - (c) an excess capacity adjustment of 9.99% under the 2008 SoC (1993 SoC: 13.5%) on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
 - (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
 - (e) incentives/penalties adjustments linked with emission performance, customer performance, energy efficiency and renewables performance. These performance related adjustments are only applicable to each full calendar year of the 2008 SoC, and are in the range of -0.43% to +0.2% on the average net fixed assets.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2009 was 9.27% (2008: 12.34%).

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies and ExxonMobil International Holdings Inc. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2009, 65% (2008: 65%) of the net return was allocated to CLP Power Hong Kong and 35% (2008: 35%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Development Fund/Tariff Stabilisation Fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown on page 203 are in accordance with the SoC and the agreements between the SoC Companies.

	12 months ended 31 December 2009 HK\$M	3 months ended 31 December 2008 HK\$M	9 months ended 30 September 2008 HK\$M
SoC revenue	28,437	6,631	23,755
Expenses			
Operating costs	3,102	811	2,389
Fuel	7,029	1,744	5,024
Purchases of nuclear electricity	5,237	1,088	3,943
Provision for asset decommissioning	246	60	—
Depreciation	3,149	771	2,234
Operating interest	537	142	395
Taxation	1,554	338	1,514
	20,854	4,954	15,499
Profit after taxation	7,583	1,677	8,256
Interest on increase in customers' deposits	—	—	2
Interest on borrowed capital	625	165	443
Adjustment for performance incentives/penalties	(41)	—	—
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(115)	(33)	(92)
Profit for SoC	8,052	1,809	8,609
Transfer to Development Fund	—	—	(292)
Transfer from Tariff Stabilisation Fund	103	159	—
Permitted return	8,155	1,968	8,317
Deduct interest on/Adjustment for			
Increase in customers' deposits as above	—	—	2
Borrowed capital as above	625	165	443
Performance incentives/penalties as above	(41)	—	—
Development Fund to Rate Reduction Reserve	—	—	121
Tariff Stabilisation Fund to Rate Reduction Reserve	3	11	—
	587	176	566
Net return	7,568	1,792	7,751
Divisible as follows:			
CLP Power Hong Kong	4,894	1,174	5,041
CAPCO	2,674	618	2,710
	7,568	1,792	7,751
CLP Power Hong Kong's share of net return			
CLP Power Hong Kong	4,894	1,174	5,041
Interest in CAPCO	1,070	247	1,087
	5,964	1,421	6,128

Five-year Summary: CLP Group Financial & Operating Statistics

	2009	2008	2007	2006	2005
Consolidated Operating Results, HK\$M					
Revenue					
Electricity business in Hong Kong (HK)	28,297	30,191	29,684	29,293	28,303
Energy business outside HK	22,175	23,822	20,879	16,143	9,973
Others	196	284	226	266	215
Total	50,668	54,297	50,789	45,702	38,491
Operating profit	10,847	13,307	13,304	12,167	11,586
Earnings					
Electricity business in HK	5,964	7,549	7,589	7,290	7,047
Other investments /operations	3,007	2,564	2,120	2,778	2,789
Other income, net	153	657	1,797	408	–
Provisions for Solar Systems and OneEnergy	(477)	–	–	–	–
Other one-off items of TRUenergy	(17)	19	(503)	–	–
Tax consolidation benefit from Australia	–	–	–	–	2,004
Unallocated net finance costs	(21)	(21)	(90)	(283)	(151)
Unallocated Group expenses	(413)	(345)	(305)	(293)	(269)
Total	8,196	10,423	10,608	9,900	11,420
Ordinary dividends	5,967	5,971	5,973	5,756	5,467
Special dividends	–	–	–	48	265
Total dividends	5,967	5,971	5,973	5,804	5,732
Capital expenditure, owned and leased assets	9,713	7,760	8,271	9,213	8,784
Depreciation & amortisation, owned and leased assets	4,332	4,055	4,650	4,968	4,359
Consolidated Statement of Cash Flows, HK\$M					
Net cash inflow from operating activities	14,529	15,238	14,823	11,472	11,753
Consolidated Statement of Financial Position, HK\$M					
SoC fixed assets	54,712	52,132	49,684	47,516	45,099
Other fixed assets	44,146	36,991	38,925	38,137	36,643
Goodwill and other intangible assets	8,105	6,324	8,135	7,326	6,930
Interests in jointly controlled entities	18,838	17,791	17,684	19,163	16,719
Interests in associated companies	1,813	242	299	18	1,798
Other non-current assets	9,588	8,166	8,272	6,615	6,109
Current assets	19,329	11,185	13,278	12,316	10,825
Total assets	156,531	132,831	136,277	131,091	124,123
Shareholders' funds	70,761	63,017	63,901	55,838	50,629
Minority interests	107	105	95	78	111
Equity	70,868	63,122	63,996	55,916	50,740
Bank loans and other borrowings	39,431	26,696	28,360	30,278	29,391
Obligations under finance leases	21,855	21,765	22,216	22,810	21,497
SoC reserve accounts	1,654	1,826	2,300	3,346	4,174
Other current liabilities	14,023	11,205	11,538	10,781	10,912
Other non-current liabilities	8,700	8,217	7,867	7,960	7,409
Total liabilities	85,663	69,709	72,281	75,175	73,383
Equity and total liabilities	156,531	132,831	136,277	131,091	124,123
Per Share Data, HK\$					
Shareholders' funds per share	29.41	26.19	26.53	23.19	21.02
Earnings per share	3.41	4.33	4.40	4.11	4.74
Dividends per share					
Ordinary	2.48	2.48	2.48	2.39	2.27
Special	–	–	–	0.02	0.11
Total	2.48	2.48	2.48	2.41	2.38
Closing share price					
Highest	57.55	70.50	59.95	57.90	46.25
Lowest	51.15	42.85	50.25	43.15	42.80
As at year-end	52.45	52.60	53.25	57.50	45.00

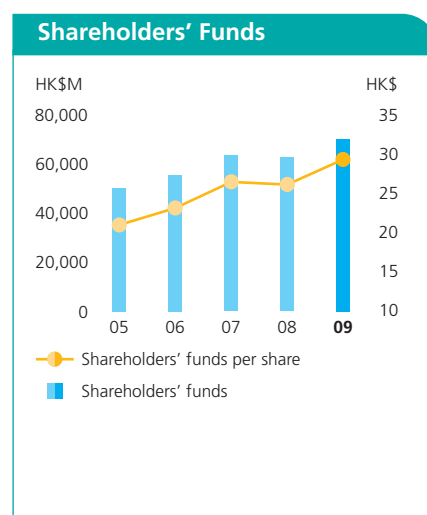
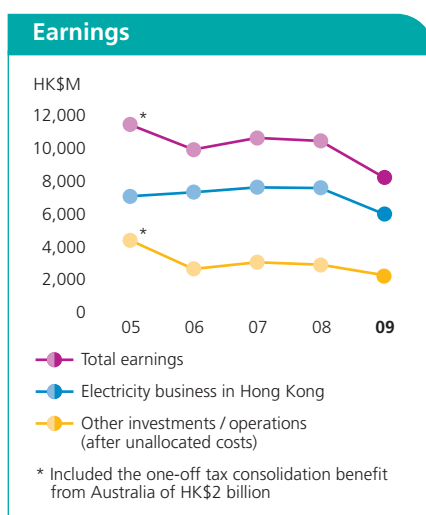
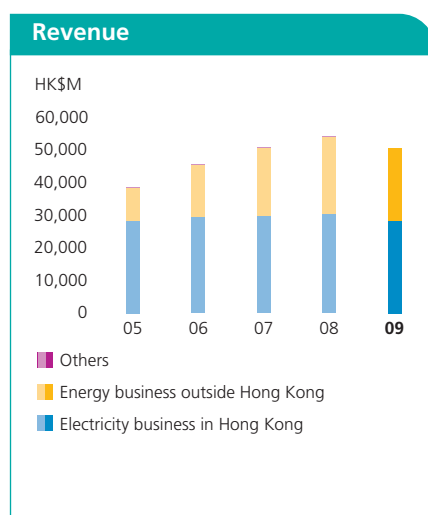


	2009	2008	2007	2006	2005
Ratios					
Return on equity, %	12.3	16.4	17.7	18.6	24.0
Total debt to total capital, %	35.7	29.7	30.7	35.1	36.7
Net debt to total capital, %	30.7	29.1	28.6	33.9	35.0
Interest cover, times	8	9	8	7	8
Price / Earnings, times	15	12	12	14	9
Dividend yield, %	4.7	4.7	4.7	4.2	5.3
Dividend payout, %	72.8	57.3	56.3	58.6	50.2
Other Information					
Shareholders	20,680	19,467	20,113	20,351	22,140
Shares in issue (million)	2,406.14	2,406.14	2,408.25	2,408.25	2,408.25
Employees					
SoC	3,708	3,758	3,861	3,866	3,862
Non-SoC	2,069	1,959	1,834	2,221	2,197
	5,777	5,717	5,695	6,087	6,059
Group generating capacity (owned / operated / under construction)*, MW					
– by region					
Hong Kong	6,908	6,908	6,908	6,908	6,908
Australia	3,188	3,132	3,112	4,213	3,775
Chinese mainland**	5,578	5,206	4,477	4,124	4,080
India**	2,420	2,183	680	655	655
Southeast Asia & Taiwan	832	796	728	992	2,015
	18,926	18,225	15,905	16,892	17,433
– by status					
Operational	16,473	15,636	14,693	15,381	15,279
Construction	2,453	2,589	1,212	1,511	2,154
	18,926	18,225	15,905	16,892	17,433

* Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC and Ecogen on 100% as having right to use; and (c) other stations on the proportion of the Group's equity interests.

** Including our interests in wind farms held through Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) for 2005 to 2008. CLP acquired these wind farms from Roaring 40s during 2009.

Further comprehensive historical data can be found in the Ten-year Summary on our website.



Five-year Summary: Scheme of Control Financial & Operating Statistics

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

	2009	2008	2007	2006	2005
SoC Financial Statistics, HK\$M					
Combined Profit & Loss Statement					
Profit for SoC	8,052	10,418	10,367	10,250	10,750
Transfer from / (to)					
Tariff Stabilisation Fund / Development Fund ¹	103	(133)	353	202	(527)
Permitted return	8,155	10,285	10,720	10,452	10,223
Less: Interest on / Adjustment for					
Increase in customers' deposits	–	2	33	35	12
Borrowed capital	625	608	728	754	769
Performance incentives / penalties	(41)	–	–	–	–
Tariff Stabilisation Fund / Development Fund ¹ and					
Special provision account	3	132	202	265	274
Net return	7,568	9,543	9,757	9,398	9,168
Combined Balance Sheet					
Net assets employed					
Fixed assets	83,811	79,445	75,239	73,156	71,890
Non-current assets	774	1,552	533	934	808
Current assets	3,929	3,612	3,504	3,402	3,040
	88,514	84,609	79,276	77,492	75,738
Less: current liabilities	17,658	14,394	14,429	10,257	12,723
Net assets	70,856	70,215	64,847	67,235	63,015
Exchange fluctuation account	(346)	(165)	51	5	(63)
	70,510	70,050	64,898	67,240	62,952
Represented by					
Shareholders' funds	37,197	42,366	40,404	38,842	36,569
Long-term loans and other borrowings	21,598	16,616	13,828	16,161	13,720
Deferred liabilities	10,062	9,312	8,549	9,305	8,978
Tariff Stabilisation Fund / Development Fund ¹	1,653	1,756	2,117	2,932	3,685
	70,510	70,050	64,898	67,240	62,952
Other SoC Information					
Total electricity sales	28,349	30,288	29,236	29,004	28,750
Capital expenditure	7,798	7,665	6,123	5,673	6,005
Depreciation	3,149	3,005	3,699	4,117	3,746
SoC Operating Statistics					
Customers and Sales					
Number of Customers (thousand)	2,321	2,291	2,261	2,236	2,205
Sales analysis, millions of kWh					
Commercial	12,488	12,312	12,144	11,957	11,428
Manufacturing	1,938	2,202	2,418	2,653	2,734
Residential	8,331	7,890	7,724	7,469	7,525
Infrastructure and Public Services	7,813	7,661	7,676	7,482	7,695
	30,570	30,065	29,962	29,561	29,382
Local	3,731	3,552	4,035	4,528	4,497
Export					
Total Electricity Sales	34,301	33,617	33,997	34,089	33,879
Annual change, %	2.0	(1.1)	(0.3)	0.6	6.8
Local consumption, kWh per person	5,353	5,260	5,301	5,162	5,161
Local sales, HK¢ per kWh (average)					
Basic tariff	77.5	85.6	88.1	88.0	88.2
Fuel clause charge / (rebate)	11.8	7.3	2.0	2.0	0.2
SoC rebate	(0.2)	(0.8)	(1.1)	(1.1)	(1.1)
Special rebate	–	(1.6)	(1.8)	(1.8)	–
Total	89.1	90.5	87.2	87.1	87.3
Annual basic tariff change, %	(9.5)	(2.8)	0.1	(0.2)	0.1
Annual total tariff change, %	(1.5)	3.8	0.1	(0.2)	0.1



	2009	2008	2007	2006	2005
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	8,888	8,888	8,888	8,888	8,576
System maximum demand					
Local, MW	6,389	6,749	6,284	6,435	6,475
Annual change, %	(5.3)	7.4	(2.3)	(0.6)	2.3
Local and the Chinese mainland, MW	7,616	8,199	7,730	8,318	7,817
Annual change, %	(7.1)	6.1	(7.1)	6.4	(0.6)
System load factor, %	56.4	51.1	55.0	50.9	53.8
Generation by CAPCO stations, millions of kWh	26,410	25,722	26,698	26,408	26,247
Sent out, millions of kWh –					
From own generation	24,920	24,324	25,200	25,024	24,887
Net transfer from/(to)					
Hongkong Electric	–	–	–	–	(1)
Landfill gas generation	5	5	6	5	4
GNPS/GPSPS	10,773	10,653	10,164	10,256	10,212
Total	35,698	34,982	35,370	35,285	35,102
Fuel consumed, terajoules –					
Oil	895	1,048	868	1,116	1,202
Coal	169,753	153,565	179,599	148,830	144,938
Gas	70,393	77,487	63,552	85,462	85,733
Total	241,041	232,100	244,019	235,408	231,873
Cost of fuel, HK\$ per gigajoule – Overall	29.14	29.06	20.14	18.42	17.87
Thermal efficiency, % based on units sent out	37.2	37.7	37.2	38.3	38.6
Plant availability, %	83.0	85.8	90.0	89.9	89.5
Transmission and Distribution					
Network, circuit kilometres					
400kV	555	554	554	554	554
132kV	1,488	1,386	1,346	1,255	1,167
66kV & 33kV	60	62	88	171	274
11kV	11,444	11,240	11,076	10,978	10,328
Transformers, MVA	57,700	57,187	56,423	55,769	55,953
Substations –					
Primary	214	214	202	208	210
Secondary	13,074	12,914	12,784	12,623	12,434
Employees and Productivity					
No. of SoC employees	3,708	3,758	3,861	3,866	3,862
Productivity, thousands of kWh per employee	8,189	7,892	7,755	7,650	7,597

Note:

1 The Tariff Stabilisation Fund has replaced the Development Fund under the new SoC effective from 1 October 2008.

Further comprehensive historical data can be found in the Ten-year Summary on our website. 

