Announcement of Annual Results as from 1 January 2007 to 31 December 2007, Dividend Declaration and Closure of Books

Financial Highlights

- Total earnings up 7.2% to HK$10,608 million.
- Earnings from our electricity business in Hong Kong increased by 4.1% to HK$7,589 million.
- Earnings from our businesses outside Hong Kong grew by 7.2% to HK$3,414 million, including one-off gains of HK$1,030 million from the injection of our interest in Ho-Ping Power Station, Taiwan into OneEnergy and of HK$767 million on the swap of Torrens Island Power Station and Hallett Power Station in Australia.
- Electricity sales in Hong Kong grew by 1.4% to 29,962 GWh; total sales (which include sales to the Chinese mainland) decreased by 0.3% to 33,997 GWh.
- Consolidated revenue rose by 11.1% to HK$50,789 million; revenue from our Hong Kong electricity business recorded a 1.3% growth to HK$29,684 million.
- Final dividend of HK$0.92 per share; including interim dividends paid, total dividends for 2007 amount to HK$2.48 per share (2006: HK$2.41 per share).

CHAIRMAN’S STATEMENT

The electricity business, by its very nature, is a long-term one. It involves large scale capital investment in assets whose economic life may span several decades, in some instances, up to 60 years and beyond. Taking a long-term view, whilst working to ensure the delivery of value to our shareholders year after year, requires CLP to be alert to emerging regulatory, technological, social and environmental trends affecting our industry, to form the best view we can on the challenges and opportunities which they present for our business and to tackle these challenges and exploit these opportunities in the most effective manner we can.

In this Chairman’s Statement, I wish to discuss some of the issues which I believe will have a particular influence on the direction of the CLP Group in the coming years.

The Regulation of our Hong Kong Electricity Business

During 2007, our Hong Kong electricity business contributed 72% of the CLP Group’s total earnings. This is not an isolated occurrence – during the past decade, the percentage of Group earnings from Hong Kong electricity business was at an average of 74%. This illustrates the central importance of this business and the manner of its regulation by the Hong Kong SAR Government to the financial position and long-term development of the CLP Group.

As shareholders will know, since 1964 this business has been regulated by Government on the basis of a series of Scheme of Control (SoC) agreements, the current one of which will expire in September 2008. During 2007, there were considerable discussions between CLP and Government on the terms of a new SoC, to come into effect on 1 October 2008. These discussions concluded with an agreement announced on 7 January 2008. This will be for a 10-year term with the possibility of a five-year extension. The permitted return is to be reduced from the present level of 13.5% (for investments funded by borrowings) and 15% (for investments financed by shareholders' funds) to a single rate of 9.99%.

Whilst the details of this agreement are more fully described in the Chief Executive Officer's (CEO's) Review, I would like to say a few words here about the implications of this agreement for the future direction of our Hong Kong electricity business.

While the significant reduction in returns is unwelcome, the new SoC does provide clarity as to the basis on which we can continue to invest in Hong Kong's electricity infrastructure for the next 10 years. However, the overwhelming majority of the new investments we make over the next decade will have an economic life reaching beyond, in some cases far beyond, the 2018 term. For Hong Kong to continue to enjoy an excellent electricity supply into the future, Government must move forward in a structured, balanced and fair manner with the development of its long-term energy strategy, set out its expectations for Hong Kong electricity supply and how these expectations should best be met.

We believe that the Hong Kong business will continue to contribute significantly to the Group. CLP remains committed to Hong Kong, as our home. In the meantime, the new SoC can, and must, serve as a platform to tackle the specific challenges of the decade ahead. These include

- promoting the necessary investment in electricity infrastructure to meet ongoing growth in demand in Kowloon and the New Territories;
- bringing more natural gas to Hong Kong and further reducing emissions from coal-fired generation to enhance supply security and environmental performance; and
- controlling tariffs, whilst maintaining supply reliability and customer service at the levels which our customers demand.

The agreement on the post-2008 regulatory regime gives CLP some confidence as to the possible returns from its business over the short to medium term. At the same time, and contrary to all previous SoC agreements, the new SoC does not provide for any additional return from investments funded by shareholders, as opposed to third-party loans. As a consequence of these two factors, we shall continue to review the capital and financing structure of our Hong Kong electricity business to ensure that we maintain the right balance between the interests of our customers and the effective use of capital resources available to our shareholders.

To conclude the new SoC has required a fine balance to be struck between the interests of a variety of stakeholders, with the fundamental objective of encouraging the ongoing investment necessary to maintain the world-class performance that has been achieved under the existing regulatory regime. Excellence in electricity supply means maintaining the optimum balance between supply reliability, fuel diversity, environmental performance and cost control. Under the new SoC, CLP remains committed to playing its part in achieving this. Equally, we look to Government to play its own part by administering the SoC fairly and responsibly, with due regard to shareholders' legitimate interests.

Our Regional Businesses

Since the mid 1990s, the CLP Group has steadily widened its activities beyond its original Hong Kong base. This has been in response to both the slowdown in growth in electricity demand in Hong Kong and to mitigate our exposure to regulatory risk in Hong Kong. I believe that this has been a correct and prudent approach.

CLP has become one of the leading external investors in the electricity sectors of the Chinese mainland, Australia, India, Thailand and Taiwan. During 2007, these investments contributed HK$3,414 million to overall CLP Group earnings. We must continue to improve the performance of these assets. We must also explore how the platforms we have already established in electricity markets across our region can be best exploited to maximise their potential to deliver shareholder value. This becomes even more important given the maturity of our Hong Kong electricity business.

That said, I do not expect that we will seek to “pump up” the scale and speed of our investments outside Hong Kong – and certainly not if this were to be at the expense of the prudent and disciplined approach which CLP has consistently applied to new investment. For the time being, the combination of growth opportunities in the regional power sector, emerging players and cheap capital continues to generate intense competition to buy existing power assets or the rights to develop new projects. This competition continues to create an investment environment characterised by unduly optimistic revenue projections, acceptance of sub-optimal rates of return and inadequate pricing of risks.

Going forward there will be ample opportunities for us to invest, but we must be patient, prudent and selective – the nature of our industry and the scale of capital investment which is required to make a meaningful difference to CLP’s earnings demands that we look beyond the current market phase and aim to balance risks and returns over the longer term.

Environmental Responsibility

The responsible management of the environmental impact of our business has long been one of CLP’s core values – the major reductions in emissions from our generating plant in Hong Kong since 1990 are but one example of this. Whilst our environmental performance is explained in greater detail in our Sustainability Report which is issued at the same time as this Annual Report and updated regularly on the CLP website, I wish to emphasise the strong influence which environmental considerations are having over the forward direction of the CLP Group.

We will continue to make good on our longstanding commitment to improve the environmental performance of our electricity generation activities in terms of emissions of conventional pollutants, such as SO_2, NOx and particulates. This involves promoting the use of natural gas as a fuel and the application of innovative technologies to reduce emissions from coal-fired generation. We maintain our undertaking to incorporate SO_2 emissions reduction capability (such as flue gas desulphurisation (FGD)) into the planning of all greenfield coal-fired projects in which the CLP Group has a controlling interest. We encourage our business partners to do likewise, where we do not have a controlling interest.

In recent years climate change has held centre stage in public policy debates at national and international levels. We consider that any credible effort to reduce global CO_2 emissions, the principal contributor to global warming, must involve steps to control emissions from power generation, including in the Asia-Pacific region which will be contributing more than half of the increase in global CO_2 emissions by 2030. Responding to the threat of global warming, whilst meeting the increasing energy demand of the developing countries in our region, is a huge challenge for governments, societies and power producers. CLP's Climate Vision 2050, which we issued in December 2007, sets out CLP's contribution to the collective effort that will be required to meet this challenge. Our Climate Vision, which is discussed in our Sustainability Report and is available on our website, commits us to a 75% reduction in the carbon intensity of CLP's generating portfolio by 2050, backed by a range of immediate and intermediate initiatives. Realising our vision will demand a new approach to our electricity generating business.

It is possible that, in the short term, our corporate stance on the emissions performance of new generating plant may put us at a competitive disadvantage. We have seen this in India, where we have maintained our commitment to incorporate advanced pollution control equipment such as FGD into any new greenfield coal-fired generating capacity, whereas local competitors are willing to proceed without such equipment - and the present India regulatory regime does not demand it. Similarly, we have stepped away from potential coal-fired projects in the region where, in our view, the carbon emissions intensity would have been unacceptable and beyond that which could be achieved with the use of more advanced technologies or different fuels. We believe that the approach we are following is the right one, as a matter of corporate values and environmental responsibility. We also believe that, over time, the early adoption of stricter environmental standards than those of our competitors can mitigate the risks from ownership of a generating portfolio characterised by high emissions levels and vulnerable to tightening environmental standards.

Financial Strength

CLP's ability to meet the challenges of the years ahead, whether these arrive in the form of evolving regulation of our Hong Kong electricity business, the opportunities for growth in the Asia power sector or maintaining high standards of environmental stewardship, is enhanced by the ongoing financial strength of our business. This was illustrated by a good financial performance in 2007, which saw total earnings increase to HK$10,608 million, an increase of 7.2% compared to the previous year. Our financial performance and the underlying operating drivers are more fully explained in the CEO's Review, Financial Review and the Business Performance and Outlook sections of the Annual Report.

The Board has recommended a final dividend for 2007 of HK$0.92 per share. This final dividend, together with the three interim dividends paid during the year, results in a total dividend of HK$2.48 per share, as compared to HK$2.41 per share for 2006.

This dividend recommendation is in line with our longstanding policy of providing consistent increases in ordinary dividend, linked to the underlying earnings performance of the business. Although the returns from our Hong Kong electricity business will be reduced under the new SoC as from 1 October 2008, we are well aware of our shareholders' preference for stable and consistent dividends. CLP's shareholders own the Company. We shall continue to work hard to discharge our responsibilities to them and to repay the trust and confidence that they have placed in us.

The Hon. Sir Michael Kadoorie

BUSINESS PERFORMANCE AND OUTLOOK

Electricity Business in Hong Kong

Notwithstanding Hong Kong's strong economic fundamentals, electricity demand growth is expected to remain at moderate levels. The departure in recent years of much of Hong Kong's manufacturing industry has seen Hong Kong transform itself into a largely service-based economy, with resulting implications for electricity demand.

Energy saving has been promoted by Government. A number of new initiatives were introduced such as a campaign to set air-conditioners at 25.5ºC in summer. Government committed itself to reduce its own electricity consumption by 6% between 2002-03 and 2006-07. In the first four years, a 5.6% saving was achieved. Ongoing programmes include the launch of mandatory energy efficiency measures and conversion to more efficient equipment in business sectors.

The trend to energy conservation is only one of the factors affecting sales levels. The level of economic activity, rate of increase in GDP, daily temperatures and humidity levels in Hong Kong, new household formulation and the growth in end use applications for electricity will also drive sales volumes. New technologies (such as light emitting diodes or the latest generation of air-conditioners) can significantly reduce electricity for some consumptions, but they can also increase our sales - for example in the replacement of gas cooking appliances with the more environmentally-friendly induction technology.

The result of these various factors in electricity sales growth in the medium term is projected to be around 2% per annum, lower than that seen in the early 2000s.

Rapid economic development in Guangdong Province, coupled with ongoing power supply shortages, is expected to continue. However, as electricity supply and demand in Guangdong moves gradually into balance, electricity sales by CLP into Guangdong are likely to reduce gradually.

During 2007, the priorities for management included

- finalisation of negotiations with the SAR Government on a new SoC;
- meeting the demand of our customers for electricity and doing so in a reliable manner;
- progress on the measures necessary to bring liquefied natural gas (LNG) supplies to Hong Kong early next decade;
- ongoing improvements in the environmental performance of our generating plant;
- capital investment in our transmission and distribution networks to improve customer service and reliability;
- cost saving and productivity enhancing initiatives; and
- delivering improved earnings to the CLP Group.

Throughout 2007, we discharged our responsibility of meeting the demand for electricity from our Hong Kong customers. Local sales totalled 29,962 GWh, reflecting a 1.4% growth over the previous year.

Sector	2007		Sales Increase/ (Decrease) over 2006 (%)	Average annual sales change over 2003-2007 (%)	Background to 2007 performance
	Number of customers ('000)	Electricity sales (GWh)			
Residential	1,960	7,724	3.4	2.2	Attributed to the warmer weather experienced during the summer months
Commercial	183	12,144	1.6	2.6	Strong economic upturn, improvement in property market and favourable performance in tourism
Infrastructure and public services	88	7,676	2.6	1.8	New developments such as new airport terminal and Lok Ma Chau Spur Line
Manufacturing	30	2,418	(8.9)	(4.8)	Reduction in sales, particularly in the electronics, paper and textile sectors
Total local sales	2,261	29,962	1.4	1.6	
Export sales	-	4,035	(10.9)	13.2	Commissioning of new generating plant in Guangdong
Total sales	2,261	33,997	(0.3)	2.6	

Electricity demand continued to outpace supply in Guangdong, but CLP sales to the province declined to 4,035 GWh compared to 2006, as a result of the commissioning of new generating plant. Overall, total sales to Hong Kong and Guangdong decreased marginally to 33,997 GWh, a 0.3% drop from the previous year.

The availability of LNG supplies early next decade, including the completion of the LNG terminal in Hong Kong, remains crucial to our business, including with respect to adequacy and reliability of supply and environmental performance. During 2007, we made significant progress on this project. The environmental permit was granted in April, marine and site investigations were completed and the land application was submitted to Government's Lands Department.

To improve our overall emission performance, we continue to source cleaner coal and to maximise the use of ultra-low sulphur coal at Castle Peak Power Station. In 2007, ultra-low sulphur coal accounted for over 50% of our total coal delivered (4.6 million tonnes, compared to 3.4 million tonnes in 2006). In addition to careful choice of fuels, we are undertaking a wide ranging programme of emissions control reduction improvements to the plant such as

- refurbishing the coal burners to reduce emission of nitrogen oxides. This was started in 2007 and is expected to be completed by 2009;
- conducting a pilot project of installing an "Agglomerator" at one of the Castle Peak "A" Power Station units. This is expected to enhance the dust removal efficiency of the electrostatic precipitators, resulting in lower emissions of respirable suspended particulates; and
- the installation of FGD and nitrogen oxide reduction equipment on all our Castle Peak "B" units. All the major contracts have now been awarded, site activities have commenced and we are on track to obtaining the approximately 100 different permits required from the SAR Government.

During 2007, we invested HK$6.1 billion in our generating facilities, transmission and distribution network, customer services and other supporting facilities. The objectives of this capital investment programme are to

- make timely provision to meet future increases in demand and new customer connections;
- maintain the security and reliability of the generating plant and our transmission and distribution network; and
- enhance the efficiency of our supply network and customer services and improve supply quality whilst controlling the cost to our customers.

2008

For our LNG Project, one of our targets is to have the site acquired and relevant approvals finalised for the LNG terminal, so that the supply of LNG can be secured and work can commence on the site in time to ensure a smooth transition from our existing pipeline gas supply.

On environmental matters, we shall continue to source cleaner coal by seeking out additional potential supply sources and extending our longer term commitment to our existing suppliers where possible and appropriate.

2008 should also see substantial progress on structural and plant works for the retrofitting of FGD equipment at Castle Peak. Site congestion, the large amount of statutory permitting requirements and the complexity of interfacing this work with our normal generating unit outage programme to avoid affecting supply reliability will be major challenges.

Energy Business in Australia

In late 2007, significant increases in regulated retail gas and electricity prices were approved in many states in response to wholesale cost increases stemming largely from the drought. Dry conditions across much of Australia have reduced the amount of water available for either the hydro generation of electricity or cooling coal-fired electricity generators in the National Electricity Market. This has, in turn, increased the dependence on gas-fired generation, leading to an increase in gas prices.

Coupled with high user demand for electricity and gas, these supply and demand forces have seen an increase in the wholesale component of the regulated retail electricity and gas prices that became effective on 1 January 2008.

In 2007, the New South Wales (NSW) Government announced its plans for electricity reform, involving the sale of its retail energy businesses and lease of generation assets. TRUenergy has publicly welcomed the NSW Government's announcement to privatise, given the synergy of this announcement with its plans to expand into new markets as opportunities arise.

Australia has signed the Kyoto Protocol and announced plans to introduce a carbon trading regime in 2010. We expect measures to reduce carbon emissions associated with the electricity industry to be a central theme of the regulation of our industry going forward.

During 2007, TRUenergy has given particular attention to

- strong performance in highly competitive retail markets;
- business development;
- effective asset management;
- careful management of energy trading risk;
- a proactive stance on climate change issues; and
- cost control and an improved earnings contribution to the Group.

Over the course of 2007, TRUenergy grew its customer base to over 1.25 million customer accounts, compared to 1.2 million customers at the end of 2006. In addition, TRUenergy more than doubled its GreenPower customer base, with the retail business achieving its target of 75,000 new GreenPower customer accounts well before its year end target. This was a creditable performance, given the intense competition in the retail energy sector.

Work focused on the development and expansion of Tallawarra and the TRUenergy Gas Storage facility, with TRUenergy receiving financial approval for the expansion of the Iona Gas Plant. This expansion project will enable the processing of Santos Casino gas at lower pressures, and increase the plant capacity by over 40% initially, with the ability to almost double the capacity in future.

An asset swap with AGL, through which we acquired Hallett Power Station and sold Torrens Island Power Station (TIPS), was completed to schedule.

We have recently announced a development agreement with Solar Systems, one of the world's leading manufacturers of concentrated photovoltaic power systems. Through this A$292 million agreement, TRUenergy will fund the development of the world's largest concentrated photovoltaic solar power station, to be located in north-east Victoria.

The single incident which had most impact on plant availability was a major subsidence in the Yallourn coal mine which occurred on 14 November. The resulting damage to conveyor equipment and flooding within the mine halted coal production. Due to the tremendous efforts of Yallourn staff, and with excellent cooperation from the relevant authorities and local land owners, a river diversion was effected within the following week. Full operation of all four units at Yallourn was resumed by Christmas, in time for high demand resulting from particularly hot summer weather. Work on long-term mine restoration is still continuing with the objective of avoiding future incidents of this nature. The ultimate cost of mine restoration and the extent of insurance recovery are still being assessed.

In July, TRUenergy became the first energy utility in Australia to commit publicly to a Climate Change strategy in the shape of deep emissions targets over the long term. TRUenergy's strategy commits the company to short, medium and long-term targets to reduce emissions, in particular, a 60% reduction in total emissions by 2050.

As part of measures to reduce ongoing operating costs during 2007, TRUenergy entered into a ten year agreement to outsource retail back-office and information services to IBM. Whilst this gave rise to upfront costs in 2007, such as transactional costs, redundancy provisions and write-offs of associated fixed assets, we believe that over time, the savings from this project will make a meaningful contribution to reducing the costs of serving our customers and thereby improving earnings.

2008

Our tasks and initiatives for 2008 will be to

- pursue growth opportunities via the NSW energy asset privatisation process for retail and generation business;
- maintain momentum in achieving our short and long term climate change targets and continue to work to address the impact of climate change;
- successfully complete the construction of TRUenergy Tallawarra power station in time for summer 2008/09;
- increase customer uptake in our range of accredited GreenPower retail energy products; and focus on energy efficiency products for consumers;
- proceed with further expansion of the Iona Gas Plant and increase the plant capacity by over 40% initially, with the ability to almost double the capacity in future;
- explore opportunities to strengthen our access to upstream gas resources;
- manage CLP's Roaring 40s renewable energy joint venture; and
- develop our investment in Solar Systems and a broader expansion of our renewable energy activities, in line with Federal government targets and policies on renewables.

Led by privatisation initiatives within the NSW electricity industry, we believe that 2008 will bring in industry consolidation. The current industry structure is fragmented which is cost-inefficient and increases risk, since industry players do not enjoy deep capital bases. We are well-positioned for such industry developments, since preparation for consolidation has been a core element of our strategy and CLP has considerable strength in operational and financial skills.

Electricity Business in the Chinese Mainland

Electricity demand grew substantially in 2007, showing a 14% increase on the previous year. However, the average utilisation rate of power plant in the Mainland fell slightly in 2007, as compared with 2006, due to an increase in new capacity. We expect a similar trend in 2008.

In 2005, China introduced a policy to pass through 70% of the coal prices, if the cumulative coal price movement is more than 5%, to help compensating part of the increase in costs of generating companies. Tariffs have been revised once in May 2005 and again in July 2006. Coal prices continued to rise in 2007, with the benchmark Datong coal reaching an all time high in December 2007. Despite the significant increase in coal prices, the Mainland authorities did not implement the planned third round of coal price linked tariff adjustment. We expect coal price to remain at high levels during 2008 whilst, at this stage, the timing and magnitude of the next tariff adjustment remain uncertain.

The Mainland has introduced "benchmark tariffs", which vary according to different provinces and are published by the relevant authorities from time to time. However, depending on the regions, timely implementation of these tariffs sometimes requires effective liaison between the generating companies and the relevant authorities. Nevertheless, the introduction of "benchmark tariffs" resolves one of the major uncertainties previously faced by generating companies and investors.

Starting in January 2008, enterprise income tax rates will gradually step up from their present level of 15% to 25% during a five-year transition period. Business costs have also been impacted on by several increases in interest rates during 2007, as part of the PRC Government's measures to tackle inflation and an overheating economy.

In line with our strategic objectives, our focus in 2007 included

- restructuring the Shandong Project;
- expansion of the CLP Guohua Joint Venture;
- progress in the commissioning of Fangchenggang;
- growth in renewable energy activities;
- project approval of the Sichuan Jiangbian hydro project;
- effective management and operation of existing assets; and
- making a meaningful earnings contribution to the CLP Group.

With a total investment cost of US$2.2 billion and an installed capacity of 3,000MW, the Shandong project (29.4% owned by CLP) is the largest foreign invested independent power producer (IPP) project in China. In order to improve the returns from this investment, CLP has been working closely with the other sponsors on the restructuring of the project, involving an extension of the project life by around 3.5 years as well as other schemes to reduce the operating and maintenance costs. The restructuring was agreed by the sponsors in September and approved by the Ministry of Commerce in December 2007.

CLP Guohua is an evergreen joint stock company (JSC) formed between CLP and China Shenhua Energy (Shenhua) in 2001. CLP has worked with Shenhua on the injection of five power stations from Shenhua into the JSC. CLP and Shenhua agreed the terms of the transaction in September and as a result, the JSC will be renamed Guohua International and CLP's shareholding will be reduced from 49% to 30%, whilst our equity megawatts would be doubled. The expansion is being approved by the relevant PRC authorities.

The Fangchenggang coal-fired project (2 x 600MW units) has progressed well to a tight programme. The first unit entered commercial service in September 2007, 26 months after the start of main construction work. The second unit also entered service in January 2008. The project was completed ahead of schedule and within the original budget. This is the first time CLP has taken a majority shareholding in a new project in China and responsibility for project management and operation. We hope this may form a model for future project development.

In 2007, progress on the Jiangbian Hydro Project in Sichuan was a major focus of our renewable energy activities in China. This project, in which CLP holds a 65% interest, has a generating capacity of 330MW, making it the largest single renewable energy project in the CLP Group. We have also made good progress on other renewable energy projects involving small hydro, wind and biomass.

2008

In 2008, we will focus on the following:

- Fine tuning operation and maintenance procedures of Fangchenggang, including management of coal costs;
- We will participate actively in our joint venture with Shenhua;

- We will work closely with our partners in the Shandong joint venture to tackle the coal supply issue; and
- We will pursue renewable energy opportunities in wind, hydro and biomass.

We expect that the average utilisation hours of the generating plants in the Mainland will continue to drop in view of the increase in new capacity. We will discuss with our JV partners measures to maintain a reasonable level of utilisation hours for our JV power stations. These measures include maintaining reliable coal supplies to the power stations, and liaising with the local authorities and power companies to ensure fair despatch for all plants in the region.

Electricity Business in India

Local competition for development opportunities remains intense, with around 10 Indian companies bidding for most opportunities. Those bids on occasions include acceptance of what we would consider as inappropriate levels of risk on commodity prices or currency. CLP's competitiveness is also constrained by our commitment to incorporate advanced pollution control equipment, such as FGD, in any new greenfield coal-fired generation capacity, whereas our competitors are willing to proceed without such emissions reduction equipment since Federal Government regulations do not require it. We remain committed to the adoption of stricter investment disciplines and environmental standards than our competitors and believe that this is the right long-term approach.

India presents opportunities for renewable energy. It has unexploited resources for the major development of hydro, wind and biomass projects, backed by a tariff policy which is transparent and favourable for such projects. Individual states are also promoting the use of renewable energy.

During 2007, our India business activities centred upon

- continuing to optimise the performance of our existing asset at GPEC;
- the pursuit of new opportunities in the conventional power sectors;
- growth of our portfolio of renewable energy investments; and
- making a meaningful contribution to Group earnings.

On 1 July 2007, Paguthan Village in Gujarat, where our GPEC plant is located, experienced torrential rains with around 28 inches of rainfall being recorded. As a consequence, the GPEC township and plant were flooded. Sections of the plant boundary wall and approach road collapsed and water entered the Demineralisation (DM) plant. Prompt action was taken to restore the DM plant transformer and firewater pump house. Despite the flooding, the generation and viability of the power plant remained unaffected. Credit is due to our staff for their rapid and effective response and their foresight in taking previous measures to enhance the drainage and flood protection works at the station.

Gujarat Urja Vikas Nigam Ltd. (GUVNL) is the sole off-taker of the electricity generated at GPEC, under a 20-year power purchase agreement (PPA) which runs until December 2018. Throughout 2007, full settlements of sums due under the PPA were received from GUVNL, with neither overdue receivables nor new disputed items arising over this period.

CLP actively pursued a number of opportunities to expand its presence in the Indian power sector during 2007. Whilst progress in this regard fell short of our objectives and expectations, this largely reflected our determination to maintain proper discipline in the analysis of the risk/reward profile of potential investments and not to sacrifice prudence and the reasonable prospect of creating sustainable shareholder value simply in the pursuit of an increase in the scale of our business.

During the year, CLP, through GPEC, entered into the agreements necessary to build and operate a wind project at Samana, in Gujarat State. This 100.8MW project, which will be wholly-owned by CLP, constitutes the largest single wind project, by equity MW, in which the CLP Group is yet engaged.

In December 2007, we broadened our involvement in the Indian wind sector through an agreement with Enercon (India) Limited to develop the 82.4MW greenfield Saundatti project in the State of Karnataka.

2008

Our plans and activities for 2008 will include

- replacement of the existing long-term gas supply agreements for GPEC. It is necessary to amend the existing supply arrangements, which are in a stage of decline;
- the development and construction of the Saundatti wind project; and
- obtaining carbon credits under the clean development mechanism of the United Nations Framework Convention on Climate Change (UNFCCC).

Electricity Business in Southeast Asia and Taiwan

In 2006 CLP established a regional joint venture, OneEnergy, with Mitsubishi Corporation. OneEnergy draws on the combined resources, experience, local presence, market position and financial strengths of the shareholders in order to grow its electricity businesses in Southeast Asia and Taiwan.

In March 2007, CLP completed the injection into OneEnergy of its 40% interest in the Ho-Ping project.

While opportunities abound in the region, the major challenges that OneEnergy as well as other independent power developers face are the increasing costs and tightening terms for equipment and fuel. In addition, there has been a greater market appetite for project and asset investments from new entrants, which has resulted in fierce competition and often, lower than expected returns. Prices for coal and gas remain at high levels, and continue to be volatile. The impacts on IPPs vary by jurisdiction, depending on their ability to pass on the increase in fuel costs through the PPAs or other means.

In order to win new projects in these environments, OneEnergy has to be innovative in terms of equipment sourcing, fuel supply as well as financing of projects, without sacrificing financial discipline and the requirement for appropriate risk adjusted returns. The use of lower cost equipment from China and Korea, the possibility of taking some responsibilities in construction, rather than relying entirely on full turnkey contractors, designing equipment to burn a wider range of coal in terms of specifications and sources, and the leveraging of its shareholders' strengths in securing favourable financing arrangements are the areas that OneEnergy will pursue to enhance its competitiveness.

During 2007, the management of OneEnergy paid particular attention to

- the effective management of OneEnergy's existing assets;

- early stage greenfield development activities;
- establishing and reinforcing its local presence in selected markets; and
- providing meaningful earnings to the CLP Group.

The rebuild of the first damaged coal dome at Ho-Ping was affected by construction issues and continued bad weather. This delay and the unusually long rainy season during the year affected Ho-Ping’s availability. It is anticipated that, with the completion of the rebuild of all three damaged coal domes in 2008, the problem will be resolved.

The tight coal and shipping markets and resultant high spot and contract prices have not abated. Management of the fuel supply chain to ensure continuity, quality and reasonable prices will remain a major challenge for Ho-Ping in the foreseeable future. However, through the fuel cost adjustment mechanism in the PPA with Taipower, Ho-Ping is able to pass on most of the increased costs - albeit with an 18-month time lag.

2008

In 2008, CLP’s objectives will be to achieve the following through OneEnergy:

- Progress existing development projects in Taiwan, Vietnam, Indonesia and, through EGCO, in neighbouring countries to Thailand, and further strengthen the pipeline of greenfield opportunities in these markets;
- Consider strategic acquisition of assets in the Philippines and Singapore;
- Complete the rebuild of all three damaged Ho-Ping coal domes;
- Continue to support EGCO in the drive for operational excellence at its plant; and
- Strengthen the organisation to support the business.

Safety

Our objective is to achieve a safe working environment for all those involved in our projects and operations and a culture where safety comes first. Our target is zero injuries. This applies to everyone irrespective of whether they are direct employees or employed by contractors on our sites.

Our performance in 2006 was not satisfactory. In 2007 we started a major Group-wide initiative to improve this. The complete programme that has been developed will take some years to implement.

Nonetheless, the collective efforts of management and staff contributed to an improved group-wide safety performance in 2007. A particular tribute is due to our colleagues at GPEC where, by 31 December 2007, the plant had been operating for 3,405 days without a single lost-time injury.

Human Resources

On 31 December 2007, the Group employed 5,695 staff (2006: 6,087), of whom 4,100 were employed in the Hong Kong electricity and related business, 1,388 by our businesses in Australia, India, Chinese mainland, Southeast Asia and Taiwan, as well as 207 by CLP Holdings. Total remuneration for the year ended 31 December 2007 was HK$3,217 million (2006: HK$3,063 million), including retirement benefits costs of HK$249 million (2006: HK$269 million).

Environment

CLP commits to joining the collective response to the threat of global warming by setting specific targets to reduce the greenhouse gas intensity of our generating portfolio. In our publicly published Climate Change Manifesto “Climate Vision 2050”, we have set ambitious, demanding and difficult targets to reduce our carbon intensity by 75% by 2050. The emission intensity we need to achieve by 2050 is set by international experts for the power industry at large. This is an aggressive reduction target considering the fact that CLP’s growth markets are developing countries. Everyone has a part to play in stabilising the global climate. We will play our part.

Policies are needed to encourage and reward business for investing in low-emission energy. We are working with nine other electric utility businesses through the World Business Council for Sustainable Development to articulate to policy makers, including those involved with the UNFCCC, the types of policies and measures needed to limit global warming to an adaptable range.

We met our Group target of increasing the capacity of renewable energy in our power generation portfolio to over 5% by 2010 at the end of 2007, three years ahead of schedule. We are committed to further develop our renewable business in line with our Climate Change Manifesto.

Our online Sustainability Report won the HK ACCA's "Best Sustainability Report" in 2007. The online nature of the report allows us to provide readers with greater breadth of coverage, more content on key issues and more frequent updates, while consuming less paper than printed reports. This year, we continue to publish the Sustainability Report online while a shorter print version will replace our traditionally published Social and Environmental Report. Together with the Annual Report, we provide a broad coverage and greater depth on issues that are important to our stakeholders.

FINANCIAL PERFORMANCE

Gradual but sturdy growth of our Hong Kong electricity business and other gains from our overseas energy business have driven the Group's earnings up by 7.2% to HK$10.6 billion. Earnings in 2007 include one-off gains of HK$1.8 billion arising from the injection of our interest in Ho-Ping into OneEnergy and the TIPS-Hallett power station swap. Contributions from each business are analysed below:

	2007		2006	
	HK$M	**HK$M**	HK$M	HK$M
Electricity business in Hong Kong		**7,589**		7,290
Electricity sales to Chinese mainland from Hong Kong	**102**		119	
Generating facilities in Chinese mainland serving Hong Kong	**712**		751	
Other power projects in Chinese mainland	**241**		294	
Energy business in Australia	**307**		191	
Electricity business in India	**409**		931	
Power projects in Southeast Asia and Taiwan	**409**		444	
Other businesses	**20**		48	
Other income, net (see paragraph below*)	**1,797**		408	
Coal mine subsidence and outsourcing costs of TRUenergy	**(583)**		-	
Earnings from other investments/activities		**3,414**		3,186
Unallocated net finance costs		**(90)**		(283)
Unallocated Group expenses		**(305)**		(293)
Earnings attributable to shareholders		**10,608**		9,900

* Other income comprises one-off items. In 2007, gains of HK$1,030 million on the injection of our entire 40% interest in Ho-Ping into OneEnergy and of HK$767 million on the TIPS-Hallett power station swap with AGL in Australia were recognised. For 2006, there were gains of HK$343 million on the formation of OneEnergy and of HK$888 million on the transfer of BLCP to EGCO, partly offset by the impairment provision of HK$823 million on Yallourn.

The continuing investment in our transmission and distribution network to provide reliable supply to customers in Hong Kong is the main reason for the uplift of earnings from our Hong Kong electricity business.

The ever rising coal price and delay in fuel-link tariff adjustments have driven down the earnings from the Chinese mainland.

The operating earnings of HK$307 million from Australia have improved as a result of the electricity contracts mark-to-market gain of HK$146 million from higher forward prices, in spite of the outages suffered at Yallourn Power Station. The operating earnings from Australia do not include the gain of HK$767 million on the TIPS-Hallett power station swap, which is grouped under Other Income, nor the two significant cost events in Australia, being the costs of IT/back-office outsourcing of HK$457 million and the Yallourn coal mine subsidence of HK$126 million, which are shown separately in the table above.

In the absence of one-off items like the recovery of delayed payment charges and write-back of doubtful debt provision that had boosted profits in 2006, earnings from India dropped by HK$522 million.

Decrease in earnings from Southeast Asia and Taiwan is mainly due to reduced effective shareholding in Ho-Ping from 40% to 20% following our injection of Ho-Ping into OneEnergy.

The financial information set out in this announcement below does not constitute the Group's statutory accounts for the year ended 31 December 2007, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee and agreed by the Group's external auditors, PricewaterhouseCoopers.

Consolidated Income Statement
for the year ended 31 December 2007

	Note	**2007 HK$M**	2006 HK$M
Revenue	*6*	**50,789**	45,702
Expenses			
Purchases of electricity, gas and distribution services		**(17,973)**	(13,924)
Operating lease and lease service payments	*7*	**(7,372)**	(7,176)
Staff expenses		**(1,900)**	(1,812)
Fuel and other operating costs		**(7,729)**	(5,710)
Depreciation and amortisation		**(4,650)**	(4,968)
		(39,624)	(33,590)
Other income, net	*8*	**2,122**	55
Operating profit	*9*	**13,287**	12,167
Finance costs	*10*	**(5,024)**	(4,762)
Finance income	*10*	**160**	138
Share of results, net of income tax			
jointly controlled entities		**3,024**	2,936
associated companies		**1**	114
Profit before income tax		**11,448**	10,593
Income tax expense	*11*	**(837)**	(683)
Profit for the year		**10,611**	9,910
Profit attributable to minority interests		**(3)**	(10)
Earnings attributable to shareholders		**10,608**	9,900
Dividends	*12*		
Interim ordinary dividends paid		**3,757**	3,612
Final dividends proposed			
Ordinary		**2,216**	2,144
Special		**-**	48
		5,973	5,804
Earnings per share, basic and diluted	*13*	**HK$4.40**	HK$4.11

Consolidated Balance Sheet
as at 31 December 2007

	Note	**2007 HK$M**	2006 HK$M
Non-current assets			
Fixed assets	*14(A)*	**86,413**	83,418
Leasehold land and land use rights	*14(B)*	**2,196**	2,235
Goodwill and other intangible assets		**8,135**	7,326
Interests in jointly controlled entities		**17,684**	19,163
Interests in associated companies		**299**	18
Finance lease receivables		**3,130**	2,740
Deferred tax assets		**3,915**	3,305
Derivative financial instruments		**675**	425
Other non-current assets		**552**	145
		122,999	118,775
Current assets			
Inventories – stores and fuel		**667**	647
Trade and other receivables	*15*	**7,121**	8,799
Finance lease receivables		**152**	126
Fuel clause account		**132**	-
Derivative financial instruments		**2,427**	1,131
Bank balances, cash and other liquid funds		**2,779**	1,613
		13,278	12,316
Current liabilities			
Customers' deposits		**(3,589)**	(3,417)
Trade and other payables	*16*	**(6,023)**	(5,893)
Income tax payable		**(237)**	(186)
Bank loans and other borrowings	*17*	**(2,868)**	(4,264)
Obligations under finance leases	*18*	**(1,431)**	(1,945)
Derivative financial instruments		**(1,689)**	(1,285)
Scheme of Control (SoC) reserve accounts	*19*	**(2,300)**	-
		(18,137)	(16,990)
Net current liabilities		**(4,859)**	(4,674)
Total assets less current liabilities		**118,140**	114,101
Financed by:			
Equity			
Share capital		**12,041**	12,041
Share premium		**1,164**	1,164
Reserves	*20*		
Proposed dividends		**2,216**	2,192
Others		**48,480**	40,441
Shareholders' funds		**63,901**	55,838
Minority interests		**95**	78
		63,996	55,916
Non-current liabilities			
Bank loans and other borrowings	*17*	**25,492**	26,014
Obligations under finance leases	*18*	**20,785**	20,865
Deferred tax liabilities		**6,344**	6,054
Derivative financial instruments		**559**	735
Fuel clause account		**-**	294
SoC reserve accounts	*19*	**-**	3,346
Other non-current liabilities		**964**	877
		54,144	58,185
Equity and non-current liabilities		**118,140**	114,101

Notes:

1. General Information

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements. The Company is a limited liability company incorporated and listed in Hong Kong. The principal activity of the Company is investment holding whilst the principal activities of the subsidiaries are the generation and supply of electricity in Hong Kong, Australia and India, and investment holding of power projects in the Chinese mainland, Southeast Asia and Taiwan.

The financial operations of the Company's major subsidiary, CLP Power Hong Kong Limited (CLP Power Hong Kong), and its jointly controlled entity, Castle Peak Power Company Limited (CAPCO), are governed by a Scheme of Control (SoC) Agreement entered into with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business.

The current SoC, which will expire on 30 September 2008, is to be replaced by a new SoC effective 1 October 2008. The key changes of the new SoC are summarised in Note 22.

The financial statements have been approved for issue by the Board of Directors on 28 February 2008.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2007 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

2. Basis of Preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) which are stated at fair value.

3. Changes in Accounting Policies

Apart from certain presentational changes, the adoption of HKFRS 7 "Financial Instruments: Disclosures" and the complementary amendment to HKAS 1 "Presentation of Financial Statements – Capital Disclosures", as well as HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment" does not have any impact on the Group's financial statements.

4. Changes in the Group

During the year, the Group injected its entire 40% interest in Ho-Ping Power Company (Ho-Ping) into OneEnergy Limited (OneEnergy) and completed its assets swap with AGL Energy Limited (AGL).

(A) Injection of Interest in Ho-Ping into OneEnergy

In March 2007, the Group's entire 40% interest in Ho-Ping, a jointly controlled entity in Taiwan, was injected into OneEnergy, a jointly controlled entity with Mitsubishi Corporation of Japan, for a cash consideration of US$410 million (HK$3,198 million) and the allotment of 9,000 new shares in OneEnergy in the amount of US$90 million (HK$702 million), thereby realising a gain of HK$1,030 million.

(B) Asset Swap with AGL

In July 2007, TRUenergy Holdings Pty Ltd (TRUenergy) completed a power station swap to sell its Torrens Island Power Station (TIPS) in exchange for AGL's Hallett Power Station plus cash of A$300 million (approximately HK$1,987 million) aggregated to a total consideration of HK$3,446 million. The Group recognised a gain of HK$767 million (before tax HK$1,092 million) as a result of this asset swap.

5. Segment Information

The Group operates, through its subsidiaries, jointly controlled entities and associated companies, in five major geographical regions – Hong Kong, Australia, the Chinese mainland, India, and Southeast Asia & Taiwan. As substantially all the principal activities of the Group are for the generation and supply of electricity and these businesses are managed and operated on an integrated basis in each region, neither a business analysis nor a separate disclosure on the generation and supply businesses is presented.

Information about the Group's operations by geographical region is as follows:

	Hong Kong HK$M	**Australia HK$M**	**Chinese Mainland HK$M**	**India HK$M**	**Southeast Asia & Taiwan HK$M**	**Unallocated Items HK$M**	**Total HK$M**
For year ended 31 December 2007							
Revenue	29,909	18,018	124	2,687	50	1	**50,789**
Segment results	11,427	811	(87)	352	1,062	(278)	**13,287**
Share of results, net of income tax							
jointly controlled entities	1,492	27	1,112 [(a)]	-	393	-	**3,024**
associated companies	-	1	-	-	-	-	**1**
Profit/(loss) before net finance costs and income tax	12,919	839	1,025	352	1,455	(278)	**16,312**
Finance costs							**(5,024)**
Finance income							**160**
Profit before income tax							**11,448**
Income tax expense							**(837)**
Profit for the year							**10,611**
Profit attributable to minority interests							**(3)**
Earnings attributable to shareholders							**10,608**
Capital additions	5,342	2,878	189	1	-	16	**8,426**
Depreciation and amortisation	3,637	969	39	1	-	4	**4,650**
Impairment charge	1	288	1	63	-	-	**353**
As at 31 December 2007							
Segment assets							
owned and leased fixed assets	69,697	15,833	858	2	-	23	**86,413**
other segment assets	5,299	15,656	452	5,734	31	794	**27,966**
Interests in							
jointly controlled entities	6,757	1,423	7,042	-	2,462	-	**17,684**
associated companies	-	299	-	-	-	-	**299**
Deferred tax assets	-	3,845	70	-	-	-	**3,915**
Consolidated total assets	81,753	37,056	8,422	5,736	2,493	817	**136,277**
Segment liabilities							
obligations under finance leases	22,116	100	-	-	-	-	**22,216**
other segment liabilities	9,322	4,972	47	617	4	162	**15,124**
Bank loans and other borrowings	13,613	13,375	404	968	-	-	**28,360**
Current and deferred tax liabilities	5,959	-	136	485	1	-	**6,581**
Consolidated total liabilities	51,010	18,447	587	2,070	5	162	**72,281**

5. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2006							
Revenue	29,555	13,770	131	2,196	46	4	45,702
Segment results	10,761	(528)	(12)	973	1,278	(305)	12,167
Share of results, net of income tax							
jointly controlled entities	1,532	24	1,058 [(a)]	-	322	-	2,936
associated companies	-	2	-	-	112	-	114
Profit/(loss) before net finance costs and income tax	12,293	(502)	1,046	973	1,712	(305)	15,217
Finance costs							(4,762)
Finance income							138
Profit before income tax							10,593
Income tax expense							(683)
Profit for the year							9,910
Profit attributable to minority interests							(10)
Earnings attributable to shareholders							9,900
Capital additions	8,089	1,101	30	2	-	6	9,228
Depreciation and amortisation	4,053	873	35	2	-	5	4,968
Impairment charge/(write-back)	2	1,283	5	(76)	-	-	1,214
As at 31 December 2006							
Segment assets							
owned and leased fixed assets	68,236	14,491	672	3	-	16	83,418
other segment assets	5,705	11,859	496	6,025	1,054	48	25,187
Interests in							
jointly controlled entities	7,300	1,189	6,523	-	4,151	-	19,163
associated companies	-	18	-	-	-	-	18
Deferred tax assets	-	3,264	41	-	-	-	3,305
Consolidated total assets	81,241	30,821	7,732	6,028	5,205	64	131,091
Segment liabilities							
obligations under finance leases	22,794	16	-	-	-	-	22,810
other segment liabilities	11,148	3,946	45	529	18	161	15,847
Bank loans and other borrowings	13,053	10,954	253	1,224	-	4,794	30,278
Current and deferred tax liabilities	5,510	193	25	510	2	-	6,240
Consolidated total liabilities	52,505	15,109	323	2,263	20	4,955	75,175

Note (a): Out of the HK$1,112 million (2006: HK$1,058 million), HK$785 million (2006: HK$751 million) was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

6. Revenue

An analysis of the Group's revenue is as follows:

	2007	2006
	HK$M	HK$M
Sales of electricity	**42,860**	39,662
Lease service income [(a)]	**2,212**	1,500
Finance lease income	**475**	423
Sales of gas	**4,288**	3,108
Other revenue	**601**	807
	50,436	45,500
Transfer from Development Fund [(b)]	**353**	202
	50,789	45,702

Notes:

(a) In accordance with HKFRS-Int 4, servicing income and fuel costs received from lessees with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

(b) Pursuant to the SoC, if the gross tariff revenue in Hong Kong in any year exceeds or is less than the total of the operating costs, permitted return and taxation charges, such excess shall be added to, or such deficiency shall be deducted from, the Development Fund.

7. Operating Lease and Lease Service Payments

In accordance with HKFRS-Int 4, fuel and servicing charges paid to lessors with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service payments.

8. Other Income, net

	2007	2006
	HK$M	HK$M
Gain on transfer of Ho-Ping to OneEnergy (Note 4(A))	**1,030**	-
Gain on asset swap with AGL (Note 4(B))	**1,092**	-
Gain on formation of OneEnergy	**-**	343
Gain on transfer of BLCP to EGCO	**-**	888
Impairment charge on fixed assets	**-**	(1,176)
	2,122	55

9. Operating Profit

Operating profit is stated after charging/(crediting) the following:

	2007 **HK$M**	2006 HK$M
Charging		
Auditors' remuneration		
Audit	**28**	30
Permissible non-audit services	**21**	3
Net loss on disposal of fixed assets	**211**	216
Crediting		
Capital gain on disposal of properties	**-**	(25)

10. Finance Costs and Income

	2007 **HK$M**	2006 HK$M
Finance costs:		
Interest expenses on		
bank loans and overdrafts	**919**	949
other borrowings		
- wholly repayable within five years	**121**	48
- not wholly repayable within five years	**539**	576
finance charges under finance leases	**3,422**	3,020
Development Fund (Note)	**202**	265
customers' deposits and others	**89**	97
Subscription interest on outstanding purchase consideration for renewable projects	**-**	29
Other finance charges	**46**	45
Fair value (gain)/loss on derivative financial instruments		
cash flow hedges, transfer from equity	**(11)**	1
transactions not qualifying as hedges	**-**	2
Other net exchange (gain)/loss	**(1)**	5
	5,326	5,037
Less: amount capitalised	**(302)**	(275)
	5,024	4,762
Finance income:		
Interest income on		
short-term investments and bank deposits	**160**	137
advance to a jointly controlled entity	**-**	1
	160	138

Note: In accordance with the provisions of the SoC, CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of 8% per annum on the average balance of the Development Fund.

11. Income Tax Expense

Income tax in the consolidated income statement represents the income tax of the Company and subsidiaries and is analysed below:

	2007 HK$M	2006 HK$M
Current income tax		
Hong Kong	**790**	779
Outside Hong Kong	**64**	100
	854	879
Deferred tax		
Hong Kong	**304**	346
Outside Hong Kong	**(321)**	(542)
	(17)	(196)
	837	683

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

12. Dividends

	2007		2006	
	HK$ per share	**HK$M**	HK$ per share	HK$M
Interim dividends paid	**1.56**	**3,757**	1.50	3,612
Final dividend proposed	**0.92**	**2,216**	0.89	2,144
Special final dividend proposed	**-**	**-**	0.02	48
	2.48	**5,973**	2.41	5,804

At the Board meeting held on 28 February 2008, the Directors recommended a final dividend of HK$0.92 per share (2006: ordinary final dividend of HK$0.89 per share and special final dividend of HK$0.02 per share). Such dividends are to be proposed at the Annual General Meeting on 29 April 2008 and are not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2007.

13. Earnings per Share

The earnings per share is computed as follows:

	2007	2006
Earnings attributable to shareholders (HK$M)	**10,608**	9,900
Weighted average number of shares in issue (thousand shares)	**2,408,246**	2,408,246
Earnings per share (HK$)	**4.40**	4.11

Basic and fully diluted earnings per share are the same as the Company did not have any diluting equity instruments throughout the year ended 31 December 2007 (2006: nil).

14. Fixed Assets, Leasehold Land and Land Use Rights

Fixed assets, leasehold land and land use rights totalled HK$88,609 million (2006: HK$85,653 million).

Movements in the accounts are as follows:

(A) Fixed Assets

	Freehold Land and Buildings		Plant, Machinery and Equipment		
	Owned HK$M	**Leased [(a)] HK$M**	**Owned HK$M**	**Leased [(a)] HK$M**	**Total HK$M**
Net book value, as at 1 January 2007	6,941	5,019	51,652	19,806	83,418
Additions	726	70	6,925	535	8,256
Transfers and disposals	(49)	(5)	(195)	(80)	(329)
Disposal of subsidiaries	-	-	(77)	(2,037)	(2,114)
Depreciation	(222)	(261)	(2,863)	(1,049)	(4,395)
Impairment charge	(32)	-	(135)	-	(167)
Exchange differences	78	-	1,520	146	1,744
Net book value, as at 31 December 2007	**7,442**	**4,823**	**56,827**	**17,321**	**86,413**
Cost	9,898	9,659	87,225	35,976	142,758
Accumulated depreciation and impairment	(2,456)	(4,836)	(30,398)	(18,655)	(56,345)
Net book value, as at 31 December 2007	**7,442**	**4,823**	**56,827**	**17,321**	**86,413**

Note (a): The above leased assets include CAPCO's operational plant and associated fixed assets, which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties. This arrangement has been accounted for as finance lease in accordance with HKFRS-Int 4.

(B) Leasehold Land and Land Use Rights

	HK$M
Net book value, as at 1 January 2007	2,235
Additions	15
Amortisation	(57)
Exchange differences	3
Net book value, as at 31 December 2007	**2,196**
Cost	2,412
Accumulated amortisation	(216)
Net book value, as at 31 December 2007	**2,196**

15. Trade and Other Receivables

	2007 HK$M	2006 HK$M
Trade receivables	**5,473**	5,586
Deposits and prepayments	**1,598**	1,332
Other receivables	**-**	1,000
Dividend receivable from a jointly controlled entity	**5**	858
Current accounts with jointly controlled entities	**45**	23
	7,121	8,799

The Group has established credit policies for customers in each of its core businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within two weeks after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from about 30 to 60 days.

The ageing analysis of the trade receivables as at 31 December is as follows:

	2007				2006			
	Not impaired HK$M	**Impaired HK$M**	**Provision for impairment HK$M**	**Total HK$M**	Not impaired HK$M	Impaired HK$M	Provision for impairment HK$M	Total HK$M
Not yet due	**4,876**	**36**	**(17)**	**4,895**	4,645	36	(16)	4,665
Overdue								
1 – 30 days	**278**	**25**	**(14)**	**289**	423	32	(16)	439
31 – 90 days	**118**	**44**	**(28)**	**134**	293	48	(30)	311
Over 90 days	**20**	**355**	**(220)**	**155**	53	270	(152)	171
	5,292	**460**	**(279)**	**5,473**	5,414	386	(214)	5,586

16. Trade and Other Payables

	2007	2006
	HK$M	HK$M
Trade payables	**2,772**	2,679
Other payables and accruals	**2,503**	2,090
Current accounts with jointly controlled entities	**748**	1,124
	6,023	5,893

The ageing analysis of the trade payables as at 31 December is as follows:

	2007	2006
	HK$M	HK$M
Below 30 days (including amount not yet due)	**2,762**	2,656
31 - 90 days	**3**	1
Over 90 days	**7**	22
	2,772	2,679

17. Bank Loans and Other Borrowings

	2007	2006
	HK$M	HK$M
Current		
Short-term bank loans	**606**	1,798
Long-term bank loans	**2,262**	2,466
	2,868	4,264
Non-current		
Long-term bank loans	**13,260**	15,375
Other long-term borrowings		
MTN programme (USD) due 2012	**2,455**	2,367
MTN programme (HKD) due 2013 to 2015	**3,000**	3,000
MTN programme (HKD) due 2016	**1,000**	1,000
MTN programme (HKD) due 2017	**1,000**	-
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012	**4,435**	3,966
EPN and MTN programme (AUD) due 2015	**342**	306
	25,492	26,014
Total borrowings	**28,360**	30,278

18. Obligations under Finance Leases

The Group's obligations under finance leases arise predominantly from the power purchase arrangement with CAPCO in respect of the operational generating plant and associated fixed assets of the Hong Kong electricity business. All these obligations are accounted for as finance leases in accordance with HKFRS-Int 4.

	Minimum Lease Payments	
	2007	2006
	HK$M	HK$M
Amounts payable under finance leases:		
Within one year	**1,431**	1,945
After one year but within two years	**1,342**	1,811
After two years but within five years	**4,003**	4,885
Over five years	**15,440**	14,169
	22,216	22,810
Analysed as:		
Amount due for settlement within 12 months	**1,431**	1,945
Amount due for settlement after 12 months	**20,785**	20,865
	22,216	22,810

The effective interest rate of the finance lease obligations is a variable rate which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. For 2007 and 2006, the interest rate was 13.5% to 15% and the finance charges associated with the finance leases were charged to the income statement in the period in which they were actually incurred.

19. SoC Reserve Accounts

The Development Fund and Rate Reduction Reserve of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts in the consolidated balance sheet. The respective balances at the end of the year are:

	2007	2006
	HK$M	HK$M
Development Fund	**2,117**	2,932
Rate Reduction Reserve	**183**	414
	2,300	3,346

20. Reserves

	Capital Redemption Reserve HK$M	Translation & Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance as at 1 January 2007	2,482	690	825	38,636	42,633
Net exchange gains not recognised in income statement	-	2,621	-	-	2,621
Cash flow hedges, net of tax	-	558	-	-	558
Capital redemption by a subsidiary	-	(62)	62	-	-
Revaluation reserves realised upon depreciation	-	-	(3)	3	-
Appropriation of reserves of jointly controlled entities	-	-	13	(13)	-
Earnings attributable to shareholders	-	-	-	10,608	10,608
Dividends paid	-	-	-	(5,949)	(5,949)
Share of movements in reserves of jointly controlled entities	-	-	225	-	225
Balance as at 31 December 2007	**2,482**	**3,807**	**1,122**	**43,285** [(a)]	**50,696**

Note (a): The proposed final dividends as at 31 December 2007 and balance of retained profits after the proposed final dividends were HK$2,216 million (2006: HK$2,192 million) and HK$41,069 million (2006: HK$36,444 million) respectively.

21. Contingent Liabilities

Under the original power purchase agreement between Gujarat Paguthan Energy Corporation Private Limited (GPEC) and its off-taker Gujarat Urja Vikas Nigam Ltd. (GUVNL), GUVNL was required to make a “deemed generation incentive” payment to GPEC when the plant availability was above 68.5% (70% as revised subsequently). GUVNL has been making such payments since December 1997. In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission claiming that the “deemed generation incentive” payment should not be paid for the period when the plant was declared with its availability on “naphtha” as fuel rather than on “gas”. GUVNL’s contention is based on a 1995 Government of India notification which disallowed “deemed generation incentive” for naphtha-based power plants. The total amount of the claim plus interest amounts to about HK$1,437 million.

On the basis of legal advice that has been sought, the Directors are of the opinion that no provision is required to be made in the financial statements in respect of this matter.

22. Events after the Balance Sheet Date

On 7 January 2008, CLP Power Hong Kong and CAPCO (SoC Companies) signed an agreement with the Hong Kong Government on the terms of a new Scheme of Control (new SoC) which will come into effect on 1 October 2008, immediately following the expiry of the current SoC. The key changes of the new SoC in relation to the calculation of permitted return and net return are set out as follows:

- The term of the new SoC is 10 years, with Government having the right to extend by five years on the same terms to 30 September 2023, by giving notice before 1 January 2016. In the event that the five years extension option is not exercised by Government, the SoC Companies will continue to earn the permitted return until 30 September 2023 on Government's approved investments.

- The annual permitted return on average net fixed assets other than renewable energy investments is reduced to 9.99%, compared to the current 13.5% for those investments financed by borrowings and 15% for those financed by shareholders' funds. The annual permitted return for renewable energy investments is 11%.

- The new SoC links the permitted return of the SoC Companies with environmental standards regarding emissions of SO_2, NOx and respirable suspended particulates. The new SoC also introduces a number of incentives/penalties linking with supply reliability, customer services, promotion of energy efficiency and renewable generation. The above performance related adjustments to the permitted return are in the range of -0.43% to +0.2% on the average net fixed assets.

- A new tariff stabilisation fund will replace the existing development fund and will be operated in the same manner as the development fund. The interest charge on the average tariff stabilisation fund balance is changed from 8% to one-month Hong Kong interbank offered rate.

- Certain accounting changes are also made under the new SoC including extending the asset depreciation period for certain assets and making provision for asset decommissioning obligation.

For the accounting changes made under the new SoC, the Group is currently assessing the implications of these changes under HKFRS.

SUPPLEMENTARY INFORMATION ON TREASURY ACTIVITIES

The Group has engaged in new financing activities in 2007 to support the expansion of our electricity business in Hong Kong. During 2007, CLP Power Hong Kong arranged HK$1 billion fixed rate bonds due 2017 with a coupon rate at 4.38% issued under the MTN Programme and HK$500 million new bank loan facility at an attractive interest rate margin.

As at 31 December 2007, financing facilities totalling HK$43.6 billion were available to the Group, including HK$17.9 billion for TRUenergy and GPEC. Of the facilities available, HK$28.4 billion had been drawn down, of which HK$14.3 billion relates to TRUenergy and GPEC. Facilities totalling HK$8.4 billion were available to CAPCO, of which HK$7.0 billion were drawn down.

The Group’s total debt to total capital ratio was 30.7% as at 31 December 2007 (2006: 35.1%), and was 28.6% (2006: 33.9%) after netting off bank balances, cash and other liquid funds at 31 December 2007. The interest cover was 8 times (2006: 7 times).

In April 2007, Moody's re-affirmed the A1 long-term rating and the P-1 short-term foreign currency rating whilst in July 2007, S&P re-affirmed the A long-term rating and the A-1 short-term rating of CLP Holdings respectively.

For the credit ratings of CLP Power Hong Kong, Moody’s re-affirmed in April 2007 the Aa3 long-term rating and the P-1 short-term foreign currency rating, and S&P re-affirmed in July 2007 the A+ long-term rating and the A-1 short-term rating.

In January 2008, Moody’s and S&P placed the credit ratings of CLP Holdings and CLP Power Hong Kong on credit watch with negative implications following the conclusion of the new SoC with the HKSAR Government.

In July 2007, S&P lowered the long-term rating of TRUenergy Holdings, formerly CLP Australia Holdings, to BBB+ from A- and later in November 2007, placed this BBB+ long-term rating on credit watch with negative implications following the mine subsidence at Yallourn power station and its near-term impact on generation.

The Group’s investments and operations have resulted in exposures to foreign currency risks, interest rate risks, credit risks and price risks associated with the sales and purchases of electricity in Australia. We actively manage such risks by using different derivative instruments with an objective to minimising the impact of exchange rate, interest rate and electricity price fluctuations on earnings, reserves and tariff charges to customers. Other than certain electricity trading activities engaged by TRUenergy Holdings, all derivative instruments are employed solely for hedging purposes.

The fair value of the Group’s outstanding derivative instruments as at 31 December 2007 was at a surplus of HK$854 million, which represents the net amount we would receive if these contracts were closed out at 31 December 2007.

As at 31 December 2007, the Group had gross outstanding derivative instruments amounting to HK$90.0 billion.

CORPORATE GOVERNANCE

Since February 2005, the Company has adopted its own Code on Corporate Governance (the CLP Code) which incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange's Code on Corporate Governance Practices (the Stock Exchange Code), save for the single exception regarding quarterly financial results which is specified and explained in our Corporate Governance Report, as part of our Annual Report. CLP has also applied all of the principles in the Stock Exchange Code. The manner in which this has been done is set out in the CLP Code and the Corporate Governance Report.

CLP's only deviation from the Recommended Best Practices relating to the recommendation that an issuer should announce and publish quarterly financial results remains as a deviation of the CLP Code and our actual practices from the Stock Exchange Code. The reason is a judgment that, as a matter of principle and practice, quarterly reporting does not bring significant benefits to shareholders. CLP's position is set out on our website. We do, however, issue quarterly statements which include revenue, interim dividends and progress in major business activities.

Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. Details of the continuing evolution of our corporate governance practices in 2007 are set out in the Corporate Governance Report.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2007. It has also reviewed the findings and opinion of Group Internal Audit and management on the effectiveness of the Company's system of internal control. All of the Audit Committee members are appointed from the Independent Non-executive Directors, with the Chairman and Professor Judy Tsui having appropriate professional qualifications and experience in financial matters.

Since 1989, the Company has adopted its own Code for Securities Transactions by Directors (CLP Securities Code), which is largely based on the Model Code set out in Appendix 10 of the Listing Rules. The CLP Securities Code also applies to Senior Management (comprising the three Executive Directors and seven other members, whose biographies are set out in the Annual Report and CLP's website), and other "Specified Individuals" such as senior managers in the CLP Group. The CLP Securities Code has been updated from time to time to reflect new regulatory requirements as well as CLP Holdings' strengthened regime of disclosure of interests in its securities.

The current CLP Securities Code is on terms no less exacting than the required standard set out in the Model Code.

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and CLP Securities Code throughout the period from 1 January to 31 December 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2007.

FINAL DIVIDENDS

The final dividend of HK$0.92 per share (2006: ordinary final dividend of HK$0.89 per share and special final dividend of HK$0.02 per share) will be payable on all shares of HK$5.00 each in issue as at the close of business on 18 April 2008 after deducting any shares repurchased and cancelled up to the close of business on 18 April 2008. As at 31 December 2007, 2,408,245,900 shares of HK$5.00 each were in issue. If approved, the final dividend of HK$0.92 per share will be payable on 30 April 2008 to shareholders registered as at 29 April 2008.

The Register of Shareholders will be closed from 21 April 2008 to 29 April 2008, both days inclusive. To rank for the final dividend, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 18 April 2008.

ANNUAL GENERAL MEETING

The tenth Annual General Meeting (AGM) will be held at Jockey Club Auditorium, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong on Tuesday, 29 April 2008, at 11:00 a.m. The Notice of AGM will be published on the websites of the Company and the Stock Exchange of Hong Kong Limited and despatched to Shareholders on or about 31 March 2008.

By Order of the Board
April Chan
Company Secretary

Hong Kong, 28 February 2008

The Company's Annual Report containing the Directors' Report and Financial Statements for the year ended 31 December 2007 will be published on the Company's website at www.clpgroup.com and the website of the Stock Exchange of Hong Kong on or about 13 March 2008. The Annual Report, the CLP Group Sustainability Report and the Notice of Annual General Meeting will be despatched to shareholders on or about 31 March 2008. All of these will be made available on the Company's website.

CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

(Stock Code: 002)

Non-executive Directors: The Hon. Sir Michael Kadoorie, Mr. W. E. Mocatta, Mr. J. S. Dickson Leach, Mr. R. J. McAulay, Mr. J. A. H. Leigh, Mr. R. Bischof, Mr. I. D. Boyce, Mr. Jason Whittle, Dr. Y. B. Lee and Mr. Paul A. Theys (Mr. Neo Kim Teck as his alternate)

Independent Non-executive Directors: The Hon. Sir S. Y. Chung, Dr. William K. Fung, Mr. V. F. Moore, Mr. Hansen C. H. Loh, Mr. Paul M. L. Kan, Professor Judy Tsui, Sir Rod Eddington and Mr. Peter T. C. Lee

Executive Directors: Mr. Andrew Brandler, Mr. Peter P. W. Tse and Mr. Peter W. Greenwood