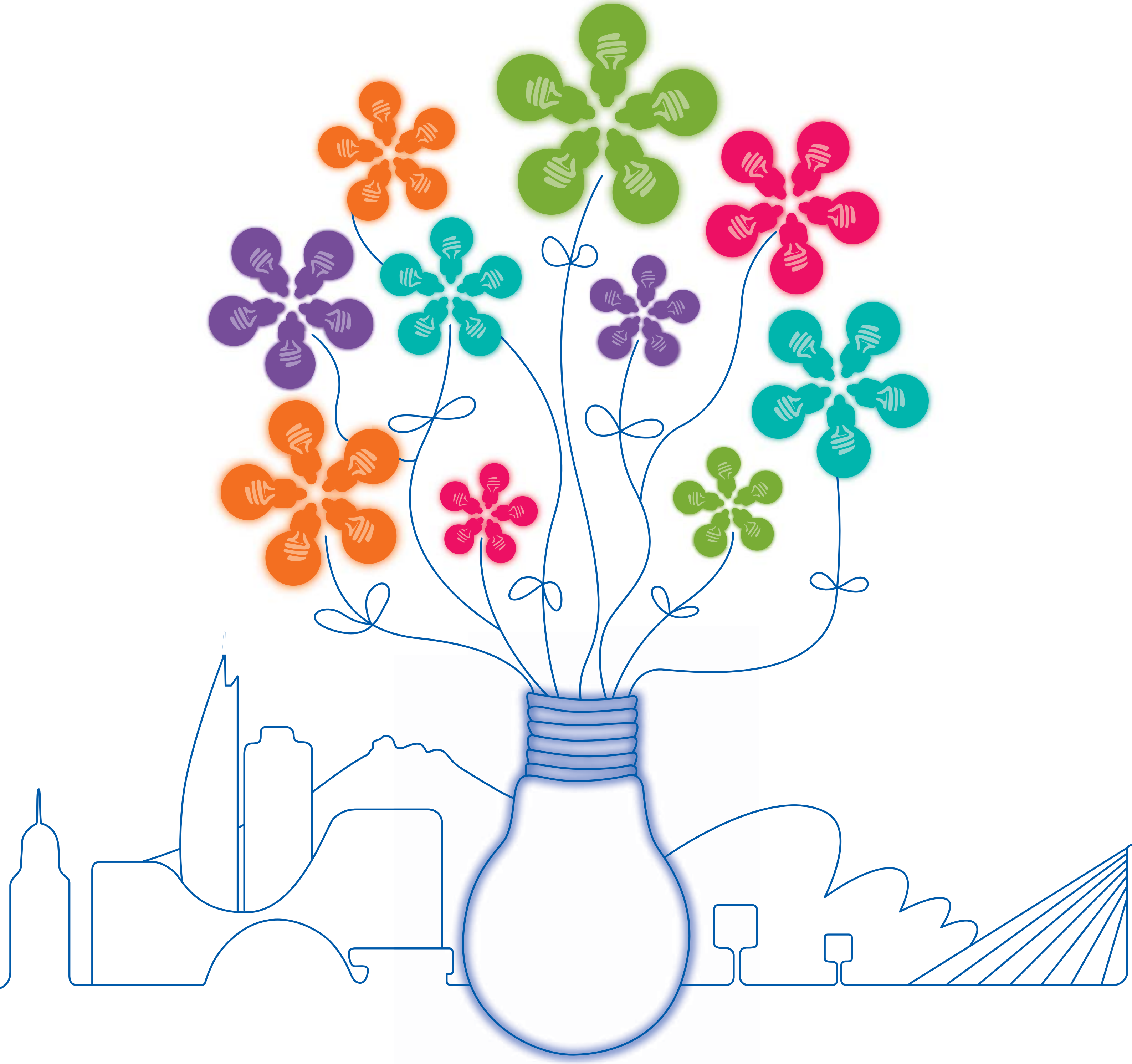
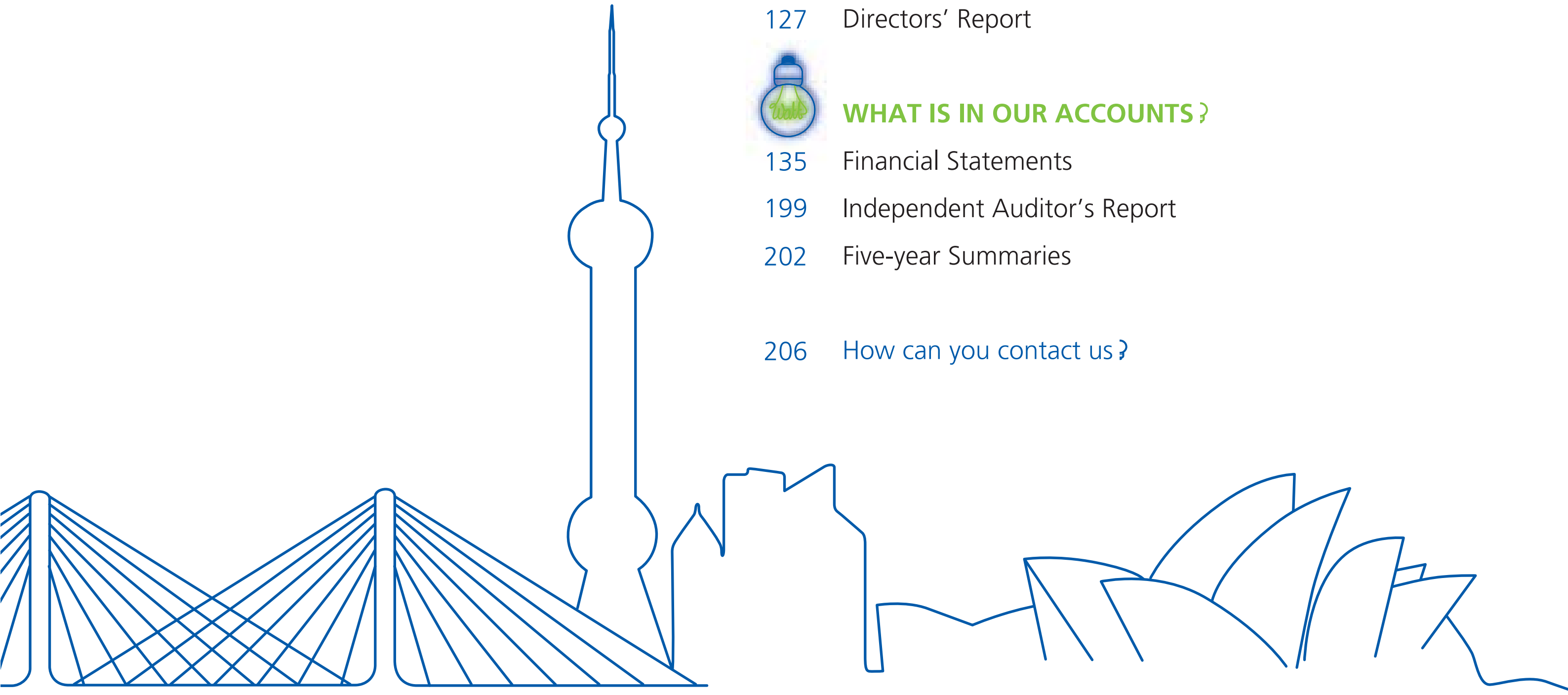
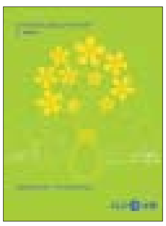


2007 ANNUAL REPORT

CLP 中電





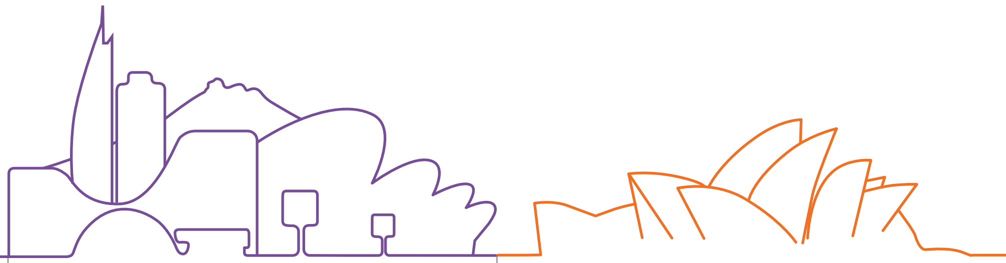
We report to shareholders and stakeholders through a number of channels. This Annual Report focuses on the financial and operational performance of CLP in 2007 and our future outlook. Our Sustainability Report (SR) issued alongside the Annual Report describes our plans and performance in managing the environmental dimension of our activities. Since March 2007, our social and environmental reporting has been supplemented by a comprehensive on-line sustainability report. Our website, which is regularly updated, also contains a wealth of detailed information about CLP.

To help readers, we have highlighted those areas of this Annual Report where further information is available in the SR or on our website, by using the symbols and .

Shareholders can support charity and help the environment by choosing to receive CLP's corporate communications in electronic form – details on page 98.

CLP at a Glance

CLP Holdings Limited is the holding company for the CLP Group of companies. It is listed on the Hong Kong Stock Exchange and is one of the largest investor-owned power businesses in Asia.

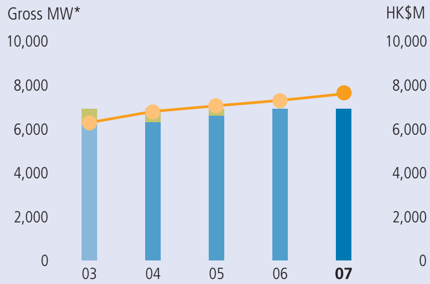


Hong Kong

Business Description

- Electricity supplier since 1903
- Owner and operator of a vertically integrated electricity supply business in Hong Kong, comprising
  - Generation: 6,908 megawatts (MW) of total installed generating capacity
  - Energy Delivery: over 13,065 kilometers (km) of transmission and high voltage distribution lines
  - Customer Service: 2.26 million customer accounts (representing over 80% of Hong Kong's total population)
- Regulated by the Hong Kong Government under a Scheme of Control (SoC) Agreement

Investment Performance



Under construction
In operation
Earnings

* Includes 100% of generating capacity owned by Castle Peak Power Company Limited and operated by CLP Power Hong Kong

2007 Operating Highlights

- Sold 33,997 million kilowatt hours (kWh) of electricity
- Basic tariff freeze maintained for 10 successive years. Total tariff increase of 4.5% commencing 2008 due to rising fuel costs
- A new SoC Agreement was concluded with the Hong Kong SAR Government in January 2008
- Continued to achieve supply reliability of 99.99%, amongst the best in the world
- Environmental permit obtained to construct and operate a Liquefied Natural Gas (LNG) receiving terminal on South Soko Island in April 2007
- Construction started on Castle Peak "B" Emissions Control Project

2008 Outlook

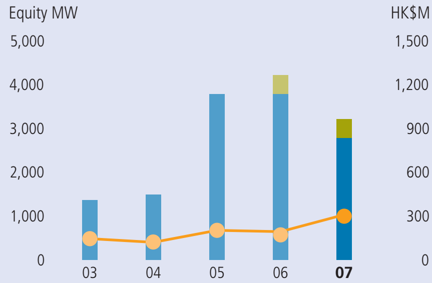
- Continue to enhance supply reliability, power quality and customer service
- Deliver high performance and flexibility from generating assets
- Implement the terms of the new SoC Agreement with effect from 1 October 2008
- Progress the LNG project including obtaining approvals and site acquisition
- Substantial progress on structural and plant works for the Castle Peak "B" Emissions Control Project

Australia

Business Description

- Developer, investor, project manager, retailer and operator in the private sector power business since 1999
- Operator in energy markets in Victoria, South Australia (SA), New South Wales (NSW), Queensland, Tasmania and the Australian Capital Territory
- Operator of a vertically integrated energy business
  - generation: 2,060MW from wholly-owned large thermal and gas-fired power stations and a 966MW long-term hedge contract
  - 1.25 million business and household customer accounts (gas and electricity)
  - gas storage and distribution
  - significant renewable energy purchases

Investment Performance



Under construction
In operation
Earnings

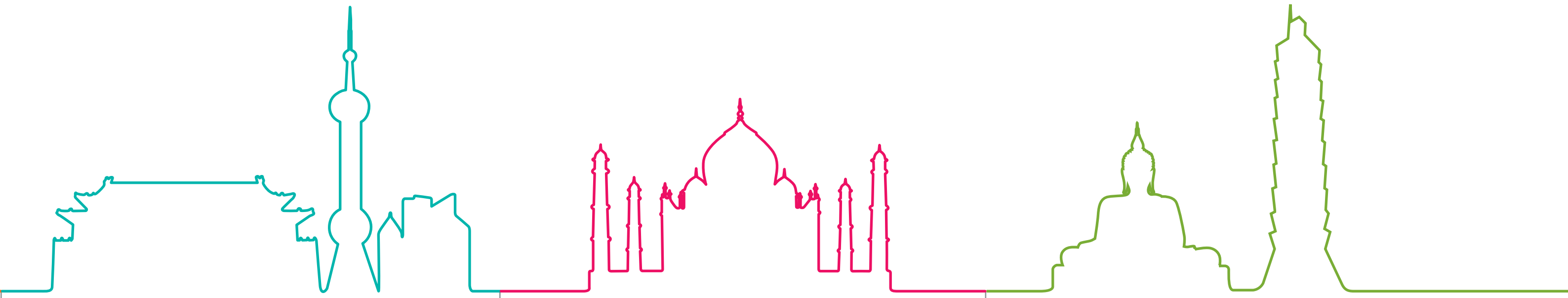
2007 Operating Highlights

- Completed the asset swap of Torrens Island Power Station with AGL's Hallett Power Station in July 2007
- First Australian energy utility to announce aggressive climate change targets committing the business to a 60% reduction in emissions by 2050
- Entered into an agreement with IBM Australia to outsource the management of information technology services and back-office functions
- Construction of Tallawarra, a new combined-cycle gas-fired power station in NSW, proceeded well
- Restoration of mining operations at TRUenergy Yallourn following substantial subsidence of coalface
- Announcement of A$292 million Joint Development Agreement with Solar Systems

2008 Outlook

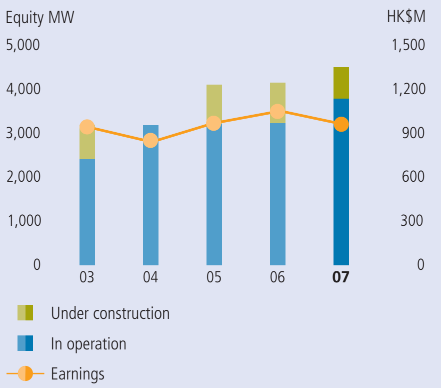
- Pursue growth opportunities via the NSW energy asset privatisation process for retail and generation businesses
- Maintain momentum in relation to achievement of our short and long-term climate change targets and continue to work to address the impact of climate change
- Successfully complete the construction of TRUenergy Tallawarra Power Station in time for summer 2008/09
- Increase customer uptake in our range of accredited GreenPower retail energy products
- Proceed with further expansion of the Iona Gas Plant and increase the plant capacity by over 40% initially
- Manage CLP's Roaring 40s renewable energy joint venture

Powering Asia – CLP's vision is to be a leading investor-operator in the Asia-Pacific electric power sector



Chinese Mainland

- Developer, investor, project manager and operator in the private sector power business since 1985
- Largest external investor in the Chinese mainland electricity industry with 4,537 equity MW of interests in generating assets in Guangdong, Beijing, Shandong, Shaanxi, Guangxi, Guizhou, Sichuan and Jilin

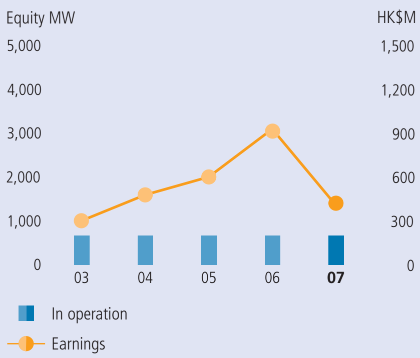


- Completed the restructuring of Shandong project
- Signed an agreement involving injection of five power plant assets into CLP Guohua
- Obtained approval from National Development and Reform Commission for the 3 x 110MW Jiangbian hydro project in Sichuan Province
- Completed construction of the first unit of 2 x 600MW supercritical coal-fired Fangchenggang project
- Continued development of Huaiji hydro project, wind farm projects including Weihai, Nanao Island, Shuangliao, Hailing Island, Rongcheng, Hekou, Lijin, Zhanhua, Datong and the biomass project in Shandong Boxing

- Effectively manage the Fangchenggang project including the fuel issues and achieve completion of the second unit
- Ensure integration of new assets into CLP Guohua, explore possibility of further expansion
- Review existing arrangement at Anshun II
- Promote safe construction of the Jiangbian Project
- Consider scope for continued involvement in nuclear power, especially in Southern China
- Continue to pursue renewable energy project opportunities

India

- Developer, investor, project manager and operator in the private sector power business since 2001
- One of the largest foreign power companies in the Indian power sector with a 655MW equity interest in the GPEC Power Station, India
- Developer of a 100.8MW wind farm at Samana in Gujarat and an 82.4MW wind farm in Saundatti in Karnataka

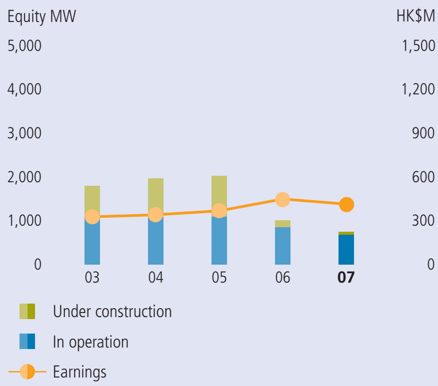


- GPEC maintained high operational, safety and environmental standards
- Acquired a 100% interest in a greenfield 100.8MW wind farm at Samana in Gujarat
- Acquired a 100% interest in a greenfield 82.4MW wind farm at Saundatti in Karnataka
- Received the final environmental approval for GPEC II, the construction of which will commence following the finalisation of the gas supply agreements

- Arrange new long-term gas supply for GPEC to replace declining supplies under existing long-term arrangements/spot purchases
- Pursue growth opportunities in Gujarat and other reforming states, including expansion into transmission and distribution sectors in addition to power generation
- Pursue potential opportunities to develop coal-fired power plant
- Completion of construction of Samana wind and Saundatti wind projects on schedule and on budget
- Pursue further wind and other renewable energy opportunities

Southeast Asia and Taiwan

- Developer, investor, project manager and operator in the private sector power business since 1994
- A leading international private sector power company in Southeast Asia and Taiwan which, through OneEnergy, our exclusive joint venture with Mitsubishi Corporation, has 728 equity MW of interests in generating assets in Taiwan, Thailand, The Philippines and Laos



- Completed the injection of CLP's 40% interest in the Ho-Ping Power Station into OneEnergy
- Ho-Ping in Taiwan obtained environmental approval and submitted a bid to build an expansion of 2 x 717MW coal-fired power plant, although no bids were successful in this round of new generation solicitation by Taipower
- EGCO's bids in response to the Thai government's solicitation for new generating capacity were not successful
- Established representative offices in Indonesia and Vietnam and developing a number of promising greenfield opportunities in these markets

- Progress development of existing project opportunities in Taiwan, Vietnam, Indonesia and, through EGCO, in neighbouring countries to Thailand
- Strengthen development pipeline
- Consider strategic acquisition of assets in The Philippines and Singapore
- Complete coal dome rebuild and turbine blade replacement for Ho-Ping

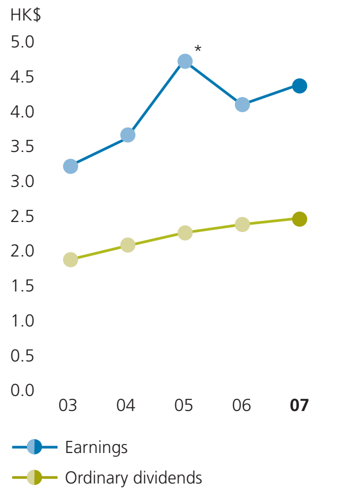
Financial Highlights

2007 earnings up by 7.2%
Total assets increased 4.0% from 2006

	2007	2006	Increase/ (Decrease) %
Per share (in HK$)			
Earnings per share	4.40	4.11	7.2
Dividends per share			
Interim	1.56	1.50	
Final	0.92	0.89	
Total ordinary dividends	2.48	2.39	3.8
Special final	–	0.02	
Total dividends	2.48	2.41	2.9
Shareholders' funds per share	26.53	23.19	14.4
For the year (in HK$ million)			
Revenue			
Electricity business in Hong Kong (HK)	29,684	29,293	1.3
Energy business outside HK	20,879	16,143	29.3
Others	226	266	
Total	50,789	45,702	11.1
Earnings			
Electricity business in HK	7,589	7,290	4.1
Other investments/operations	2,200	2,778	(20.8)
Other income, net	1,797	408	
Coal mine subsidence and outsourcing costs of TRUenergy	(583)	–	
Unallocated net finance costs	(90)	(283)	
Unallocated Group expenses	(305)	(293)	
Total earnings	10,608	9,900	7.2
Net cash inflow from operations	15,687	16,794	(6.6)
As at 31 December (in HK$ million)			
Total assets, including leased assets	136,277	131,091	4.0
Total borrowings	28,360	30,278	(6.3)
Obligations under finance leases	22,216	22,810	(2.6)
Shareholders' funds	63,901	55,838	14.4
Ratios			
Return on equity (%)	17.7	18.6	
Total debt to total capital[1] (%)	30.7	35.1	
Net debt to total capital[2] (%)	28.6	33.9	
Interest cover[3] (times)	8	7	
Price / Earnings[4] (times)	12	14	
Price / Book value[5] (times)	2	2	
Dividend yield[6] (%)	4.7	4.2	

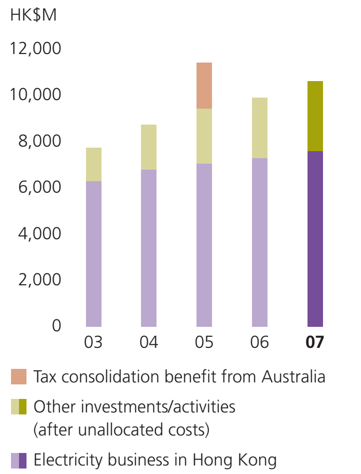
Notes:
1 Total debt to total capital = Debt / (Equity + debt). Debt excludes obligations under finance leases.
2 Net debt to total capital = Net debt / (Equity + net debt). Net debt = Debt - bank balances, cash and other liquid funds.
3 Interest cover = Profit before income tax and interest / (Interest charges + capitalised interest)
4 Price / Earnings = Closing share price on the last trading day of the year / Earnings per share
5 Price / Book value = Closing share price on the last trading day of the year / Shareholders' funds per share
6 Dividend yield = Dividends per share / Closing share price on the last trading day of the year

Earnings and Dividends per Share

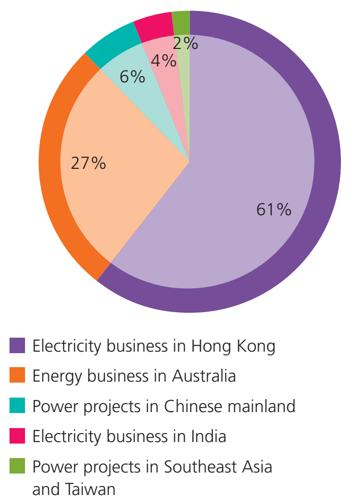


* Included a one-off tax consolidation benefit from Australia of HK$2,004 million

Total Earnings



Total Assets in 2007



Chairman's Statement

We take a long-term view, whilst delivering shareholder value year after year.

The Hon. Sir Michael Kadoorie

Dear Shareholders,

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 the Hong Kong electricity business averaged 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 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's 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 the present SoC agreement, 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.

Greeting shareholders at our Annual General Meeting

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 has created 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 here 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, NO_x 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

Visiting our new Fangchenggang Power Station 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 emission levels and vulnerability to tightening environmental standards.

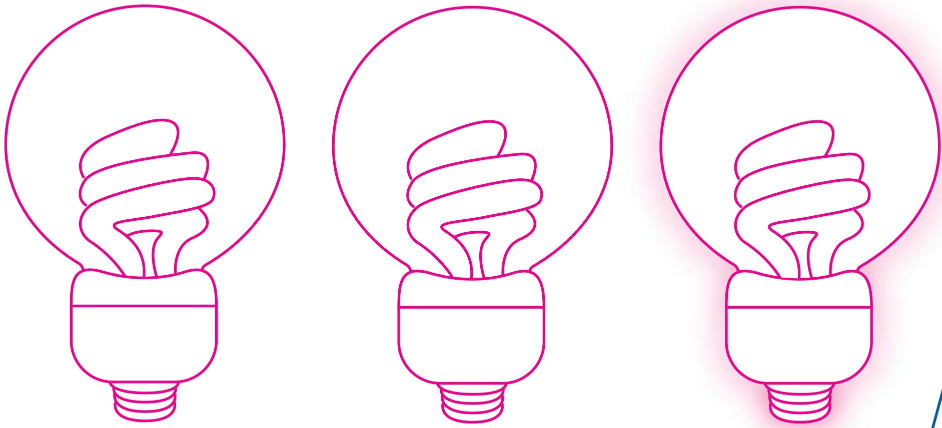
Financial Strength

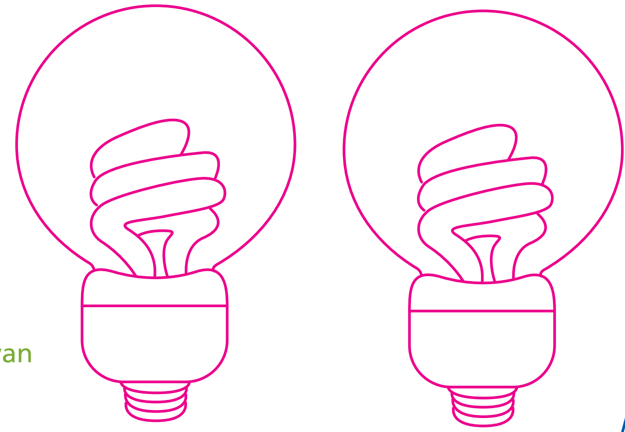
CLP's ability to meet the challenges of the years ahead, whether these arrive in the form of evolving regulation of our Hong Kong electricity business, the opportunities for growth in the Asia power sector or maintaining high standards of environmental stewardship, is enhanced by the ongoing financial strength of our business. This was illustrated by a good financial performance in 2007, which saw total earnings rise 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 and the following sections of the Annual Report.

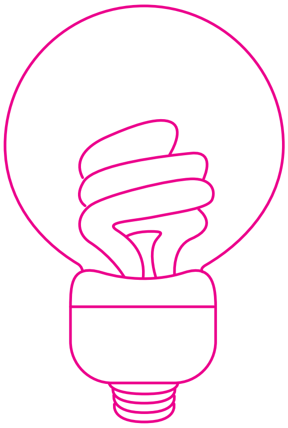
The Board has recommended a final dividend for 2007 of HK$0.92 per share. This final dividend, together with the three interim dividends paid during the year, results in a total dividend of HK$2.48 per share, as compared to HK$2.41 per share for 2006.

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
Hong Kong, 28 February 2008







HOW ARE WE PERFORMING?

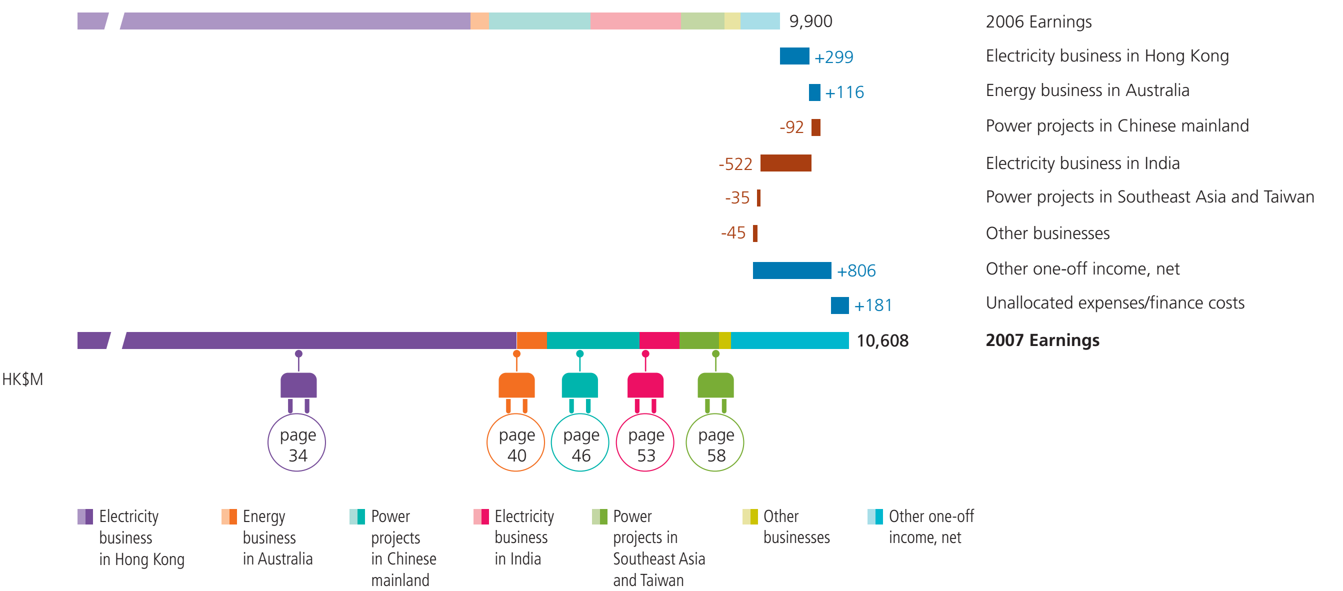
CEO's Review

We see regulatory clarity for our Hong Kong business and a promising outlook in the region.

Andrew Brandler

The earnings of the CLP Group in 2007 were HK$10,608 million, compared to HK$9,900 million in the previous year, representing a 7.2% increase. Current year's earnings benefited from the gains on the injection of Ho-Ping into OneEnergy and the assets swap in Australia, totalling HK$1,797 million, despite being partly offset by the effects of the coal mine subsidence at Yallourn and outsourcing costs of TRUenergy, aggregating to HK$583 million.

Group Earnings



The performance of our businesses in each of the five areas within the Asia-Pacific region in which CLP operates is explained in the following sections of this Annual Report. We also explain the business environment and challenges which each of our businesses faces and their outlook for the coming year and beyond.

In this CEO's Review, I want to supplement the Chairman's Statement and those sections of this Annual Report by offering some thoughts, from a Group perspective, on the earnings contributions from our various business streams, the performance which lies behind those earnings and their prospects for the year ahead.

Business Outside Hong Kong

During 2007, the earnings from our businesses outside Hong Kong increased to HK$3,414 million, compared to HK$3,186 million in the previous year. Within this overall figure, the performance of our individual businesses differed significantly.

The earnings from TRUenergy, our wholly-owned subsidiary in Australia, rose 61% to HK$307 million. This resulted mainly from unrealised mark-to-market gain on electricity derivative contracts as at 31 December 2007. In addition, there was a net one-off gain of HK$184 million arising from the swap of our power station at Torrens Island, the upfront costs of the outsourcing of certain back-office functions, and the effects of the mine subsidence at Yallourn in November. Relative to the scale of the Group's investment in Australia, this level of earnings, whilst an improvement on the previous year (when an impairment provision of HK$823 million had been made for Yallourn), still falls short of our expectations.

However, the outlook for 2008 is positive. We expect to see the benefit of our efforts to reduce the cost of serving our retail customers, together with improved revenues following the increases in the Victorian retail price path which took effect at the beginning of 2008. The commissioning of our new gas-fired Tallawarra Power Station in NSW in August 2008 and expansion of the gas storage facility at Iona will also strengthen our fuel supply and electricity generating capability.

Our focus in Australia in 2008 will be on our core operating business, including operational reliability and availability, retail efficiency, lowering costs and mitigating risks of climate change. With increasing consolidation and the move to vertical integration in the Australian energy sector, the steps that we are taking to enhance TRUenergy's asset base and earnings performance will stand us in good stead whatever opportunities this process of consolidation and integration creates.

The earnings from our investments in the Chinese mainland slipped to HK$241 million in 2007, an 18% decline on the previous year. Higher coal prices and delay in fuel-linked tariffs adjustments put pressure on CLP's profits and, for that matter, those of other mainland generating companies. The risk of reduced utilisation hours in certain regions, continuing high coal costs and lack of clarity on the timing and magnitude of tariffs increases will remain key challenges in 2008. On the other hand, the entering into commercial operation of the two units at our new supercritical coal-fired Fangchenggang Power Station in Guangxi in September 2007 and January 2008 was a significant achievement. We completed Fangchenggang Unit 1 on time and within budget, some 26 months after the start of main construction work. This is our most rapid construction period and the first time we have taken direct responsibility for managing a major project in China, including the engineering, equipment procurement and site construction.

Amongst our investments in the Chinese mainland, there was a steady performance from those which serve Hong Kong, namely, Daya Bay Nuclear Power Station and our Guangdong pumped storage facility. These contributed earnings of HK$712 million compared to HK$751 million in 2006.

Inspecting construction progress of Tallawarra Power Station

The earnings from our Indian business declined in 2007 to HK$409 million from HK$931 million in 2006 (when profits were boosted by exceptional items, namely, the recovery of delayed payment charges and the write-back of receivables provisions, totalling HK$280 million). Furthermore, the earnings in 2007 have been reduced by an additional provision for dividend distribution tax at a higher tax rate. I remain encouraged by the performance of our investment in GPEC. I am confident that our existing GPEC asset can continue to generate good returns for our shareholders. The overall performance of our Indian business will depend upon the availability of new opportunities in the Indian power sector, whether these be in generation, transmission or distribution, as well as a rational competitive environment in which these opportunities are properly priced in the light of their risk/reward profile.

The earnings from our investments in Southeast Asia and Taiwan, held through OneEnergy, our 50/50 owned venture with Mitsubishi Corporation, reduced by 8% to HK$409 million, excluding one-off gains. This was largely due to a 50% decrease in CLP's effective shareholding in the Ho-Ping Power Station in Taiwan through the creation of OneEnergy. In addition, there was a gain of HK$1,030 million on the injection of Ho-Ping into OneEnergy during the year, whilst gains of HK$343 million and HK$888 million on the formation of OneEnergy and sale of BLCP respectively were realised in 2006. The outlook for 2008 is challenging, due to projected higher coal costs at Ho-Ping (coupled with a time lapse in tariffs adjustment taking effect) and the challenge of maintaining earnings from EGCO, OneEnergy's Thai affiliate. However, OneEnergy is targeting new project growth in Taiwan, Indonesia, Vietnam, Singapore and, through EGCO, in Thailand. As our joint venture with Mitsubishi settles down, I believe that we have an increasing alignment regarding the risk/reward profile of the investments which OneEnergy should pursue. Both of us are aiming for opportunities which offer the reasonable prospect of delivering sustainable shareholder value over the medium to longer term. Neither of us wishes to foresake this discipline for the sake of accelerated growth.

Investment returns differ from region to region and also differ depending on when the investment was made. For instance in Southeast Asia, developers could secure internal rates of return to the equity in the high double digits in the first half of the 1990, whilst returns in that region now are just high single digits to low double digits. Has this affected the way CLP thinks about its overseas expansion?

Mr. Joseph Jacobelli

Senior Director
Head of AsiaPac Utilities &
Energy Technology Research
Equity Research
Merrill Lynch (Asia Pacific) Limited

It is correct that equity returns have decreased since ten years ago. However, so have interest rates. Compared to the 1990s, interest rates are generally lower today, reflecting both a decline in the yield curve and also a reduction in risk premiums – especially political risk premiums – as Asian markets have been able to grow and strengthen over time. So in a way it makes sense that general equity returns have also reduced and, on a relative basis, equity returns probably have not fallen as much as interest rates.

CLP will not, however, invest in opportunities where we do not think projected returns will meet risk adjusted hurdle rates we set for different investments in different markets. With a home base in Asia we are here for the long term, and at the same time CLP arguably has a broader footprint than anyone else in the Asia Pacific electricity industry where no one else has the same geographical diversification and coverage. This gives us flexibility and we can afford to be patient and wait for times and places when and where phases of "irrational exuberance" have passed.

In other words, I think we are in a good position to be selective and focus on markets where we believe investment opportunities may offer better returns at any given time. This probably means that we miss some immediate opportunities in some markets, but in the long run we are convinced this creates the most value for our shareholders. For instance, lately we have found limited value in public tenders for M&A opportunities, where across the region winning bidders in such tenders have paid high prices. Too high if you ask me. Instead, in the last couple of years we have found more value in for example, developing and investing in greenfield opportunities in the renewable energy sector, which is probably the part of our business that has grown most rapidly lately.

Andrew Brandler

Chief Executive Officer

Hong Kong Electricity Business

Our Hong Kong electricity business continued to deliver a strong performance, contributing HK$7,589 million to the Group's earnings, an increase from HK$7,290 million in 2006.

For this business and, for that matter, the CLP Group as a whole, the most significant event of the past 12 months has been the conclusion of a new SoC agreement with the Hong Kong SAR Government, to take effect on 1 October 2008 following the expiry of the present SoC.

The principal terms of the new SoC which, as did its predecessors, takes the form of a contract between CLP and Government, are set out in the following paragraphs.

- Duration – 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. Government has the right to introduce market changes after 2018, taking into account factors such as supply reliability and environmental standards. In the event that the five years' extension option is not exercised by Government, CLP will continue to earn the permitted return until 2023 on all approved investments.
- Return – the permitted annual return on average net fixed assets 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. Renewable energy investments will be entitled to a return of 11%.
- Depreciation – the depreciation periods of certain assets have been extended to better reflect their projected operational life. This change will result in higher fixed asset balances and, therefore, higher permitted returns over the next 15 years. On the other hand, CLP's cash flow will be pushed back commensurately due to lower depreciation charges to customers, which will also have the effect of relieving tariff pressure.
- Tariff Approval Process – this remains unchanged. The Executive Council approves CLP's medium-term (e.g. five-year) Basic Tariffs' projection upon approval of investment plans, and CLP has the right to pass its full actual fuel costs through to its customers. Provided CLP's tariff adjustments are within 5% above the projections approved by Government, CLP can implement tariffs increases during the five years without further Government approval.
- Stranded Costs – a provision is introduced to give CLP protection for stranded costs, which may arise as a result of future changes to the market structure which adversely impact on CLP's ability to recover and to earn returns on existing investment made in good faith in accordance with the SoC. These costs will include the costs of investments, fuel and power purchase agreements (PPA) previously approved by Government. If stranded costs arise after CLP has implemented mitigation measures reasonably required by Government, CLP is entitled to recover them from the market, consistent with international practice. Three years

Mr. Franklin Chow

Executive Director
Investment Research
Beijing Gao Hua Securities Company Limited

Would CLP consider putting its Hong Kong and overseas businesses in separate listed vehicles?

Yes, but only if and when we considered this to be the best way to deliver value from these businesses to shareholders. We are well aware of other energy companies, such as (the then) National Power in the U.K., who have split their domestic and overseas activities.

Two factors would bring such an option to the forefront of our thinking. First, if the Board believed that the skills, needs and characteristics of the two businesses were so different that it was inefficient to house them within the same management structure. Second, if it were apparent that our present structure meant that either or both of these businesses were undervalued by the market – which can happen when shareholders have difficulty valuing the quite different value propositions which a domestic steady-state utility and an Asian development business might represent.

I don't think either of these two factors is yet clearly in evidence and I am conscious that such a separation would be pretty much irrevocable. I should also mention that any division of our business into separate listed vehicles need not necessarily be on the lines you suggest – it could also be done on a country by country basis or by type of business (generation, renewable energy etc.). So, although the option that you mentioned is one of those on our radar screen, we don't yet have specific plans in this regard.

Andrew Brandler

Chief Executive Officer

before market changes are introduced, CLP and Government will agree on the amount of stranded costs and the mechanism for their recovery by the Company.

- Environmental Penalties – the new SoC links CLP's permitted return with environmental standards stipulated in law regarding emissions of SO_2, NO_x and respirable suspended particulates. The penalties for non-compliance apply on a sliding scale, to be triggered after a 10% cushion, up to a maximum equivalent to a 0.4% return on total net fixed assets value. There are pre-conditions to the application of such penalties, including reasonable technical achievability of the environmental standards, timely Government approval and a reasonable lead time to make the necessary investments in environmental improvement, as well as relief for force majeure type events. These pre-conditions, together with CLP's excellent record in environmental compliance, give us confidence that CLP will meet the environmental standards required by law and manage effectively the risk associated with these penalties.
- Performance Incentives or Penalties – these will apply if the Company's performance on supply reliability, operational efficiency and customer services falls outside a reasonable range agreed with Government. The potential amounts involved, whether incentives or penalties, are around HK$20 million per year. In addition, there are rewards for promotion of energy efficiency and renewable energy. The potential rewards are about HK$40 million per year.

The reduced rates of returns will apply as from 1 October 2008 and will result in a step decrease in the earnings from the Hong Kong electricity business. Nonetheless, with the significant investment required in our electricity infrastructure over the next decade, this business will continue to deliver value to our shareholders and remain a major source of overall Group earnings growth in the future, albeit from a base of the lower earnings due to the revised permitted return.

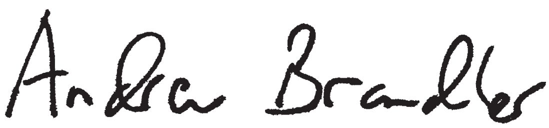
Renewable Energy and Safety – Positive Developments

I wish to conclude this CEO's Review by mentioning two aspects of CLP's performance in 2007 which I regard in a particularly positive light.

The first of these is the continuing growth of CLP's renewable energy activities. During the year, our investments in generating capacity from renewable energy sources rose from 286 equity MW to 582 equity MW. The expansion of our renewable energy activities in 2007 was on a broad front, in terms of both type and location. We strengthened our existing presence in small hydro projects and wind farms. For the first time, we moved into the fields of mid-sized hydro, biomass and solar energy. Our Jiangbian hydro project was approved during the year and is now under construction – allowing us to add a further 215 equity MW of renewable energy to our portfolio. Our activities were also widely spread, with investments being made in Australia, the Chinese mainland and India. The pace of growth of this business, our increasing expertise in varying renewable energy technologies and the footprint of these activities across our region are all promising signs of further growth in these activities, in line with CLP's Climate Vision 2050.

Safety is a priority at CLP. In his Chairman's Statement which introduced last year's Annual Report, our Chairman reported that he and the Board would be looking for an improved safety performance in 2007, in the light of a series of accidents at CLP facilities in Australia and the Chinese mainland during 2006. I am pleased to report that, following a thorough review of our policies and practices in these areas and redoubled commitment and efforts from management and staff, the Board's instructions were respected. Our safety performance during 2007 was markedly better than the previous year. Our task now is to further improve on these standards, in line with our philosophy that all accidents are preventable and that our goal is zero accidents.

Excellence in safety performance is a revealing indicator of overall standards of asset management and operation. These standards, backed by prudent financial management and good ethical and environmental practices, underpinned the performance of the CLP Group in 2007. They will remain the foundations of our performance during 2008 and beyond.

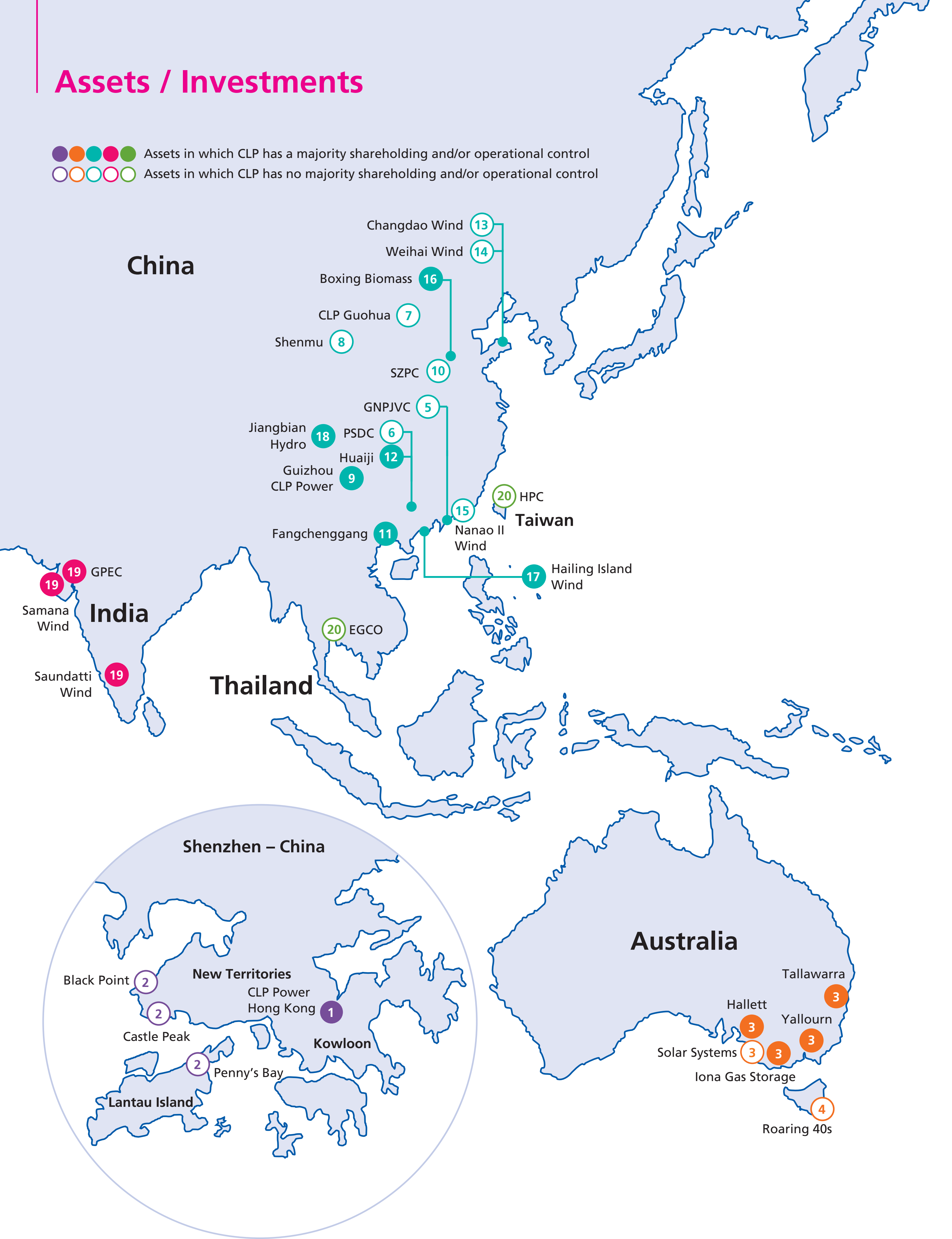


Andrew Brandler
Hong Kong, 28 February 2008

Assets / Investments

Assets in which CLP has a majority shareholding and/or operational control

Assets in which CLP has no majority shareholding and/or operational control



Assets / Investments as at 31 December 2007

Hong Kong Investments

Equity Interest

1 — 100%

CLP Power Hong Kong Limited (CLP Power Hong Kong)[1]

CLP Power Hong Kong owns and operates the transmission and distribution system which includes:

- 554 km of 400kV lines, 1,346 km of 132kV lines, 88 km of 33kV lines and 11,076 km of 11kV lines
- 56,423 MVA transformers
- 202 primary substations and 12,784 secondary substations in operation

2 — 40%

Castle Peak Power Company Limited (CAPCO)[1], 6,908 megawatts (MW) of installed generating capacity

CAPCO owns and CLP Power Hong Kong operates:

Black Point Power Station (2,500MW)

- One of the world's largest gas-fired power stations comprising eight combined-cycle turbines of 312.5MW each

Castle Peak Power Station (4,108MW)

- Comprising four coal-fired units of 350MW each and another four units of 677MW each
- Two of the 677MW units are capable of burning gas as backup fuel. All units can burn oil as a backup fuel

Penny's Bay Power Station (300MW)

- Three diesel oil-fired units of 100MW each

Note (1): CLP Power Hong Kong purchases its power from CAPCO, PSDC and Guangdong Daya Bay Nuclear Power Station. These sources of power amount to a total capacity of 8,888MW available to serve the Hong Kong market.

Australia Investments Gross/Equity MW

Equity Interest

3 — 100%

TRUenergy 3,026/3,026MW

TRUenergy is an integrated generation and retail electricity and gas business in Victoria, SA, NSW, Queensland, Tasmania and the Australian Capital Territory, comprising:

- 1,480MW coal-fired **Yallourn Power Station** and brown coal mine in Victoria
- 180MW gas-fired **Hallett Power Station** in SA
- Ecogen long-term hedge agreement that allows TRUenergy to purchase up to 966MW gas-fired capacity
- 400MW gas-fired **Tallawarra project** in NSW, currently under construction
- 12 Petajoule **Iona Gas Storage facility** in Victoria
- various long-term gas supply contracts
- 33.33% interest in the SEAGas pipeline between Victoria and SA
- 1.25 million business and residential electricity and gas customer accounts, predominantly in Victoria and SA
- 20% stake in **Solar Systems**, a developer of solar technology

4 — 50%

Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) 704/221MW[2]

Roaring 40s is a 50:50 joint venture partnership with Hydro Tasmania and owns:

- 100% of the 65MW Woolnorth Bluff Point and 75MW Studland Bay wind farms in Tasmania
- 50% interest in the 66MW Cathedral Rocks wind farm in SA
- 49% interest in the 49MW Datang Shuangliao wind farm project in Jilin Province (吉林省), China
- 49% interest in the 49MW Guohua Rongcheng wind farm project in Shandong Province (山東省), China
- 49% interest in six 50MW Guohua wind farm projects in Shandong Province, China
- 49% interest in the 50MW Datang Datong wind farm project in Jilin Province, China
- 100% of the 50MW Khandke wind farm in Maharashtra, India

Note (2): The 221 equity MW attributed to CLP, through its 50% equity interest in Roaring 40s, takes into account varying equity interests held by Roaring 40s in the generating assets included in the 704 gross MW.

Chinese Mainland Investments Gross/Equity MW

Equity Interest

5 — 25%

Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) 1,968/492MW

GNPJVC constructed and operates Guangdong Daya Bay Nuclear Power Station (GNPS) at Daya Bay (大亞灣). GNPS is equipped with two 984MW Pressurised Water Reactors incorporating equipment imported from France and the United Kingdom. 70% of electricity generated is supplied to Hong Kong, with the remaining 30% sold to Guangdong Province (廣東省)

6 — 49%

Hong Kong Pumped Storage Development Company, Limited (PSDC) 1,200/600MW

PSDC has the right to use half of the 1,200MW pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station until 2034

7 — 49%

CLP Guohua Power Company Limited (CLP Guohua) 2,100/703MW[3]

CLP Guohua holds interests in three coal-fired power stations:

- 100% in Beijing Yire Power Station in Beijing (北京) (400MW)
- 65% in Panshan Power Station in Tianjin (天津) (1,000MW)
- 55% in Sanhe Power Station in Hebei Province (河北省) (700MW)

8	49%		**CLP Guohua Shenmu Power Company Limited (Shenmu) 200/98MW** Shenmu owns and operates Shenmu Power Station (200MW) in Shaanxi Province (陝西省)
9	70%		**Guizhou CLP Power Company Limited (Guizhou CLP Power) 600/420MW** Guizhou CLP Power owns Anshun II Power Station (600MW) in Guizhou Province (貴州省), supplying electricity to the Guizhou provincial power grid and, indirectly, to Guangdong Province
10	29.4%		**Shandong Zhonghua Power Company, Ltd. (SZPC) 3,000/882MW** SZPC owns four coal-fired power stations, Shiheng I and II (totalling 1,200MW), Liaocheng (1,200MW) and Heze II (600MW) in Shandong Province
11	70%		**CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) 1,200/840MW** Fangchenggang constructs, owns and operates two 600MW coal-fired units at Fangchenggang (防城港), Guangxi (廣西)
12	84.9%		**Huaiji Hydropower Stations (Huaiji) 106/90MW** Eleven small hydro power stations in Huaiji County (懷集縣), Guangdong Province
13	45%		**HNEEP-CLP Changdao Wind Power Co., Ltd. (Changdao Wind) 27/12MW** Changdao wind farm, with a generating capacity of 27MW, is connected to the Shandong provincial grid to serve Yantai City (煙台市)
14	45%		**HNNE-CLP Weihai Wind Power Company Limited (Weihai Wind) 69/31MW** Weihai wind farm is located in Shandong Province and has a capacity of 20MW for Phase I and 49MW for Phase II
15	25%		**Huaneng Shantou Wind Power Company Limited (Nanao II Wind) 45/11MW** Nanao II wind farm of 45MW is located on Nanao Island (南澳島) off Shantou (汕頭), Guangdong Province. It serves Shantou City
16	79%		**CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing Biomass) Equivalent of 14/11MW** A biomass combined heat and power project, with 1x75 tons/hour straw-fired boiler + 6MW generator, with 79% held by CLP. It is located in Boxing County (博興縣), Binzhou City (濱州市), Shandong Province and is scheduled for commissioning by mid-2008
17	100%		**CLP Yangjiang Hailing Island Wind Power Company Limited (Hailing Island Wind) 22/22MW** Hailing Island wind power project of 22MW is located on Hailing Island (海陵島) of Yangjiang City (陽江市) Guangdong Province. It is scheduled for commissioning by end 2008
18	65%		**CLP Sichuan (Jiangbian) Power Company Limited (Jiangbian Hydro) 330/215MW** Constructs, owns and will operate a 3 x 110MW hydro project in Sichuan Province (四川省). Completion is targeted for 2011

Note (3): The 703 equity MW attributed to CLP, through its 49% equity interest in CLP Guohua, takes into account that CLP Guohua holds varying equity interests in the generating assets included in the 2,100 gross MW.

India Investments Gross/Equity MW

Equity Interest

19	100%	**Gujarat Paguthan Energy Corporation Private Limited (GPEC) 838/838MW** GPEC owns and operates a 655MW gas-fired combined-cycle power station and is constructing two wind projects – the 100.8MW **Samana wind farm** project in Gujarat and the 82.4MW **Saundatti wind farm** in Karnataka, India

Southeast Asia and Taiwan Investments Gross/Equity MW

Equity Interest

20 — 50%

OneEnergy Limited (OneEnergy) 8,342/728MW[(4)]

A 50:50 strategic joint venture with Mitsubishi Corporation of Japan, which currently owns:

(a) 22.4% interest in **Electricity Generating Public Company Limited** (EGCO) in Thailand. EGCO owns:
- REGCO and KEGCO gas-fired combined-cycle power stations in Thailand (2,056MW) which it also operates
- 50% interest in the operating 1,434MW BLCP coal-fired project in Thailand
- 50% interest in the 1,468MW Kaeng Khoi 2 combined-cycle gas turbine project in Thailand (734MW already in operation)
- 25% interest in the 1,070MW Nam Theun 2 hydro project in Laos, under construction
- 369MW out of a total of 994MW in a portfolio of small power projects in Thailand and The Philippines

(b) 40% interest in **Ho-Ping Power Company** (HPC). HPC owns the 1,320MW coal-fired Ho-Ping power station on the north-eastern coast of Taiwan. Operation is by a separate joint venture, with the same shareholdings, but with OneEnergy management leadership

Note (4): The 728 equity MW attributed to CLP, through its 50% equity interest in OneEnergy, takes into account that OneEnergy indirectly holds varying equity interests in the generating assets included in the 8,342 gross MW.

The CLP Group's Structure & Partnerships

CLP Holdings

Hong Kong

CLP Power Hong Kong

CLP	100%

CAPCO

CLP	40%
ExxonMobil Energy Ltd.	60%

Australia

TRUenergy

CLP	100%

Roaring 40s

CLP	50%
Hydro Tasmania	50%

Solar Systems

CLP	20%
Private Shareholders	80%

Chinese Mainland

GNPJVC

CLP	25%
Guangdong Nuclear Investment Co., Ltd.	75%

PSDC

CLP	49%
ExxonMobil Energy Ltd.	51%

CLP Guohua

CLP	49%
China Shenhua Energy	51%

Shenmu

CLP	49%
China Shenhua Energy	51%

Guizhou CLP Power

CLP	70%
China Huadian Corp.	18%
Guizhou Development & Investment Corp.	12%

SZPC

CLP	29.4%
China Guodian Corporation	36.6%
Shandong International Trust Corporation	14.4%
EDF International S.A.	19.6%

Fangchenggang

CLP	70%
Guangxi Water & Power Engineering (Group) Co., Ltd.	30%

Huaiji

CLP	84.9%
Huaiji County Huilian Hydro-electric (Group) Co. Ltd.	15.1%

Changdao Wind

CLP	45%
China Huaneng Group	55%

Weihai Wind

CLP	45%
China Huaneng Group	55%

Nanao II Wind

CLP	25%
China Huaneng Group	50%
Guangdong Electric Power Development Co., Ltd.	25%

Boxing Biomass

CLP	79%
Shandong Boxing County Huanyu Paper Co. Ltd.	21%

Hailing Island Wind

CLP	100%

Jiangbian Hydro

CLP	65%
Sichuan Basic Power Co. Ltd.	35%

India

GPEC

CLP	100%

Southeast Asia and Taiwan

OneEnergy

CLP	50%
Mitsubishi Corporation	50%

Financial Review

How can you approach our Financial Statements?

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders. The financial statements comprise two essential components:

- Income statement – a representation of the Group's financial performance; and
- Balance sheet – a representation of the Group's financial position.

The income statement summarises the flows of economic resources to and from the Group (revenue and expenses) over a period of time, say a year. It also represents how the Group has moved from its financial position of last year to the current year (as illustrated under the heading "CLP Group's Financial Results and Position at a Glance" on pages 20 and 21). The income statement is further analysed on pages 22 and 23.

The balance sheet summarises the Group's economic resources (non-current assets and working capital), obligations and owners' equity (debts and other non-current liabilities, and equity respectively) at a particular point of time, say at year end. It also shows how the economic resources contributed by lenders and shareholders are deployed in the business. Further analysis is set out on pages 24 to 28.

Financial Statements Illustrated

The diagram opposite illustrates the relationship between the income statement and the balance sheet, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital; on the other hand, it pays operating expenses to suppliers of goods and services for their supplies. The net balance of revenue and operating expenses is the operating profit available for payment to lenders (interest expenses) and for distribution to shareholders (dividends) in return for their contribution of funds to the Group (debts and equity).

Another key component of financial statements, not depicted opposite, is the cash flow statement which summarises the Group's operating, investing and financing cash flows. These cash flows are further explained on page 29.

Non-current Assets

Assets which are held long term, either for use in operations, or for investment (such as fixed assets and investments in jointly controlled entities). They are not expected to be consumed or sold within the normal operating cycle (usually 12 months).

Working Capital

Comprises current assets and current liabilities which are continuously circulating in the business operations (such as bank balances, trade receivables and payables).

Debts and Other Non-current Liabilities

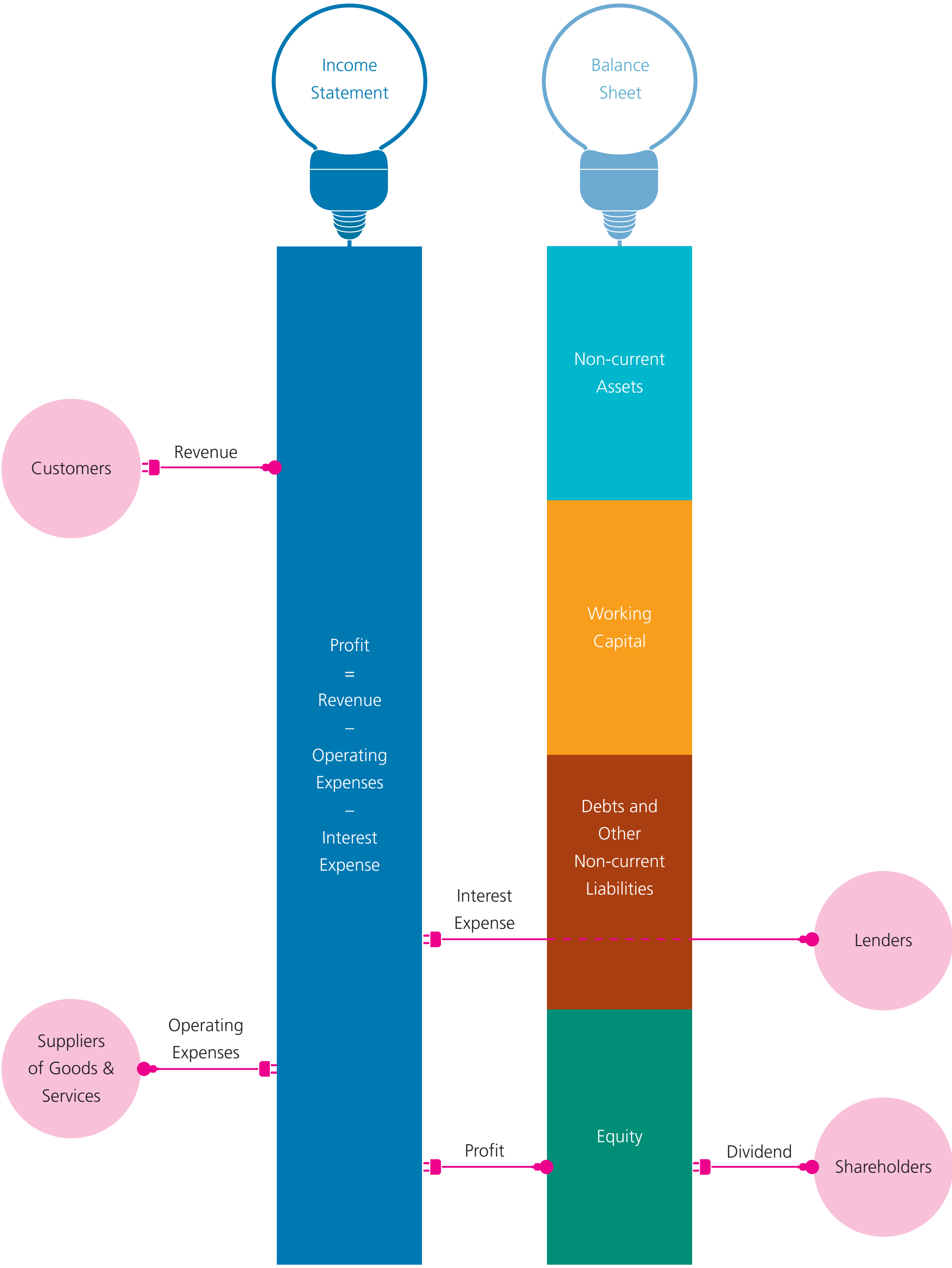
Funds borrowed from lenders which the Group has obligations to repay and other liabilities (such as deferred tax liabilities) which the Group is obliged to settle after the next 12 months.

Equity

Funds contributed by shareholders either as capital or profits retained in the Group. This is the residual interest in the Group's assets after all of the Group's liabilities have been paid off.

Note: The definitions and explanations of the financial statements in this section are for guidance purposes only. Readers should refer to the relevant accounting standards for comprehensive and authoritative definitions and explanations.

The Income Statement and the Balance Sheet – The Two Essential Components of Financial Statements



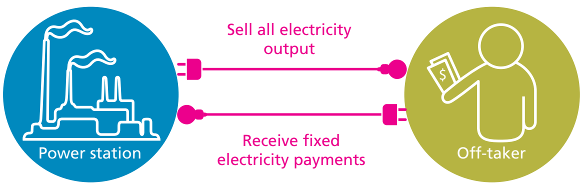
What is lease accounting?

One of the complications in our financial statements is the application of "lease accounting". We thought we should try and explain what this is, why it is used and how it affects our financial statements.

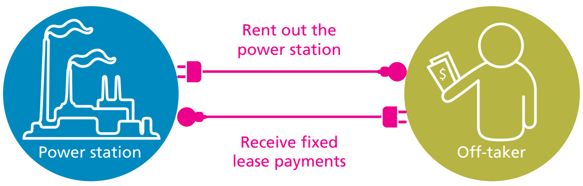
In 2006, we adopted HKFRS-Interpretation 4 "Determining whether an arrangement contains a lease". Readers may find it hard to understand why items like "lease service income" or "finance lease receivables" appear in an electricity company's financial statements.

The underlying logic is simple. We need to look through the legal form of a transaction and to consider its economic substance. To illustrate, consider Case 1 where a company owns and operates a power station, and under a power purchase agreement, is only allowed to sell electricity to a power purchaser (an "off-taker") at pre-agreed sums. In Case 2, a company owns a power station but leases it out to an off-taker in return for fixed lease payments, while it remains the manager of the power station for a management fee.

Case 1 – Power Sale and Purchase Arrangement



Case 2 – Lease Arrangement



The risks, returns and cash flows which a company is facing in either case are the same. To avoid manipulation and to help comparisons between the financial statements of different companies, accounting standards dictate that the same accounting treatment – lease accounting – is applied in both cases.

A number of agreements of the Group and its jointly controlled entities fall within Case 1. These involve CLP being either a power off-taker (in effect, a lessee) or a power producer (in effect, a lessor).

Being a lessee – CLP Power Hong Kong

CLP Power Hong Kong is contracted to purchase all of the output from CAPCO's power stations for the supply of electricity in Hong Kong. Applying the lease accounting concept, this arrangement resembles a finance lease (see box below) of CAPCO's power generating facilities. Therefore, these facilities are recorded on CLP Power Hong Kong's balance sheet as part of the leased fixed assets with a corresponding finance lease liability. CAPCO on the other hand is viewed as the financier of the arrangement.

The payments made by CLP Power Hong Kong to CAPCO are split into three portions:

- Interest payments (expenses) on the outstanding finance lease liability;
- Repayment of the outstanding finance lease liability; and
- Payment for the use of the land on which the facilities stand and services that stem from the lease (like maintenance of the facilities), i.e. the "operating lease and lease service payments" which appear in our income statement.

Finance Lease versus Operating Lease

In a nutshell, a finance lease is one where the risks and rewards of an asset have been substantially transferred from the lessor to the lessee but not under an operating lease. The hire purchase of your home television is an example of a finance lease, while the rental of your flat on a three-year term is an example of an operating lease.

Being a lessor – GPEC and others

Our Indian subsidiary, GPEC, and other jointly controlled entities in Hong Kong, Southeast Asia and Taiwan, act as power producers and sell all their output to power purchasers at prescribed sums.

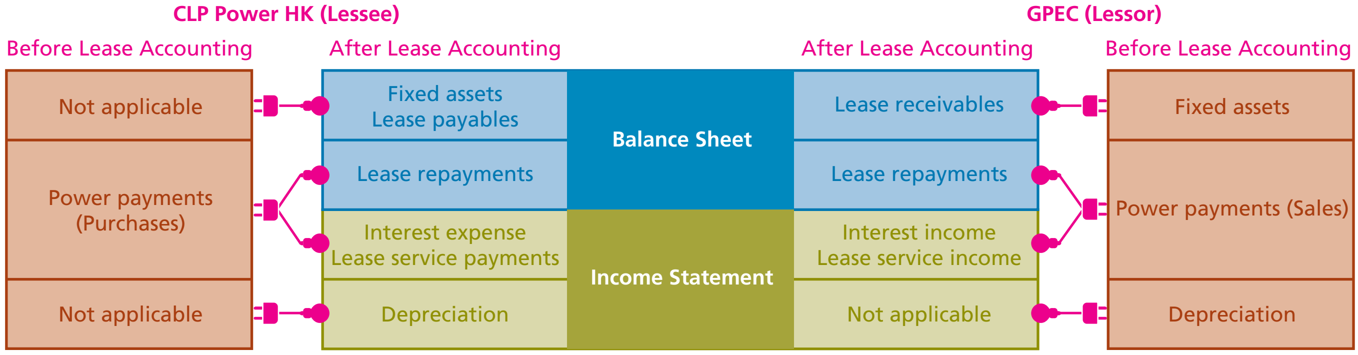
Their lease accounting mirrors the case of CLP Power Hong Kong. As a lessor (financier), finance lease receivables are recorded in place of fixed assets (the power stations) on the balance sheet. The payments received under the power purchase agreement are no longer recorded as sales, but are split into receipt of repayments for finance lease receivable, finance lease interest income and lease service income.

The balances that are visible in our financial statements are those related to GPEC, while those related to CAPCO and other jointly controlled entities are less apparent, because they are presented within "interests in jointly controlled entities" on the balance sheet and "share of results of jointly controlled entities" in the income statement.

The overall effect on CLP

Although the application of lease accounting has complicated our financial statements, it does not alter any contract terms or contracted cash flows under the power purchase agreements and therefore its real economic impacts on CLP are minimal.

On the other hand, lease accounting has the effect of levelling the profit/expense to be recognised over the term of the power purchase agreement, while the overall profit/expense is not materially altered.



Ms. Leung Oi Sang, Anna

Shareholder

How can you help me understand CLP's accounts?

For readers with little accounting knowledge, financial statements sometimes appear beyond comprehension – cluttered with unfamiliar terms and concepts. We believe that understanding our financial statements should not be a privilege, but a right of our readers.

In this Annual Report, we try to explain the concept of lease accounting which we consider difficult, if not baffling, for most people, but essential to an understanding of CLP's financial statements. We have also added a number of "highlight boxes" throughout this financial review and the financial statements. These serve either to explain certain crucial accounting concepts or to remind readers of the links between the financial statements and other parts of the Annual Report.

We are not stopping there. Each year in our Annual Report we aim to explain a particular aspect of accounting practice which applies to our financial statements. Last year we tackled the key components of financial statements and their relationship. This year we cover lease accounting. Next year, we will talk about another accounting issue. We hope that, over time, this growing "accounting mini-series" (which we will also put on our website) will guide our shareholders and others towards a better understanding of CLP's accounts.

Peter P. W. Tse

Group Executive Director & Chief Financial Officer

CLP Group's Financial Results and Position at a Glance

Last Year's Balance Sheet
(Consolidated Balance Sheet as at 31.12.2006)

	HK$M
Assets	
Fixed assets, leasehold land and land use rights	85,653
Goodwill and other intangible assets	7,326
Interests in jointly controlled entities	19,163
Interests in associated companies	18
Finance lease receivables	2,866
Deferred tax assets	3,305
Derivative financial instruments	1,556
Trade and other receivables	8,799
Cash and cash equivalents	1,094
Cash restricted for specific purposes	519
Bank balances, cash and other liquid funds	1,613
Other assets	792
	131,091
Equity and Liabilities	
Share capital, premium & reserves	17,202
Retained profits	38,636
Shareholders' funds	55,838
Minority interest	78
Borrowings	30,278
Obligations under finance leases	22,810
SoC reserve accounts	3,346
Deferred tax liabilities	6,054
Derivative financial instruments	2,020
Customers' deposits	3,417
Trade and other payables	5,893
Other liabilities	1,357
	131,091

Earnings For The Year
(Consolidated Income Statement for the year ended 31.12.2007)

	Note	2007 HK$M	2006 HK$M	Increase/ (Decrease) %
Revenue	1	**50,789**	45,702	11.1
Expenses	1	**(39,624)**	(33,590)	
Other income, net	2	**2,122**	55	
Share of results, net of income tax				
jointly controlled entities		**3,024**	2,936	
associated companies		**1**	114	
Profit before net finance costs and income tax		**16,312**	15,217	
Net finance costs		**(4,864)**	(4,624)	
Income tax expense		**(837)**	(683)	
Profit after income tax		**10,611**	9,910	
Profit attributable to minority interests		**(3)**	(10)	
Earnings attributable to shareholders		**10,608**	9,900	7.2

Analysis of Earnings

	Note	2007 HK$M	2006 HK$M	Increase/ (Decrease) %
Electricity business in HK	3	**7,589**	7,290	4.1
Other investments/operations				
Sales to Chinese mainland from HK		**102**	119	
Generating facilities in Chinese mainland serving HK	4	**712**	751	
Other power projects in Chinese mainland	5	**241**	294	
Energy business in Australia	6	**307**	191	
Electricity business in India	7	**409**	931	
Power projects in Southeast Asia and Taiwan	8	**409**	444	
Other businesses		**20**	48	
		2,200	2,778	(20.8)
Other income, net	2	**1,797**	408	
Coal mine subsidence and outsourcing costs of TRUenergy	6	**(583)**	–	
Unallocated net finance costs		**(90)**	(283)	
Unallocated Group expenses		**(305)**	(293)	
Total earnings		**10,608**	9,900	7.2

1. Whilst the core of the Group's revenue and expenses still comes from Hong Kong, the proportion from elsewhere has increased as other businesses develop.
2. Other income comprised the gain of HK$1,030 million (after tax HK$1,030 million) on the injection of our entire 40% interest in Ho-Ping into OneEnergy and the gain of HK$1,092 million (after tax HK$767 million) on the TIPS-Hallett power station swap with AGL in Australia.
3. 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.
4. This reflects earnings contribution from our 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.
5. Ongoing rises in coal prices and delay in fuel-linked tariff adjustments have driven down the earnings from the Chinese mainland.
6. The operating earnings (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 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, namely the costs of IT/back-office outsourcing of HK$457 million and the impact of the Yallourn coal mine subsidence of HK$126 million, which are shown separately in the above table.
7. 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.
8. The decrease in earnings from Southeast Asia and Taiwan is mainly due to our reduced effective shareholding in Ho-Ping from 40% to 20% following our injection of Ho-Ping into OneEnergy.

Cash Flow For The Year
(Consolidated Cash Flow Statement for the year ended 31.12.2007)

	Note	HK$M
Cash inflow from operating activities	9	14,823
Dividends paid less dividends received		(2,195)
Investments in/advances to jointly controlled entities		(300)
Capital expenditure	10	(6,632)
Net decrease in borrowings		(3,392)
Repayment of finance lease obligations		(1,270)
Other net inflow, including exchange effect		32
Net increase in cash		1,066
Cash & cash equivalents at 31.12.2006		1,094
Cash & cash equivalents at 31.12.2007		2,160

Profits Retained For The Year
(Consolidated Retained Profits for the year ended 31.12.2007)

	HK$M
Earnings attributable to shareholders	10,608
Dividends paid for the year	
– 2006 finals	(2,192)
– 2007 interims	(3,757)
Revaluation reserves realised upon depreciation	3
Appropriation of reserves of jointly controlled entities	(13)
Net increase in retained profits	4,649
Retained profits at 31.12.2006	38,636
Retained profits at 31.12.2007	43,285

Today's Balance Sheet
(Consolidated Balance Sheet as at 31.12.2007)

	Note	HK$M
Assets		
Fixed assets, leasehold land and land use rights	11	88,609
Goodwill and other intangible assets		8,135
Interests in jointly controlled entities	12	17,684
Interests in associated companies		299
Finance lease receivables		3,282
Deferred tax assets		3,915
Derivative financial instruments		3,102
Trade and other receivables		7,121
Cash and cash equivalents		2,160
Cash restricted for specific purposes		619
Bank balances, cash and other liquid funds		2,779
Other assets		1,351
		136,277
Equity and Liabilities		
Share capital, premium & reserves		20,616
Retained profits		43,285
Shareholders' funds		63,901
Minority interests		95
Borrowings	13	28,360
Obligations under finance leases		22,216
SoC reserve accounts		2,300
Deferred tax liabilities		6,344
Derivative financial instruments		2,248
Customers' deposits		3,589
Trade and other payables		6,023
Other liabilities		1,201
		136,277

9 The strong and stable operating cash flows from the Hong Kong electricity business continue to be an important source of our liquidity, whilst the growing cash flows from our overseas businesses also play a part.

10 Our commitment to provide adequate and reliable electricity to Hong Kong means that we need to invest continuously in our transmission and distribution network in Hong Kong. Other major capital expenditure includes the refurbishment works at Castle Peak Power Station and the construction of Tallawarra Power Station in Australia with completion expected in the second half of 2008.

11 Fixed assets are the cornerstone of our strong asset base, of which the Hong Kong electricity generation, transmission and distribution assets represent the biggest component. Additional capital expenditure amounting to HK$8,271 million was invested this year.

12 Our activities in the Chinese mainland, Southeast Asia and Taiwan are mainly conducted through jointly controlled entities, whilst CAPCO continued to be our largest jointly controlled entity. During the year, we completed the exercise after which all our investments in Southeast Asia and Taiwan are now conducted through OneEnergy in partnership with Mitsubishi Corporation.

13 CLP Power Hong Kong issued HK$1 billion fixed-rate notes under the Medium Term Note Programme and raised a HK$500 million bank loan during the year. As at year end, the Group's total debt to total capital ratio decreased from 35.1% to 30.7% and net debt to total capital ratio decreased from 33.9% to 28.6%.

Financial Analysis

Key Financial Events

Financial figures are mere numerical representations of past events and by themselves may not be fully useful and meaningful. To make the most of the financial statements, they must be read with knowledge of the underlying business events and changes in the economic environment. For CLP in 2007, this background included:

- In March 2007, the Group completed the last part of the exercise of placing all its Southeast Asia and Taiwan investments into OneEnergy by the injection of its entire 40% interest in Ho-Ping Power Company, Taiwan and realised a gain of HK$1.0 billion.
- In April 2007, TRUenergy entered into an agreement with IBM for the outsourcing of its retail and IT functions. Notwithstanding the potential cost savings envisaged in future years, initial set up costs (including related assets write-off and redundancy) amounting to HK$653 million (after tax HK$457 million) were incurred in the current year.
- In July 2007, TRUenergy completed the asset swap of Torrens Island Power Station (TIPS) with AGL Energy Limited (AGL) for its Hallett Power Station plus cash. A gain of HK$1.1 billion (an after tax gain of HK$767 million) resulted.
- In November 2007, the coal mine at Yallourn Power Station of TRUenergy suffered from major subsidence due to leakage from a nearby river and a loss of HK$180 million (after tax HK$126 million) was recognised. The total economic loss (including opportunity costs like electricity purchase cost and revenue lost) of the incident was estimated at HK$300 million.
- The weakening of the U.S. dollar has put the Hong Kong dollar (which is pegged with the U.S. dollar) at an all time low against other major currencies. This is reflected in CLP's financial statements when TRUenergy's Australian dollar denominated balances are translated into Hong Kong dollars. Part of the fluctuations in our financial statements is due to the 11.7% increase in the year end exchange rate (for balance sheet) and the 11.8% increase in the average rate (for income statement).

Group's Financial Results

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. A brief analysis of earnings is on page 20 of this Financial Review, whilst a more detailed explanation of individual business streams is provided on pages 34 to 62 of this Report.

Financial Results

	2007	2006	Increase/(Decrease)	
	HK$M	HK$M	HK$M	%
Revenue	**50,789**	45,702	5,087	11.1
Expenses	**(39,624)**	(33,590)	6,034	18.0
Other income, net	**2,122**	55	2,067	38 times
Finance costs	**(5,024)**	(4,762)	262	5.5
Share of results of jointly controlled entities, net of income tax	**3,024**	2,936	88	3.0
Income tax expense	**(837)**	(683)	154	22.5
Earnings attributable to shareholders	**10,608**	9,900	708	7.2

Revenue and Expenses

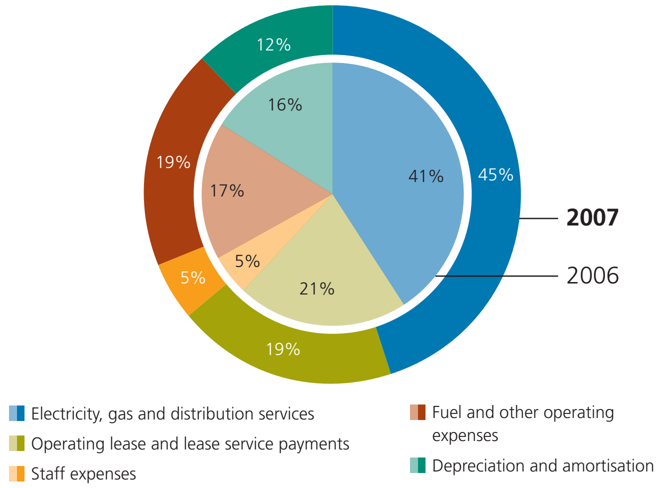
As in previous years, the largest portion of both revenue and expenses is attributed to our Hong Kong electricity business. The increase in revenue mainly relates to TRUenergy, reflecting the unprecedented surge in electricity pool prices (due to the extreme dry weather), reinforced by the the appreciation of the Australian dollar. The rest of the increase is due to India (higher fuel cost recovery – see below) and Hong Kong (demand driven by hot summer and higher fuel cost recovery).

Over 80% of the increase in total expenses relates to the "purchase of electricity, gas and distribution services" and "fuel and other operating expenses" categories. Unsurprisingly, the higher pool price in Australia (reinforced by the exchange factor) has a mirroring effect on the corresponding electricity purchase costs. This was exacerbated by the Yallourn coal mine subsidence loss of HK$180 million and IT/retail outsourcing set up costs of HK$653 million. In India, continuous tight long-term supply means we need to purchase fuels from the spot market more often, leading to higher fuel costs. The Group's revenue and expenses by major segments are shown below:

	Revenue		Expenses	
	2007 HK$M	2006 HK$M	2007 HK$M	2006 HK$M
Hong Kong	29,909	29,555	18,482	18,794
Australia	18,018	13,770	18,299	13,122
India	2,687	2,196	2,335	1,223
Others	175	181	508	451
	50,789	45,702	39,624	33,590

Note: About 41.0% (2006: 37.9%) of our revenue from the retail sales of electricity and gas in Australia is paid as network charges to third party network operators.

Analysis of Expenses



Other Income, net

Other income comprised the gains of HK$1.0 billion on the injection of Ho-Ping into OneEnergy and of HK$1.1 billion on the TIPS-Hallett power station swap with AGL in Australia. This is opposed to the gains of HK$343 million from the formation of OneEnergy and of HK$888 million on the transfer of BLCP to EGCO in 2006, which was reduced by an impairment loss on Yallourn Power Station, amounting to HK$1.2 billion.

Finance Costs

Finance costs comprise finance charges under finance leases and interest expenses on borrowings. Whilst finance charges under finance leases went up due to higher average finance lease liabilities payable to CAPCO, interest expenses dropped, which is in line with lower average borrowings during the year.

Share of Results of Jointly Controlled Entities, net of Income Tax

Over 70% of the share of results of jointly controlled entities is coming from CAPCO and GNPJVC. The amount and mix of contributions from various jointly controlled entities in Hong Kong, the Chinese mainland, Southeast Asia and Taiwan saw little change from last year.

Income Tax Expense

The income tax expense is higher on increased earnings this year, partly offset by the reversal of a HK$379 million deferred tax liability related to the TIPS disposal.

Group's Financial Position

Our balance sheet is growing stronger with total assets up 4.0% from 2006 and gearing ratios maintained at a prudent level: 30.7% using total debt and 28.6% using net debt.

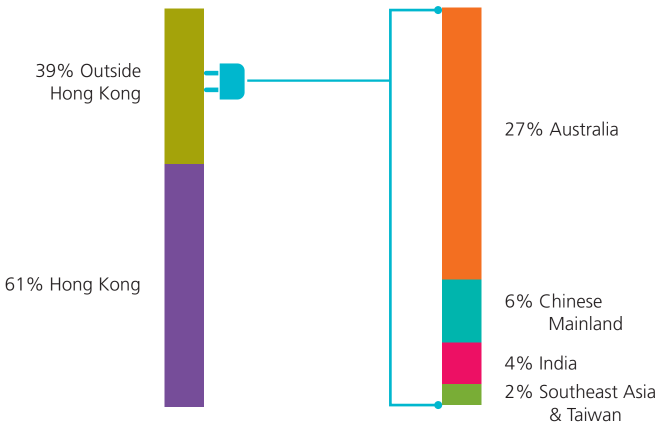
On the balance sheet

Non-current assets	**2007 HK$M**	2006 HK$M	Increase/(Decrease) HK$M	%
Fixed assets	**86,413**	83,418	2,995	3.6
Leasehold land and land use rights	**2,196**	2,235	(39)	(1.7)
Goodwill and other intangible assets	**8,135**	7,326	809	11.0
Interests in jointly controlled entities	**17,684**	19,163	(1,479)	(7.7)
Deferred tax assets	**3,915**	3,305	610	18.5
Total assets	**136,277**	131,091	5,186	4.0

Total Assets

A clear majority of the Group's total assets is located in Hong Kong. Although CLP only owns 40% of CAPCO (the generating assets for the Hong Kong electricity business), lease accounting means that all of CAPCO's commissioned fixed assets are included in our balance sheet, representing about 25% of our total assets. The transmission and distribution assets in Hong Kong, which are wholly-owned by CLP, contribute 36% to our total assets.

Total Assets by Geographical Location



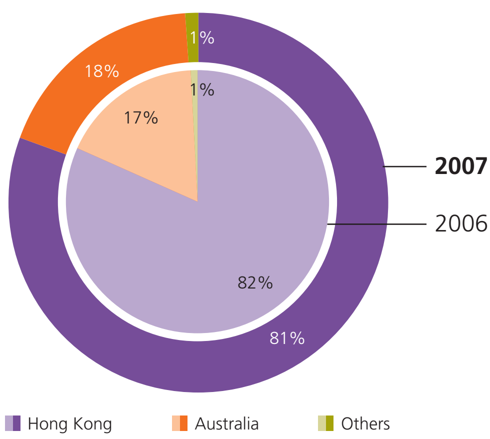
Deferred Tax Assets

The deferred tax assets principally represent prior years' tax losses of our Australian business which can be used to offset future taxable profit, thereby reducing future tax charges. The increase in the year resulted mainly from the appreciation of the Australian dollar. No impairment was identified from our annual review.

Fixed Assets, Leasehold Land and Land Use Rights

2007 was a busy year for capital projects. Apart from our recurrent work on the transmission and distribution system in Hong Kong, refurbishment works at the Castle Peak Power Station are also well underway. In Hong Kong alone, we invested HK$5.3 billion in 2007, whereas in Australia we invested HK$2.7 billion. This included the acquisition of Hallett Power Station in exchange for TIPS and the construction of the Tallawarra Power Station, which is scheduled for completion in the second half of 2008.

Fixed Assets, Leasehold Land and Land Use Rights by Geographical Location



Goodwill and Other Intangible Assets

Most of the goodwill and other intangible assets are Australian based and therefore 84.6% of the increase is translational, net of amortisation. The intangible assets arising from TRUenergy's IT/retail outsourcing and customers acquisition accounted for the increase to a lesser extent. Our annual review did not reveal any impairment on goodwill and other intangible assets.

Interests in Jointly Controlled Entities

The overall decrease is largely due to the injection of Ho-Ping into OneEnergy (effectively reducing our original 40% interest by half) and the net repayment of advance from CAPCO of HK$546 million. This is partly offset by additional investment in Fangchenggang of HK$381 million.

In accordance with accounting standards, the Group has elected to present interests in jointly controlled entities and associated companies as a single-line item on the face of the balance sheet, instead of on a line-by-line basis according to the Group's proportional share of their assets and liabilities. Further information on the Group's financial obligations in respect of these interests is presented on pages 32 and 33.

Group's Financial Position

On the balance sheet

Working capital, Debts and other non-current liabilities and Equity	**2007 HK$M**	2006 HK$M	Increase/(Decrease) HK$M	%
Derivative financial instrument assets (current & non-current)	**3,102**	1,556	1,546	99.4
Derivative financial instrument liabilities (current & non-current)	**(2,248)**	(2,020)	228	11.3
Trade and other receivables	**7,121**	8,799	(1,678)	(19.1)
Fuel clause account	**132**	(294)	426	N/A
Bank balances, cash and other liquid funds	**2,779**	1,613	1,166	72.3
SoC reserve accounts	**(2,300)**	(3,346)	(1,046)	(31.3)
Bank loans and other borrowings (current & non-current)	**(28,360)**	(30,278)	(1,918)	(6.3)
Obligations under finance leases (current & non-current)	**(22,216)**	(22,810)	(594)	(2.6)
Deferred tax liabilities	**(6,344)**	(6,054)	290	4.8
Shareholders' funds	**63,901**	55,838	8,063	14.4

Shareholders' Funds

As our earnings accumulate, shareholders' funds rose to HK$63.9 billion, a 14.4% increase from 2006. At 31 December 2007, HK$20.9 billion of the reserves are distributable to shareholders.

Deferred Tax Liabilities

Continued investments in fixed assets in Hong Kong and Australia have resulted in additional temporary differences arising from accelerated tax depreciation and hence the increase in deferred tax liabilities.

Obligations under Finance Leases

The balance represents the power purchase arrangement between CLP Power Hong Kong and CAPCO and other finance lease obligations in Australia. The decrease reflects the regular lease payments and the disposal of certain finance leased assets as part of the TIPS asset swap during the year.

Bank Loans and Other Borrowings

Utilising the cash from various assets realisation (BLCP and Ho-Ping injections and TIPS asset swap), the Group reduced its overall borrowing level by repaying HK$16.3 billion of its bank loans in total. On the other hand, it has issued fixed-rate notes of HK$1 billion under the Medium Term Note Programme and raised a new bank loan of HK$500 million.

SoC Reserve Accounts

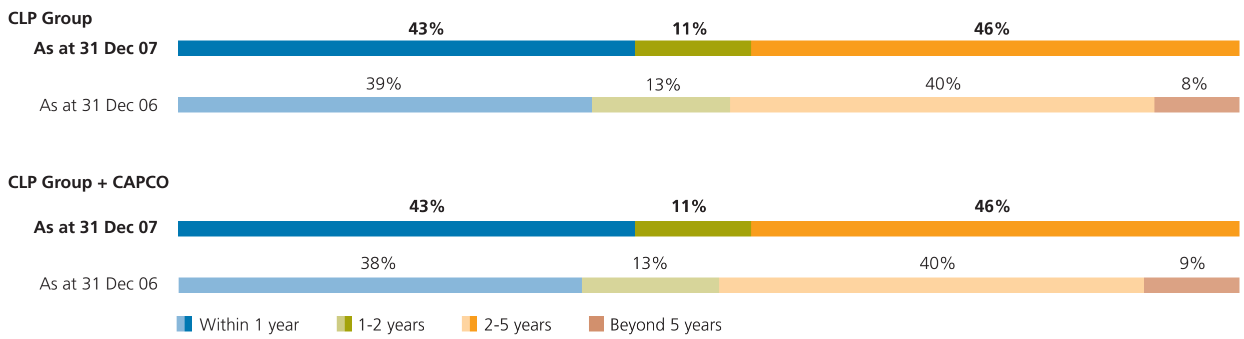
SoC reserve accounts comprise the Development Fund and Rate Reduction Reserve. A transfer from the Development Fund to the income statement (to maintain a tariff freeze) and special rebates to customers lowered the Development Fund balance to HK$2.1 billion (2006: HK$2.9 billion).

Derivative Financial Instruments and Hedging

Except for certain electricity trading activities by TRUenergy, derivative financial instruments are used by the Group to hedge its exposure to various financial risks. The derivative balances switched to a net asset position at year end of HK$854 million (2006: net liability of HK$464 million). This reflects favourable moves of the Group's positions in interest rate swaps, and notably in energy swaps of the Australian electricity market. The type and maturity profile of the derivative financial instruments is set out below:

	Notional Amount		Fair Value Gain/(Loss)	
	2007 HK$M	2006 HK$M	**2007 HK$M**	2006 HK$M
CLP Group				
Forward foreign exchange contracts	**41,425**	41,828	**(24)**	(483)
Interest rate swaps	**14,191**	12,401	**336**	140
Cross currency & interest rate swaps	**2,340**	2,340	**96**	26
NSW Greenhouse Gas Abatement Certificates	**502**	314	**108**	22
Energy hedging & trading caps & options	**–**	547	**(198)**	71
Energy hedging & trading swaps	**31,578**	18,998	**536**	(240)
	90,036	76,428	**854**	(464)
CAPCO				
Interest rate swaps	**2,915**	3,562	**(36)**	(17)
Total	**92,951**	79,990	**818**	(481)

Maturity Profile



Trade and Other Receivables

The decrease is mainly due to the settlement of the consideration receivable from the disposal of BLCP to EGCO of HK$1.0 billion and the receipt of dividend from HKNIC of HK$583 million, both of which were outstanding at last year end.

Fuel Clause Account

The fuel clause account changed from a liability to an asset this year against the backdrop of the rising tide of world fuel prices. Recorded as an asset, it represents a receivable from customers of our Hong Kong electricity business, since the standard fuel cost we charged at HK$700/44GJ fell short of the actual cost we paid at HK$886/44GJ.

Bank Balances, Cash and Other Liquid Funds

Prudent cash management policies and practices coupled with steady income streams from our operations have helped us maintain a healthy level of bank balances, cash and other liquid funds. The increase is mostly from the receipt of cash consideration on the transfer of our interest in Ho-Ping and BLCP and also from the TIPS asset swap, partly offset by the repayment of loans and our continued investments in power projects both in Hong Kong and in the region.

Group's Financial Position

Beyond the balance sheet

Though not appearing on the balance sheet, the following items are just as important as balance sheet items in understanding the Group's financial position. Indeed, the overall picture of our financial position would be incomplete without information on the charges on assets, commitments and contingencies.

Charges on Assets

To meet their local financing needs, certain borrowings (HK$815 million) of GPEC and Huaiji are secured by their own assets of HK$2.7 billion in aggregate. These assets under charges are not significant compared with the Group's large asset base.

Operating Commitments

Of the HK$10.7 billion operating lease commitments at year end, 70% was attributed to the power purchase arrangement between CLP Power Hong Kong and CAPCO for the supply of electricity in Hong Kong. Another 28% arose from TRUenergy's 20-year Master Hedge Agreement with Ecogen for the right to request supply of electricity from certain power stations in Victoria.

Contingent Liabilities

GPEC's dispute with its off-taker Gujarat Urja Vikas Nigam Ltd. (GUVNL) in respect of the payability of "deemed generation incentive" remained unresolved in 2007. The background to this is set out in Note 33 to the financial statements on page 190. The total amount of the claim plus interest amounted to about HK$1.4 billion. Based on legal advice, no provision has been made and the claim is disclosed as a contingent liability in our financial statements. Apart from this, no significant contingent liabilities have been identified.

Capital Commitments

Total capital commitments stood at HK$12.3 billion (2006: HK$12.4 billion). Major commitments include the construction of Tallawarra Power Station as it approached completion, and our new wind power projects in India.

In addition, CLP Power Hong Kong has a commitment to provide a funding facility to CAPCO for financing the installation of emission control facilities at Castle Peak "B" Power Station. The maximum of the advance is estimated at HK$5.4 billion and is expected to occur in 2011.

Cash Flow

Our diverse business needs require us to ensure our cash inflows, either from our strong business operations or from our lenders, are available in time. Over 63.5% of cash and liquid funds are held by subsidiaries in India and Australia for contractual and operational purposes. The cash and cash equivalents, excluding the effect of exchange rates, increased by HK$978 million in 2007. Cash flows for 2007 are analysed below.

	2007 HK$M	2006 HK$M	Increase/(Decrease) HK$M	%
Operating activities	**14,823**	15,928	(1,105)	(6.9)
Investing activities	**1,549**	(4,092)	5,641	N/A
Financing activities	**(15,394)**	(12,261)	(3,133)	(25.6)
	978	(425)	1,403	

Financing Activities

Loan repayments exceeded new loans raised in the year, utilising our strong cash flows from operations and asset realisations (see below).

Investing Activities

Capital expenditures in Hong Kong and Australia represent our major investing cash outflows from year to year. Strong cash inflows from asset realisations completed during the year (like the TIPS-Hallett power station swap and the injection of Ho-Ping into OneEnergy) provided a net cash inflow to the Group this year, as opposed to a net outflow last year.

Operating Activities

Our Hong Kong electricity business provides a robust cash flow to the Group, while operations elsewhere are improving.

Operating Activities

These are cash flows from operations (like revenue receipts and expense payments). While the operating profit underlies the operating cash flow, non-cash items like depreciation, create a distinction.

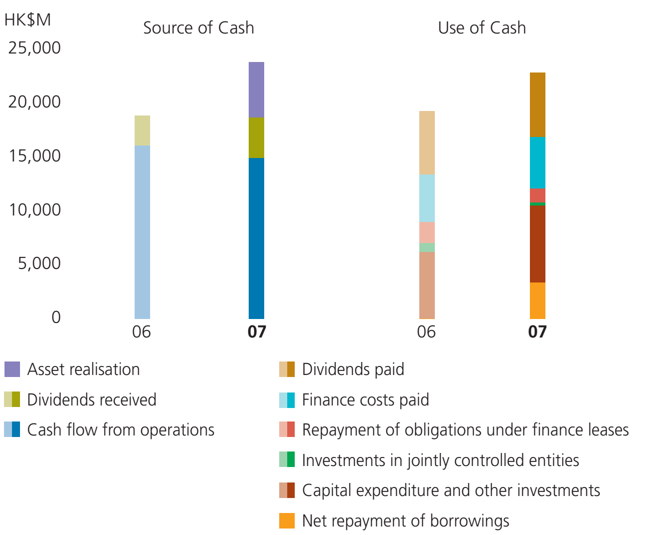
Investing Activities

Investing cash flows are from the purchase or disposal of non-current assets and dividends received.

Financing Activities

Represent cash flows between the Group and the lenders (like drawing and repayment of bank loans) and shareholders (like dividend payments).

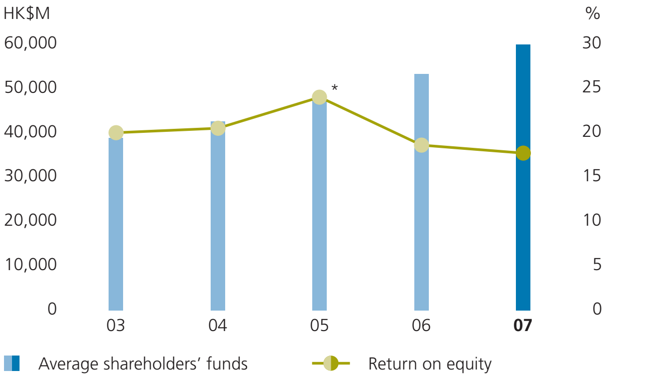
Cash Utilisation



A Broader Perspective

Financial analysis often suffers from "short-sightedness", focusing on fluctuations between the current and preceding year while overlooking trends over a longer time horizon. To counter this, we have prepared the following analyses on certain key financial indicators and ratios over the past five years.

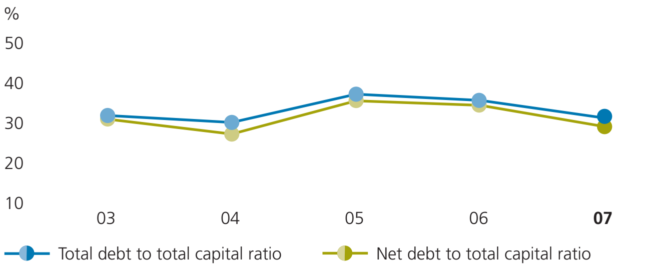
Return on Equity



* Included a one-off tax consolidation benefit from Australia of HK$2,004 million

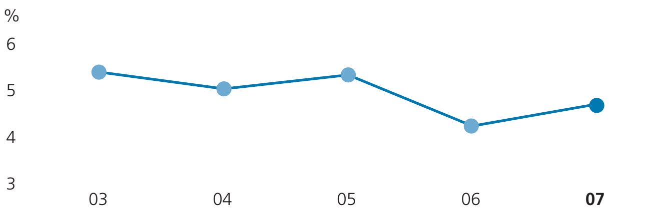
Our returns on equity have been consistently in the region of 17% to 20% in the past five years, with the exception of 2005, which was skewed by a one-off tax consolidation benefit in Australia of HK$2.0 billion. Ignoring this, the return on equity dropped slightly in the past three years, as the growth of our shareholders' funds outpaced the growth of our earnings. We see this as a positive sign – we have not pursued short-term earnings growth at the expense of long-term financial health while our net worth is building up.

Gearing



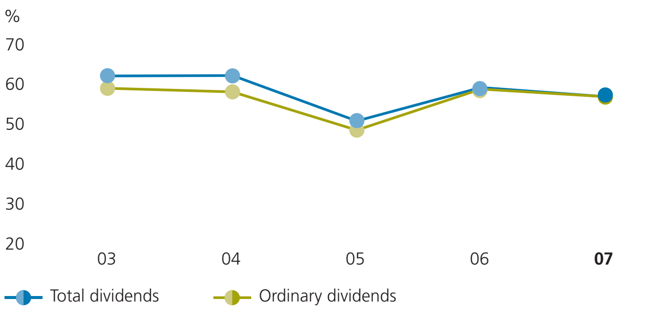
Benefiting from the relatively low interest rate environment in the past decade, we have increased the use of debt as we invest to grow our business in the region – a financial opportunity we have enjoyed, given our strong equity position, but one we need to handle with care in order not to jeopardise our long-term financial health.

Dividend Yield



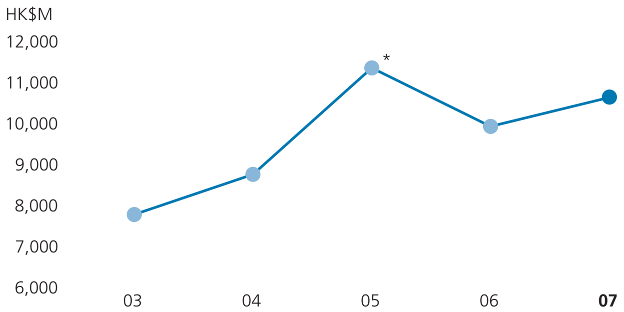
The slightly downward sloping dividend yield curve can indicate that the capital growth of our share price has outperformed the dividend growth under the bullish Hong Kong stock market, or that earnings retained by the Group have been reinvested to fuel our expansion in the region in the past decade – a strategy well received by the market as reflected in the steady growth of our share price.

Dividend Pay-out



We understand many of our shareholders share our long-term investment philosophy and hold CLP's shares for the long term. Therefore, a steady and stable dividend stream is an important source of their investment return. Over the years, we have maintained an ordinary dividend pay-out of around 60% of current year's earnings, except for 2005 when the ratio was distorted by the one-off tax consolidation benefit in Australia. Special dividends were distributed during the years when non-recurring profits were recorded, like those from the Hok Un redevelopment.

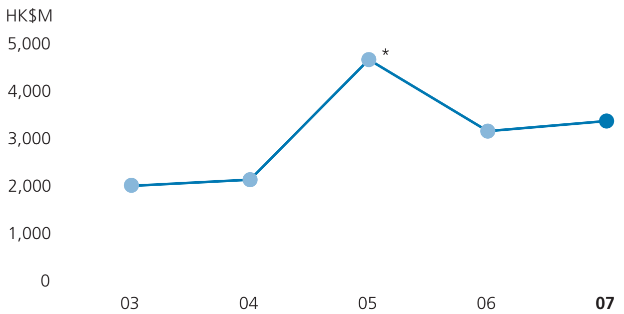
Earnings



* Included a one-off tax consolidation benefit from Australia of HK$2,004 million

The past five years saw a robust growth in the earnings of the Group with an average annual growth rate of 9.2% and a five years' growth rate of 48.9% – the challenge to us is to repeat this in the next few years, given the downward revision of the permitted return of our Hong Kong electricity business and the consolidation of our position in the region after a few years of considerable growth.

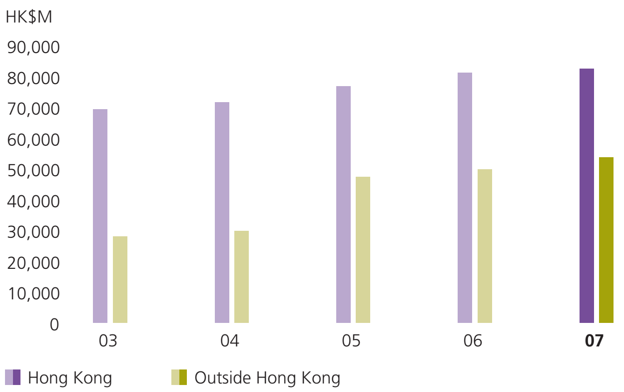
Earnings from Outside Hong Kong



* Included a one-off tax consolidation benefit from Australia of HK$2,004 million

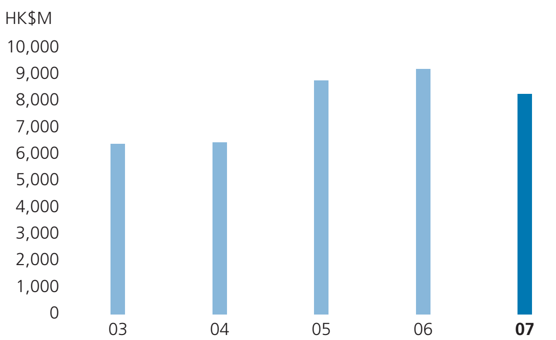
The operations outside Hong Kong have grown from a side show to a considerable part of our business, contributing 32.2% to the Group's earnings in 2007. We shall continue the strategy of growing outside Hong Kong to achieve a healthy mix of earning sources.

Total Assets – Hong Kong and Outside Hong Kong



The rising proportion of the Group's asset base outside Hong Kong reflects not only our strategy to diversify geographically, but also the objective of diversifying our energy sources. In recent years, we have developed or acquired hydro, wind farm and biomass projects in Australia, the Chinese mainland and India. We continue to look for investment opportunities in the region that fit our risk and return appetite, as well as our environmental strategy.

Capital Expenditure



The capital expenditure is predominantly related to the Hong Kong electricity business. We are committed to providing sufficient and reliable power to our customers. This means we need to invest continuously in upgrading and further developing our generation and transmission/distribution facilities. This is evidenced by the Castle Peak emission control project underway and the proposed LNG terminal project in Hong Kong, as well as the construction of the Tallawarra Power Station in Australia.

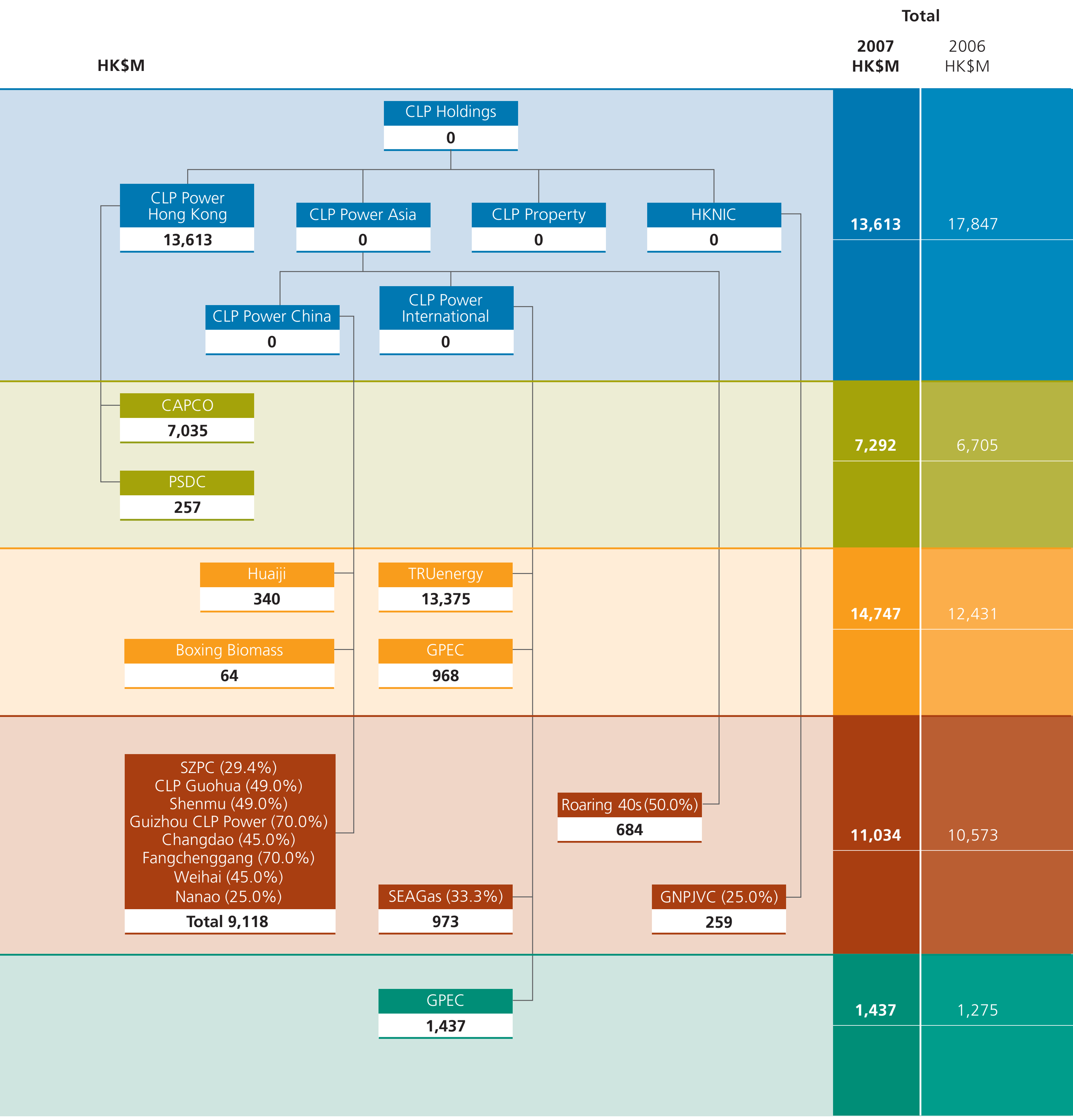
CLP Group's Financial Obligations at a Glance

as at 31 December 2007

The financial risks associated with borrowings and unconsolidated financial obligations of listed companies continue to be of market concern. Our policy is to adopt a prudent and cautious approach to such matters. The purpose of the following chart is to explain the total financial obligations of the CLP Group by classifying them into five categories according to their degree of recourse to CLP Holdings. Obligations under finance leases have not been included in the chart.

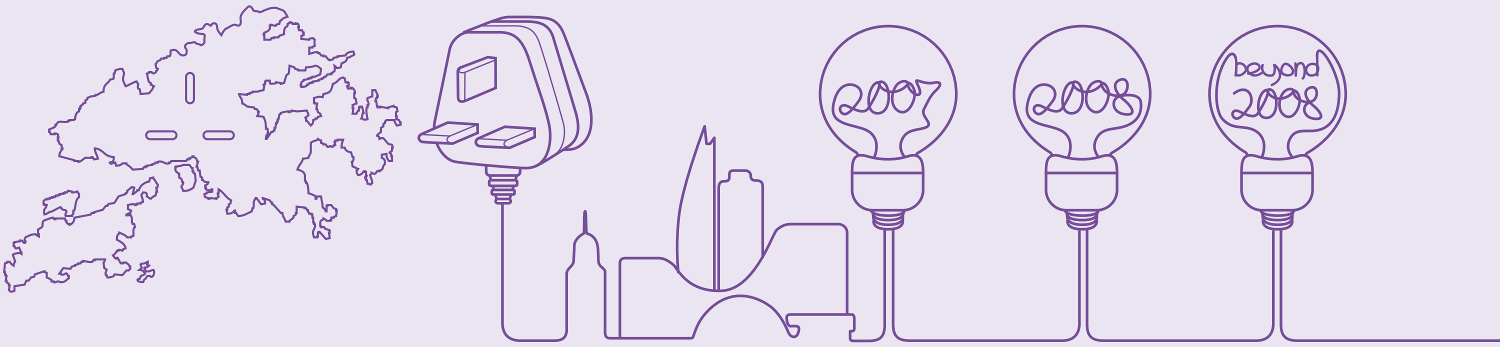
Category	
1 Borrowings of CLP Holdings & Principal Direct Subsidiaries	Debts of CLP Holdings and its principal direct subsidiaries.
2 Borrowings of CAPCO & PSDC	100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power Hong Kong has commitments to these companies through power purchase and service agreements, as explained in the Scheme of Control Statement on pages 200 and 201 and Note 32 to the financial statements.
3 Borrowings of TRUenergy, GPEC, Huaiji and Boxing Biomass	These debts are non-recourse to CLP Holdings.
4 Share of Debts of Major Jointly Controlled Entities and Associated Companies*	These debts are non-recourse to CLP Holdings and its subsidiaries.
5 Contingent Liabilities	Contingent liabilities of CLP Holdings and its subsidiaries. Details of these are set out in Note 33 to the financial statements.

* In respect of Category 4, the share of debts is calculated by reference to the Group's shareholding in the relevant jointly controlled entities and associated companies.



Total
2007 HK$M
2006 HK$M
HK$M
CLP Holdings
0
CLP Power Hong Kong
13,613
CLP Power Asia
0
CLP Property
0
HKNIC
0
CLP Power China
0
CLP Power International
0
13,613
17,847
CAPCO
7,035
PSDC
257
7,292
6,705
Huaiji
340
TRUenergy
13,375
Boxing Biomass
64
GPEC
968
14,747
12,431
SZPC (29.4%)
CLP Guohua (49.0%)
Shenmu (49.0%)
Guizhou CLP Power (70.0%)
Changdao (45.0%)
Fangchenggang (70.0%)
Weihai (45.0%)
Nanao (25.0%)
Total 9,118
Roaring 40s (50.0%)
684
SEAGas (33.3%)
973
GNPJVC (25.0%)
259
11,034
10,573
GPEC
1,437
1,437
1,275

Hong Kong



Business Environment and Challenges

Hong Kong's economic growth has remained strong since 2004. The upturn remains broadly based, driven by rising local demand and investment. Improvements in the property market and the labour market, combined with increasing household income, have helped to promote positive consumer sentiment. 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 25.5°C 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. Other 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, 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 consumption for some purposes, 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 is that 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.

Within Hong Kong, competition to CLP primarily comes from other fuels, such as town gas, liquefied petroleum gas and diesel, which can be used in end-use applications in homes, businesses and other facilities. In some sectors such as air-conditioning, lighting and refrigeration, electricity offers outstanding technical and cost advantages and faces relatively little competition. However, in some sectors, such as cooking and water heating, other energy supplies compete actively in the market place.

Since 2005, the Environmental Protection Department has introduced emissions caps in power generation facilities. In response to the announcement of the World Health Organization's new air quality guideline, Government has commissioned a consultant to start reviewing the Hong Kong Air Quality Objective and developing a long-term strategy for air quality management. This may lead to more stringent requirements on emissions in CLP generation facilities. The new SoC links CLP's permitted return with environmental performance. It is likely that emissions standards will be tightened progressively, potentially limiting the use of coal-fired plant over time.

Strategy

For the foreseeable future, our electricity business is likely to provide the major part of the Group's overall earnings and to play a central role in the creation and delivery of value to our shareholders. We are determined to enhance the durability, quality and performance of that business through

- excellence in the operation and maintenance of our electricity supply infrastructure, including in terms of world-class levels of reliability, customer service and environmental performance;
- effective implementation of the new SoC Agreement, from 1 October 2008;
- playing our part in raising public awareness of energy conservation and energy efficiency;
- meeting energy demand in a sustainable way, including as to both environmental impact and long-term security of supply;
- proactively managing and contributing to the debate on the long-term regulation of Hong Kong's electricity industry, including both its economic and environmental dimensions;
- maintaining financial prudence and improving cost performance;
- strengthening our organisational and human resources effectiveness, in order to enhance the long-term competitiveness of our business; and
- reinforcing our broad-based relationship management to enhance our reputation and brand with all the stakeholders in our business.

Mr. Franklin Chow

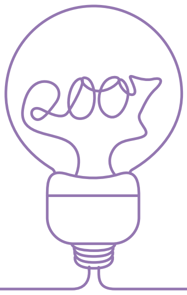
Executive Director
Investment Research
Beijing Gao Hua Securities Company Limited

Given the current comfortable level of reserve margin in Hong Kong, how much new investment in renewable energy is practical for Hong Kong in the next five to ten years?

Renewable energy investment throughout the world is driven by factors such as climate change, environmental concerns and energy security – more than just the need to meet growing electricity demand. Key factors in investment decisions are the availability of renewable energy resources and Government policy support. In Hong Kong, the scarcity of land is another important consideration. To overcome the constraint of limited land availability in Hong Kong, CLP is currently conducting a feasibility study on an offshore wind farm in the southeastern waters of Hong Kong. If feasible, this project represents around 200MW of wind power capacity that could be realised next decade. CLP continues to monitor renewable energy developments around the world to identify new and innovative technologies that can be applied in the Hong Kong environment.

Betty Yuen

Group Director – Managing Director
Hong Kong



How did we do in 2007?

During the year, 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 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.

The outcome of discussions with the SAR Government on the future SoC is described in the Chairman's Statement, whilst our achievements in maintaining adequate and reliable electricity supply to our customers are addressed in the "CLP and our Customers" section of this Annual Report at page 86. The following paragraphs explain in greater detail our performance on those other issues on which we focused during the year.

Meeting the Demand for Electricity

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 Number of customers ('000)	2007 Electricity sales (GWh)	Sales Increase/ (Decrease) over 2006 (%)	Average annual sales change over 2003-2007 (%)	Background to 2007 performance
Residential	**1,960**	**7,724**	**3.4**	**2.2**	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 by 10.9% 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. Meeting the demand from our customers requires our generating plant to operate at high levels of reliability and availability. All our plant performed well in 2007.

Station	Rating (MW)	Generation** (GWh) 2007	2006	Availability (%) 2007	2006	Operating Hours 2007	2006
Black Point Power Station	2,500	**8,271.0**	11,178.8	**93.3**	89.2	**27,825.8**	37,203.0
Castle Peak Power Station	4,108	**18,426.7**	15,229.0	**87.6**	89.7	**45,883.2**	37,006.0
Penny's Bay Power Station*	300	**0.2**	0.6	**99.9**	99.9	**11.2**	15.2

* Penny's Bay Power Station is used for peaking capacity and black start capability.

** Purchase of nuclear electricity from Daya Bay is not reflected in these figures.

LNG

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.

Environmental Improvement

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.

Capital Investment

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.

One of our projects in the West Kowloon area serves as an illustration of the scale, complexity and environmental challenges of this type of investment. During the year, CLP employed "no-dig" technology to lay 30 sections of underground power cables and 60 sections of signaling cables to link up CLP primary substations and the supply network in different parts of Tai Kok Tsui and Shamshuipo in the Kowloon Peninsula. The use of "no-dig" technology allows the cables to cross beneath three railways, the West Kowloon Highway and a number of main roads – all major arteries linking West Kowloon with the remainder of Hong Kong. Further measures to reduce the impact of this work on road and rail traffic included close coordination with Government departments and railway corporations, as well as carrying out works after midnight. This caused particular operational difficulties, such as the control of noise levels to minimise disturbance to the local community. On completion, this project will reinforce the supply network's ability to meet the growing demand from 40,000 customers in densely populated Tai Kok Tsui, Mongkok and Shamshuipo districts.

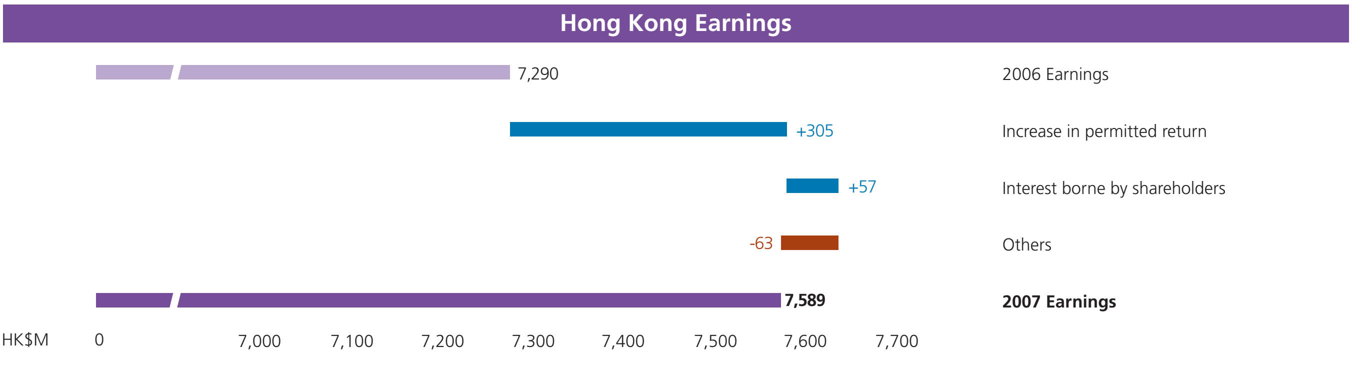
Cost Saving Initiatives

On the generating side, we continued with the implementation of our Operations Excellence Plan, involving the streamlining of main operating and maintenance activities. One example of this plan in action was the reinvention of the start-up process for the gas-fired units of Black Point Power Station. After reviewing the existing practices, our staff developed a more efficient start-up process leading to a significant saving of steam resources during start-up (which saves fuel).

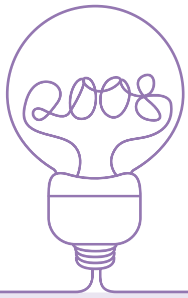
In our network business, we use electrical equipment with a minimum total life cycle cost. We have also adopted various condition monitoring techniques, such as dissolved gas analysis and partial discharge monitoring, to support our "Reliability Centred Maintenance" programme. This aims to reduce maintenance and fault repair costs. To extend asset life, refurbishment projects on transmission overhead-line systems and gas insulated switchgear have been initiated. The negative impact of rising commodity prices is being reduced through risk sharing arrangements with our equipment suppliers.

Earnings

Our Hong Kong electricity business contributed HK$7,589 million to the Group's total earnings in 2007, compared to HK$7,290 million in 2006. These earnings were determined in accordance with the requirements of the SoC. The growth in earnings in 2007 was due to increased average net fixed assets employed in the business, compared to the previous year. The following chart (and the corresponding charts for our businesses elsewhere) shows the major variations (plus or minus) between 2007 and 2006 earnings.



William Mocatta, Vice Chairman, examining a 132kV cable sealing end connection



What are we going to deliver in 2008 and beyond?

The coming year will be a busy and challenging one for us.

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.

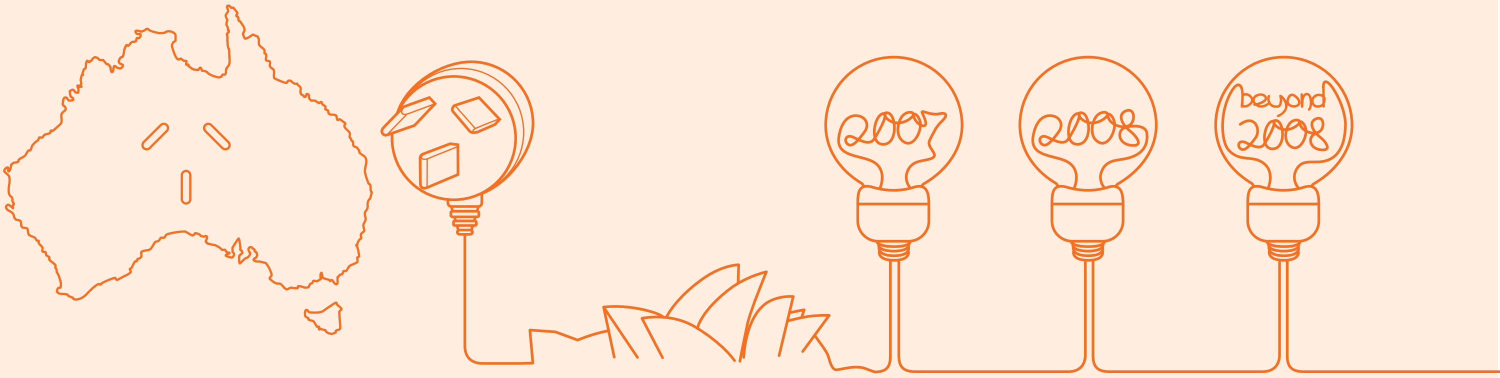
Safety is a priority every year in our business. We are proud of our track record in safety performance, achieved through the efforts of staff and a sound safety management system. In 2008, our focus will be on enhancing our process safety management in our power stations. This initiative includes process analysis and monitoring, technology improvement and human factor analysis.

In the longer term, our plans and activities are expected to involve

- evaluating the implications of the post-2008 electricity regime and managing the economic and environmental consequences of this for our business;
- compliance with our environmental obligations, including avoidance of the application of environmental penalties attached to future emissions levels in the post-2008 SoC. This will require, amongst other things
  - completion of the LNG receiving terminal and availability of long-term LNG supplies; and
  - between 2009 and 2011 completing the Castle Peak Emissions Control Project, involving four major emissions control facilities being installed in stages, including the FGD and nitrogen oxide reduction plant; and
- continuing to apply cost control and efficiency disciplines in order to support ongoing tariff management whilst maintaining high standards of supply reliability and customer service.

For the near term our electricity sales to Guangdong are covered by existing commercial contracts. In the medium to longer term such sales may be impacted by the supply/demand position in Guangdong moving into balance. In mitigation, we will monitor the Guangdong electricity market development, including the supply/demand balance, market reforms, capacity development, demand side management and tariff policy so as to better prepare for future changes. We will also continue to provide a reliable, high quality and reasonably priced supply to our Guangdong customers and strengthen business relationships, so as to improve the opportunity for future sales.

Australia



Business Environment and Challenges

The energy industry in Australia is experiencing a period of dynamic change. This includes a move to consolidation and integration of the sector in response to vigorous competition and the resulting need for energy businesses to reduce costs and mitigate market risk. Australia's energy market is small by international standards, an environment that is likely to produce a few, large, vertically integrated companies and a number of niche and smaller companies competing in the energy market.

For TRUenergy, vertical integration has helped us to create a stable, cost-effective platform that supports ongoing investment in our retail and generation capacity. This in turn reduces our exposure to volatility in gas and electricity costs and ensures we have the long-term capacity to continue to meet the growing energy needs of our customers.

TRUenergy's retail business operates in the National Electricity Market (NEM), a wholesale market for the supply of electricity to retailers and end-users in six connected regions throughout Australia. The NEM facilitates the trade of electricity as a commodity through the operation of a trading pool. Output from electricity generators is aggregated and despatched to meet customer demand. Retailers, such as TRUenergy, have the option of purchasing electricity through the pool at market prices, or by negotiating direct contracts with generators through private hedge arrangements.

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 NEM. 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.

The national electricity industry is characterised by significant differences in market structure and regulation between different states, ranging from competition in both the generating and retail sectors in Victoria to state-owned monopolies in NSW. The result is that the opportunities for private sector participation vary significantly between states, although there is a broad tendency away from state ownership. In 2007, the 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.

In last year's Annual Report, we commented that a key development had been the advent of climate change as an issue for both State and Federal Governments in Australia. This trend has accelerated, with global warming emerging as a major issue in the Federal elections in November 2007. Following those elections, 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.

Strategy

Against this background, TRUenergy's strategy is to

- be one of the leading integrated energy businesses in Australia with an increased national market share in retail and generation;
- grow from a strong position in Victoria and SA into new markets as opportunities arise;
- seek to enter the NSW energy market through acquisition of both retail and generation assets;
- be an equity owner of gas, providing fuel for growth and reducing price risk and reliance on contracting;
- deliver on all short-term targets contained in our Climate Change Strategy; and
- access local capital for future growth.

Ms. Leila Ngadi

Renewable Trader
Portfolio Management
TRUenergy

Almost 3 years down the track, how does CLP view its investment in TRUenergy? How does CLP view the current state of play in the energy sector in Australia? Is CLP still committed to its Australian investment for the long term given the recent public coverage of TRUenergy being approached by potential buyers?

CLP has had a number of discussions over the past year with different industry players relating to potential joint ventures or mergers involving TRUenergy. These have generally been driven by a desire to grow our Australian market share in an industry which remains very fragmented on a national basis. Our current situation is that we are not actively engaged in discussion of any sale or merger of the business. Instead, we remain focused on our 2008 operations and growth strategy as the highest priority for the business. TRUenergy is the largest of CLP's overseas investments and CLP continues to be supportive of us and our strategy for growth in Australia for the long term.

The announcement of privatisation in NSW obviously opens new opportunities for TRUenergy, but this is by no means our only area of opportunity going forward. In the coming months, we hope to announce strategic growth acquisitions in renewable generation. Coupled with the scheduled completion of Tallawarra in time for summer 2008/09, this will make 2008 a significant year in terms of our generation and retail portfolios.

In 2007, CLP and TRUenergy launched a Climate Change Manifesto. Will environmental considerations in new CLP/TRUenergy investments or acquisitions take over economic considerations?

Climate change is changing the way energy companies operate. Already, a price of carbon exists under the Kyoto Protocol which provides a revenue stream for renewable projects throughout the developing world. Developed nations are moving towards pricing all carbon emissions in the economy, meaning that fossil fuel generators will have to pay for the carbon emitted.

In a world where carbon has a value, CLP and TRUenergy are positioning for the future through the Climate Change Manifesto. It is not a question of environmental returns versus financial returns – with a price on carbon, what is good for the environment is good for the shareholders.

Richard McIndoe

Group Director – Managing Director
Australia

How did we do in 2007?

During the past year, 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.

Retail Market

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 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. Our retail business' core strategic focus was on defending retail positions in Victoria and SA, capitalising on cross selling opportunities and ensuring the successful transition to new outsourced back-office and information technology arrangements. TRUenergy's commitment to high levels of customer service is described in more detail in the "CLP and our Customers" section of this Annual Report on page 90.

Business Development

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 the future.

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

TRUenergy has recently announced the purchase of a 20% stake in Solar Systems, a global leader in concentrated photovoltaic technology. TRUenergy will also contribute A$292 million funding to the development of the world's largest concentrated photovoltaic solar power station, to be located in north-west Victoria. CLP has entered a separate agreement to deploy this technology into the Asia-Pacific region.

LaTrobe River – diverted within one week after the Yallourn coal mine subsidence

Asset Management

The following table summarises the performance of TRUenergy's conventional generating assets during the year.

Asset/Station	Rating (MW)		Generation (GWh)		Utilisation* (%)		Availability* (%)		Operating Hours	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Yallourn Power Station	**1,480**	1,480	**10,192**	11,400	**78.6**	87.9	**85.8**	88.2	**5,404**	7,702
Hallett Power Station (since 2 July 2007)	**180**	–	**10.2**	–	**7.7**	–	**97**	–	**774**	–

	Capacity (Terajoule/Day)		Throughput (Petajoule)		Utilisation (%)		Availability (%)		Compressor Hours	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Iona Gas Storage Facility	**320**	320	**59.2**	43.9	**50.7**	37.6	**98.1**	92.4	**30,388**	23,600

* In this table and those relating to generating assets elsewhere, "availability" is the extent to which a generating unit is made available by its operator for generation to the grid system, whereas "utilisation" is the extent to which the unit actually generates as compared to its rated capacity applied over the period in question.

Failures of plant adversely impacted Yallourn's performance and reliability over the year. Failures on the steam feed pumps of both Unit 1 and Unit 2 resulted in these units being run at reduced load for extended periods, whilst repairs took place. With the shift in timing of the Unit 2 major outage (in order to facilitate repairs to Low Pressure Turbine Blading due to cracking of the last stage on the other three units) boiler tube failures increased resulting in forced losses from Unit 2.

The single incident which most affected plant availability was a major subsidence in the Yallourn coal mine 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 the particularly hot summer weather. Work on long-term mine restoration continues 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.

Construction of the Tallawarra Power Station is proceeding at pace. Over 250 contractors and 25 TRUenergy employees are currently onsite at Tallawarra. TRUenergy recently recruited staff to operate and maintain the plant, with 90% of roles filled by candidates already living locally. We will run training for these new employees both onsite and overseas.

TRUenergy has owned and operated Hallett Power Station since July 2007. During this period, the plant has achieved a high level of operating reliability and availability, reflecting the successful integration of the plant within TRUenergy's business and the introduction of our management and operating systems and procedures. Throughput at TRUenergy gas storage was at record levels, exceeding our 2007 target of 48.2 petajoules by 8 petajoules (16%), supported by excellent levels of commercial availability and contractual performance.

Management of Energy Trading Risk

Management of energy trading risk forms part of overall asset management disciplines.

Because of its vertically integrated nature and diversified generation mix (merit order, fuel type and multiple units), a majority of TRUenergy's cash flows are internally hedged. In addition to its physical market position, TRUenergy participates in energy trading in Over the Counter (OTC) bilateral and exchange-traded markets. While the majority of energy trading is in support of TRUenergy's unhedged electricity, gas and renewables positions, this activity does create exposures which must be actively monitored and managed. TRUenergy continues to address these risks in the following ways:

- A strong and comprehensive risk management policy framework is in place which establishes delegation of authorities for trading activities, the types of products that are allowed and counterparty credit limits;

- Policies are supported by well documented and communicated processes for key activities;
- Trading execution ("Front Office"), risk management ("Middle Office") and settlement ("Back Office") responsibilities are all segregated into different departments, providing separation of duties, independent monitoring and reporting;
- On a daily basis, the risk management department monitors the underlying energy trading positions using a suite of systems in place for calculating exposures, pricing and valuation; and
- A comprehensive governance process is in place to provide management oversight of trading activities.

Climate Change

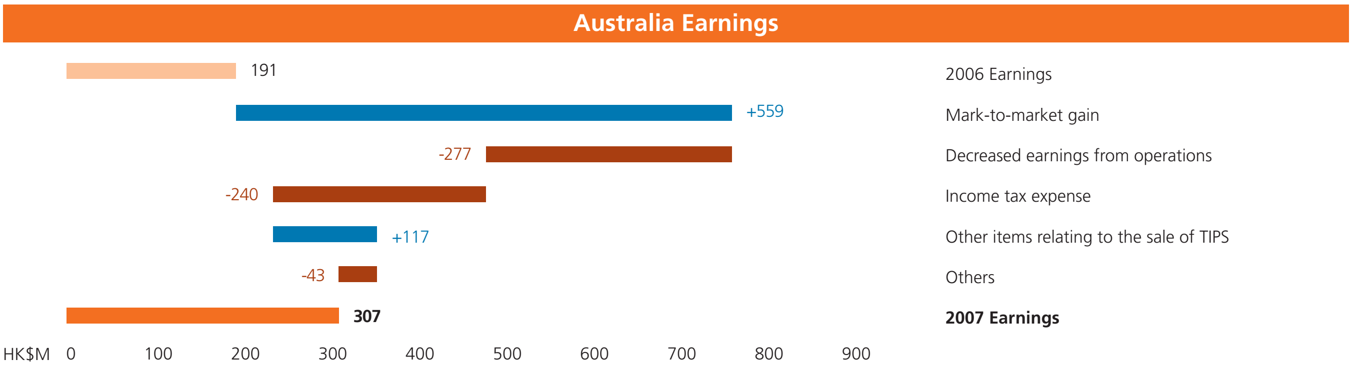
In July, TRUenergy became the first energy utility in Australia to commit publicly to a Climate Change strategy, targeting deep reductions in emissions over the long term. This represents an aggressive, yet feasible, means of responding to the challenges of climate change by an energy company with brown coal-fired generation. 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. In more detail, our strategy commits us to

- introducing a cap on carbon intensity with reductions commencing by 2010;
- cutting emissions intensity by a third of 2007 levels (1.2 tonnes/MWh) by 2020;
- reducing emissions by 35% by 2035 on a 1990 baseline (proportional to market share);
- reducing emissions by 60% by 2050 on a 1990 baseline (proportional to market share); and
- committing not to build any greenfield, conventional technology coal-fired power stations.

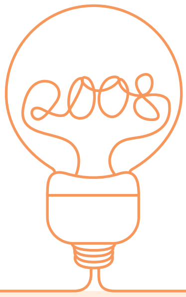
This strategy will be key in ensuring that TRUenergy invests only in commercially viable, environmentally responsible energy assets, at the same time as the business pursues its goal of growing its share of the national energy market to 20%. Carbon issues pose a considerable challenge to the electricity sector, both in terms of pricing and effect on the supply side as well as in the development of credible and meaningful retail initiatives in green power and energy efficiency.

Earnings

TRUenergy's earnings for 2007 were HK$307 million, up from HK$191 million in 2006. This was largely due to unrealised mark-to-market gains of HK$209 million on electricity derivative contracts at 31 December 2007 as compared to the mark-to-market losses of HK$350 million in 2006. However, tax expense of HK$63 million was incurred in 2007, against a tax credit of HK$177 million arising from tax losses recorded last year. In addition, there was a net one-off gain of HK$184 million during the year relating to the TIPS asset swap, coal mine subsidence and initial set-up of outsourcing costs, compared to an impairment provision of HK$823 million for Yallourn in 2006. The Yallourn mine subsidence gave rise to an estimated revenue loss of HK$170 million.



As part of measures to reduce ongoing operating costs during 2007, TRUenergy entered into a 10-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.



What are we going to deliver in 2008 and beyond?

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 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 the 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.

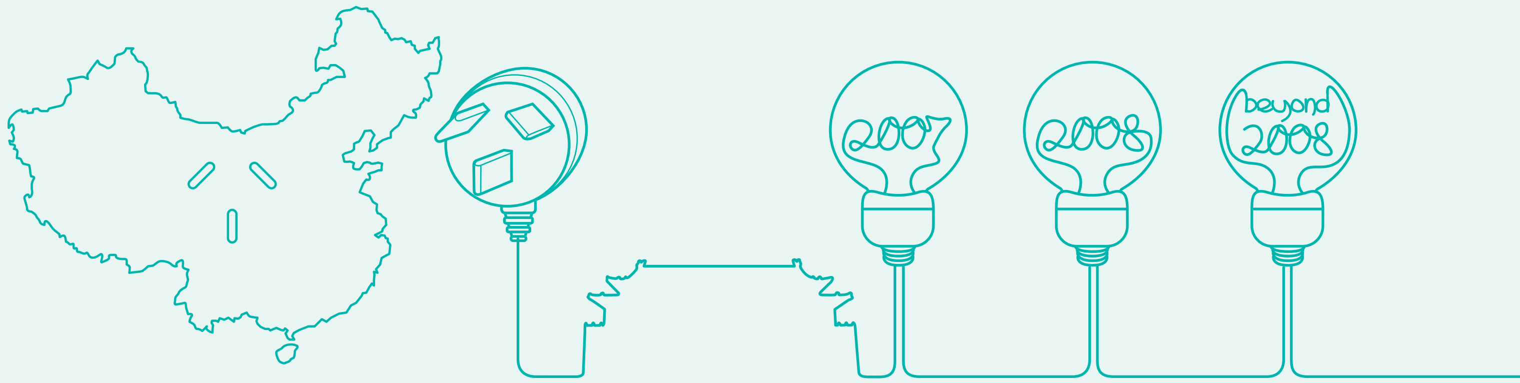
Led by privatisation initiatives within the NSW electricity industry, we believe that 2008 will bring in industry consolidation. The current industry structure is fragmented which is cost-inefficient and increases risk, since industry players do not enjoy deep capital bases. We are well-positioned for 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.

TRUenergy's longer-term development will be driven by

- further growth in generating capacity through greenfield expansion, possibly combined with acquisitions on an opportunistic basis and including investment in renewable generation and new, low emission technologies;
- strategies to increase retail market share, including capitalising on a strong brand, enhanced product and marketing capability and transitioning to become an energy services provider;
- potential acquisition of gas assets to protect existing gas retail and generation assets; and
- the opportunities which arise to participate in the process of ongoing market consolidation.

We expect these initiatives will be accompanied by an ongoing focus on the carbon emissions associated with TRUenergy's business, in line with its Climate Change Strategy. This will include both close attention to the sustainability of our business, the growth of renewable energy sources and, more generally, the prudent management of climate change risks.

Chinese Mainland



Business Environment and Challenges

During 2007, installed generating capacity on the Chinese mainland continued to grow at a fast pace. With the commissioning of 91GW of new units, total installed capacity reached approximately 713GW at the end of 2007. As a result of the rapid addition of power plant in recent years, the 11th five-year plan target of 700GW of generating capacity by 2010 has been achieved three years in advance. Electricity demand also 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. The five national generating companies, Huadian, Guodian, Huaneng, Datang and China Power International, continued to expand rapidly and now own around 40% of all generating capacity in the Mainland.

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 compensate part of the increase in costs of generating companies. Tariffs were revised 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 prices to remain at high levels during 2008 whilst, at this stage, the timing and magnitude of the next tariff adjustment remain uncertain.

The severe winter weather which affected much of central China in January and February 2008 caused major disruption to power supplies. Although the lessons to be learnt from this are not yet fully defined, we expect the central authorities will look critically at the problems of coal supply, including the implications of coal prices being largely driven by market forces whilst electricity generation tariffs (significantly affected by rising coal prices) are capped. We may also see improvements in the infrastructure used to transport coal, as well as further development and strengthening of the transmission grid.

The Mainland has introduced "benchmark tariffs", which vary according to different provinces and are published by the relevant authorities from time to time. The Mainland authorities also directed that 1.5 fens be added to the tariff paid to plant with FGD. These tariffs will be implemented for new plant to be commissioned in the relevant regions. Hence, generating companies will be able to know the levels of tariff that they will receive for their power plant early in the project development stage. However, depending on the regions, timely implementation of these tariffs sometimes requires effective liaison between the generating companies and the relevant authorities.

The Mainland aims to decommission no less than 50GW of small coal-fired plant and about 10GW of small oil-fired units by 2010. A total of 14GW were decommissioned in 2007, exceeding the target set for the year. To improve generating efficiency, there will be a move towards an increase in the construction of ultra supercritical coal-fired generating units. Such units have considerably lower coal consumption rate per unit of power generated than the older coal-fired plant. Regulations have been introduced to promote the despatch of generating plant by reference to its environmental performance. Renewable, nuclear and the more efficient coal-fired plant will be despatched in priority to those units with a higher emissions profile.

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 by several increases in interest rates during 2007, as part of the PRC Government's measures to tackle inflation and an overheating econcomy.

Strategy

The strategy for CLP's Mainland activities includes a focus on

- the pursuit of investment opportunities where CLP has identified and can exploit a competitive advantage against other investors, and which are aligned with the Group's climate change strategy;
- the development of projects which have synergy with, or can leverage off, CLP's existing investments, such as the growth of our joint venture with Shenhua Energy, the expansion of the greenfield coal-fired power station at Fangchenggang and an extension of our involvement in the Daya Bay Nuclear Power Station in Guangdong;
- continued growth in our renewable energy activities, involving a range of resources such as small and mid-sized hydro, wind and biomass;
- gas-fired combined-cycle gas turbine (CCGT) projects in selected regions; and
- the investigation of opportunities for early participation in the development of clean coal technology in the Mainland.

Changdao wind farm in Yantai

How did we do in 2007?

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;
- project approval of the Sichuan Jiangbian hydro project;
- growth in renewable energy activities;
- effective management and operation of existing assets; and
- making a meaningful earnings contribution to the CLP Group.

Restructuring of the Shandong Project

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 independent power producer (IPP) project in China with the largest foreign investment. The project life of the four power stations is fixed at 20 years and the stations are to be returned to the PRC parties free of charge thereafter. This is a typical Build-Operate-Transfer scheme adopted by many IPPs in the 1990s. 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.

Expansion of CLP Guohua Joint Venture

CLP Guohua is an evergreen joint stock company (JSC) formed between CLP and China Shenhua Energy (Shenhua) in 2001. In 2007, the JSC acquired a further 15% of Panshan Power Station, in addition to the 50% which the JSC already owned. 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.

Commissioning of Fangchenggang

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 that 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.

A key factor is the use of imported coal, which has been encouraged by the Guangxi Government, due to very limited local supplies. This exposes us to the international coal market, which has been subject to unprecedented price rises during the last few years. We aim to manage this risk through long-term coal supply contracts at reasonable prices but, in the short term, the project economics will be less favourable than expected. We continue to pursue approvals for an extension to the Fangchenggang project. The site and associated infrastructure have been designed for a further two units.

Jiangbian Hydro Project

In October 2007, CLP obtained approval of the Jiangbian Project from the National Development and Reform Commission. This was followed by Ministry of Commerce approval in December for the establishment of a joint venture company between CLP and Sichuan Basicpower Co. Ltd. The preparatory works have been underway for more than 12 months. We are moving to place the main equipment supply and construction contracts, in line with a scheduled commissioning date in 2011.

The project is located at a remote site and involves extensive rock tunneling and excavation. The power supply for construction was established in July and over 7 kilometers of tunnel have been excavated, with a further 11 kilometers already under construction. Experience so far has indicated that the steep rock faces in the area can be unstable and there have been instances of rock slides and flooding. Maintaining site safety is a major challenge, particularly when combined with shortcomings in the safety culture of local contractors. We have a strong focus on ensuring proper safety policy and procedures are in place and are making tremendous efforts to improve the local safety culture.

Renewable Energy

We have made good progress on renewable energy projects, including small hydro, wind and biomass. Whilst these projects may be relatively small when viewed on an individual basis, the collective scale of our Mainland renewable energy projects is now significant, with CLP holding interests in 11 small hydro plant, 14 wind farms and one biomass station, with a considerable number of further projects in the pipeline.

Datong

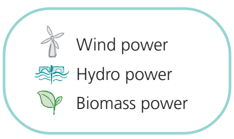
- wind turbine commissioning tests are in progress

Jiangbian

- 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

Boxing

- commenced construction on biomass project in July 2007; CLP holds 79% interest
- first phase comprising 14MW and second phase of 15MW, all fuelled by cotton stalks
- target plant commissioning by mid 2008



Shuangliao

- achieved commercial operation in April 2007

Changdao

- operating reliably since commercial operation commenced in May 2006

Weihai

- phase I achieved commercial operation in April 2007
- erection of the turbines for phase II completed and commissioning tests in final stage

Rongcheng

- all turbines connected to grid and commissioning tests in final stage

Shandong Guohua Six Wind Projects (each 50MW)

- projects approved by Shandong Development and Reform Commission
- construction works commenced

Nanao

- all turbines passed a 240-hour reliability test and entered commercial operation in November 2007

Hailing Island

- project approved by the Guangdong Development and Reform Commission
- tariff approved by Guangdong Price Bureau at RMB0.689 per kWh
- land acquisition and turbine supply contract being finalised

Huaiji

- official opening of 16MW Xinwan hydro power station in December 2007
- Huaiji joint venture acquired two small hydro power stations, totaling 6.2MW
- agreement reached for the acquisition of 19.6MW Niuqi station in Guangning County, Guangdong Province in December 2007

Excellence in Station Management and Operation

The position on tariff levels and fuel supply on all the stations in which CLP holds an interest is set out in the following table. All the stations are subject to tariff levels which have been approved by the authorities for implementation.

Station	Approved Tariff (fen/kWh)	Status of Tariff	Fuel Type	Future Development/ Outlook
Daya Bay	Determined at Guangdong Nuclear Power Joint Venture Co., Ltd. according to its JV Contract with consideration to the competitiveness of its electricity	Implemented	Uranium – various supplies	Fuel supply adequate
Guangzhou Pumped Storage	Based on service charge per installed capacity	Agreed under long-term agreements	Pumped storage between dedicated reservoirs	
Shiheng I and II	43.00 for I 44.50 for II	Same as in year 2006; II obtained 1.5 fens FGD tariff in 2007	Coal – Shandong mines	Adequate coal supply but much increased price
Heze II Liaocheng	38.94 38.94	Same as in year 2006	Coal – Shanxi mines	
Yire Sanhe Panshan	44.65 37.43 39.92	Same as in year 2006; Sanhe obtained 1.5 fens FGD tariff in 2007	Coal – Supplied by Shenhua from Shaanxi and Inner Mongolia	Adequate and stable coal supply
Shenmu	Normal: 30.95 Excess: 20.00	Same as in year 2006	Coal – Local mines	Adequate coal supply but much increased price
Anshun II	28.95	Tariff adjusted in November 2007	Coal – Guizhou local mines	Operating hours may decrease due to surplus generation supply in Guizhou Province
Huaiji	Before 1 December 2007: 39.33 for peak hours in wet season; 11.77 for non-peak hours in wet season; 56.29 for peak hours in dry season; 13.89 for non-peak hours in dry season. Effective 1 December 2007: 40.80 for peak hours in wet season; 20.40 for non-peak hours in wet season; 56.20 for peak hours in dry season; 28.10 for non-peak hours in dry season.	Higher tariffs achieved by use of reservoir regulating capability	Small hydropower	Renewable energy source
Fangchenggang	37.68	Including 1.5 fens FGD tariff	Imported coal	Possible extension of two more units

CLP's longstanding technical and engineering expertise in the operation of power stations running on a wide range of fuels constitutes one of our competitive advantages and a major contribution that we can make to the joint ventures in which we participate. In 2007, the power stations in which CLP holds an interest achieved high levels of availability.

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2007	2006	2007	2006	2007	2006	2007	2006
Daya Bay	1,968	**14,775**	14,858	**90**	90	**90**	90	**7,967**	7,946
Guangzhou Pumped Storage (Phase I)	1,200	**1,784**	1,493	**17 ***	14*	**94**	80	**3,728 ***	2,646*
Shiheng I and II	1,200	**6,888**	6,650	**66**	63	**95**	95	**5,740**	5,542
Heze II	600	**3,418**	3,328	**65**	63	**92**	97	**5,696**	5,548
Liaocheng	1,200	**6,262**	6,634	**60**	63	**88**	95	**5,218**	5,528
Yire	400	**2,545**	2,370	**73**	68	**92**	92	**6,363**	5,925
Sanhe	700	**4,162**	4,206	**68**	69	**93**	97	**5,946**	6,008
Panshan	1,000	**5,952**	5,881	**68**	67	**85**	91	**5,952**	5,881
Shenmu	200	**1,385**	1,319	**79**	75	**96**	96	**6,925**	6,595
Anshun II	600	**3,402**	3,781	**65**	72	**82**	95	**5,670**	6,301
Huaiji	106	**267**	324	**35**	56	**89**	98	**3,053**	3,933

* Generating and pumping modes

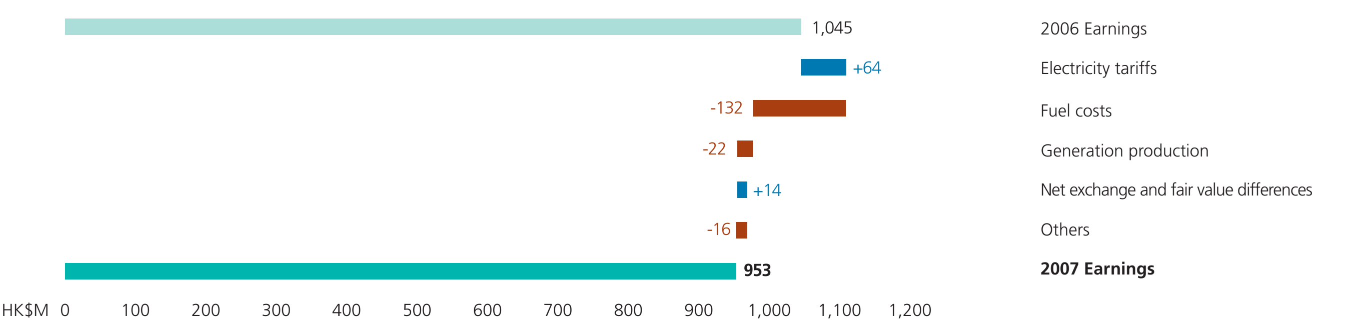
Major events in plant operation in 2007 included:

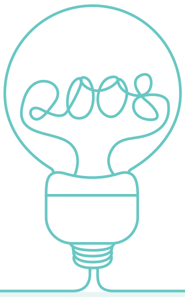
- progress in several emissions reduction projects at Beijing Yire, Panshan, Sanhe and Shenmu stations. These included the successful completion and commissioning of the retrofit of FGD equipment to both units at Sanhe and good progress on a similar project at Panshan;
- commissioning of the Unit 3 FGD plant upgrade at Anshun, with the plant returning to operation in November 2007;
- Anshun power station was affected by periodic shortages in coal supply and generator stator problem; and
- Daya Bay operated safely and efficiently, contributing around 29% of the electricity supplied to our customers in Hong Kong.

Earnings

Earnings for 2007, other than those from generating capacity serving Hong Kong, were HK$241 million, down by 18% from the previous year. The downturn was mainly due to higher coal costs, exacerbated by the non-materialisation during the year of the expected fuel-linked tariff adjustment. In addition, our investments in those generating facilities serving Hong Kong delivered earnings of HK$712 million.

Chinese Mainland Earnings





What are we going to deliver in 2008 and beyond?

In 2008, we will focus on the following:

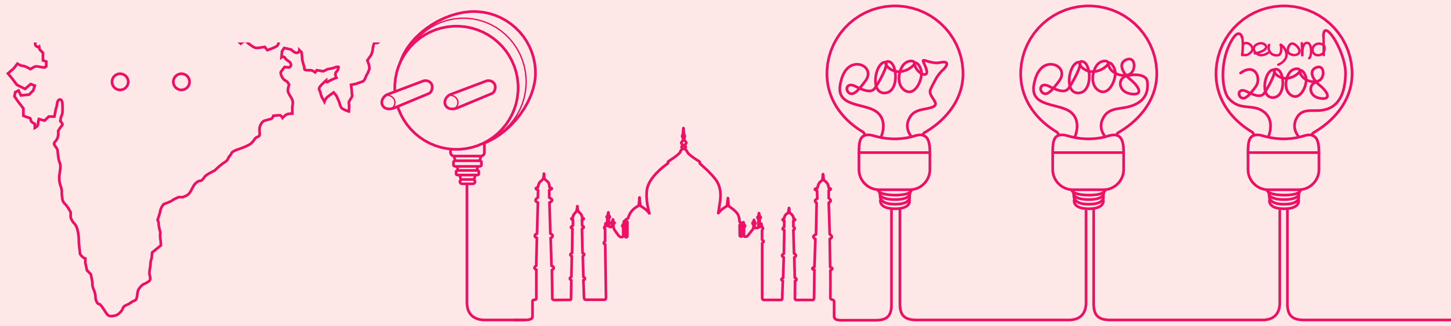
- At Fangchenggang, we will implement and fine tune operation and maintenance procedures. We will manage the fuel costs through our long-term supply contract and securing alternative coal supplies when needed;
- We will participate actively in our joint venture with Shenhua, including integration of the new generating assets into the expanded joint venture and exploring further expansion opportunities;
- We will work closely with our partners in the Shandong joint venture to tackle the coal supply issue;
- We will review the existing arrangement at our Anshun II Power Station. We currently contract our operations to Anshun I, which is separately owned;
- We will contribute to the continuing high standard of operation of Daya Bay through the promotion of continuous staff training, reinforced by regular peer reviews;
- We will conduct feasibility studies for a number of biomass projects in Shandong, Heilongjiang and Hebei. We expect that a number of these projects will be approved and construction will start during 2008; and
- We will pursue further wind power opportunities, including in Inner Mongolia, Liaoning, Heilongjiang, Guangxi and Jilin and increase CLP's presence in small hydro projects, including through the acquisition of a 49.8MW hydropower station in Yunnan.

We expect that the average utilisation hours of the generating plant 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, liaising with the local authorities and power companies to ensure fair despatch for all plant in the region and investigating opportunities to generate on behalf of other small fossil-fired power plant.

In the longer term, our objectives are to grow the CLP Group's activities in the Mainland, concentrating on those areas where we may have a competitive advantage, as compared to those, such as greenfield conventional coal-fired power station projects, where we may not have an identifiable competitive advantage when compared to the five national generating companies. To this end, we aim to

- consolidate and rationalise the asset ownership and structure of our existing portfolio;
- whilst maintaining a balanced fuel mix of our portfolio, move towards generating sources and technologies with lower carbon emissions, including renewables, combined-cycle gas turbines and nuclear energy;
- explore opportunities to participate in nuclear energy in the Mainland. We will concentrate on opportunities in Southern China, including the extension and expansion of the nuclear off-take arrangement between CLP and Guangdong Nuclear Power Joint Venture Co., Ltd. which comes up for renewal in 2014;
- explore opportunities to invest in gas-fired power plant, possibly with an initial focus on opportunities in Shanghai and the eastern region;
- identify and engage with credible partners to study the potential for the application of Integrated Gasification Combined Cycle (IGCC) technology with Carbon Capture and Storage (CCS) for coal-fired generation in the Mainland; and
- continue the growth of our activities in hydro, wind and biomass, together with a move towards other renewable energy sources, such as solar or geothermal power.

India



Business Environment and Challenges

Reforms initiated by the Government of India in recent years have led to substantial improvement in the financial position of utilities in India. This in turn has led to large investments being made over the last two years in the creation of new generation facilities. Many large Indian companies are investing in new generation capacity, a large part of which is either under construction or commissioning. Per capita consumption of electricity in India continues to be significantly lower (435kWh) than in other developing economies such as the PRC (1,379kWh). India's GDP growth is expected to remain at 8-9% per annum in the coming years. The Government has set an ambitious target of "Power for All by 2012". To achieve this, the Government has estimated that an investment of INR 9,000 billion (US$225 billion) would be required for the sector by 2012. Apart from strengthening the transmission and distribution networks, the installed generation capacity would need to be increased from around 132,000MW to 209,000MW by 2012. This means an additional requirement of around 79,000MW, of which approximately 44,358MW is under various stages of development.

All thermal and hydro generation projects (above 100MW) are required to be awarded on the basis of competitively bid tariffs in line with the Federal Government's tariff-based bidding guidelines, as envisaged in the Electricity Act. Several bids have been invited, or are planned to be invited, for coal-fired and hydro generation projects, as well as transmission projects on a build, operate and own basis. Taken together with the introduction of a merit-order based despatch system in most states, this means that the final tariff is a key risk indicator for developing generating facilities. Additional generation capacity is being created in the form of large coal and hydro projects on account of the significant cost advantages associated with these fuels. Aside from cost disadvantages, long-term gas availability remains limited and is dependent on new exploration activities initiated by the Federal Government. This has impacted the development of gas-based generation projects and no new gas-fired generation bids have been solicited/awarded since the evolution of the competitive bidding guidelines.

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 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. For example, Maharashtra's Renewables Purchase Specifications Framework requires distribution companies to purchase at least 3% of their electricity from co-generation and renewable energy sources in 2006-7 (rising to 6% in 2009-10).

Given the exponential growth in the Indian economy in general and the power sector in particular, staff retention remains one of our most significant challenges. The attrition rate for 2007 stood at 20%, with attrition amongst the core operation and maintenance staff at around 29%. CLP will continue investing in human resources and pursue new development opportunities – this we believe will be a critical factor to keep the employees engaged in our business over the long term.

Strategy

The overall strategy for our Indian business is to develop a portfolio of investments in creditworthy states. We will ensure that the growth of this business is consistent with the Group's investment disciplines, as to both levels of risk and returns, and with our climate change strategy. Implementing our business strategy will involve

- the development of a range of generation projects using a range of fuel sources;
- building a substantial portfolio of renewable energy investments;
- pursuit of opportunities to bid for new transmission projects;
- focus on projects which will provide synergy with, or leverage off, CLP's existing investments, such as a second phase of the GPEC Power Station;
- acquiring selected distribution and retail businesses, following the privatisation of state-owned utilities;
- continuing the operation and maintenance of the GPEC plant to a high standard; and
- respecting the values of CLP, including on the environment and community development.

What are the future plans of GPEC regarding its initiatives in the communities? How does GPEC intend making these initiatives sustainable and increase ownership of the community in the initiatives?

Mr. Deepak Dogra

Programme Manager
PRATHAM Gujarat Education Initiative

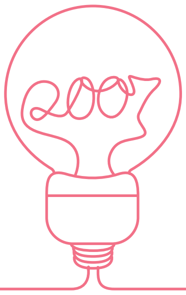
Over the years, GPEC has expanded the coverage of its initiatives with the communities in the vicinity of the Plant. Apart from health, education and self-help groups, GPEC is raising awareness of the conservation of natural resources. With GPEC distributing 9,000 and 18,000 tree saplings in the years 2006 and 2007 respectively, it has been working to motivate various institutions and individuals to participate in mass tree plantation drives, followed-up by sapling survival initiatives.

In the future, GPEC will continue to work in three broad areas – Health, Education and Environment. We will continue to support our initiatives in adolescent education, nutrition supplementation programmes, medical diagnostic camps, supporting self-help groups and environment awareness. In addition, GPEC proposes to address areas such as supporting vocational courses for village youth and assisting in setting-up solar energy based systems for community use.

GPEC has worked on community initiatives characterised by sustainability and ownership by the respective community. For example GPEC installed a water filtration plant for Paguthan village; local villagers were identified and trained in operating the system; the plant is today being operated by the villagers. Similarly, playground equipment was installed in villages and handed over to the village committees. Nutritional snacks provided for nutrition support programmes are prepared and supplied by self-help groups created with GPEC's involvement. Community initiatives in the form of providing educational/science journals and periodicals to school libraries have promoted reading habits in students. In general, we try to carry out all our initiatives with specific responsibilities assumed by the beneficiaries, and often some cash contribution by them as well, so that the communities involved feel that the initiative is theirs, not GPEC's.

Rajiv Mishra

Managing Director – India



How did we do in 2007?

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.

Optimising the Performance at GPEC

On 1 July 2007, Paguthan Village in Gujarat, where our GPEC plant is located, experienced torrential rain with around 28 inches of rainfall being recorded. To give an idea of the scale of the rainfall, the total average rainfall in Bharuch District during the entire monsoon season is approximately 32 inches. As a consequence, the GPEC township and plant were flooded. Immediate steps were taken to evacuate the families of our affected staff and move them to safer places. Sections of the plant boundary wall and approach road collapsed and water entered the Demineralisation (DM) plant, the 6.6kV transformer yard and firewater pump house. 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.

Ex-gratia financial assistance was provided to farmers in surrounding villages and affected employees and their families. In addition, GPEC offered immediate disaster relief to neighbouring communities in the form of water supplies and other provisions. We are reviewing the lessons to be learnt from this incident, including further measures that might minimise flood risk in future.

Despite the flooding, GPEC continued to achieve high reliability and an extremely low level of forced outages.

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
GPEC	655	**4,145**	4,315	**72.3**	75.2	**89.5**	87.7	**7,761**	6,588

GPEC's high operating standards in 2007 were recognised by first prize in the Confederation of Indian Industries (Western Region) awards for outstanding achievements in safety, health and the environment.

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. In 2006, an order passed by the Gujarat Electricity Regulatory Commission (GERC) raised the possibility that incentives payable to GPEC could be paid on the basis of actual despatch of electricity, rather than station availability, as provided for in the PPA. During 2007, GPEC maintained its efforts to ensure that GPEC's commercial entitlement under the PPA is respected – GPEC filed a petition with the State Regulatory Commission and the case has recently been decided in GPEC's favour, with the Regulator clarifying that the order would not apply to companies whose PPAs were signed before the formation of the State Regulatory Commission.

GPEC also defended its position in respect of a second ongoing disagreement with GUVNL relating to deemed generation on naphtha. In the meantime, GPEC's outstanding claim for delayed payment charges from GUVNL was resolved in March 2007, with GPEC receiving payment of the sum due of HK$248 million the following month.

Opportunities in the Indian Power Sector

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. In addition, local competitors were willing to bid for greenfield coal-fired projects on the basis of no FGD. In contrast, the additional cost involved in installing and operating this equipment posed a major challenge to CLP in its bidding for such projects.

CLP bid for an imported coal based project in Gujarat in January 2007. This bid was unsuccessful mainly on account of a level of fuel price risk assumed by the winning bidders, together with higher capacity charges bid by CLP on account of incorporation of FGD. CLP had also earlier qualified for a 4,000MW ultra mega project in Andhra Pradesh (Krishnapatnam) using imported coal in consortium with GMR Energy (an Indian Company), but did not finally submit a bid, in the light of its experience on its Gujarat bid.

Renewable Energy

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.

Following the signing of the relevant agreements, good progress has been made on this project including

- approval for the transmission of power from the wind farm has been obtained;
- land documents for 25 parcels of land (out of 63 for Phase I of this project) have been received and due diligence on them completed. The balance of the land documents are expected to be received early in 2008; and
- the approach road and foundation work for 19 towers have been completed.

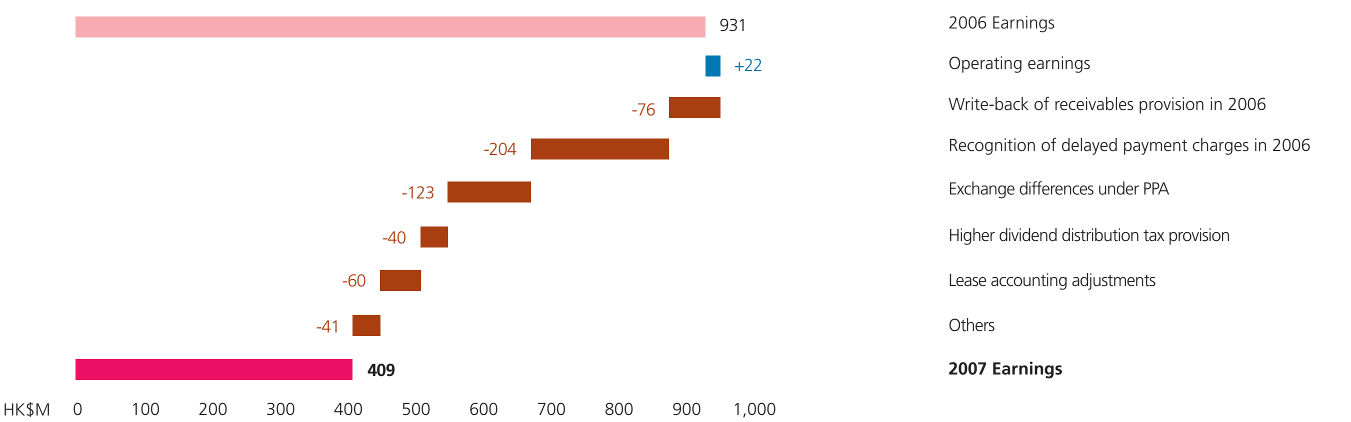
Phase I of the Samana project, comprising 50.4MW is scheduled for commercial operation in June 2008.

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. The project will cost more than US$105 million and construction is planned to start at the end of 2008.

Earnings

During 2007, our investments in India contributed HK$409 million to Group earnings, compared to HK$931 million during the previous year. The reduction in reported earnings for 2007 is due to the recovery of delayed payment charges and a substantial write-back of a receivables provision in 2006. Current year earnings have also been reduced by an additional dividend distribution tax provision due to a higher tax rate.

India Earnings



What are we going to deliver in 2008 and beyond?

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;
- proactively pursuing the settlement of the outstanding dispute with GUVNL regarding deemed generation on naphtha, with a view to retaining the position as set out in the PPA with GUVNL;
- the merger of GPEC and CLP Power India so as to consolidate CLP's wholly-owned subsidiaries in India under one legal entity to enable more efficient administration and saving of taxes levied for inter-corporate transactions;
- completion of the construction of the Samana wind project on time and under budget;
- 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.

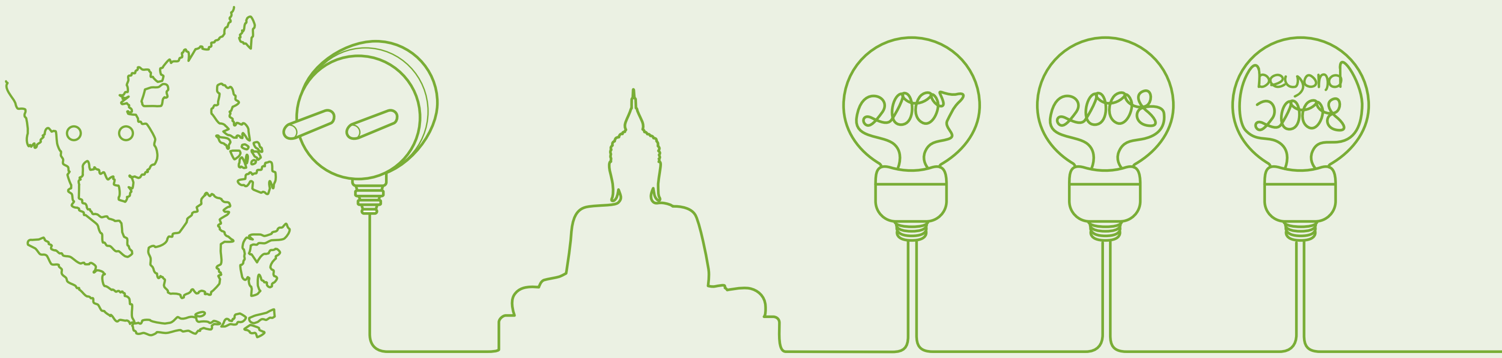
In the years ahead, we aim to

- proceed with the development and construction of GPEC II, as soon as viable long-term gas supply arrangements are put in place;
- pursue greenfield conventional power station projects whose economic and environmental characteristics meet our investment criteria;
- pursue privatised transmission projects with competitive tariff bidding and selected distribution or retail business opportunities which arise on the privatisation of state-owned utilities; and
- significantly expand our renewable energy portfolio, including through growth in wind projects as well as a move towards other renewable energy sources, such as hydro, biomass and solar energy.

Our overall aim remains to grow beyond the present single-asset portfolio, so that CLP becomes one of the significant players in the Indian electricity markets, including through alliances with suitable partners by pursuing new projects in reforming states with strong state-owned utilities.

GPEC Power Station

Southeast Asia and Taiwan



Business Environment and Challenges

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.

The economies in OneEnergy's target markets, namely; Thailand, Taiwan, The Philippines, Indonesia, Vietnam and Singapore, are growing at a rate of 5-6% per annum, with corresponding electricity demand growing at a rate higher than underlying GDP growth. The region's supply-demand balance is tightening as governments and utilities have put forth expansive generation plans to address declining reserve margins. The single-buyer PPA framework remains the business model for Thailand, Taiwan, Indonesia and Vietnam. The merchant market business model remains in place for The Philippines and Singapore, with varying degrees of full competition due to the unique characteristics of those two markets. Due to affordability and availability considerations, coal remains the fuel of choice for a number of less developed countries in the region. In markets traditionally dominated by gas-fired generation, such as Thailand and Taiwan, coal is either promoted or being considered to play a bigger role in meeting the future demands. For the longer term, a number of countries are also considering nuclear energy.

In most developing countries in the region, governments are understandably giving higher priority to electrification, development and poverty eradication than to global climate change. As the global drive towards faster and stronger action to combat climate change gathers momentum, we expect that carbon emissions will have some influence on the fuel choice for future power generation development. As mentioned in the Chairman's Statement in this Report, CLP has committed to taking a leadership role in contributing to global efforts for the abatement of climate change through our Climate Vision 2050. This will include an assessment of OneEnergy's portfolio carbon emission intensity when investment decisions are made.

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. Recent generation asset privatisations in The Philippines at higher prices have demonstrated the great interest in power assets in the region. Competition in the IPP solicitation in Thailand was also very high, with over 17,000MW of proposals competing for the 4,400MW finally awarded. In Indonesia, the state-owned electricity company has set a relatively low ceiling price for new IPP projects.

In order to win new projects in these environments, OneEnergy must be innovative in terms of equipment sourcing and 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.

Strategy

Leveraging on the strengths of its shareholders, OneEnergy's strategy includes

- a focus on greenfield power generation opportunities to capitalise on the substantial potential for new build generating capacity required in the region;
- on a selective basis, pursuit of strategic acquisitions in target markets;
- enhancing stakeholder relationships, in particular, EGCO as an investment vehicle in Thailand and Taiwan Cement as a preferred partner in Taiwan;
- maintaining a balanced portfolio in terms of country risk and generation mix;
- developing its strong local presence in its target countries; and
- taking into account the environmental implications of its business, such as greenhouse gas emissions, whilst responding to the legitimate expectations of the people of Southeast Asia for electricity to improve their living standards.

Mr. Joseph Jacobelli

Senior Director
Head of AsiaPac Utilities &
Energy Technology Research
Equity Research
Merrill Lynch (Asia Pacific) Limited

Some of the highest electric power demand growth rates in the next five years and some of the highest power supply deficits are found in Indonesia, The Philippines, and Vietnam in my view. However, these are electric power markets which either do not have a strong track record in terms of regulatory transparency and consistency or are new to opening up to foreign investors. Does OneEnergy adopt a particular approach to try to enter these markets?

Indonesia and Vietnam are two of OneEnergy's largest markets with significant generation needs over the next decade. Both countries have philosophically accepted that private power generation should complement the traditional state-owned utility build approach to meet their needs, and both countries have had some historical experience with wholesale generation procurement through power purchase agreements. That said, the regulatory framework and industry framework for new private generation is not fully developed. As a consequence, the pace of new private generation capacity has been slow and inconsistent. We are hopeful that these markets will have formal solicitations for new generation capacity in the next 12-18 months and the pace of development will pick up.

OneEnergy has established representative offices in these countries to position itself by furthering relationships with key stakeholders and identifying early project development opportunities. Success in these markets will depend on OneEnergy's ability to leverage its shareholders' strengths. For example, CLP's ability to mobilise PRC equipment (as demonstrated in the Fangchenggang Project) and Mitsubishi's ability to arrange JBIC project financing would be key competitive factors.

The challenge in The Philippines is different. Whereas the country has established a successful track record in the 1990s, the electricity markets there are currently transitioning to a merchant market similar to the market in Australia. In 2007, the transition accelerated as the Government was able to successfully auction several generation assets as well as the national transmission company. Over the past year and a half, OneEnergy considered several possible acquisition opportunities as a potential entry strategy. Due to the high priced acquisition environment as well as concern over the technical quality of some of the assets being privatised, OneEnergy was cautious in its approach. Moving forward, OneEnergy will focus on greenfield efforts there.

Mark Takahashi

Chief Executive Officer
– OneEnergy Limited

How did we do in 2007?

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.

Management of Existing Assets

The levels of utilisation and availability achieved in 2007 at those major power stations in which OneEnergy has invested were as follows

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Ho-Ping	1,297	**9,111**	7,276	**80**	64	**80***	68*	**7,025**	5,610
EGCO/Rayong (REGCO)	1,232	**4,031**	6,030	**37**	56	**92**	93	**3,272**	4,894
EGCO/Khanom (KEGCO)	824	**6,174**	5,527	**86**	77	**94**	81	**7,492**	6,708
EGCO/BLCP	1,434	**10,658**	**	**85**	**	**91**	**	**7,433**	**

* Guaranteed hours
** Under construction

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. Blade replacement will also be carried out on Unit 2 in 2008. This, together with the replacement work on Unit 1, which was completed in 2007, should mitigate the risk of further blade failures.

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.

EGCO's wholly-owned REGCO and KEGCO gas-fired power plant have continued to achieve high standards of availability and safety. The final steps of the sale of CLP's 50% interest in the 1,434MW coal-fired BLCP project to EGCO were completed in early 2007. With both units in operation in 2007, BLCP has contributed to lowering the average electricity generating costs in Thailand. The first 734MW combined-cycle gas turbine unit of the Kaeng Khoi 2 project, in which EGCO owns 50% through its investment in Gulf Electric Company, entered commercial operation in 2007. Completion of the second and last unit is scheduled for early 2008. EGCO also owns 25% of the 1,070MW Nam Theun 2 hydro project in Laos, which will sell the majority of its output to Electricity Generating Authority of Thailand (EGAT). Construction is on schedule for completion in 2009.

All of our operating assets in the region benefit from long-term PPAs with creditworthy off-takers as shown in the table below:

Station	Off-taker	Off-take Arrangement	Duration/Remaining
Ho-Ping	Taipower	PPA	25 years/19 years
EGCO/BLCP	EGAT	PPA	25 years/23 to 24 years
EGCO/REGCO	EGAT	PPA	20 years/6 years
EGCO/KEGCO	EGAT	PPA	15 and 20 years/3 to 8 years
EGCO/Kaeng Khoi 2	EGAT	PPA	25 years/24 to 25 years
EGCO/Nam Theun 2	EGAT	PPA	25 years/still under construction
EGCO/small power projects	EGAT and industrial customers	PPAs with EGAT and commercial contracts with industrial customers	21 and 25 years for EGAT PPAs/11 to 22 years
EGCO/Mindanao small power projects	National Power Corporation, Philippines	PPAs	18 years/7 to 8 years

Development Activities

In 2007, OneEnergy, through its local affiliates, participated in IPP solicitations in its incumbent markets of Taiwan and Thailand. In Taiwan, Ho-Ping Power Company submitted a bid in December 2007 for a potential 1,414MW expansion adjacent to its existing facility. Although the expansion was well positioned to succeed, none of the bids received met Taipower's own reserve price criteria. Given the reserve margin pressures in Taiwan, it is likely that Taipower will seek revised bids at a future date although the timing and evaluation criteria remain uncertain. In Thailand, EGCO's bids in response to the Thai government's solicitation for new generation capacity were not selected.

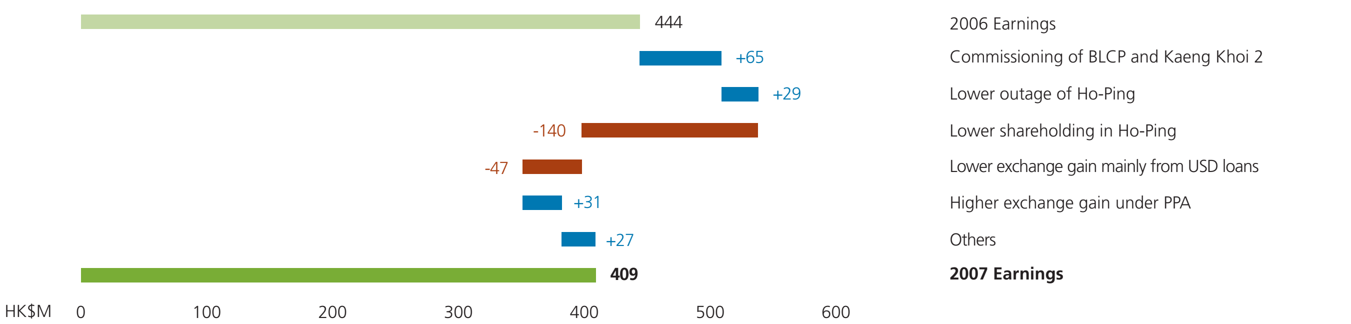
Establishing and Reinforcing its Local Presence

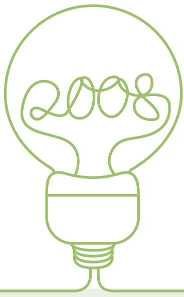
OneEnergy has established local representative offices in Indonesia and Vietnam to pursue various business and project development activities. In Vietnam, OneEnergy has formed a joint stock company with local partners to co-develop a project listed in Vietnam's National Power Development Master Plan. Development efforts are now focusing on proving the project's technical and commercial feasibility. In Indonesia, the state-owned utility PLN primarily focused on its fast track utility build programme to contract with various equipment suppliers for additional new coal-fired generation capacity during the year. As a result, anticipated new development opportunities for IPPs have been delayed. OneEnergy and its partners have focused on an inside-the-fence opportunity in West Java and have also pursued potential partnering opportunities in the geothermal sector.

Earnings

Earnings from OneEnergy in 2007 were HK$409 million, down from in 2006 by 8%. This was mainly due to CLP's net decrease in shareholding in Ho-Ping Power Company from 40% to 20%, partly offset by the full year operation of BLCP and the commissioning of Kaeng Khoi 2. 2007 saw a one-off gain of HK$1,030 million on the injection of Ho-Ping into OneEnergy, whilst gains of HK$343 million on the formation of OneEnergy and of HK$888 million on the sale of BLCP were realised in 2006.

Southeast Asia and Taiwan Earnings





What are we going to deliver in 2008 and beyond?

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 and replace the turbine blades on Unit 2, thereby removing the impact of bad weather on fuel supply and mitigating the risk of further turbine blade failure;
- Continue to support EGCO in the drive for operational excellence at its plant; and
- Strengthen the organisation to support the business.

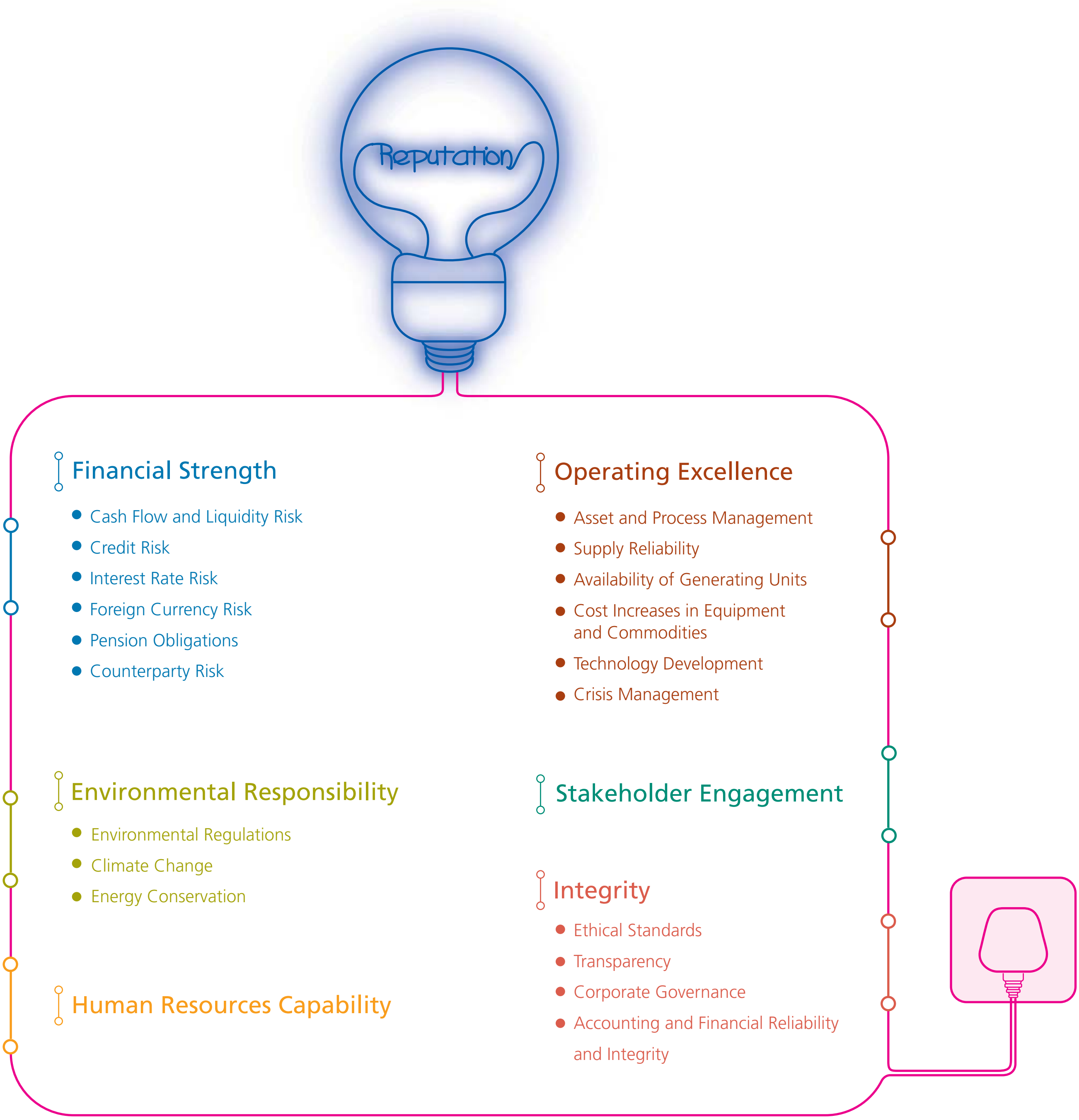
Our longer term objective remains unchanged. This is to establish OneEnergy as a premier regional power company with a significant presence in its target markets. The aim is to build a balanced portfolio with

- investments in both stable and emerging markets in the region;
- a mix of operating and construction assets and development projects;
- a balanced fuel mix consisting of both fossil-fuel generating and renewables; and
- the development of self-financing capability within the next five years.

Ho-Ping: Coal Dome C under construction

Risk Management

The purpose of risk management is to safeguard CLP's ability to meet its obligations to its stakeholders and to maintain their confidence that CLP can and will continue to meet those obligations in future. We believe that risk management defends our reputation. This is one of our most important corporate assets – one which takes years to build, but can be destroyed overnight. The following chart illustrates six major qualities which support CLP's reputation and identifies some of the major risks which could undermine these qualities, and with them, our overall corporate standing.



Financial Strength

Cash Flow and Liquidity Risk

The electricity business is highly capital-intensive. Returns are generated over a long term. CLP must guard against the risks arising from cash flow and liquidity problems.

We take care to ensure that the Group has adequate cash flow and access to funding sources from our established businesses to fund our working capital requirements, debt service payments, dividends to shareholders and potential new investments.

We manage risks to our cash flow and liquidity through prudent treasury policies and management:

- We monitor our cash and resources, including expected liquidity requirements and contingent liabilities (see chart on pages 32 and 33) that might call on those resources. We maintain a conservative capital reserve, emphasise that capital is expensive and prioritise competing claims on capital. We review our position regularly to ensure that cost-efficient funding is available for operating expenses, capital expenditure needs and for business expansion in Hong Kong and overseas;
- We maintain a mix of committed credit facilities with staggered maturities which allows us to reduce our refinancing risk in any year. We tap into the capital markets through established medium term note programmes put in place with the wholly-owned subsidiaries of CLP Power Hong Kong (CLP Power) and TRUenergy Holdings Pty Ltd. This allows us to diversify our funding sources, lengthen our average debt maturity and enhance the matching of long tenured capital investment. Charts showing our diversified funding sources and maturity profile are included in the "CLP and our Lenders" section at page 83;
- When the Group has surplus cash, we pay down our existing revolving loans to the extent possible. Deposits are only kept with creditworthy financial institutions or invested in safe, liquid interest-bearing instruments with good investment credit ratings consistent with our internal treasury policies and business needs;
- Dividends are repatriated back to CLP Holdings as soon as practicable unless underlying business needs dictate otherwise. To the extent that our subsidiaries and affiliates have significant cash reserves, we are actively involved in developing and monitoring appropriate cash management policies and strategies which incorporate the prudent CLP Group financial management philosophy; and
- We strive to maintain the credit ratings of the Company, CLP Power and TRUenergy at appropriate high investment grade levels (see chart on page 84) through careful control of our total debt to total capital ratios to support funding and investment as well as to provide financing flexibility for future growth and acquisitions.

Our prudent approach to cashflow and liquidity risk management protected CLP from undue financial stress following events such as the 1997 regional financial turmoil, the recent credit crunch arising from the sub-prime crisis in the United States and the possible bank lending "guidelines" in Mainland China, which reduced money market liquidity in various part of the region.

Further analysis on these and the other financial risks discussed in this section of the Annual Report, including their quantitative effects, are set out under "Financial Risk Management" in the Financial Statements at page 192.

Credit Risk

The Company, its subsidiaries and jointly controlled entities and associated companies enter into various forms of transactions including interest rate and foreign currency hedging, deposits, energy hedging and trading for risk mitigation and portfolio management. Our objective is to safeguard the Company and its entities against potential loss arising from non-performance by the counterparty.

We apply a number of prudent credit risk management policies which include

- all finance-related hedging transactions and deposits of the Company and its direct principal subsidiaries are made with counterparties with acceptable credit quality in conformance to Group Treasury policies. The credit quality is closely monitored over the life of the transaction;
- mark-to-market limits are assigned to each counterparty in order to limit credit risk concentrations relative to the underlying size and credit strength of each counterparty. The Group also regularly monitors potential exposures to each financial institution counterparty utilising value-at-risk methodologies;

- all derivative transactions are entered into at the sole credit of the respective subsidiaries and affiliates. The counterparties have no recourse (cash collateral, guarantee or other forms of security) to the Company for potential change in the market value of derivatives; and
- TRUenergy's energy-related hedging and trading are carried out with approved institutions or counterparties that have acceptable credit standing at defined limits in accordance with its risk management policies.

This year, financial institutions which have exposure in the U.S. sub-prime market and other difficulties, faced the downward revision of credit ratings and/or ratings outlook by credit rating agencies. The magnitude and pace of this volatility showed the importance of credit risk management through establishment and execution of credit risk policy, non-concentration of credit risk, ongoing monitoring and assessment.

Interest Rate Risk

Whether investing or borrowing, interest rate movements create both risks and opportunities that need to be duly managed. We aim to reduce interest rate volatility to an acceptable risk aversion level with reference to our business nature, in order to achieve higher levels of stability and predictability of earnings.

It is the Group's policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments and fixed rate borrowings that protect current and future corporate profitability from interest rate volatility.

At CLP Power, this is done through an annual review to determine a preferred fixed/floating interest rate mix appropriate for its business profile. In the Group's overseas investments, each project company develops its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, power purchase agreement structure, tax and accounting implications. The purpose of each programme is to produce a risk profile appropriate to the specific business, and consistent with the Group's strategic objectives.

Interest rate markets have witnessed inflation fears and sub-prime uncertainty in the United States at various periods in the year. Volatility of financial markets and fund flows of Hong Kong dollars mainly due to stock market activities caused HKD interest rates to swing more than 1.5%. The threat of more inflationary pressure due to commodity price increases, combined with the possibility of economic downturn caused by the U.S. sub-prime turmoil, has made interest risk management a bigger challenge.

At year-end 2007, the Group's fixed rate debt as a proportion of total debt was approximately 58% (57% for the Group and CAPCO combined). The sensitivity analysis of interest rate risk exposure in accordance with the new Hong Kong Financial Reporting Standard (HKFRS) 7 requirements is also in the Financial Statements on pages 194 and 195.

Foreign Currency Risk

Currency exposures exist when assets or liabilities such as cash, receivables, payables (including those related to electricity purchases), securities and project equity investments are denominated in foreign currencies different from the functional currency of the respective Group entity. The Group's major foreign currency exposures arise from investments outside Hong Kong and CLP Power's significant foreign currency obligations related to its U.S. dollar-denominated debt, nuclear power purchase off-take commitments and fuel-related payments.

We strive to reduce transactional foreign currency risk to minimise fluctuation of earnings and to avoid foreign currency mismatch in overseas investments by matching assets with borrowings in the same currency to the extent possible. At the same time, we recognise the Group operates regionally and is exposed to translational foreign currency risk which we will closely monitor and conduct periodic reviews using the value-at-risk approach. The Group identifies, evaluates and addresses foreign currency risks using a bottom-up approach in the following ways:

- Where appropriate and available on a cost-efficient basis, we finance our overseas project investments through the use of domestic funding sources. In addition, certain projects utilise direct and indirect indexing provisions in their project agreements to match the projects' foreign exchange costs. The objective of each project company is to be resilient to adverse movements in key currency exchange rates in order to continue to meet its debt service requirements and achieve an acceptable investment return. To achieve that, each project company develops its own hedging programme taking into consideration any indexing provision in project agreements, tariff reset mechanisms, lender requirements, tax and accounting implications;

- We do not hedge foreign currency translation gains and losses that are included in the equity section of the Group's balance sheet as a result of the conversion of project company financial statements into the Group's functional currency. Such translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. Our view is predicated on the resilience of the Group's total debt to total capital ratio against currency movements, the high cost associated with hedging the exposure, limited availability of effective hedging instruments and our long-term view on our investments and the underlying economic prospects of our target countries; and
- CLP Power's foreign exchange risk is mitigated through the current regulatory regime that allows for a pass-through of foreign exchange gains and losses. As a measure of additional prudence, CLP Power hedges all its U.S. dollar debt repayment obligations for the full tenor and a significant portion of its forward U.S. dollar obligations (nuclear off-take, coal, gas and oil purchases) for up to five years provided that the hedging can be accomplished at rates no worse than the Hong Kong Special Administrative Region Government's historical target peg rate of 7.80. The objective is to reduce the potential adverse impact of foreign currency movement on electricity tariffs in Hong Kong.

The credit tightening of most developed and developing countries outside the United States and equity market movements in the early part of 2007 promoted overall United States dollar weakness. The subsequent sub-prime turmoil and the lowering of discount and Fed Fund rates by the Federal Reserve caused increased volatility and further USD weakness in the currency market. In parallel, the HKD experienced a wider range of movement under the Linked Exchange Rate System with faster appreciation of RMB under the managed float regime and HKMA operation on the strong side after significant inflow of funds caused by stock market activities. These increases in the speed and magnitude of currency movements require greater attention by us to the management of foreign currency risk.

We present the sensitivity analysis relating to foreign currency risk exposure in accordance with HKFRS 7 under the heading "Financial Risk Management" in the Financial Statement at page 192.

Pension Obligations

Long-term financial exposure can arise from under-funded pension obligations owed to employees, particularly at times when stock market performance is poor and the levels of investment returns are low.

CLP has managed most of its exposure in this area by transferring in December 2000 all of its employees in Hong Kong (representing around 74% of the Group's total workforce) from defined benefit schemes (where the level of pension benefits is, in effect, guaranteed by CLP irrespective of the performance of the underlying investments) to a defined contribution scheme (where the contributions by employer and employee are defined, the investment decisions are made by the employees and the final level of benefits payable is determined by the actual performance of the underlying investments).

In Australia, approximately 23% of the current TRUenergy workforce (or around 4% of the Group's total workforce) are members of a defined benefit plan. At the end of 2007, the fair value of the plan assets exceeds the obligations owing to employees with a surplus amounting to A$11 million. Hence, we consider the Group's financial exposure to pension obligations is very low.

Counterparty Risk

A private sector power producer, such as CLP, often relies on a single, usually government-owned, contract counterparty for 100% of the revenues from any given generating plant. The risk is that this counterparty proves unable or unwilling to honour its payment obligations, leaving us with no alternative way to earn revenues from an immovable asset.

This is an inherent risk in our industry, particularly when operating in markets lacking political, economic or regulatory stability. We mitigate this risk in a number of ways:

- Pre-investment country risk analysis;
- Caution in entering contracts on terms which may appear initially to be highly favourable – thereby attracting the danger of subsequent unilateral amendment by the counterparty or regulatory clawback;
- Risk-sharing with local partners;
- Use of international or multilateral financing sources as a form of political risk insurance;

- Aiming to be a low cost electricity producer; and
- Building long-term relationships with regulatory authorities and governments – including through operating in a responsible way, such as with respect to environmental performance.

Operating Excellence

Asset and Process Management

The Group's assets are at risk of performance deterioration and physical damage if there are shortcomings in their design, construction, operation and maintenance.

CLP's physical asset management disciplines aim to optimise the cost, performance and risk exposures, associated with availability, efficiency, quality, life expectancy and regulatory safety and environmental compliance. CLP's asset management system received PAS 55 certification in 2007. This is a "publicly available specification" developed by the British Standards Institute for the optimal management of physical assets over their life cycles. This standard has been adopted by various asset-intensive industries worldwide. PAS 55 certification affirms that our asset management system is in line with the industry's global best practice.

A key tool for process management is our Operations Integrity Management System (OIMS), a framework for the structured, disciplined and proactive management of the risks to plant throughout the cycle from design to decommissioning. The framework includes 11 broad management principles and 64 more specific requirements. A process of Operations Integrity Assessment and Improvement assesses the degree to which the necessary requirements are met, in order to achieve operations integrity and maintain accountability at all levels. These assessments are conducted by multi-disciplinary teams, including expertise from outside the unit under scrutiny.

In recent years there have been incidents involving significant equipment damage and corresponding insurance claims. We have found that our insurance cover and terms vary significantly and in some cases have been influenced by the high premiums after 2001. We have conducted a review of insurance across the portfolio to determine where gaps may exist between desirable insurance practice and actual levels of cover and, as far as possible, to bring all policies to a consistent standard.

Supply Reliability

A major risk for an electricity company is the risk of blackout, frequent supply interruptions, or high unplanned outages and abnormal voltage deviations. Interconnection with Guangdong brings benefits but also risk to the CLP power system.

In the face of this risk, we

- implement appropriate load-shedding and tie-line decoupling schemes to minimise the impact of large disturbances in the South China Grid;
- closely monitor our equipment and conduct maintenance and refurbishment works to ensure satisfactory equipment conditions and system performance at all time;
- set high supply security standards and build a robust transmission and distribution network through continuous investment and prudent system improvement initiatives; and
- conduct comprehensive risk assessments to identify risks and mitigation measures.

Availability of Generating Units

In most areas of operation the greatest business risk is unplanned loss of availability in generating plant.

Power Purchase Agreements usually provide economic penalties against forced outages and in market environments there is a need to buy energy from the market to cover short positions against contract commitments. The key factors that have to be managed to achieve high availability are

- plant quality, which is determined by the original specifications, the surveillance of manufacture and installation, and the rectification of defects. We manage this risk by applying the accumulated experience from past projects and keeping up to date with industry developments. However, in a commercial environment it is often necessary to balance the highest engineering standards with the effect on cost;
- effective operation and maintenance of plant. This requires training and experience, and the application of good industry practice. The greatest risk is high turnover of experienced staff who are difficult to replace, as discussed below under human resource capability;
- early operation, which involves a risk of defects left behind from construction and designs that may involve unproven elements. The first two years of operation of a new plant require particular attention to these factors; and
- a growing tendency to continue operation of plant beyond its original design life when the effects of ageing start to emerge. We believe that it is possible to achieve extended operation and that the economics of doing so will often be compelling, but there is a need to manage the ageing risk by suitable capital expenditure and overhaul cycles that enable obsolete or unreliable components to be replaced.

Cost Increases in Equipment and Commodities

In recent years, the market trend in our industry has shifted from a buyers' market to a sellers' market. Equipment and commodity prices have risen due to global economic growth and a rebound from the trough of 2003. Poor management of soaring input prices would weaken our competitiveness and our financial position.

In response to this risk, we

- conduct comprehensive market analysis and research, and apply company-wide purchasing processes and appropriate procurement strategies so as to achieve the most favourable equipment price;
- diversify procurement sources and expand our supplier base to low cost regions so as to obtain the best value for money products;
- establish longer term relationships with suppliers to improve attractiveness and to reduce costs through joint value engineering;
- improve our system design and asset performance so as to optimise the asset value, thus minimising the long-term investment need; and
- take into account total life cycle cost and long-term system requirements in our investment decisions.

Technology Development

If CLP were to overlook key innovations in technology and its application, we could be at risk of declining competitiveness.

Technology innovation is an important component of our Climate Vision 2050. We also rely on new technology to help us keep pace with rising expectations of customers for reliable, affordable and environmentally responsible power. We will continue to play a role in helping to bring new low-emission plant, as well as other technologies, to our service areas.

There is a growing emphasis on high environmental performance and reduced carbon intensity in fossil-fired generating plant. These objectives can only be achieved by technological advance, which gradually takes us beyond traditionally proven practice in the power industry. The challenge is to stay close to the forefront of technological development, whilst managing the prototype risks that are involved. We foresee that future coal-fired plant will initially require the use of higher steam temperatures and pressures to obtain some modest improvement in efficiency, but with the risk and cost of more advanced materials.

Eventually, clean coal technology is likely to involve capturing carbon dioxide emissions and storing them permanently in stable underground geological formations. This technology has yet to be demonstrated on a commercial scale. Uptake of this technology would also require national and international policies to address the added cost for carbon capture and storage. Managing the transition to clean coal technology will, over the coming decade, be one of the most severe challenges CLP and the power industry as a whole has ever faced.

Crisis Management

No business, including that of CLP, is ever free from the risk of a major crisis. Our reputation could be damaged both by the occurrence of the crisis in itself and by the quality of our response.

Crisis Management and Communications Plans have been developed at both the Group and operational level. Crisis scenarios are used in regular drills which are undertaken to test the readiness of our systems and communications and ensure we are able to address potential crises. In November 2007, TRUenergy initiated its crisis response team to deal with mine wall subsidence and the flow of water from the Latrobe River flowing into the Yallourn open cut coal mine in the Latrobe Valley. Through an urgent and extensive emergency response effort, alternate coal supplies were provided to allow the Yallourn Power Station to continue operations at reduced capacity. Close coordination and collaboration with state and local authorities allowed a river diversion to be completed within a week to stem the flow of water into the mine. Public confidence was maintained in the integrity of the power supply through effective communication coordination.

In Hong Kong, drills include different forms of simulated emergency scenarios such as tower rescue operations, chemical spillage, typhoons, fire fighting and evacuation, and power outage incidents. In one of the major operating units – Power Systems, over 160 such drills involving 2,600 participants were conducted in 2007.

Mr. Joseph Jacobelli

Senior Director
Head of AsiaPac Utilities &
Energy Technology Research
Equity Research
Merrill Lynch (Asia Pacific) Limited

The price of key electric power generation fuels, including thermal coal, natural gas and heavy oil, in the Asia-Pacific Region has risen tremendously in the past two years if not longer. How are the different CLP operations in the region impacted by the rise in fuel costs?

We have indeed seen unprecedented rises in the prices of coal and natural gas, and also the associated transportation. Fuel supply is by far the highest cost in power generation and it is inevitable that these increases must somehow be reflected in the price we sell electrical energy to our purchasers and end users. Bear in mind that, in many cases, we purchase fuel from international markets and we have little control over the prices.

Normally we enter long-term power purchase agreements to sell the electrical energy from each of our power plant. The terms of these agreements vary from one market to another but, typically, there are two main elements. One reflects the capital costs we have invested to build the plant and the other reflects the operating cost. Fuel is the main operating cost and there is usually a way to enable adjustments to be made to the electricity price according to changes in fuel price. Obviously we would like these adjustments to be automatic and immediate, and to reflect the full impact of changes in fuel price. In practice, however, this may not always be the case. Sometimes there is a delay in the fuel price adjustment and sometimes the adjustment is not automatic but is subject to decisions by government authorities.

When fuel prices rise sharply, the risks to a power company associated with adjusting electricity prices can be significant. Looking across our portfolio, the uncertainty in fuel cost adjustment is higher in China than in Southeast Asia countries. The situation is quite different in Australia, where we sell into a competitive market for electricity without any long-term agreements. Here we are free to determine our price but, if we set it too high, we may not sell our output.

Peter Littlewood

Group Director – Operations

Environmental Responsibility

Environmental Regulations

CLP can be impacted by environmental regulations, especially with regard to emissions from its generating plant. If not managed effectively, this risk may render the operation of existing plant uneconomic or, in the worst case, impractical.

Environmental regulations help to establish a level playing field, where all are held to the same standard of environmental performance. As understanding of environmental impacts improves, new regulations are implemented to manage emerging risks. CLP expects, and indeed advocates, sensible new policies regarding greenhouse gas emissions. At the same time, we must anticipate how and when regulations may change, to ensure that our business strategies are robust.

CLP's Climate Vision 2050 steps ahead of the pace of regulation of greenhouse gas emissions in our service area. By reducing our emissions intensity ahead of regulation, we aim to be more competitive in the long term. No one can predict how permits and/or carbon costs will be allocated, and how this will affect the competitiveness of one company against another. Therefore, emission reduction is a risk management strategy that is robust against many possible regulatory scenarios. It will also be important that CLP receive credit for our early action – a principle advocated by many environmental groups.

CLP conducts regular assessments of the emerging regulatory trends and scenarios in each country where we do business. Independent expert review advises us on the likelihood and possible timing of regulations that are still under debate today. CLP's business plans and strategies help assure that our long-term investments are aligned with long-term regulatory goals.

Climate Change

Climate change can have a direct impact on our business facilities through phenomena such as drought, severe storms, flooding and rising sea levels. It can also have an indirect impact in terms of governments' regulatory response to increasing levels of greenhouse gas emissions, as well as through changing patterns of energy consumption as weather and associated activities change over time.

CLP's primary response to mitigate the risk of climate change is to work towards our targets for deep cuts in the greenhouse gas emissions intensity of our entire generation portfolio in line with our Climate Vision 2050. Our targets are tied to a global scenario for emissions stabilisation and reduction with a peak CO_2 concentration of less than 550 ppm. If others do the same, then the extent of climate change could be limited to a range of 2 to 3 degrees Celsius, giving people and ecosystems a better chance to adapt.

While CLP and others are working to limit the extent of climate change, we know that a certain amount of change is already underway. CLP must be prepared to adapt to higher temperatures, rising sea levels, more frequent storms, heat waves, drought and floods. Heavily populated river delta areas such as the Pearl River Delta will be particularly vulnerable to flooding as the global climate warms.

As climate will also affect our key stakeholders, we are also preparing to adapt to the indirect consequences of climate change such as changes in electricity usage or customer demand for low emission energy products.

Energy Conservation

Energy conservation, including as a result of government policies promoting higher efficiency in energy use and penalising wastage, may reduce the demand for electricity and revenues from electricity sales.

The role of electric utilities in promoting energy savings has long been debated. Over the years, a wide variety of policies have been tested in many jurisdictions, both through and independent of the electric utilities, with varying degrees of success. The climate change issue has renewed interest in promotion of energy conservation and savings through efficiency gains.

Energy savings conserve resources for the future, and reduce sales of energy. Nearly every energy company faces potential for loss of revenue through energy saving measures. Yet even the most optimistic scenarios in terms of energy savings predict continued growth in the use of electric power – in part because electricity has such a high potential for de-carbonisation.

As new policies are implemented, and prices of energy rise, customers will save energy – the more the better. CLP offers an extensive programme of public education as well as commercial and engineering services for energy efficiency. CLP must deliver value, and part of that value must lie in the effective and efficient use of the product we provide. To the extent that we can help customers reduce their consumption and carbon footprints, we will be providing better value to them. It therefore makes sense for CLP – and policy makers – to align our business interests with the long-term goal of conserving energy resources. CLP continues to assess new opportunities to turn energy savings and emission reductions into value for both our customers and our business.

Stakeholder Engagement

Our ability and entitlement to provide an essential public service, electricity, to the communities in which we operate requires us to earn and maintain those communities' trust. If we lose that trust, in effect our "franchise from society", we lose the opportunity to serve.

We manage this risk in many ways, such as by maintaining high standards of operating excellence and reliability, transparency and disclosure of information, effective crisis management response and taking a leading role in environmental stewardship. These efforts are addressed elsewhere in this "Risk Management" section and, for that matter, form a constant and underlying theme to this Annual Report.

But we must support the actual steps we take to run our business responsibly by working with the stakeholders in that business.

Engaging stakeholders substantively to provide timely and open communications and to take into account public views on our infrastructure development projects, as well as to engage in public policy debates on matters of public interest, is fundamental to CLP. We provide regular briefings, media releases, and other types of communications for our stakeholders, including our shareholders, customers, employees, suppliers, the financial community, other businesses, government, the public and the media. For example

- in 2007 CLP held more than 60 stakeholder meetings, briefings, and a variety of forums and speaking engagement activities with a wide spectrum of stakeholders, including green groups and non-governmental organisations, on climate change, renewable energy and our proposed LNG terminal in Hong Kong;
- with strong community interest in renewable energy developments, CLP has undertaken a programme of site visits to ensure stakeholders have a better understanding of projects and CLP's commitment to renewable energy initiatives;
- TRUenergy maintains regular contact and discussion with key stakeholders. Local communities are engaged through initiatives such as the TRUenergy Gas Storage environmental review committee and Gas Facility Forum. At Tallawarra, TRUenergy hosted public and community liaison group meetings to provide comprehensive information on proposed development plans for Tallawarra Lands. Community feedback will now be incorporated into the development of the site Masterplan, which will be released for public review during the first half of 2008; and
- in Thailand, BLCP manages an ongoing community relations programme that includes community site visits, opinion surveys of local communities and community activities. In addition, it has held 27 Environmental Impact Assessment Monitoring Committee and 25 Tripartite Committee meetings since 2005. The committees involve representatives from local communities, government agencies, and BLCP.

The importance that CLP attaches to establishing strong and mutually beneficial relationship with its stakeholders is illustrated by the "How Do We Engage Our Stakeholders?" section of the Annual Report at page 75.

Human Resources Capability

In common with other utilities, CLP faces the challenges associated with an ageing workforce and accelerating retirement. These may lead to a loss of technical expertise. In addition, competitive recruitment markets impact on our ability to attract and retain the pool of talent needed to meet operational needs, and to provide the future leadership and general management strength for our business.

In response to these risks, CLP

- carries out 5-year manpower planning for critical engineering skills in Hong Kong;
- monitors, at Board and senior management level, our succession planning coverage and the progress made in identifying and developing colleagues with high potential;
- exposes our talents to different business environments so as to widen career horizon;
- uses the potential of our full portfolio to create opportunities to develop staff more effectively than within any one single asset;
- ensures adequate resources are available to support the development of technical and professional staff;
- establishes knowledge management platforms to facilitate the sharing of technical and managerial knowledge across the business;
- recruits trainees and apprentices and provides them with structured training and development programmes; and
- ensures remuneration is competitive in the markets in which we compete for talent, to enable us to attract and retain staff.

Integrity

Ethical Standards

Ethical failures erode stakeholder confidence. In the worst scenario, major ethical failures can destroy a company almost overnight.

Although no company can ever be free from the shadow of individual misdeeds, CLP maintains a systematic focus on proper ethical standards throughout its business. This is clearly expressed in our Value Framework which sets out the principles and ethics which cover all aspects of our operations. It also includes our Code of Conduct which places all employees, officers and directors under specific obligations as to the standards of integrity and behaviour CLP requires. All staff receive training on the Code of Conduct and regular reminders of its importance as a reference point for individual and corporate business standards.

Transparency

CLP's reputation for honesty would be undermined if there were shortcomings in either the scope or quality of the information we provide about our business.

CLP provides high disclosure of information and is publicly accountable for its overall performance. The Group discloses its performance through the annual general meeting, financial results announcements and briefings, annual and interim reports. Our internet strategy has led to an extension of the amount of information made available publicly. This year, the online version of CLP's latest Sustainability Report provides up-to-date, detailed and easily accessible information on the Group's commitment towards sustainable development.

Corporate Governance

Over time, poor corporate governance can affect business performance. It undermines proper and effective decision making and can reduce, or even frustrate, the delivery of value from a company's business to its shareholders and other stakeholders.

CLP's Code on Corporate Governance and the Corporate Governance Report at page 103 of this Annual Report explain the systems, checks and balances we implement to ensure that the Company's affairs are properly directed and controlled.

We do not see corporate governance as an end in itself or only as a means to manage downside risk. We believe corporate governance can play a positive role in contributing to the delivery of value by promoting the taking of the right business decisions, at the right time, by the right people within the Company, possessing the right information and acting free of any improper influences.

Accounting and Financial Reliability and Integrity

Improper financial reporting and accounting can lead to a significant loss of market confidence that can impact access to funding and underlying company valuations.

We do everything reasonably possible to provide accurate and reliable financial information and accounts to our Board and, through the Board, to our shareholders and other stakeholders.

Although all management and staff play their part in enabling proper financial and accounting disciplines are maintained, the work of our Internal Auditors, External Auditors and of the Audit Committee is especially important. The work of the Internal and External Auditors is set out in the Corporate Governance Report at page 103. In recognition of the importance of the Audit Committee, this Annual Report includes, for the first time, a separate Audit Committee Report at page 118.

Mr. Joseph Jacobelli

Senior Director
Head of AsiaPac Utilities &
Energy Technology Research
Equity Research
Merrill Lynch (Asia Pacific) Limited

CLP Holdings' overseas assets are in highly different operating environments. From an investment risk profile point of view, how are projects targeted? Does CLP adopt a "portfolio management approach"?

Each of our investments is evaluated on its own merit, but a very important part of this is to consider how an investment would fit in with the broader CLP strategic objectives. And while we do not have fixed or predetermined quotas for allocation of capital to different markets in Asia Pacific, we feel that having a broad footprint across the electricity sector in the Asia-Pacific Region yields advantages that extend beyond purely risk mitigation through portfolio diversification.

For one, it puts us in a better position to make comparisons between investment opportunities for different business models and in different markets; this in turn helps us focus our investments on opportunities that have the best return-risk profile. Secondly, being able to leverage experience and expertise gained in one market by applying it to another market does have the potential to give us a competitive advantage. For instance, the relationships that we have built in China when working and contracting with Mainland equipment manufacturers and operating Chinese power generation equipment make it easier for us to pursue strategies in, for example India and SE Asia based on Chinese equipment sourcing and construction which often is very cost competitive. Similarly, the experience we have gained in Australia on how to manage merchant risk and operate in a highly competitive electricity retail market puts us in a good position as countries in SE Asia now are developing electricity markets where those skills will be critical.

Stefan Robertsson

Group Director
– Corporate Finance and Development

HOW DO WE ENGAGE OUR STAKEHOLDERS?

Values

China Light and Power, today's CLP, can trace its roots back to 1898 and the founding of the Canton Electric and Fire Extinguishing Company, which was acquired by the newly formed China Light and Power Syndicate in June 1900. At the first Statutory Meeting on 13 April 1901, the then Chairman noted that CLP would be kept busy for some time in responding to the new demand for electricity. We have now been kept busy for over 100 years.

To build on the success of CLP's first century, we must have a strong belief in where we are going – a vision of what we want to be. We must also have a firm understanding of how achieving that vision would benefit people, not just our own colleagues, but our shareholders and everyone who has a stake in what we do. Only with such a mission will we secure the support of those around us to grow and sustain our business.

The vision we hold is underpinned by a broad set of values towards our stakeholders and key aspects of our operations. These ensure that we behave in a way that is consistent with our mission.

"From Vision to Reality" a value framework drawn up in 2002, sets out our vision, mission, strategy, values, commitments and policies. It is available on our website, allowing all those who have an interest in how CLP conducts its business to be aware of the standards we apply and to form their own judgement on those standards and whether we are living up to them in practice. Our value framework guides us in the way we tackle issues of ethics and principles, which must be addressed by any major enterprise, such as the nature of our duties as a good corporate citizen, employer and the supplier of an essential public service to our customers.

The value framework also influences the breadth, depth and honesty of our communications to stakeholders, such as this Annual Report and our Sustainability Report.

In this section of the Annual Report, we describe the manner in which we discharge our responsibilities to some of the key stakeholders in our business, all in line with our value framework.

CLP and our Shareholders

Valuing their trust, delivering value.

In this section, we describe our performance in meeting the commitment in our value framework to make a continuous effort to maintain long-term stability and growth in shareholder value and return on investment. The value we deliver to our shareholders comes in two forms: share price appreciation and dividends. Together these constitute the total returns enjoyed by CLP's shareholders.

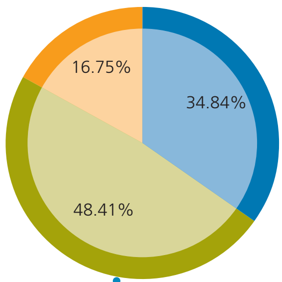
Our Shareholders

Our responsibilities are owed to our 20,113 registered shareholders (as at 31 December 2007). We believe that the actual number of investors in CLP shares is likely to be considerably greater, due to ownership of shares being held through nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong.

Shareholdings as at 31 December 2007

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
500 or below	1,858	9.24	501,033	0.02
501 – 1,000	3,425	17.03	2,530,205	0.11
1,001 – 10,000	9,636	47.91	40,945,307	1.70
10,001 – 100,000	4,603	22.88	132,645,822	5.51
100,001 – 500,000	480	2.39	94,761,491	3.93
Above 500,000	111 (1)	0.55	2,136,862,042	88.73
Total	**20,113**	**100.00**	**2,408,245,900** (2)	**100.00**

Shareholding by Category



Notes:
(1) Information on the ten largest registered shareholders in the Company is set out on our website.
(2) 47.54% of all our issued shares were held through CCASS.

As at 31 December 2007, the market capitalisation of CLP Holdings was HK$128.239 billion, ranking us as the 31st largest company out of the 1,048 issuers listed on the Main Board of the Hong Kong Stock Exchange. The Company's shares are a constituent of the Hang Seng Index (HSI) – the index of Hong Kong's leading listed companies, representing 1.526% by weighting of that Index. CLP is also part of the Hang Seng Utilities Index (HSUI) along with Hongkong Electric Holdings and Hong Kong and China Gas, representing 39.21% by weighting of that Index.

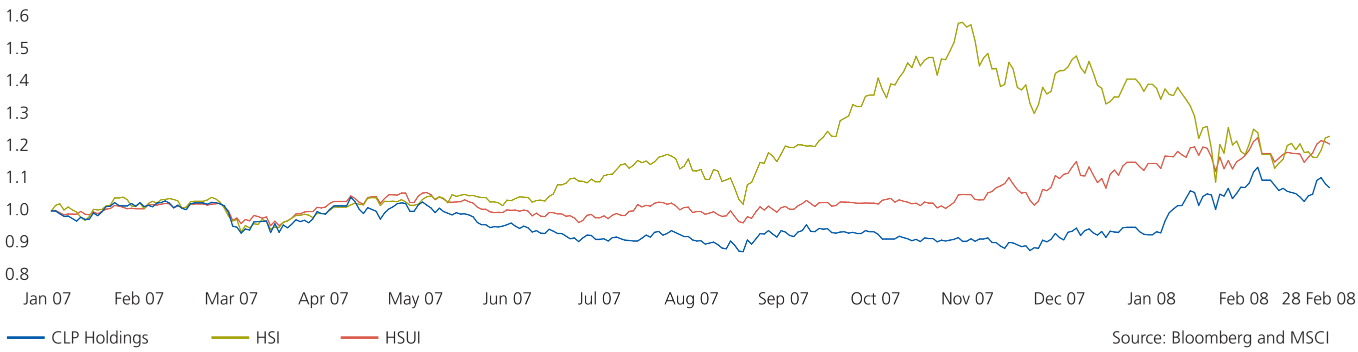
From publicly available information and as far as our Directors are aware, CLP Holdings has maintained a sufficient public float of the share capital in Hong Kong stock market throughout the financial year ended 31 December 2007 and has continued to maintain such a float as at 28 February 2008 (the latest practical date prior to the issue of this Annual Report).

Creation of Shareholder Value – Share Price Performance

In 2007, CLP shares closely tracked the HSI during the first quarter, but diverged as the Hong Kong equities market experienced a bull run in the latter part of the year. CLP shares closed at a then historic high of HK$59.95 and traded at an intra-day high of HK$60.00 on 10 April 2007, but closed down 7.4% for the whole year. The average closing share price was HK$54.62, and the lowest closing price of HK$50.25 was recorded on 17 August 2007. The HSI gained a total of 39.3% during 2007.

At the beginning of 2008 (up to 28 February, the date of this Report) the HSI fell by 11.6%, whilst CLP shares rose by 15.8%. CLP shares closed at a record high of HK$65.30 on 5 February, after reaching a record intra-day high of HK$67.00 earlier that day. This share performance reflects the defensive nature of CLP's shares during a market downturn and market reaction to the regulatory clarity for our Hong Kong electricity business, following the announcement of the outcome of the SoC negotiations.

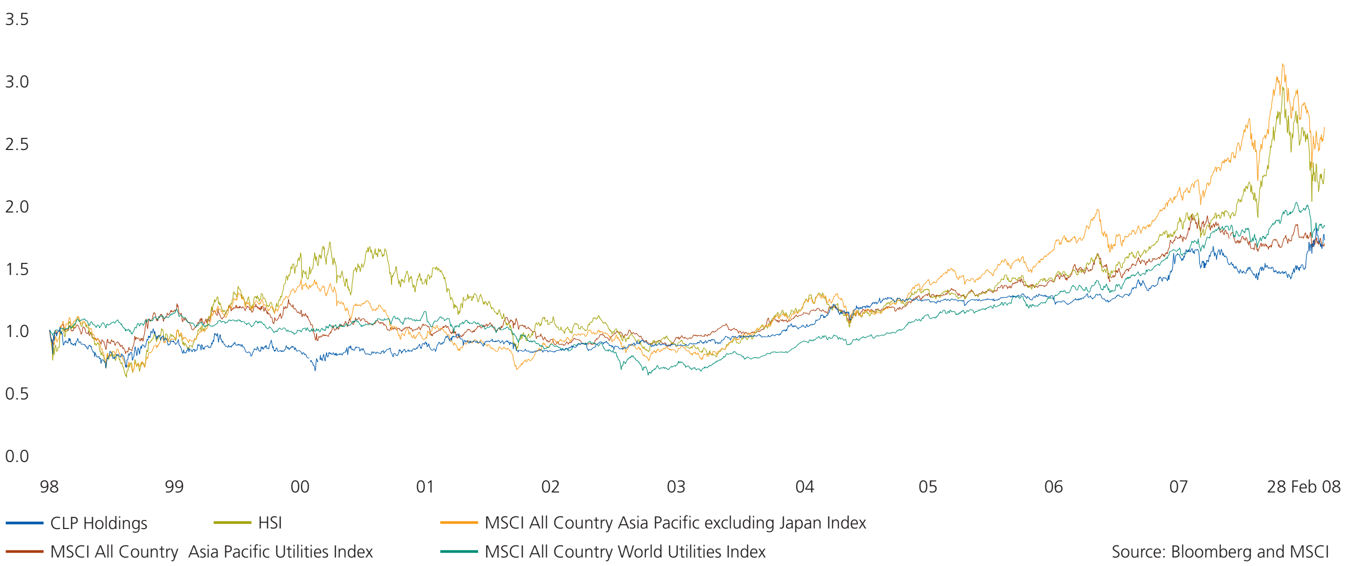
Relative Performance – CLP vs Local Benchmark Indices (1 Jan 2007 – 28 Feb 2008) (Base: 31 December 2006 = 1.0)



Source: Bloomberg and MSCI

Over the past 10 years CLP shares have enjoyed a relatively stable price appreciation. Some investors will predominantly measure CLP's share price performance against other Hong Kong or regional stocks, reflecting the geographical spread of our activities. Others will look at our performance relative to other utility companies, whether in our region or beyond. On this basis, CLP's share price performance has compared satisfactorily with both regional and worldwide benchmark utilities indices.

Relative Performance – CLP vs Benchmark Indices (1 Jan 1998 – 28 Feb 2008) (Base: 31 December 1997 = 1.0)



Source: Bloomberg and MSCI

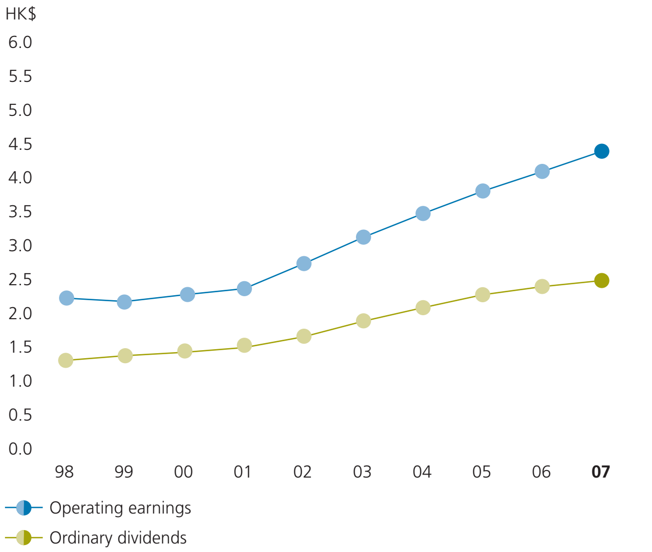
Creation of Shareholder Value – Dividends

CLP's longstanding policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. The following two charts explain how steady increases in earnings have been translated into corresponding growth in the ordinary dividends paid to our shareholders.

Earnings and Dividends (1998-2007)

Note: Earnings for 2002 to 2005 have been restated for the effect of the adoption of HKFRS-Int 4.

Earnings and Dividends Per Share (1998-2007)



Note: Earnings for 2002 to 2005 have been restated for the effect of the adoption of HKFRS-Int 4.

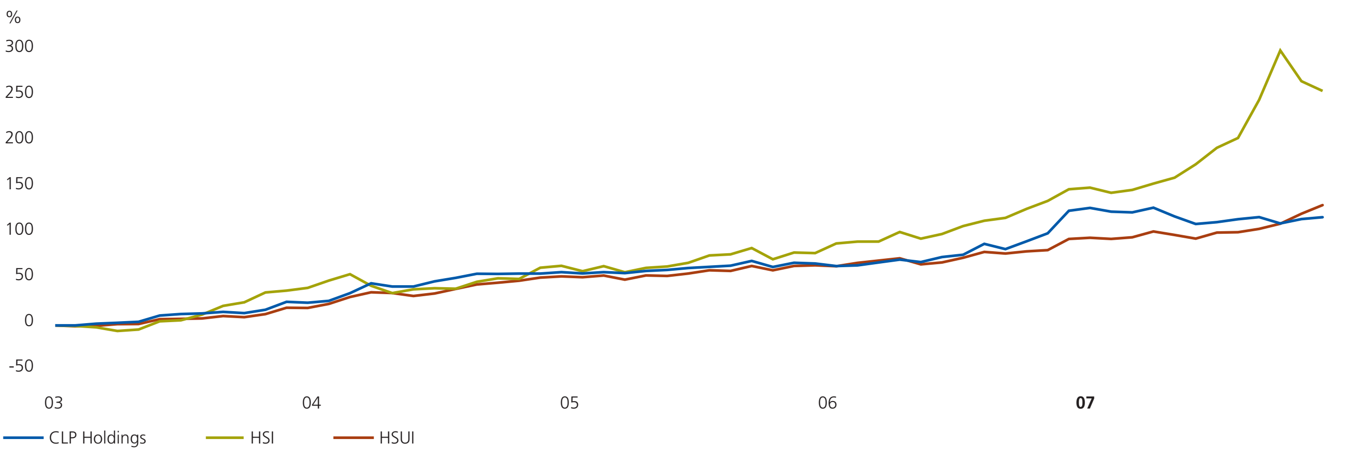
Since 1997, CLP's ordinary dividend payouts have been between 56% and 63% of total operating earnings. Earnings from the property development at Hok Un and other property disposals have generally been paid out as special dividends.

In line with our ongoing dividend policy, the Board has recommended a final ordinary dividend payable on 30 April 2008 of HK$0.92 per share. Together with three interim dividends per share of HK$0.52 each paid during 2007, the total ordinary dividend amounts to HK$2.48 per share. The Board expects that three interim dividends will be payable during 2008.

Creation of Shareholder Value – Total Returns

Over the past five years, CLP provided a stable growth in total returns when compared with both the HSI and the HSUI. CLP provided an annualised rate of return of 22.90%, versus 50.56% and 25.55% for the HSI and the HSUI respectively.

Total Returns – CLP vs HSI and HSUI (2003-2007) (Base: 31 December 2002 = 0%)



Note: This chart is not taken back 10 years because of significant changes in the composition of the HSUI prior to 2001.

Source: Bloomberg

Our shareholders have a wide choice as to the manner in which they invest their funds. The following table gives shareholders a practical explanation of the returns from a regular investment in CLP shares, as compared to some of the other investments they might have made. In choosing these comparable investments, we have borne in mind that the overwhelming majority of our shareholders have a Hong Kong presence of some sort (97.63% have their registered address in Hong Kong). We have assumed that, in every year during periods of 1, 5 and 10 years prior to 31 December 2007, an investor puts HK$1,000 into each of the investments. We have then compared the total worth of these investments (including bonus shares and with dividends or interest reinvested) at the end of the respective periods.

	Total Investment Worth at 31 December 2007		
Type of Investment	1-Year Period HK$	5-Year Period HK$	10-Year Period HK$
CLP Shares	969	7,586	20,474
Hongkong Electric Shares	1,233	7,808	20,794
Hong Kong and China Gas Shares	1,530	10,274	30,070
HSI-Based Fund	1,429	11,555	*
HK$ 1-Year Fixed Deposits	1,040	5,438	12,033

* Inception date of the HSI-Based Fund: 12 November 1999

Adapted from Bloomberg/Reuters

Ms. Leung Oi Sang, Anna

Shareholder

With a lower permitted return from the SoC business, the earnings from overseas businesses could proportionally rise in the next few years. How would that change the risk management and dividend payout policy for CLP?

The reduction in permitted return in the post 2008 Scheme of Control will result in a decrease in the proportion of earnings from our domestic business and an increase in the proportion of earnings from overseas investments. This was an anticipated outcome of the expansion in CLP's overseas asset portfolio over the past decades.

A reduction in Scheme of Control permitted return alone will not change the adoption of prudent financial risk management by the Group. It is CLP's practice to mitigate financial risks through the use of appropriate hedging instruments at commercially viable terms to protect current and future corporate and project profitability and cashflow arising from financial market volatility. Our objective is to produce a risk profile that is appropriate to the business, and consistent with the Company's strategic objectives. All of our major subsidiaries and jointly-controlled entities in Hong Kong and overseas are now observing such requirement. We shall continue to apply this prudent financial risk management philosophy to the new project companies.

In parallel with the increase in overseas investments, we have also adopted more advanced techniques to evaluate and report business risks on a portfolio basis using Value-at-Risk (VaR) and enterprise risk management approaches for certain businesses, so that the associated risks are properly monitored.

We intend to maintain a stable and transparent dividend payout policy for the Group which will link to the underlying earnings performance of our business and balance off the interests of various stakeholders. CLP will endeavour to maximise dividend distributions (both timing and amount) from the project companies without violating any contractual or regulatory obligations and after taking into account domestic funding requirements and tax consequences. CLP Holdings will follow the long-established policy to distribute a certain percentage of ordinary income to shareholders, whilst retaining the balance for future business expansion. Our ordinary dividends will be supplemented by special dividends from extraordinary income.

Peter P. W. Tse

Group Executive Director & Chief Financial Officer

Shareholder Value – Other Issues

From our interaction with shareholders, we are aware of three further issues which can bear upon the creation of shareholder value. These are scrip dividends, the issue of new shares and the repurchase of existing shares.

The Board has reviewed the possibility of providing a scrip dividend option to our shareholders. Our review confirmed that a scrip dividend option is uncommon in Hong Kong and that the take-up rate by shareholders of the scrip option, as opposed to receiving dividends in cash, is extremely low. It is not presently envisaged to offer a scrip dividend option to CLP's shareholders.

The Board has been conscious of market concern that the issue of substantial volumes of new shares, including at a discount, may lead to material and unfair dilution of minority interests. In response

- the Company has given an express commitment to use the mandate sparingly (it was most recently exercised in 1997) and with consideration for the interest of all our shareholders; and
- with effect from the 2005 AGM, the resolution put to shareholders limits the general mandate to not more than 5% of the aggregate nominal value of the issued share capital of the Company as at the date of each AGM.

In the past, the Company has undertaken share repurchases to optimise our capital structure and enhance earnings per share, as and when appropriate, having regard to:

- the Company's cash position and distributable reserves;
- alternative uses of funds including, for example, dividends or allocation to new investments; and
- the Company's share price.

All repurchased shares are de-listed and cancelled pursuant to the Companies Ordinance and the Listing Rules. We have previously drawn shareholders' attention to the fact that, should the Company repurchase about a further 11 million shares (representing 0.46% of our issued share capital) the shareholdings in CLP of the parties associated with the Kadoorie Family would thereby exceed 35%, the threshold at which they would be obliged to make a general offer for the remaining shares of the Company. Having consulted the Independent Non-executive Directors, we considered that it was in the interest of the Company and all its shareholders that the Company be able to continue on-market share repurchases without creating a mandatory general offer obligation, or compelling the parties associated with the Kadoorie Family to sell down in anticipation of future share repurchases. We were unsuccessful in an application in 2003 to the Securities and Futures Commission (SFC) and to the Takeovers and Mergers Panel for a ruling that the Takeovers and Mergers Code does not preclude a whitewash waiver application in respect of the mandatory general offer obligation triggered by on-market share repurchases. We were also unsuccessful in a submission made to the SFC in November 2004 arguing in favour of the possibility of such waivers (which are established practice in countries against which Hong Kong might benchmark itself, such as Australia, the U.K. and Singapore).

Share repurchases are but one route by which shareholders' value can be enhanced. We will bear in mind other means which would enable share repurchases to be effected. For the time being, we have no specific plans with respect to share repurchases (none of which has been made since January 2002).

Sarbanes-Oxley Act

As a result of the issue by CLP Power Hong Kong in 1996 of debt securities to the public in the U.S. in the form of "Yankee Bonds" (which matured in 2006) and the trading in the U.S. of CLP shares through American Depositary Receipts (ADRs), CLP has had securities registered under the U.S. Securities Exchange Act. Even though the "Yankee Bonds" were redeemed in 2006, CLP remained subject to the U.S. Sarbanes-Oxley Act of 2002, a package of wide-ranging and detailed obligations on corporate practices and reporting, enacted in response to U.S. corporate scandals such as Enron.

As at 31 December 2007, only 1.75% of CLP shares were held in the form of ADRs. The small number of our U.S. resident security holders gave rise to disproportionate U.S. securities law obligations – in terms of cost, liability and the workload of compliance. In past Annual Reports, we have advised shareholders of our intention to deregister, as and when the opportunity arose.

In March 2007, the U.S. Securities and Exchange Commission (SEC) adopted rules which made it easier for foreign issuers to deregister and terminate their SEC reporting obligation. CLP met the deregistration criteria in October 2007. We initiated the relevant deregistration procedures on 31 October 2007, with the result that deregistration became effective on 30 January 2008.

CLP's action to deregister and to no longer be subject to the Sarbanes-Oxley Act does not imply any weakening in our internal control disciplines or in our commitment to timely, honest and accurate financial reporting to our shareholders. Our aim is to maintain compliance with the substance of the Sarbanes-Oxley Act's requirements without being bound by the form.

Communication with Shareholders

We report properly to shareholders on the performance of their Company, and ensure they have opportunities to offer their views on that performance. Communication with our Shareholders is a two-way street. In 2007, this involved:

Providing information

to our shareholders through means such as

- Our Annual Report, Sustainability Report and Quarterly Statements – all of which provide information far in excess of legal and regulatory requirements.
- Our AGM, attended by Directors and Senior Managers. In the past 5 years, the attendance of shareholders at our AGMs has averaged about 436 (696 in 2007). This is an unusually high number for a Hong Kong company, including by comparison with other companies with a much higher number of registered shareholders.
- During the year, management attended over 170 investor meetings, including participation in 3 investor conferences, and 8 non-deal roadshows to the U.K., Singapore, U.S. and Japan.
- Briefings to analysts on the Company's interim and annual results. These are broadcast on our website.
- The CLP website, which includes information on the Company's corporate governance principles and practices, updates on the Group's affairs and other information for shareholders.

Encouraging feedback

from our shareholders through means such as

- Face to face dialogue, including the "Shareholders' Corner" at our AGM.
- Feedback forms sent out with our Annual Report to obtain shareholders' views on the Report and on additional information that they would like to receive in the following year's Annual Report, together with questions that they would like to have answered in the "Frequently Asked Questions" section of our website. We consider the feedback received and post answers on the website. We also send direct replies to shareholders in response to the specific questions that they raise.
- The comments, queries and reports from market analysts.
- Shareholders' hotline and e-mail contacts.
- Shareholder correspondence – our aim is to provide a substantive reply within 7 days to written shareholder queries. If those queries raise a matter of more general interest to shareholders, we take this into account and seek to address this in subsequent corporate communications to all our shareholders.
- Shareholders' visits to our facilities. Our Shareholders' Visit Programme initiated in 2003 has been a notable success. Between October 2007 and April 2008 we expect to welcome 3,200 shareholders and their guests, during 71 tours to our facilities at Castle Peak Power Station. On these occasions, we seek views on the performance of CLP. More than 50 CLP colleagues, including Directors have volunteered to participate as hosts of the programme.

We are grateful to all those shareholders who during 2007 provided us with feedback, including through the feedback form sent out with our last Annual Report and through the views we receive during the course of our extensive Shareholders' Visit Programme. In the preparation of this Annual Report and the Sustainability Report, we have aimed to address those issues on which shareholders have expressed particular interest or concern. The choice of the "Questions and Answers" in this Report also reflects the issues which have been raised most frequently with us in the past year. If any shareholder has questions or comments on what we are doing on his or her behalf, please contact us (the contact addresses are on page 206). We promise to provide answers (and post these on our website if we think these will be of wider interest to shareholders and other stakeholders). In the case of comments, we will take your views into account and act upon them if this will improve our performance.

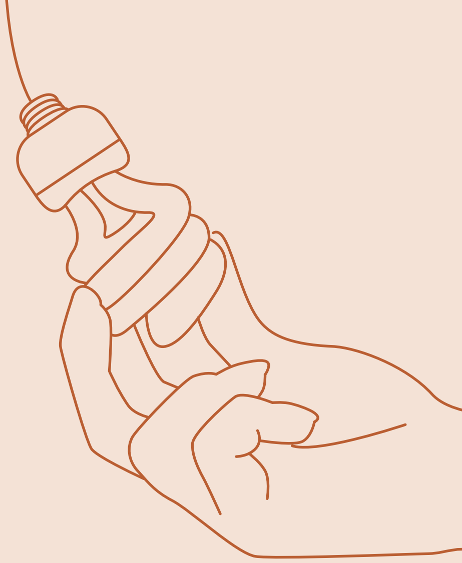
The important dates for shareholders in the 2008 financial year are set out below. Any subsequent changes to these dates will be published on our website.

2008	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007 Annual Results and Final Dividends announced		28										
2007 Annual Report uploaded on website			13									
2007 Annual Report posted to shareholders			31									
2008 Annual General Meeting				29								
2007 Final Dividend payable				30								
2008 First Interim Dividend announced					6							
2008 First Interim Dividend payable						13						
2008 Interim Results and Second Interim Dividend announced								12				
2008 Second Interim Dividend payable									12			
2008 Third Interim Dividend announced										21		
2008 Third Interim Dividend payable												15

Shareholders at Castle Peak Power Station

CLP and our Lenders

Financing our Company, financing our growth.



In this section, we discuss our relationship with our lenders which, in this context, also include bondholders, credit rating agencies and all those associated with the provision of debt financing to the CLP Group. Some of what follows may be a little technical for readers not familiar with corporate finance. However, the underlying principles are simple. We are attentive to soliciting financing resources and support from qualified, diversified counterparties on the most competitive terms available in the market. In the case of financial institutions, debt security investors and credit rating agencies, we strive to maintain positive and long-term relationships in order to obtain the right financial resources to help attain the Group's business objectives.

Financing

At the end of December 2007, the Group maintained business relationships with more than 40 financial institutions in Hong Kong, Mainland China, Australia, India and Southeast Asia. The Hong Kong based operation and business expansion solicit borrowings from the bank and debt capital markets. We obtain short to long-term bank facilities from a group of creditworthy international and local banks on a competitive basis to diversify funding sources, maturities and to achieve cost efficient funding. In addition, CLP Power taps into the Hong Kong dollar debt capital markets under its Medium Term Note (MTN) Programme on a periodic basis to lock in fixed rate long-term funding via bond issuance. Under this Programme, notes in an aggregate amount of up to an equivalent of US$1.5 billion may be issued and will be unconditionally and irrevocably guaranteed by CLP Power. At 31 December 2007, notes with a nominal value of about HK$7,340 million were issued under the Programme.

Our subsidiaries and affiliates in overseas countries capitalise on the strong credit of CLP Holdings, the risk-balanced project structure and healthy project economics to procure non-recourse debt facilities to finance their investments. They source debt financings from export credit and quasi-government agencies, banks and bond investors which have good credit ratings, local market knowledge, the capability to provide U.S. dollar and/or local currency funding at commercially acceptable terms and the ability to share project risks.

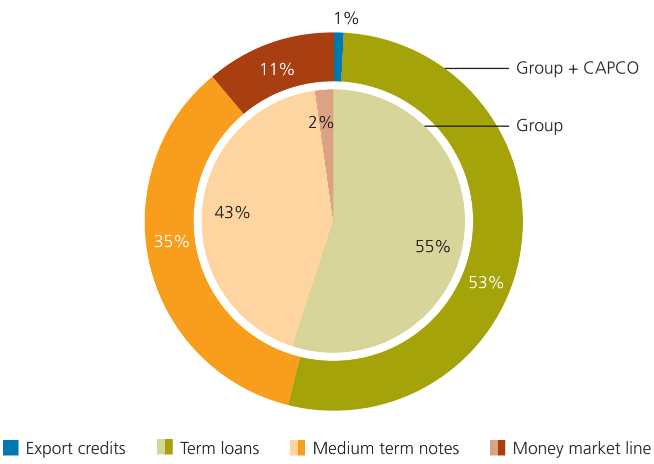
In addition to applying retained profits to partially fund business expansions, the Group maintains adequate financing facilities to enable it to meet operational and business growth requirements. During 2007, CLP Power arranged HK$1 billion fixed rate bonds due 2017 with a coupon rate at 4.38% issued under the MTN Programme and a HK$500 million new bank loan facility at an attractive interest rate margin. The Group's total debt to 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.

CLP Debt Profile as at 31 December 2007

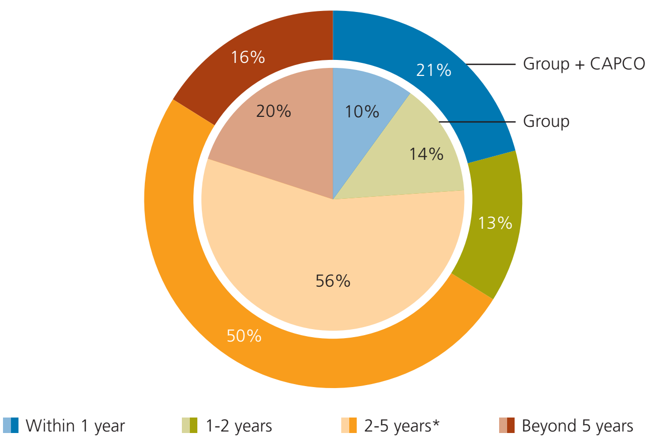
	CLP Holdings HK$M	CLP Power HK$M	Other subsidiaries HK$M	Group HK$M	Group+ CAPCO HK$M
Available Facility (Note)	8,400	16,805	18,403	43,608	51,970
Loan Balance	–	13,613	14,747	28,360	35,395
Undrawn Facility	8,400	3,192	3,656	15,248	16,575

Note: For the MTN Programme, only the amount of the Notes issued as at 31 December 2007 was included in the total amount of Available Facility.

Loan Balance by Type



Maturity by Ageing



* Including loan drawdown with current tenor less than one year under revolving facility with final maturity falling beyond one year.

The financial obligations of the Group, CAPCO and PSDC, and the Group's share of the financial obligations of jointly controlled entities and associated companies as at 31 December 2007 are shown on pages 32 and 33.

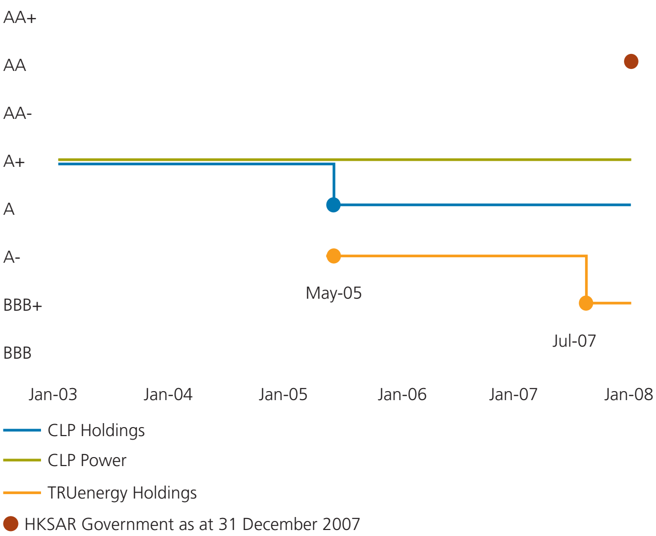
Interest Cover

Interest cover equals profit before income tax and interest divided by the sum of interest charges and capitalised interest. In 2007, interest cover was 8 times (2006: 7 times).

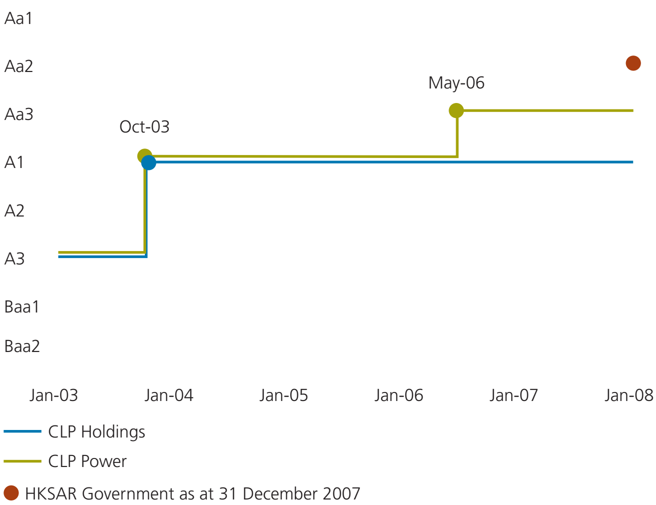
Credit Rating

All ratings of the Group's major entities are at investment grade which can enhance our position in local and overseas business activities, including fund raising, investment and new business opportunities. CLP's prudent approach to borrowings and risk management has ensured that we have been able to maintain good investment grade credit ratings, meet all our commitments to our lenders, secure adequate financing to support our operations and investments and preserve the capacity to access the financial markets to support our future funding needs.

Standard & Poor's Long-term Credit Ratings – Foreign Currency and Local Currency



Moody's Long-term Credit Ratings – Foreign Currency and Local Currency



CLP Holdings

In April 2007, Moody's re-affirmed the A1 long-term rating and the P-1 short-term foreign currency rating of CLP Holdings. Moody's explained in its report that the rating reflects the strong and predictable cash flows generated from CLP Power, which is operating under the SoC expiring in September 2008. Moody's considered the ratings of CLP Power and CLP Holdings to be closely linked, and that a material deterioration in one could mean an increased rating pressure on the other. In January 2008, Moody's placed CLP Holdings' long-term credit rating on review for possible downgrade after CLP Power had concluded the new SoC agreement with the HKSAR Government. Moody's cited in the report that cash flow contribution from CLP Power to the Group is expected to gradually decline under the reduced rate of return and that such a development would increase the overall business risk profile of CLP Holdings at a time when it continues to expand into overseas unregulated businesses.

In July 2007, Standard & Poor's (S&P) re-affirmed the A long-term rating and the A-1 short-term rating of CLP Holdings. S&P mentioned that, if any aggressive international investment plan affects the Group's business and financial strength or if any investment is of low credit quality, the Group's rating will also be under pressure. In January 2008, S&P placed CLP Holdings' credit ratings on credit watch with negative implications following the conclusion of the new SoC agreement between CLP Power and the HKSAR Government. S&P opined in the report that CLP Power's ability to respond to the terms of the new SoC is constrained by a lack of flexibility over its capital spending, given the company's commitment to provide cleaner and stable power to Hong Kong.

Fitch re-affirmed its self-initiated long-term issuer default rating of A+ with negative outlook to CLP Holdings in May 2007. In January 2008, Fitch re-affirmed CLP Holdings' A+ rating and revised its outlook from negative to stable following the signing of the new SoC, which has lifted the regulatory uncertainty surrounding CLP Holdings and CLP Power.

CLP Power

In April 2007, Moody's re-affirmed the Aa3 long-term rating and the P-1 short-term foreign currency rating of CLP Power which reflects the strong and highly predictable cash flow generated from its SoC operations. CLP Power's strong access to bank and capital markets also supports its liquidity profile. In January 2008, Moody's placed CLP Power's long-term credit rating on review for possible downgrade following its conclusion of the new SoC agreement with the HKSAR Government. Moody's cited in the report that the reduced rate of return under the new SoC would inevitably put pressure on electricity tariffs and impact on the cash generating ability of the Group.

In July 2007, S&P re-affirmed the A+ long-term rating and the A-1 short-term rating of CLP Power, which reflects its strong market position and good financial performance under the SoC agreement with the HKSAR Government. S&P cited in its report that any downward revision of the rating on the CLP Holdings could also have negative consequences for CLP Power. In January 2008, S&P placed CLP Power's credit ratings on credit watch with negative implications following its signing of the new SoC agreement with the HKSAR Government. S&P cited in the report that the existing rating on CLP Power does not factor in such a regulatory change because of a previous lack of clarity about the overall changes in the SoC, including the final magnitude of the change in permitted return.

Fitch re-affirmed its self-initiated long-term issuer default rating of A+ with negative outlook to CLP Power in May 2007. In January 2008, Fitch re-affirmed CLP Power's A+ rating and revised its outlook from negative to stable following the conclusion of the new SoC, which has lifted the regulatory uncertainty surrounding CLP Holdings and CLP Power.

TRUenergy Holdings

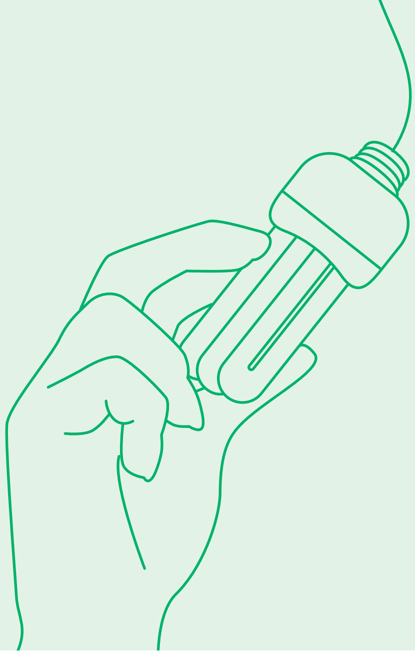
In July 2007, S&P lowered the long-term rating of TRUenergy Holdings, formerly CLP Australia Holdings, to BBB+ from A-, citing operational underperformance at its main plant, Yallourn, its adverse effect on cash generation, and weakened financial metrics relative to expectations. This rating incorporates the positive effect of its 100% ownership by CLP Holdings and the expectation of its continued strong support in the medium term.

In November 2007, S&P placed its BBB+ long-term ratings on TRUenergy Holdings on credit watch with negative implications following an assessment of the mine subsidence at the Yallourn power station in Victoria and its near-term impact on generation.

In January 2008, Fitch affirmed its self-initiated long-term issuer default rating of BBB+ with outlook revised from negative to stable in response to the same action taken on CLP Holdings.

CLP and our Customers

Powering our customers powers our Company.



CLP's mission, which forms part of our value framework, includes the delivery of world-class products and services of good value to our customers. This mission gives rise to a commitment to offer a reliable and cost-effective service and to seek continuous improvement in the value of our products and services.

The CLP Group serves customers in Hong Kong and Australia (elsewhere, our activities are in the field of electricity generation). Within Hong Kong, we have 2.26 million customer accounts in Kowloon and the New Territories, where we are the only electricity supplier. Through TRUenergy in Australia, we service approximately 1.25 million gas and electricity customer accounts, primarily located in Victoria and SA, although we have been developing a retail presence in NSW and Queensland. TRUenergy remains the third largest private energy retailer in Australia, with a 9% share of the NEM.

Gaining and maintaining the trust and support of our customers is critical to our operations in Hong Kong and Australia, and, therefore, to the success of the CLP Group as a whole.

Hong Kong

Our duties to our customers in Hong Kong remain unchanged, namely to provide an electricity supply characterised by

- reliability;
- power quality;
- excellence in customer service; and
- reasonable tariffs.

In 2007 we continued to meet these obligations.

Reliability

Hong Kong needs outstanding levels of supply reliability. Shortcomings in reliability would be unacceptable to our community and are unacceptable to CLP, given that

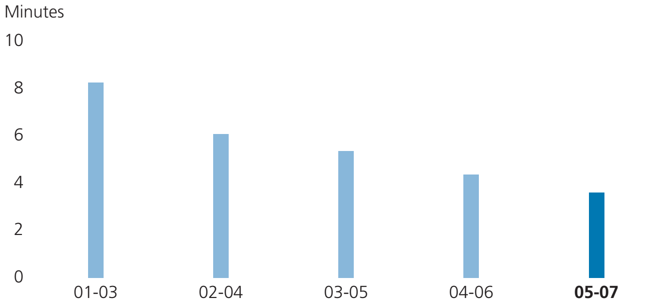
- the majority of the population live and work in high-rise buildings – their daily lives depend on uninterrupted services from lifts and escalators;
- Hong Kong's hot and humid climate leads to heavy reliance on air-conditioning, especially during the summer months;
- Hong Kong's high population density means that individual equipment failures may affect thousands of people; and
- as a financial hub and tourist centre, Hong Kong relies on a reliable electricity supply to sustain economic development and maintain its competitive position.

Unplanned Customer Minutes Lost (CML) per year, a standard measure of supply reliability, have been improved by 84% since 2000. This is the result of the tremendous efforts we have made to maintain and, where practicable, improve our supply reliability.

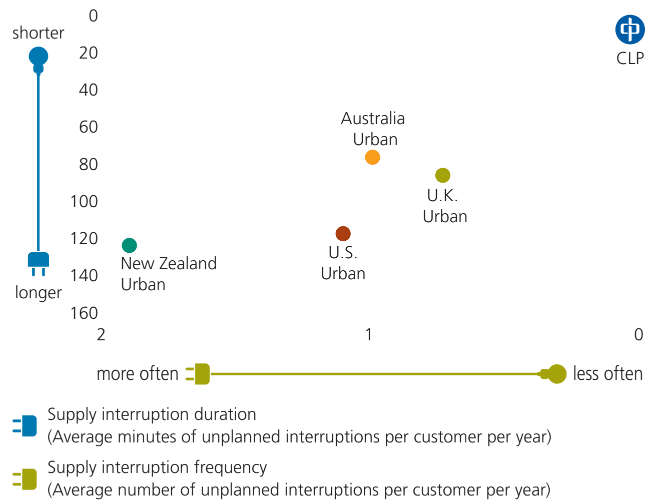
The reliability of CLP's electricity supply is amongst the best when compared to the U.S., U.K., Australia and New Zealand. A typical customer in CLP's supply area would have had an average of 3.61 minutes of unplanned power interruptions per year during the period from 2005 to 2007. For comparison, the average unplanned outage time experienced by a typical customer per year during 2004 to 2006 (the latest dates for which information is available) in other major cities was

- New York (31.2 minutes);
- Paris (17.3 minutes);
- London (34.5 minutes) or
- Sydney Central Business District (43.1 minutes).

Unplanned Customer Minutes Lost (3-Year Average)



Reliability Comparison (2005-2007)



Source: UMS Group

Power Quality

Electronic and computer devices, used in both household and business activity, are increasingly sophisticated and widespread. The quality of power supply, not merely its reliability, is increasingly important to our customers. A small voltage disturbance may cause production loss and inconvenience to customers with highly sensitive equipment.

Prevention is better than cure. The most effective way to deal with power quality issues is to comprehend their nature and plan ahead for prevention. We commit dedicated efforts in power quality education to cultivate an understanding of power quality issues, equipment compatibility, the need for appropriate protection for critical systems and the importance of incorporating power quality requirements for new equipment at the design/planning stage. Our Power Quality Centre provides facilities for the testing of power quality technologies, illustrates the common types of power quality problems encountered by customers and explains the practical measures which can be adopted to mitigate their impact. To date, more than 110 technical proposals by CLP have been implemented by our customers.

Customer Service

During the year, we made it a priority to interact more closely with our customers and for them to access our services more conveniently by

- strengthening our ability to serve the very largest energy customers with dedicated high calibre account management professionals;
- further developing our BusinessPLUS telephone account management concept to larger commercial and industrial organisations to include new services such as offering power quality advice;
- opening the first Business Centre in July in Shamshuipo as a one-stop shop for Small/Medium Enterprises and their electrical contractors;
- opening four new Customer Service Centres, conveniently situated along the railway network, providing many more opportunities for customer interaction and effective service delivery, seven days a week; and
- launching a new customer dedicated website, www.clponline.com.hk, which makes it much easier for customers to view and pay bills, apply for supply, make appointments or access advice, 24 hours a day.

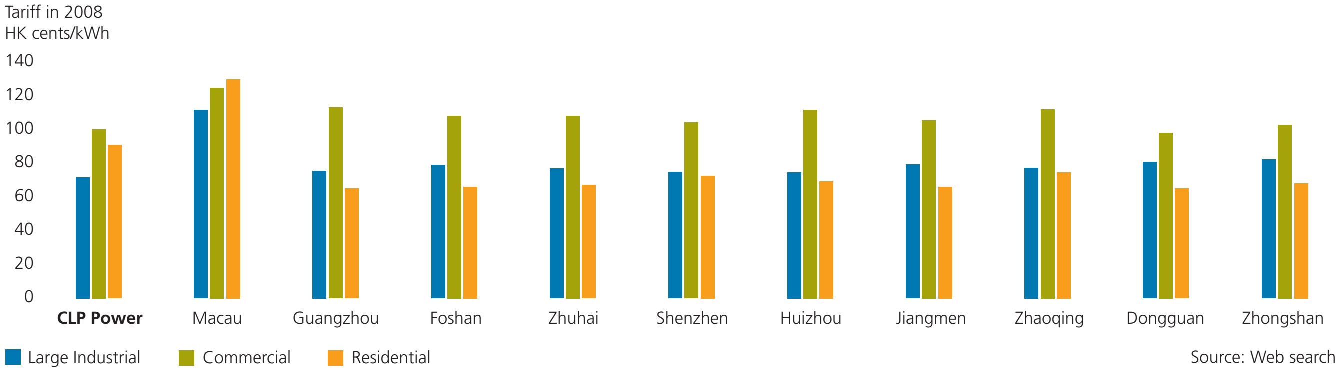
In line with CLP's commitment to the environment, we have also helped customers better understand how to use energy more wisely and contribute to a greener world. We offered intensive energy audits to some of the largest organisations in our supply area and supported the implementation of energy efficient projects in factories, hotels, office buildings, restaurants, laundries and many other locations. We continued our community and schools education through the successful and long-running PowerWise campaign and welcomed more than 100,000 additional customers to our Green Bill Programme.

Listening and then responding to our customers is something we take very seriously. We welcome direct feedback through our award-winning Customer Interaction Centre, our Customer Service Centres, our field-service staff, by mail and through on-line response. In addition to the Customer Consultative Group comprising business leaders and customer service professionals who meet regularly to review our services and policies, and our 14 Local Customer Advisory Committees of customer representatives, we also introduced a new Honorary Customer Advisory Committee to capture advice from community leaders. Over the past 15 years, groups of this kind have become an increasingly important channel for CLP to connect with our customers and key stakeholders in the wider community.

Tariff

In December 2007 we announced that our basic tariffs for 2008 would continue to be frozen and the Fuel Clause would be adjusted upward, resulting in an average net tariff of HK¢91.1 per unit of electricity, up 4.5% from the previous level of HK¢87.2. The increase was due to mounting cost pressures led by soaring international fuel prices, which have tripled over the past five years. This was the first net tariff increase since 1998. Over the intervening period, we had given eight tariff rebates, representing HK$4 billion in total – equivalent to up to a 3.7% tariff reduction in the respective years.

Price Comparison between Hong Kong and Pearl River Delta Cities

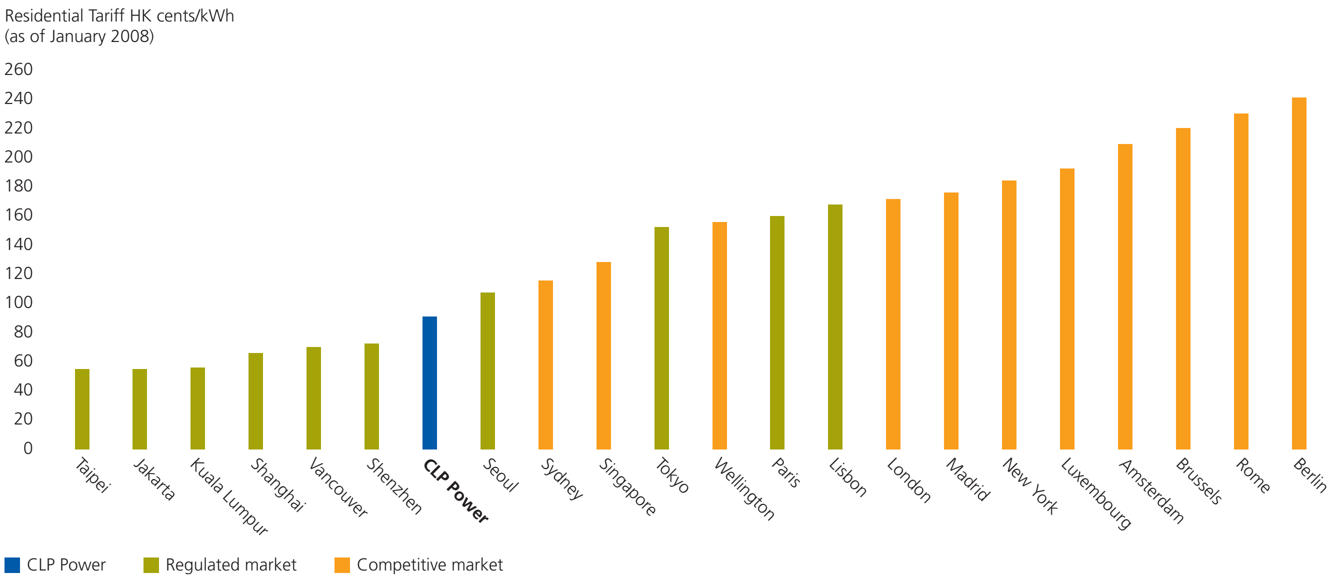


Source: Web search

The facts on CLP's tariff performance are clear, straightforward and speak for themselves.

- CLP's tariffs are comparable to those in other Pearl River Delta Cities (and are actually better, when lower supply reliability and environmental performance elsewhere is taken into account).
- Our tariff compares favourably to those offered to customers in other world cities.

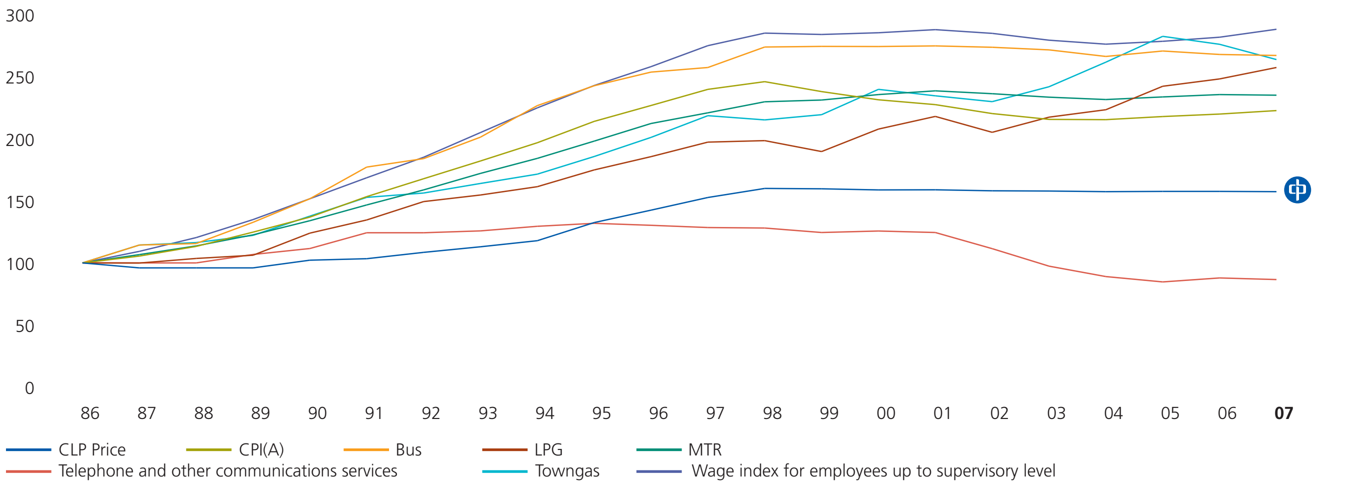
2008 Residential Tariff Comparison



Notes: Comparison based on annual domestic consumption of 3,300 kWh.
Tariff and exchange rate at January 2008.

Source: Web search

Price Comparison of Public Utilities and Consumer Price Index (1986 = 100)

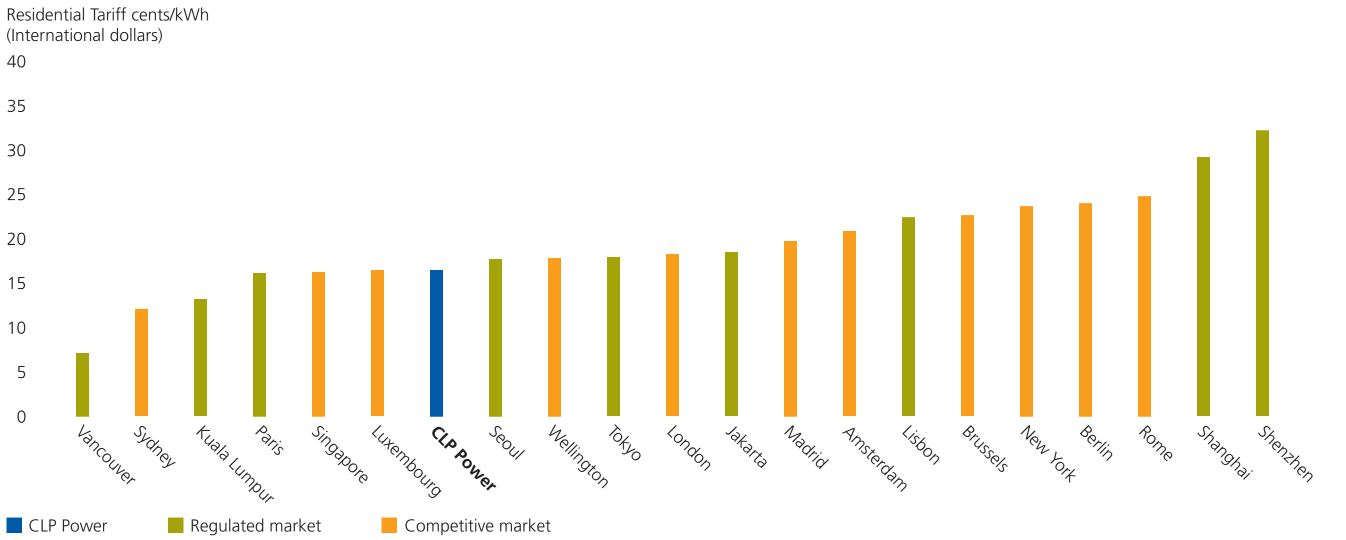


Note: Data for "wage" index are up to September 2007.

Source: Census and Statistics Department of the Hong Kong Government

- CLP's performance on tariff compares extremely well with other Hong Kong utilities.
- CLP's tariffs are highly affordable for our customers. Electricity accounts for only 1.9% of monthly household expenditure in Hong Kong.

2008 Residential Electricity Comparison for Utilities in Major World Cities – adjusted for Purchasing Power Parity



Notes: Comparison based on annual domestic consumption of 3,300 kWh and tariff at January 2008.
Purchasing Power Parity (PPP) conversion factors are derived from 2006 figures from The World Bank.
PPP is used to compare the purchasing power of the consumer when paying for goods and services – one US$ is 'worth' more spent in China than spent in the U.S.
When adjusted for PPP, CLP's tariff is still reasonable.

Source: Web search

Australia

TRUenergy is licensed to sell gas and electricity to contestable customers in NSW, Victoria, SA, Queensland, Tasmania and the Australian Capital Territory.

Competition

Since the introduction of customer contestability in most markets, where the customers are free to choose their energy retailer, TRUenergy has been operating in an increasingly competitive environment. In Victoria for example, which was the first state to introduce customer contestability, customer churn (customers switching retailers) continues to increase.

Customers Switching Retailers (Churn) – Victoria	2005/06		2006/07	
	Number	% of gross	Number	% of gross
Electricity	500,000	22	620,000	26
Gas	300,000	19	380,000	23

To counteract these market forces, TRUenergy has a number of competitive marketing strategies focused around continuing to build its unique brand identity. TRUenergy stands out as a distinctive brand in the Australian energy market. In 2007, the TRUenergy brand enjoyed a position of highest awareness amongst major energy companies and highest likeability in the Victorian and South Australian markets. Brand tracking research showed that brand awareness levels for TRUenergy had increased and the recall of TRUenergy advertising was one of the highest amongst energy retailers.

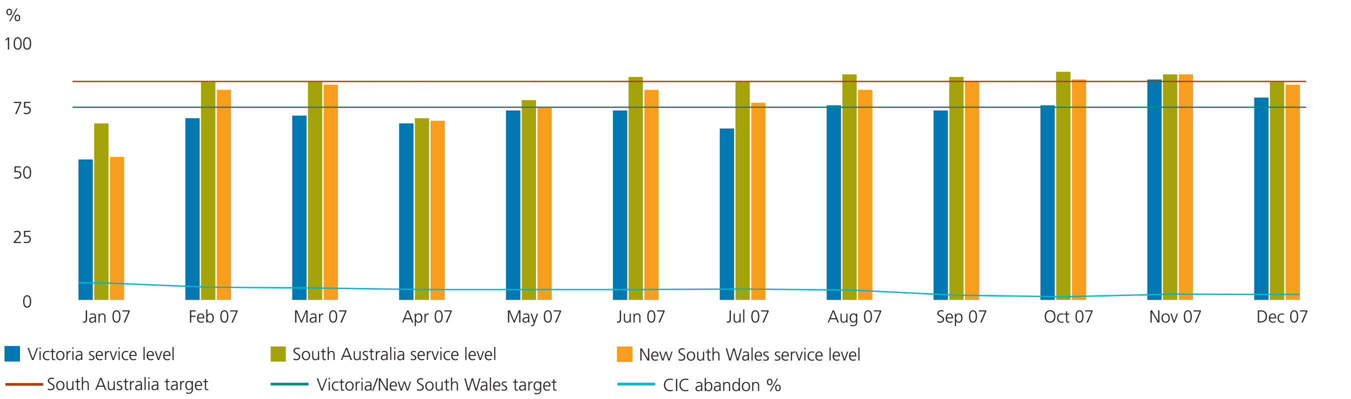
Environmental Sustainability

Increased concern about climate change has led to significant interest from customers for green energy (energy produced from renewable resources). TRUenergy set a target to more than double its number of green accounts in 2007. With an increased focus on promoting its flagship green product, Go Green, through advertising as well as its sales channels, TRUenergy exceeded this target. Green electricity customers have risen from 6% to 11% of our total electricity customer base.

Customer Service

In 2007, TRUenergy handled 2.5 million customer enquiries. Our customer service standards are overseen by the Essential Services Commission, energy ombudsman schemes and consumer protection agencies. The following chart illustrates TRUenergy's service levels, using a measure which is an overall indicator of average speed of answer, call control and abandonment rate. The regulatory targets were met or exceeded for each quarter in 2007 as required by Essential Services Commission in Victoria, NSW and SA.

Customer Interaction Centre (CIC) Service Level and Abandonment



TRUenergy has once again achieved a lower than industry average complaint rate. For example, the Victorian Ombudsman complaint rate for gas and electricity combined for year ended June 2007 was 23% below the industry average and is tracking at 20% below the industry average across all states.

Professor Patrick Wong Lung Tak, JP

Managing Practising Director
Wong Lam Leung & Kwok
CPA Limited

With profit control lowered to 9.99%, any hope for electricity tariff reductions? If yes, about how much? If no, why?

As a result of our continued efforts in cost efficiency and prudent management, our tariffs have remained highly competitive by world standards.

The new SoC agreement has achieved an outcome that balances the interests of both our shareholders and our customers. This is largely reflected in a lower permitted return of 9.99% from 13.5%-15%, a reduction which allows room for lower tariffs. However, it is difficult to predict the order of reduction now because other factors will have an impact on future tariffs. These include material costs, fuel prices, freight charges, electricity sales growth and the level of capital investments required to meet demand. We will discuss future tariffs with Government over the next few months.

Betty Yuen

Group Director – Managing Director
Hong Kong

Mr. Lee See-yuen

Headmaster
Pui Ching Primary School

Will CLP provide some effective energy saving solutions to schools so as to alleviate their burden on expenditure?

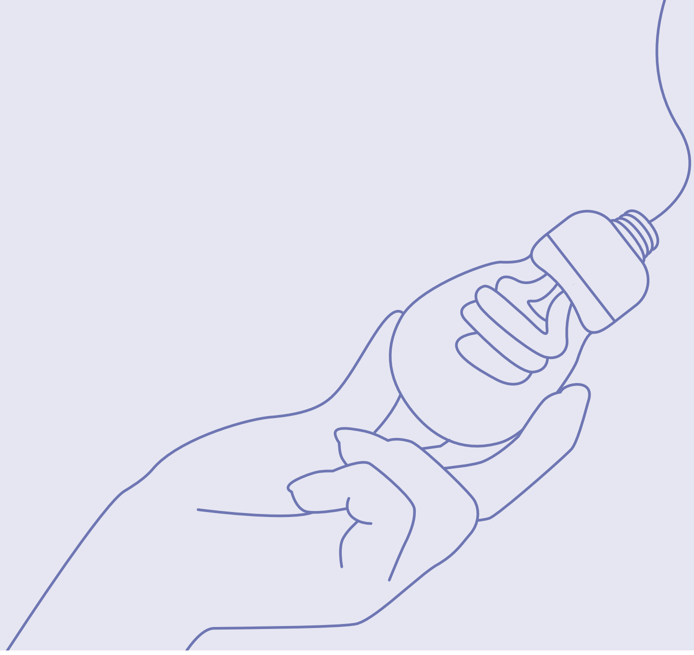
CLP has been promoting energy efficiency and conservation to the community for a long time. Since 1999, we have provided over 500 energy audits to help large energy customers identify energy saving opportunities. This service primarily targets large commercial and industrial customers, but has also been extended to some schools. Apart from energy audits, our "Energy Innovation Fund" is another resource that schools can call upon to support their energy efficiency and renewable generation projects. For schools, our main focus has been to educate primary and secondary students through the PowerWise platform.

Chow Tang Fai

Director – Marketing and Customer Services
CLP Power Hong Kong

Celebrating the 15th Anniversary of our Customer Consultative Group

CLP and our Employees



Developing our employees develops CLP.

We aim to maximise our colleagues' potential so that they can give the best of themselves and, in doing so, enjoy challenging and rewarding careers and drive the continuing success of the CLP Group.

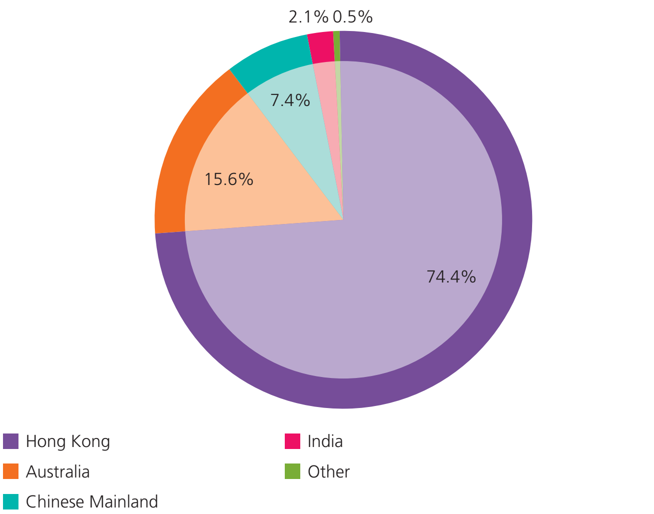
Regional growth

CLP Group has a total of 5,695 staff (2006: 6,087) across the region. The regional growth and expansion of the CLP Group has given rise to human resources (HR) issues which require management on a Group-wide basis, such as

- ensuring consistent understanding and application of our core values across businesses operating in different cultural and market environments;
- maintaining our HR governance standards; and
- ensuring that we have adequate staff mobility across the Group to meet our business needs.

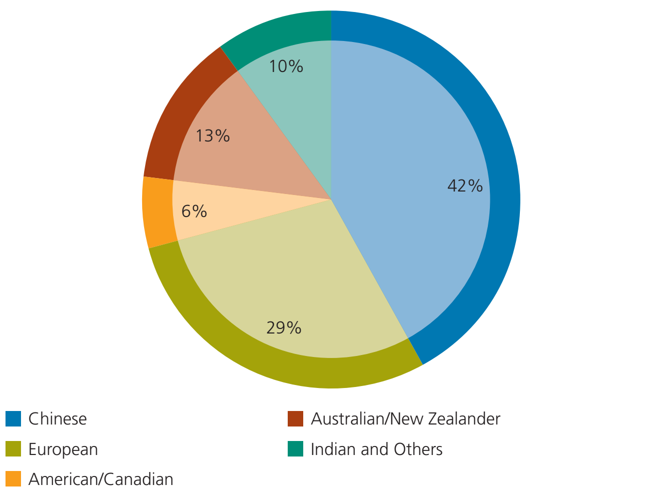
The regional nature of the Group's business creates not only challenges, but also opportunities. For example, the growth of our business and its increasing geographical spread has widened the pool of talent available to fill senior management positions within the Group. The chart below shows the breakdown of the 34 senior executives in the CLP Group – demonstrating a diversity of background and experience which can support our regional expansion. We use the wider opportunities available across our different business streams to develop individual employees by exposing them to stretching and challenging situations. For example, our Regional Graduate Engineer Programme, introduced in 2006, has promoted secondments between our Indian, Australian and Hong Kong businesses – allowing the participants not only to develop personally, but also to take valuable knowledge back to their home businesses.

Staff Distribution by Geographical Location



Note: The manpower figures do not include 142 part-time staff and interns.

Breakdown of Senior Executives by Nationality or Ethnic Group



Age Profile

The average age and length of service of our staff reflects their loyalty and experience.

Key Characteristics	2007	2006
Average age	42.3	42.0
Average years of service	15.9	15.6
% of staff holding a university degree or above(Note)	34.5%	33.1%

Note: Information on TRUenergy employees is not available.

We must plan ahead and anticipate the consequences of the retirement projections for our workforce. It is essential to manage the risk that a considerable number of retirements within a relatively short time-span would have on the Company.

The percentage of staff due to retire within the next five years is

	2007	2006
TRUenergy	9.5%	9.7%
Hong Kong	8.1%	7.2%
GPEC	1.7%	0.9%
Huaiji	0%	0%

This five-year retirement projection (based on normal retirement age) indicates that the scale of projected departures is relatively low compared to other international utilities. It is also manageable, particularly as we have been taking steps since 2005 to plan ahead through our five-year manpower planning framework. In addition to detailed projections of future demand, this process includes supply side initiatives such as apprentice, technician trainee and graduate recruitment, and targeted training and development programmes.

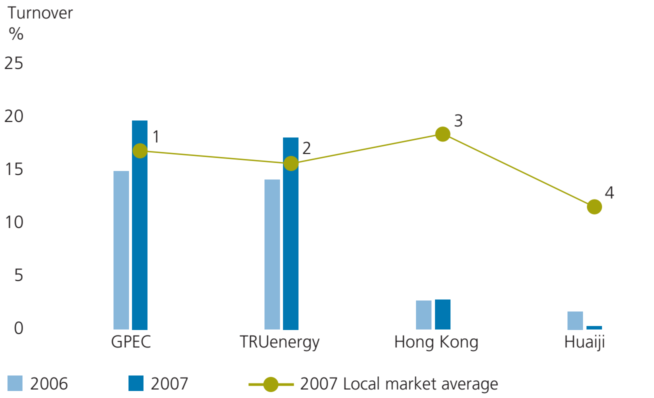
In order to ensure that we capture the knowledge and experience of key staff who will retire in the near future, we have also made significant investments in knowledge management processes and systems, supported by specialised software packages. For example, in our Power Systems Business Group in Hong Kong, a Knowledge Management repository was installed to store core business knowledge themes and tacit knowledge captured from our key staff. This knowledge is then integrated into training programmes to build up the technical competencies of our operational staff.

Staff Attraction and Retention

The challenges we face in attracting and retaining staff vary by business, depending on factors such as the size and maturity of that business and also its location. For example, in setting up renewable energy operations in remote parts of the Mainland, the recruitment of staff and arrangements for their accommodation present immediate practical problems that must be addressed.

In a large and established business like Hong Kong, we have to strike the right balance between staff retention, cost control, and promotion opportunities. This is particularly important in a mature business where headcount is not being increased. Whilst too high a level of staff turnover would be a risk for our business, turnover creates career development opportunities for existing staff. Our internal promotion rates are strongly correlated with our voluntary turnover rates, which suggests that we are preparing existing staff well to benefit from these opportunities.

Voluntary Staff Turnover Rate



Note: Voluntary turnover includes resignations only. Other separations (end of contract, retirement and dismissal) are excluded.

Source:
1. Hewitt Associates India (2007 Energy and Power Industry survey of Professional/Supervisory and Technical staff attrition rates)
2. Mercer Australia
3. Hong Kong Institute of Human Resource Management
4. Hewitt Associates China

Voluntary turnover in Hong Kong has remained stable at 2.8% (2006: 2.7%), a positive trend in the face of continuing recovery in the Hong Kong employment market in 2007. Whilst the overall rate is low, like other major employers, we have experienced increased competition to attract and retain young professionals in finance, HR, and other specialised areas.

In TRUenergy, the increase in voluntary turnover figure reflects the very strong Australian employment market, where the unemployment rate has reached a 30-year low. Energy retailers in particular experienced a turbulent year due to increasing wholesale prices as a result of the continuing drought. Exit interviews indicated that many departing employees sought careers in sectors offering greater stability.

Our highest voluntary staff turnover rate was GPEC, where the overall rate was 19.7% compared to 14.9% in 2006. Most turnover was of young professional engineers. This reflects a strong local employment market in the power industry and continued demand from capital projects in the Gulf. In response, we have increased pay significantly in the past few years to maintain remuneration at a competitive position in relation to the market. We encourage retention through initiatives such as bringing three high potential staff to Hong Kong for development during 2007. In 2008, we plan to recruit 10 trainees at GPEC to anticipate the impact of turnover.

Human Resources Development

Opportunities for career development form part of our efforts to retain employees and to increase their potential.

The Management Development and Succession Planning (MDSP) process, which is now being fully implemented across all Group subsidiaries, allows us to take a systematic approach to succession planning, as well as to develop high potential staff. In the early stages of their careers, colleagues with high potential will be managed within their existing function. As they become more senior, oversight of their career development is the responsibility of the Group Management Development Committee (GMDC), comprising Group senior executives. Through the MDSP process internal successors have been identified for 89% of senior management positions retiring within the next five years (2006: 83%). In 2007, 94% of the senior positions which became vacant were filled internally in accordance with planned succession arrangements (2006: 92%).

To prepare for the next generation of leaders to take on the most senior positions in the Group, in 2007 we commissioned our first Regional Executive Development Programme, to be designed with IMD, a leading international Business School. This is in addition to our existing programmes with the Richard Ivey Business School, which aim to strengthen leadership and strategic management skills, whilst giving the participants opportunities to network with peers from other organisations. In 2007, 11 of our colleagues attended these programmes including, for the first time, two colleagues from GPEC.

Our apprenticeship and graduate traineeship programmes in Hong Kong have now been in operation for more than 30 years. Many of the original graduates are now in senior management or senior professional positions. The CLP Internship Programme, which encourages students to join CLP in Hong Kong during summer or for a twelve-month placement continued through 2007 with 38 students participating. In addition to these programmes, CLP continued to invest in the ongoing development of all our employees through both internal and external courses. In 2007, total training man days amounted to an average of 6.5 man days per employee (2006: 5.0).

Safety

Our staff and, for that matter, all those who work in our facilities, are entitled to a safe working environment – one which ensures that every one of our colleagues returns home safely each evening to his or her family. 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.

Mr. Deepak Dogra

Programme Manager
PRATHAM Gujarat Education Initiative

What are the various ways in which GPEC has tried involving (or involves) its employees in its community initiatives? What have been the learnings/experiences of such efforts?

GPEC has always encouraged its staff and their family members to volunteer for community causes. New recruits are briefed on the social development activities of the Company by our community development manager as part of their induction programme. Appeals are made to staff and families to encourage their participation.

Staff and their families have responded positively in supporting the Company in its community related activities – depending on their areas of interest, staff participate in various activities; staff with interests in the environment support the Company's initiatives in those areas, while others assist in health related initiatives such as distribution of fruits, helping needy patients, flood relief measures, pulse polio programme etc.

Rajiv Mishra

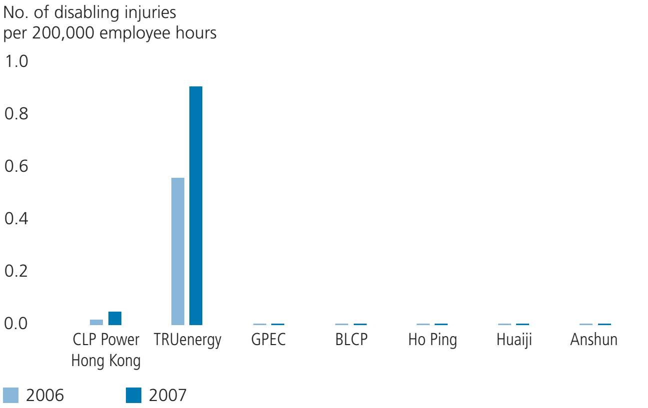
Managing Director – India

We recognise that risk cannot be completely eliminated from the workplace, though a key objective is to identify risk and take measures to reduce it. Nevertheless, we believe that every injury is avoidable. Injuries do not occur by accident, they occur because something has gone wrong. Sometimes this may be because of unsafe conditions but more often it is because of unsafe acts, indicating that we need to do more to improve safety culture.

In the light of the safety performance in 2006, which was not satisfactory, we started a major Group-wide initiative to improve this. The key initiatives in 2007 were

- leadership from the top of the CLP Group to demonstrate a clear commitment to safety over all other objectives. Our message is that "Safety Comes First at CLP";
- expert third party support from DuPont (a leading safety advisor) to review existing practice and safety performance issues and advise on areas for improvement;
- group workshops where operations and construction managers and safety specialists from across the portfolio discussed DuPont's findings and recommendations, and determined areas for improvement and new initiatives;
- establishing a structure for developing these initiatives, involving a steering group and five working groups; and
- improving communication across the portfolio, where the circumstances of injuries and near misses can be shared and subject to peer review and where good practices can be made available as widely as possible.

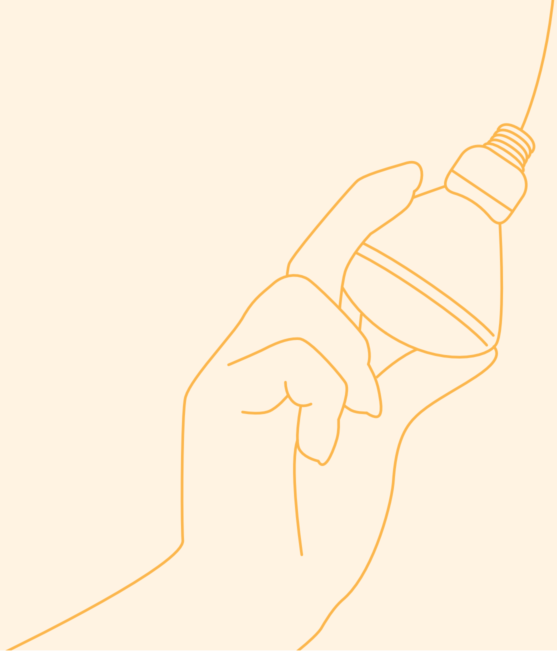
Disabling Injury Incidence Rate (DIIR) – 2007



We made a good start in 2007 in improving CLP's safety performance, although the complete programme that has been developed will take some years to implement. We believe that we already have a more open environment for discussion and learning. We have the advantage of seeking to apply improvements to a safety culture that already exceeds local norms in most places we operate. And we know that our managers and staff have the commitment to address the areas in which we can improve. Their collective efforts contributed to an improved Group-wide safety performance in 2007. A particular tribute is due to our colleagues at GPEC which, by 31 December 2007, had been operating for 3,435 days without a single lost-time injury. Also, during 2007 our gas storage and processing plant in Australia achieved eight years' operation without a lost-time injury.

Strong team spirit at a race walking competition

CLP and our Community



Helping people help themselves.

The CLP Value Framework includes our commitment to acting as a good corporate citizen and to making significant contributions to community programmes wherever we can add value. We support social development in the community through a range of partnership activities, staff volunteering initiative, sponsorships and donations.

Staff Volunteerism

In 2007, we launched the "CLP Voluntary Service Matching Donation" in Hong Kong. CLP has pledged to donate to the Community Chest HK$20 for every hour of service each employee commits to serve the needy and the underprivileged. Since the launch in October, the response has been encouraging and the plan has been extended to family members and friends.

In India, GPEC staff and family members have volunteered their services to a range of social activities, such as flood relief measures, support to educational and health programmes, polio vaccination campaigns and help to hospital patients. For example, following the early monsoon floods in July, volunteers actively participated in the distribution of over 3,000 "ready to eat" food packets and nearly 500 grocery kits to flood victims.

Sponsorships

CLP focuses its sponsorships on community events, elderly and health care, youth education, as well as arts and cultural initiatives. These activities are undertaken throughout the Group. To give one example from each of our business areas,

- In Hong Kong, we provided logistical and financial support to the Oxfam Trailwalker 100 km walk across the New Territories.
- In Australia, we supported the Phoenix Fridge programme. This aims to repair, retrofit and recycle old fridges so they can be made available to low income earners and to train and provide employment for newly arrived refugees. This was a joint project with the Brotherhood of St. Laurence and the Moreland Energy Foundation.
- In India, we sponsored treatment and medical support for needy patients, including burns victims, through a donation to the Sava Yagya Samity, a local non-government organisation (NGO).
- In Southeast Asia, we supported 15 projects in Thailand on education, environmental preservation and life quality development.
- In the Chinese mainland, we promoted community activities in education and tree planting in Guangxi, Sichuan and around our renewable energy facilities, such as in Shandong and Huaiji, Guangdong.

In Hong Kong alone, 250 organisations or events benefited from CLP sponsorships and donations – there were many others across the Group.

Community Programmes and Events

We believe in engaging with the community through dialogue, or direct involvement and participation in worthwhile community courses and programmes.

These activities are often on a significant scale, such as the TRUenergy Beach Safe programmes for Southeast Queensland. Launched in 2007, this partnership with Surf Life Saving Queensland aims to reach around 50,000 primary school students during the eight months from October 2007, teaching them about water and beach safety and surf skill.

In Hong Kong, the "Care for the Elderly" charity programme, in which CLP has been involved for some years, has taken on a new initiative to promote the prevention of dementia, an emerging issue arising from the ageing population in Hong Kong. Working with the Hong Kong Council of Social Service and with the support of over 70 service units, the "Active Mind" programme has set out to raise a total of HK$1 million in its first year, to benefit 5,000 elderly people.

The Young Power Programme, on the other hand, provided students with a 6-week experiential and comprehensive learning about renewable energy. The Programme was run in partnership with Junior Achievement Hong Kong and with the support of community and academic leaders as well as 20 CLP staff mentors. Winning students were awarded a trip to gain hands-on experience in cotton picking on the farm near CLP's Boxing biomass project in Shandong.

GPEC, through its Paguthan Power Plant Social Development Trust, has targeted education needs, health needs, environmental awareness campaigns and sustainable livelihood related programmes in villages in the vicinity of our power plant. GPEC also supports government programmes and machinery to develop village level infrastructure. Since 2004, the literacy campaign we support has reached approximately 40,000 children across Bharuch district and has offered support to around 350 village education committees.

How can you help us to help the Community?

This Annual Report itself offers an opportunity for shareholders to support our community activities.

Each year CLP offers to donate HK$50 to charity for each shareholder who elects to receive corporate communications electronically. In 2007, 431 shareholders responded to this offer, which aims to encourage increased use of this environmentally friendly method.

As a result, CLP donated HK$131,550 (which included HK$110,000 as an expression of appreciation to those shareholders who had already chosen electronic communication) to the Hong Kong Association for Cleft Lip and Palate. To thank those stakeholders who provided feedback on our Social and Environmental Report, CLP also donated HK$50 for every feedback received, amounting to HK$3,300, making a total donation of HK$134,850.

The Hong Kong Association for Cleft Lip and Palate is a self-help organisation which provides assistance to the affected children in both physical and psychological aspects, through mutual support and experience-sharing among their parents. CLP's donation has been applied in the Association's "One nasal splint for each member" project. The project provides members with free nasal splint service to improve the appearance of cleft lip and palate sufferers (from newborns to adults). This service also reduces the need for rhinoplasty in the future and helps maintain the shape of the nose after rhinoplasty surgery. In 2007, 120 children benefited from this ongoing project, which aims to ultimately help around 600 affected children and adults.

We thank all our shareholders and stakeholders who have made this possible.

Ms. Cecilia Li

Chief Executive
The Community Chest of Hong Kong

Apart from donations, what else does CLP do to help bridge social gaps?

CLP encourages and supports employee volunteerism. "Rewiring for the Elderly" is CLP Volunteer Team's signature programme which aims to provide free rewiring, electricity safety inspection and electrical appliances maintenance services to elderly people living alone in public housing estates in Hong Kong.

In recent years, our community support programme has expanded to cover over 250 events and projects every year to address different needs from the community, ranging from elderly service to training of young leaders, environmental care and art and culture in Hong Kong.

Elsewhere, we have focused on educational and health initiatives to support local communities. CLP launched the Project Hope School Programme in China in 2001 with the objective to raise the literacy level of rural children living in remote areas in the Chinese mainland. We have contributed to the construction and opening of nine primary schools in different provinces, which together are providing classrooms and facilities for more than 3,000 pupils.

In India, the Paguthan Power Plant Social Development Trust has set out to increase the education and health standards of local communities. Working with an NGO, Pratham, the trust has supported a literacy drive and is involved in medical camps, water and drainage schemes. The Trust also supports the development of self-help groups to motivate women to improve their financial independence by providing income generating activities and arranging training and exposure visits.

Jane Lau

Director – Group Public Affairs

This year, we have decided to help another self-help organisation, the Hong Kong Association For Specific Learning Disabilities (HKASLD), which provides assistance to children with dyslexia through mutual support and experience-sharing among their parents.

We will donate HK$60 to HKASLD for each shareholder who elects for electronic communication instead of his or her previous choice of printed form. This will be in addition to a donation of HK$170,000 on behalf of those shareholders who have already opted for electronic communication.

The donation will be applied in the HKASLD's "Play Classroom" project. The project is designed to develop an enjoyable environment for dyslexic children to learn and improve their visual, auditory, motor coordination and memorising skills. The objectives are to increase dyslexic children's learning abilities through various multi-sensory exercises and activities, to rebuild their confidence and motivation in learning, as well as to educate parents on using a multi-sensory approach to support dyslexic children. This project targets to provide services to 120 children and their parents.

HKASLD

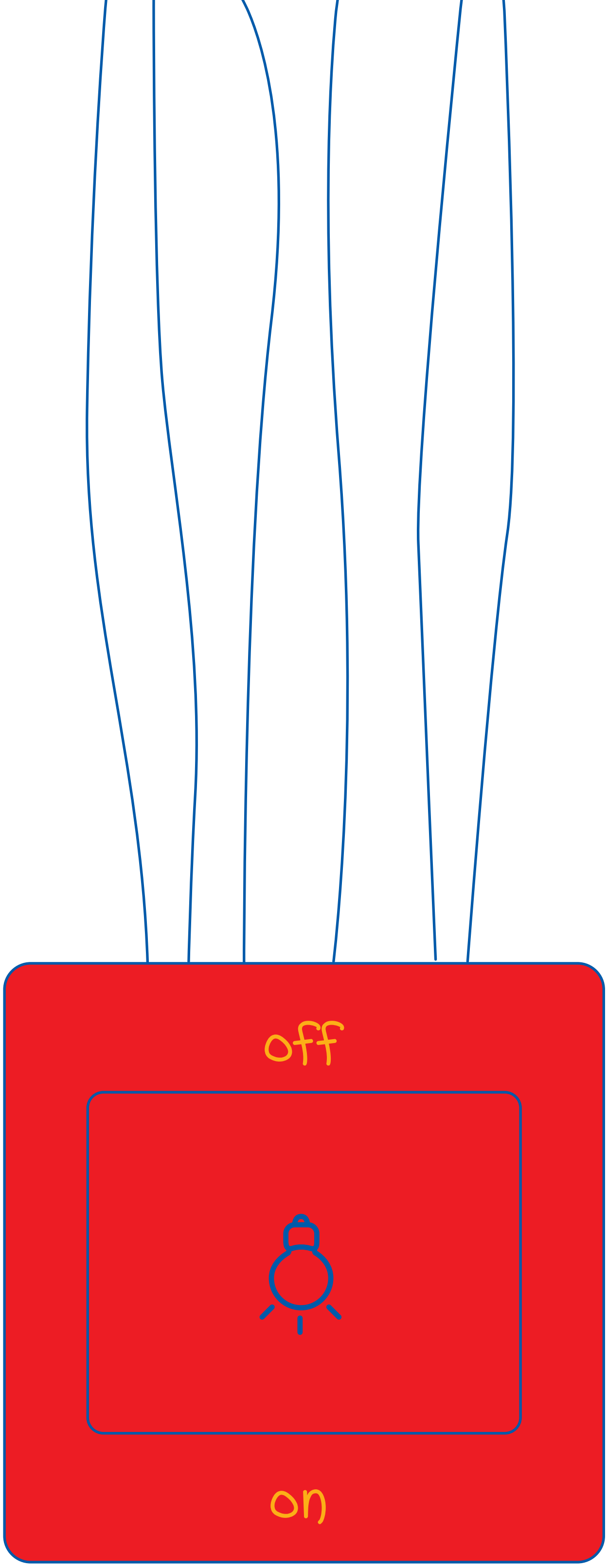
Shareholders wishing to make a new election for electronic communication can do so by returning to us the notification form which accompanies this Annual Report, in the provided prepaid reply envelope or by email to cosec@clp.com.hk on or before 30 June 2008.

We look forward to your support.

Taking Pride

We take pride in all of the community work in which we are engaged. Our activities far exceed in scope and number those we could describe in these few pages of the Annual Report. We will continue this work – which enjoys whole-hearted support from our colleagues, receives a warm welcome in the communities where we operate and which, we believe, corresponds to the values which our shareholders and other stakeholders expect of us.

CLP Volunteers joining 200 members of the Physically Handicapped and Abled Bodied Association in a mobile Adventure Activity Day



HOW DO WE GOVERN OUR COMPANY?

Board of Directors and Senior Management

Non-executive Directors

1 The Honourable Sir Michael Kadoorie

GBS, LLD (Hon.), DSc (Hon.), aged 66, Chairman, C, N (Appointed on 19 January 1967▲)

The Hon. Sir Michael Kadoorie is an Officier de la Légion d'Honneur, Commandeur de l'Ordre de Léopold II and Commandeur de l'Ordre des Arts et des Lettres. He is the Chairman of The Hongkong and Shanghai Hotels, Ltd., Heliservices (Hong Kong) Ltd. and CLP Research Institute Ltd., a Director of Sir Elly Kadoorie & Sons Ltd. and Hutchison Whampoa Ltd. as well as an Alternate Director of Hong Kong Aircraft Engineering Company Ltd. He is the brother-in-law of a fellow Director, Mr. R. J. McAulay.

2 William Elkin Mocatta

FCA, aged 54, Vice Chairman, C, F&G, H, P, RA (Appointed on 16 January 1993▲)

Mr. Mocatta is a Fellow of The Institute of Chartered Accountants in England and Wales. He is an Executive Director of Sir Elly Kadoorie & Sons Ltd. He is the Chairman of CLP Power Hong Kong Ltd., CLP Properties Ltd., Kar Ho Development Co. Ltd. and Hong Kong Pumped Storage Development Co., Ltd.; and a Director of TRUenergy Holdings Pty Ltd. He is also an Alternate Director of Hutchison Whampoa Ltd., as well as a Director of The Hongkong and Shanghai Hotels, Ltd. and other companies in Hong Kong.

3 James Seymour Dickson Leach

MBA, FCA, aged 62 (Appointed on 15 December 1978▲)

Mr. Dickson Leach holds an MBA degree from Columbia University and is a Fellow of The Institute of Chartered Accountants in England and Wales. He is an Independent Non-executive Director of Hong Kong Aircraft Engineering Company Ltd., a Director of China Construction Bank (Asia) Corporation Ltd. and the Non-executive Chairman of Nviro Cleantech Ltd.

4 Ronald James McAulay

MA, CA, aged 72 (Appointed on 1 January 1968▲)

Mr. McAulay holds an MA degree from the University of Glasgow and is a Member of The Institute of Chartered Accountants in Scotland. He is the brother-in-law of the Chairman. Mr. McAulay is a Director of Sir Elly Kadoorie & Sons Ltd. and a Non-executive Director of The Hongkong and Shanghai Hotels, Ltd. He is also a trustee or council member of a number of commercial, artistic or charitable organisations, in Hong Kong and elsewhere.

5 John Andrew Harry Leigh

aged 54 (Appointed on 10 February 1997▲)

Mr. Leigh is a lawyer by training. Prior to joining the CLP Group in 1986, Mr. Leigh was in private practice as a solicitor in Hong Kong and the U.K. He was the Senior Legal Advisor, Company Secretary and General Manager - Corporate Affairs in the CLP Group between 1986 and 1996. Mr. Leigh is a Director of The Hongkong and Shanghai Hotels, Ltd. and also a Director of Sir Elly Kadoorie & Sons Ltd.

6 Rudolf Bischof

aged 66, P (Appointed on 5 September 1997▲)

Educated in Switzerland, Mr. Bischof has been engaged in the field of asset management and private banking in Hong Kong since 1971, including several years with the former Swiss Bank Corporation. Prior to coming to Hong Kong, Mr. Bischof also worked for a leading British investment bank in London, Madrid and New York. He joined Sir Elly Kadoorie & Sons Ltd. as a Director in 1996. He is also the Chairman of Nanyang Holdings Ltd.

7 Ian Duncan Boyce

FCA, aged 63 (Appointed on 19 November 1999)

A chartered accountant from the United Kingdom, Mr. Boyce spent 18 years with the Warburg group, six years of which were as Managing Director of East Asia Warburg in Hong Kong. Mr. Boyce was Managing Director (Vice Chairman from April 1998) of Schroders Asia before joining Sir Elly Kadoorie & Sons Ltd. in 1999, of which he became Chairman in April 2006. Mr. Boyce is also the Deputy Chairman of The Hongkong and Shanghai Hotels, Ltd. and a Non-executive Director of Tai Ping Carpets International Ltd.

8 Jason Holroyd Whittle

MA, aged 40, F&G, RA, SEE (Appointed on 9 May 2006)

Mr. Jason Whittle holds a Master of Arts degree from the University of Pompeu Fabra in Barcelona, Spain. He is the son-in-law of Mr. R. J. McAulay. Mr. Whittle is a Director of Sir Elly Kadoorie & Sons Ltd. and the Chairman of LESS Ltd., which is a general partner of a venture capital fund of funds focused on the environmental sector.

9 Lee Yui Bor

BSc, MSc, PhD, DIC, C.Eng., MIEE, FHKIE, aged 61, C (Appointed on 4 August 2003)

Dr. Lee holds a BSc degree in Electrical Engineering from the University of Hong Kong, an MSc degree from Imperial College, University of London and a PhD from the University of Bath. He is a Chartered Engineer, a Fellow of the Hong Kong Institution of Engineers and Honorary Fellow of the Association of the Electricity Supply Industry of East Asia and the Western Pacific. Dr. Lee is a director of Longmen Group Ltd., Metrojet Ltd. and Heliservices (Hong Kong) Ltd. He is also an Honorary Professor of the University of Hong Kong. He first joined the CLP Group in 1976 and retired as an Executive Director in 2007.

10 Paul Arthur Theys

aged 50, C, RA (Appointed on 1 January 2008)

Mr. Theys is Lead Country Manager for ExxonMobil's business in the Chinese mainland and Hong Kong. He is the Chairman of ExxonMobil (China) Investment Co., Ltd. and ExxonMobil Hong Kong Ltd.; and ExxonMobil's representative on the boards of the Fujian joint venture companies - Fujian Refining & Petrochemical Co. Ltd. and Sinopec SenMei (Fujian) Petroleum Company Limited. Mr. Theys graduated from the University of Leuven, Belgium in 1980 with a Master Degree in Chemical Engineering (greatest distinction).

Independent Non-executive Directors

1 The Honourable Sir Sze Yuen Chung

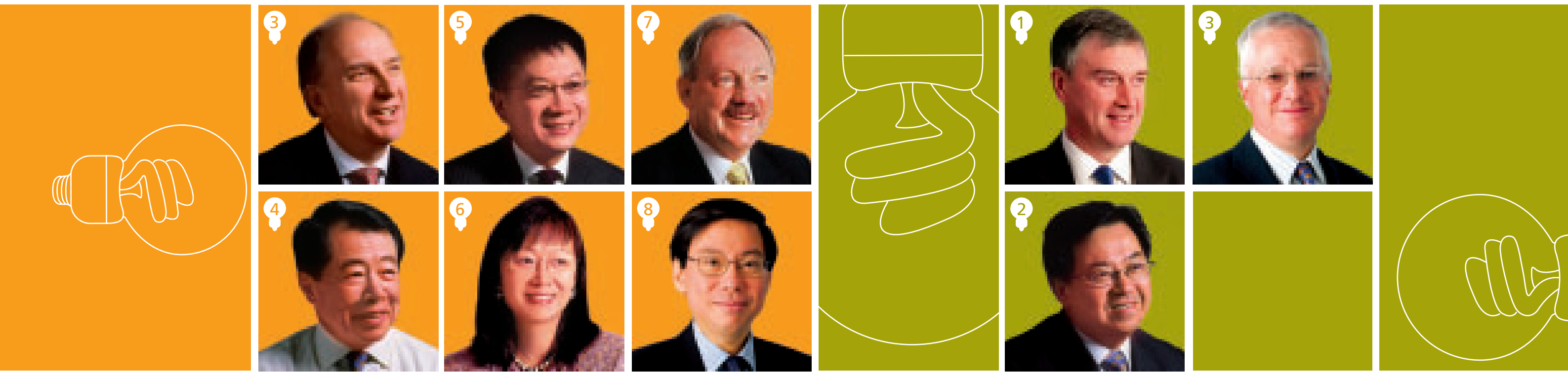
GBM, GBE, PhD, FREng., JP, aged 90, H, N, RA (Appointed on 23 March 1967▲)

Sir S. Y. is the Chairman and an Independent Non-executive Director of Transport International Holdings Limited (previously known as The Kowloon Motor Bus Holdings Ltd.), a Director of Sun Hung Kai Properties Ltd. as well as other companies in Hong Kong. He has contributed significantly in Hong Kong's political, industrial, social and tertiary education fields for over four decades. He was Senior Member of Hong Kong Legislative Council (1974-78), Executive Council (1980-88), and again Convenor of HKSAR Executive Council (1997-99). He was deeply involved in the Sino-British negotiations on Hong Kong's future (1982-85) and the establishment of the HKSAR (1993-97).

2 Fung Kwok Lun William

OBE, DBA, MBA, BSE, JP, aged 59, N, SEE (Appointed on 26 August 1994▲)

Dr. Fung is Group Managing Director of Li & Fung Ltd., and has held key positions in major trade associations. He holds a Bachelor of Science degree in Engineering from Princeton University, an MBA degree from the Harvard Graduate School of Business and an Honorary Doctorate degree of Business Administration awarded by the Hong Kong



University of Science and Technology. He is also a Non-executive Director of HSBC Holdings plc, Integrated Distribution Services Group Ltd. and Convenience Retail Asia Ltd. and Independent Non-executive Director of VTech Holdings Ltd. and Shui On Land Ltd.

3 Vernon Francis Moore

BBS, FCA, FCPA, aged 61, A, F&G, H, RA
(Appointed on 7 March 1997▲)

Mr. Moore is an Executive Director of CITIC Pacific Ltd. In addition to CLP, he is a Non-executive Director of Cathay Pacific Airways Ltd.; and Chairman of both the New Hong Kong Tunnel Company Ltd. and the Western Harbour Tunnel Company Ltd. He is a member of the Financial Reporting Council and the Securities and Futures Appeal Tribunal.

4 Loh Chung Hon Hansen

aged 70, A, RA
(Appointed on 5 May 2000)

Mr. Loh is the Managing Director of Wyler Textiles Ltd. and a Non-executive Director of CITIC Pacific Ltd., of which he is also a member of the Audit Committee.

5 Kan Man Lok Paul

CBE, Comm OSSI, Chevalier de la Légion d'Honneur, JP, MBA, aged 61
(Appointed on 7 September 2001)

Mr. Kan holds an MBA degree from the Chinese University of Hong Kong, an Honorary Doctor of Humane Letters degree from the University of Northern Virginia in U.S.A., and an Honorary Fellow from the Academy of Chinese Studies in China. He is the founder and the Chairman of Champion Technology Holdings Ltd., DIGITALHONGKONG.COM and Kantone Holdings Ltd., all listed on the Hong Kong Stock Exchange.

6 Tsui Lam Sin Lai Judy

PhD, MSc, BCom, FCPA, FCPA(Aust.), CA, aged 53, A, C, SEE
(Appointed on 10 May 2005)

Professor Judy Tsui is currently Associate Vice President, Dean of the Faculty of Business, Director of the Graduate School of Business and Chair Professor of Accounting at The Hong Kong Polytechnic University. She holds a Bachelor of Commerce in Accounting and Management Information Systems from the University of British Columbia, a Master of Science in Accounting and Finance from the London School of Economics and Political Science and a PhD in Accounting from The Chinese University of Hong Kong. Professor Tsui is also an Independent Non-executive Director of China Vanke Company Limited, a listed company on the Shenzhen Stock Exchange.

7 Sir Roderick Ian Eddington

aged 58, F&G, H (Appointed on 1 January 2006)

Sir Rod Eddington was the 1974 Rhodes Scholar at the University of Western Australia. He completed a D Phil in the Department of Engineering Science at Oxford University. He is a Non-executive Director of News Corporation, John Swire & Sons Pty Limited, Rio Tinto plc and Allco Finance Group Limited. He is the Non-executive Chairman for Australia and New Zealand of JP Morgan Chase Bank N.A. and also a Director of TRUenergy Holdings Pty Ltd. Sir Rod Eddington was the Chief Executive of British Airways plc from 2000 until he retired on 30 September 2005. He has close connections with Hong Kong through his previous directorships with Cathay Pacific Airways Limited, Swire Pacific Limited and Hong Kong Aircraft Engineering Company Limited during the period from 1988 to 1996.

8 Lee Ting Chang Peter

JP, aged 54, SEE (Appointed on 1 March 2007)

Mr. Lee is the Chairman of Hysan Development Company Limited and a Non-executive Director of Cathay Pacific Airways Limited, Hang Seng Bank Limited, SCMP Group Limited and Maersk China Limited. Mr. Lee holds a Bachelor of Science Degree in Civil Engineering from the University of Manchester, United Kingdom. He is also a qualified solicitor of the Supreme Court of England and Wales.

Executive Directors

1 Andrew Clifford Winawer Brandler

MA, MBA, ACA, aged 51, C, F&G, RA, SEE
(Appointed on 6 May 2000)

Mr. Brandler holds an MA degree from Cambridge University, MBA degree from Harvard Business School, and is a Member of The Institute of Chartered Accountants in England and Wales. He joined the CLP Group as the Group Managing Director and Chief Executive Officer in May 2000. Prior to joining the CLP Group, Mr. Brandler was an investment banker, specialising in the energy and utility sectors and was the Head of Asia-Pacific Corporate Finance with Schroders, based in Hong Kong. Mr. Brandler is the Deputy Chairman of The Hong Kong General Chamber of Commerce (HKGCC) and has temporarily taken up the duties of the Chairman of HKGCC.

2 Tse Pak Wing Peter

BSc(Eng.), MSc, FCA, FCPA, aged 56, C, F&G, P, RA
(Appointed on 17 February 2000)

Mr. Tse holds a BSc degree in Mechanical Engineering from the University of Hong Kong and an MSc degree from the University of Stirling in Scotland. He is a Fellow of The Institute of Chartered Accountants in England and Wales and a Fellow of The Hong Kong Institute of Certified Public Accountants. Mr. Tse is the Chief Financial Officer of the Group. Before joining the CLP Group in 1981, he worked with Deloitte & Co. in London and Hong Kong, and the Swire Group.

3 Peter William Greenwood

MA, FCS, FCIS, aged 51, F&G, SEE
(Appointed on 1 March 2007)

Mr. Greenwood holds an MA degree in law from the University of Cambridge and a diploma in German law and legal system from the University of Tuebingen. In 2006, he completed full-time study for an MA degree in War Studies from King's College, London University (with distinction). He is a Fellow of The Institute of Chartered Secretaries in England and a Fellow of The Hong Kong Institute of Chartered Secretaries. He is a solicitor in England and Wales and in Hong Kong, as well as being qualified as an avocat in France. Mr. Greenwood is the Executive Director – Strategy. Prior to stepping down in 2005, Mr. Greenwood was an Executive Director (since 2001), the Company Secretary and Corporate Counsel (since 1996) of CLP Holdings.

A Audit Committee
C China Committee
F&G Finance & General Committee
H Human Resources & Remuneration Committee
N Nomination Committee
P Provident & Retirement Fund Committee
RA Regulatory Affairs Committee
SEE Social, Environmental & Ethics Committee

▲ The date given is that of appointment to the Board of China Light & Power Co., Ltd., the holding company of the CLP Group prior to the Group Reorganisation in 1998. All of these Directors were appointed to the Board of CLP Holdings Ltd. on 31 October 1997.

Full particulars of Directors and Senior Management, including their directorships in the subsidiary companies of CLP Holdings are available on our website.

Back row from left: Shen Zhongmin, Richard McIndoe, Peter Littlewood, Rajiv Mishra, Mark Takahashi, Stefan Robertsson
Front row from left: Betty Yuen, Peter Greenwood, Andrew Brandler, Peter Tse

Senior Management

Andrew Clifford Winawer Brandler
Chief Executive Officer

(Please refer to Mr. Brandler's biography on page 101 of this Annual Report)

Tse Pak Wing Peter
Group Executive Director & Chief Financial Officer

(Please refer to Mr. Tse's biography on page 101 of this Annual Report)

Peter William Greenwood
Executive Director – Strategy

(Please refer to Mr. Greenwood's biography on page 101 of this Annual Report)

Yuen So Siu Mai Betty
Group Director – Managing Director Hong Kong, B.Comm., CA (Canada), aged 50, C, F&G, RA

Mrs. Yuen has overall responsibility for the operations of the Hong Kong business. She began her career in public accounting in Canada. She spent 13 years with ExxonMobil Energy Limited and her last position there was Executive Director – Finance and Development before joining CLP Power Hong Kong Limited as Director – Finance and Planning in 1999. Mrs. Yuen became Managing Director, CLP Power Hong Kong Limited in April 2002.

Richard Iain James McIndoe
Group Director – Managing Director Australia, MA, MBA, aged 43, F&G

Before taking up his current position as Managing Director of TRUenergy in mid 2006, Mr. McIndoe was responsible for the development and management of the CLP Group's international electricity business in the Asia-Pacific region. Mr. McIndoe joined the CLP Group in 2002. He has extensive background in business development and commercial asset management in the regional electricity industry. He holds an MA degree from the University of Cambridge and an MBA degree from INSEAD Business School in France.

Shen Zhongmin
Managing Director – China, MA, LLM, BSc, aged 44, C

Mr. Shen is responsible for the Group's activities in the Chinese mainland. Before taking up this position in 2006, he was an Executive Director and Chief Operating Officer of China Resources Power Holdings Company Limited. Mr. Shen was a Senior Vice President of Sithe Asia Holdings Limited and the Managing Director of Sithe China Holdings Limited. He holds Bachelor of Science and Master of Law degrees from Beijing University, a Master of Arts degree in Economics from the University of Tennessee and an EMBA from Beijing University.

Rajiv Ranjan Mishra
Managing Director – India, MBA, aged 42

Mr. Mishra is responsible for asset management and business development of CLP's investments in India. He joined the CLP Group in 2002 and has 12 years' experience in the power industry, both in India and internationally, mostly involved in project financing, investment appraisal, finance and accounting and general management. Mr. Mishra assumed his current position in July 2005. He holds a Bachelor in Engineering degree (first class distinction) and an MBA degree from the Indian Institute of Management, Lucknow.

Mark Takahashi
Chief Executive Officer – OneEnergy Limited, BSc (Eng.), MBA, aged 49

Before taking up the overall responsibility for the business of OneEnergy Limited, Mr. Takahashi was the Group Director – Corporate Development, responsible for development and financing activities, including project development, acquisitions, project finance and treasury. He joined CLP Holdings in December 2003. He has over 18 years' experience in the power industry in the United States and in Asia. He holds an MBA degree from Wharton School, University of Pennsylvania and a BSc degree in civil engineering from the University of Colorado.

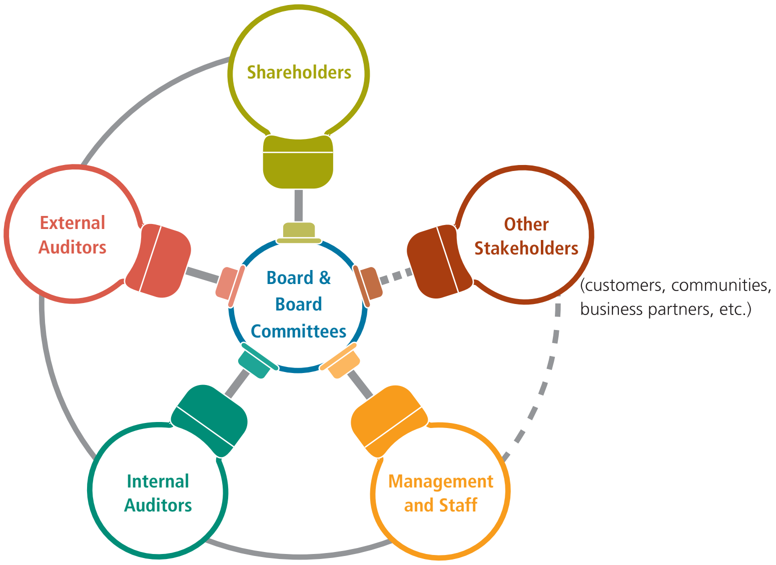
Peter Albert Littlewood
Group Director – Operations, MA, aged 56

Mr. Littlewood is responsible for the CLP Group's Construction, Operations and Fuel Procurement activities. He joined the CLP Group in 1977 and has over 30 years' experience in the power industry, mostly involved in project development, project management, operations and general management. He holds an MA degree in Engineering (first class honours) from the University of Cambridge and has completed the Harvard Business School Advanced Management Programme.

John Stefan Robertsson
Group Director – Corporate Finance and Development, aged 43, C

Mr. Robertsson is responsible for corporate finance and development activities, as well as renewable energy business, throughout the CLP Group. Before taking up his current position, Mr. Robertsson was the Head of Corporate Finance and Treasury for our international business. He has 15 years' experience in business development, merger and acquisition, corporate finance, and project finance in the Asia-Pacific region. Mr. Robertsson earned his degree in Financial Economics at the Stockholm School of Economics.

Corporate Governance Report



CLP's Corporate Governance Framework

CLP's Corporate Governance Framework rests on two important commitments:

- We disclose our corporate governance practices openly and fully; and
- We review our principles and practices in light of experience, regulatory requirements and international developments – recognising the need to move promptly in response to incoming regulatory changes and developing corporate governance practices.

We use this framework to identify the key players involved in ensuring the application of good governance practices and policies within the CLP Group and to give structure to our explanation of those practices and policies.

Through this Corporate Governance Report, the "CLP Code on Corporate Governance" (the CLP Code) and the Corporate Governance section on our website, we keep shareholders abreast of all our policies and practices so that they can judge whether these are of a standard which meets their expectations and properly serves their interests.

"The CLP Code on Corporate Governance"

The Hong Kong Stock Exchange's Code on Corporate Governance Practices (the Stock Exchange Code) took effect for accounting periods commencing from 1 January 2005 onwards. It sets out principles of good corporate governance and two levels of recommendation, namely:

- Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and
- Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

The Stock Exchange allows issuers to devise their own codes on corporate governance practices on such terms as they may consider appropriate, provided reasons are given for any deviation from the Stock Exchange Code.

In February 2005, the Board approved the CLP Code with immediate effect. The CLP Code was updated in February 2007 and is set out on our website. Shareholders may obtain a hard copy from the Company Secretary on request at any time, or complete and return the form enclosed with this Annual Report.

The decision to adopt the CLP Code, as opposed to the Stock Exchange Code, reflected our wish to express our corporate governance practices, which in a number of respects went beyond the terms of the Stock Exchange Code, in our own words and with a structure which corresponded to our existing framework.

The CLP Code incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange Code, save for the single exception specified and explained below. It exceeds the requirements of the Stock Exchange Code in many aspects. 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 this Corporate Governance Report.

The following are the major respects in which the CLP Code exceeds, meets or deviates from the Code Provisions and Recommended Best Practices of the Stock Exchange Code.

Exceeds	Meets	Deviates	
✓✓			CLP has established a Corporate Governance Framework which covers all of the relationships and responsibilities of the external and internal corporate governance stakeholders in a comprehensive and structured way.
✓✓			CLP acknowledges shareholders' rights as set out in the Organisation for Economic Cooperation and Development's "Principles of Corporate Governance".
✓✓			More than one-third of the CLP Board are Independent Non-executive Directors.
✓✓			CLP has adopted its own Code for Securities Transactions by Directors, which is on terms no less exacting than the required standard as set out in the Model Code under Appendix 10 of the Listing Rules. This Code also applies to other "Specified Individuals" such as members of the CLP Group's Senior Management. A copy of this Code is available on the CLP website.
✓✓			In addition to the disclosure of interests of Directors and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions, we disclose Senior Management's interests in CLP Holdings' securities and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions.
✓✓			We issue a formal letter of appointment for Non-executive Directors, modelled on the letter of appointment in the "Higgs Report" in the U.K. on the "Review of the Role and Effectiveness of Non-executive Directors". The model letter is on our website and deals with a range of matters regarding a Director's appointment and responsibilities.
✓✓			The Audit Committee comprises only Independent Non-executive Directors. Two of the three Independent Non-executive Directors have appropriate professional qualifications, accounting and related financial management expertise.
✓✓			CLP publishes its annual performance on environmental issues. Our on-line Sustainability Report provides comprehensive information on CLP's environmental performance.
✓✓			We announce our financial results within two months after the end of the financial year. We publish our full Annual Report on our website within the following fortnight and send this to shareholders about two weeks after that.
✓✓			We provide enhanced disclosure of financial information about the CLP Group's jointly controlled entities and associated companies.
✓✓			The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) submit an annual "General Representation Letter" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures.
✓✓			We issue a Remuneration Report which sets out the policies applied to determining remuneration levels and explains the remuneration paid to all Directors and Senior Management.
✓✓			We adopt a Fair Disclosure Policy which sets out the principles for the broad and non-exclusionary distribution of information to the public.
	✓		All Code Provisions of the Stock Exchange Code.
	✓		All Recommended Best Practices of the Stock Exchange Code, except the single one explained below.
		✗	Recommended Best Practice – an issuer should announce and publish quarterly financial results. CLP issues quarterly statements which set out key financial and business information such as revenue, electricity sales, dividends and progress in major activities. CLP does not issue quarterly financial results. The reason is a judgment that, as a matter of principle and practice, quarterly reporting does not bring significant benefits to shareholders. Quarterly reporting encourages a short-term view of a company's business performance. CLP's activities do not run and should not fall to be disclosed and judged on a three month cycle. Preparation of quarterly reports also costs money, including the opportunity cost of board and management time spent on quarterly reporting. CLP's position is set out on our website as an update of the views that we expressed in 2002 and which were accompanied by a standing invitation to shareholders to let us know if their views differed. Up to the date of this Report, we have received no such feedback from shareholders. We would review our position if and when there was a clear demand from shareholders for quarterly reporting. CLP's focus remains on enhancing the quality of its reporting to shareholders through existing channels such as the Annual Report, Sustainability Report and its website – all of which exceed regulatory requirements in the extent of disclosure made.

Our website includes an annotated version of the CLP Code, with cross-references from the CLP Code to the corresponding Code Provisions and Recommended Best Practices of the Stock Exchange Code.

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.

In 2007, we made further progress in the evolution of our corporate governance practices, in line with the CLP Code and emerging developments in global corporate governance practices.

Evolution of CLP's Corporate Governance in 2007

- Carried out CLP's first corporate governance roadshow to the U.K. to encourage feedback from institutional investors and analysts on CLP's corporate governance practices
- Appointed an additional Independent Non-executive Director, as a result of which more than one-third (8 out of 21) of Directors are independent
- Continued to roll-out the development programme for Directors to include a visit to CLP's business in India and participation in the Shareholders' Visit Programme in Hong Kong
- Launched Anti-Fraud Policy and implemented Fraud Risk Assessment
- Included a separate Audit Committee Report in this Annual Report
- Shared our expertise and views on corporate governance issues by responding to Consultation Papers issued by various authorities
- Contributed to The Policy Oriented Corporate Governance Research Fund of the Chinese University of Hong Kong

Shareholders

The Board and Senior Management recognise their responsibilities to represent the interests of all shareholders and to maximise shareholder value. The "CLP and our Shareholders" section of this Annual Report details our policies and actions in this respect. In addition, the CLP Code highlights key rights enjoyed by shareholders.

The Company is incorporated in Hong Kong. We have chosen to be subject to the company law of the jurisdiction in which a major part of our business is based, where our shares are listed and where the vast majority of our shareholders are resident.

Further to the Hong Kong Companies Ordinance and our Articles of Association, an Extraordinary General Meeting (EGM) can be convened by a written request signed by shareholders holding not less than one-twentieth of the paid-up share capital of CLP, stating the objects of the meeting, and deposited at our registered office in Hong Kong at 147 Argyle Street, Kowloon.

The procedures for shareholders to put forward proposals at an Annual General Meeting (AGM) or EGM include a written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the registered office. The detailed procedures vary according to whether the proposal constitutes an ordinary resolution or a special resolution, or whether the proposal relates to the election of a person other than a Director of the Company as a Director. The relevant procedures are set out in the Notice of AGM which accompanies the despatch of this Annual Report to shareholders and will be included with the notice to shareholders of any future AGM. The procedures for shareholders to convene and put forward proposals at an AGM or EGM are available on our website or on request to the Company Secretary.

The most recent shareholders' meeting was the AGM held on 24 April 2007 at the Hong Kong Polytechnic University, Kowloon, Hong Kong. The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Election of Messrs. Jason Whittle, Peter T. C. Lee and Peter Greenwood and re-election of Messrs. Vernon Moore, Rudolf Bischof, Hansen C. H. Loh, W. E. Mocatta, Peter P. W. Tse and Andrew Brandler as Directors of the Company (99.630% to 99.886% in respect of each individual resolution);
- Revised levels of remuneration payable to the Non-executive Directors including Independent Non-executive Directors who serve on the Board and Board Committees (99.987%); and

- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (82.861%).

All resolutions put to shareholders were passed at the 2007 AGM. The results of the voting by poll have been published on CLP's website, the website of the Hong Kong Stock Exchange and also by notice in local newspapers. The full proceedings of the AGM can be viewed on the "Corporate Governance" section of the Company's website. Minutes of the AGM were sent to shareholders along with the Company's first quarterly statement for 2007.

CLP uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports and quarterly statements. The AGM provides an opportunity for communication between the Board and the Company's shareholders. The Company regards the AGM as an important event in the corporate year and all Directors and Senior Management make an effort to attend. The Chairmen of the Audit Committee and Human Resources & Remuneration Committee attend the AGM and will take shareholders' questions. Our policy is to involve shareholders in the Company's affairs and to communicate with them face-to-face at the AGM and during visits to CLP about our activities and prospects.

The "CLP and Our Shareholders" section of this Annual Report sets out a wide range of other information of particular interest to shareholders, including

- details of the profile of the shareholders in the Company and aggregate shareholding;
- an explanation of the extent of the Company's public float as at 28 February 2008, being the latest practicable date prior to the issue of this Annual Report; and
- a calendar of important shareholders' dates for 2008.

Enquiries may be put to the Board by contacting either the Company Secretary through our shareholders' hotline (852) 2678 8228, e-mail at cosec@clp.com.hk or directly by questions at an AGM or EGM. Questions on the procedures for convening or putting forward proposals at an AGM or EGM may also be put to the Company Secretary by the same means.

The Board

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

The types of decisions which are to be taken by the Board include those relating to

- the strategic direction of the Group;
- the objectives of the Group;
- monitoring the performance of Management;
- overseeing the management of CLP's relationships with stakeholders, such as Government, customers, the community and others who have a legitimate interest in the responsible conduct of the Group's business;
- ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and
- setting the Group's values and standards.

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

As at the date of this report, the Board comprises 21 Directors. All Directors (with the exception of the CEO, CFO and the Executive Director – Strategy) are non-executive and independent of management, thereby promoting critical review and control of the management process. The Board includes eight influential and active Independent Non-executive Directors to whom shareholder concerns can be conveyed. The non-executive members of the Board also bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group.

Details of all Directors are given on pages 100 and 101 of this Annual Report. The relationships (including financial, business, family or other material or relevant relationships) among Members of the Board are also disclosed. There is no such relationship as between the Chairman and the CEO. Eight Non-executive Directors (see page 100) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (34.84%) in CLP. In common with all Directors, they are aware of their responsibilities to all Shareholders.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board Meetings and withdraw from the meetings as appropriate. In 2007, there were two occasions when a Non-executive Director declared his indirect interests and withdrew from the relevant discussions at the Board meetings. The Company follows guidelines (available at the "Corporate Governance" section of our website) at each financial reporting period to seek confirmation from Directors in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates. The identified significant related party transactions are disclosed in the Notes to the Financial Statements of the Annual Report.

Throughout the year ended 31 December 2007, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of at least three Independent Non-executive Directors (CLP had eight), and that there should be one director with appropriate professional qualifications or accounting or related financial management expertise on the Audit Committee (there are two such directors on CLP's Audit Committee).

Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each Independent Non-executive Director of his/her independence to the Company. The Company considers all of the Independent Non-executive Directors to be independent.

Directors' Visit to CLP India

The full Board meets in person at least quarterly and on other occasions when a Board decision is required on major issues. Details of Directors' attendance at the AGM, Board and Board Committee Meetings held in 2007 are set out in the following table. The overall attendance rate of Directors at Board Meetings was 89.3% (2006 : 87.2%).

Directors	Meetings Attended/Held									
	Board[+]	Audit Committee	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Regulatory Affairs Committee[!]	Social, Environmental & Ethics Committee	China Committee	AGM
Non-executive Directors										
The Hon. Sir Michael Kadoorie	4/6				~				2/2	1
Mr. W. E. Mocatta	6/6		7/7	2/2		2/2	0/0		1/2	1
Mr. J. S. Dickson Leach	6/6									1
Mr. R. J. McAulay	5/6									0
Mr. J. A. H. Leigh	5/6									1
Mr. R. Bischof	6/6					2/2				1
Mr. I. D. Boyce	6/6									1
Mr. P. C. Tan[#]	5/6						0/0		0/2	1
Mr. Jason Whittle	5/6		4/7				0/0	2/2		1
Dr. Y. B. Lee[❖]	6/6								1/2	1
Independent Non-executive Directors										
The Hon. Sir S. Y. Chung	6/6			2/2	~		0/0			1
Dr. William K. Fung	3/6				~			1/2		0
Mr. V. F. Moore	6/6	4/4	5/7	2/2			0/0			1
Mr. Hansen C. H. Loh	6/6	4/4					0/0			1
Mr. Paul M. L. Kan	6/6									1
Professor Judy Tsui	5/6	2/4						1/2	2/2	1
Sir Rod Eddington[^]	5/6		1/7	0/0				1/1		0
Mr. Peter T. C. Lee[*]	3/5							1/1		1
Executive Directors										
Mr. Andrew Brandler	5/5		7/7				0/0	2/2	1/2	1
Mr. Peter P. W. Tse	5/5		6/7			2/2	0/0		2/2	1
Mr. Peter W. Greenwood[@]	4/4		2/5					1/1		1

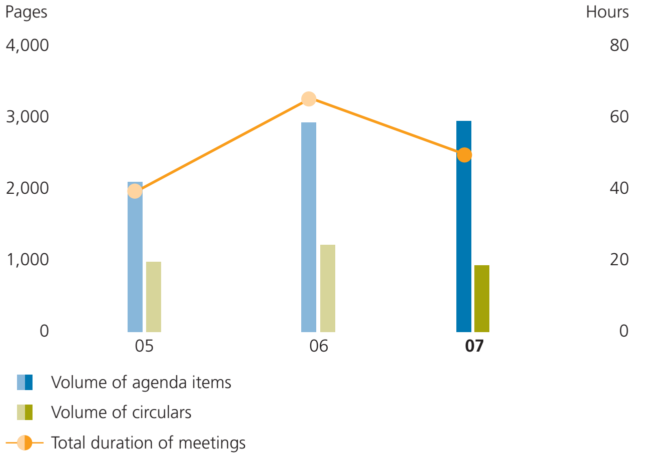
+ Included a Board Meeting where the Chairman met with Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors and management present.
# Mr. P. C. Tan resigned as a Director and a Member of the Regulatory Affairs Committee and China Committee on 15 December 2007.
❖ Dr. Y. B. Lee retired as an Executive Director on 31 January 2007 and ceased to be a Member of the Regulatory Affairs Committee with effect from the same date. He continues to serve as a Non-executive Director effective from 1 February 2007.
^ Sir Rod Eddington stepped down from the Social, Environmental & Ethics Committee and was appointed a Member of the Human Resources & Remuneration Committee with effect from 15 May 2007.
* Mr. Peter T. C. Lee was appointed as an Independent Non-executive Director on 1 March 2007 and a Member of the Social, Environmental & Ethics Committee on 15 May 2007.
@ Mr. Peter W. Greenwood was appointed an Executive Director on 1 March 2007 and a Member of the Finance & General Committee and the Social, Environmental & Ethics Committee with effect from 1 March 2007.
~ Review and approval of nominations of Directors' appointments were by circulars to all the members of the Nomination Committee which had considered such nominations on three separate occasions in 2007.
! In light of the importance of the post-2008 regulatory regime for our Hong Kong electricity business, matters relating to the Scheme of Control have been considered by the full Board during 2007 instead of being referred to the Regulatory Affairs Committee.

Directors ensure that they can give sufficient time and attention to the affairs of the Company and a confirmation to that effect is included in their letters of appointment. Directors have disclosed to the Company the number and nature of offices held in public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. During the year ended 31 December 2007, no Director held directorships in more than seven public companies, including the Company. No Executive Directors hold any directorship in any other public companies, but they are encouraged to participate in professional, public and community organisations. In respect of those Directors who stand for re-election at the 2008 AGM, all their directorships held in listed public companies in the past three years are set out in the Notice of AGM. Other details of Directors' appointments are set out in "Directors and Senior Management" section at page 100 of this Annual Report and on CLP's website.

As part of the continuous professional development programme, Directors participated in the Shareholders' Visit Programme, various briefings and visits to CLP's facilities including one to CLP's businesses in India in 2007.

To indicate the attention given by our Board to the oversight of CLP's affairs, we provide a further table summarising the duration of those meetings and the volume of papers reviewed by Directors during 2007.

Workload of Board and Board Committees



The interests in CLP's securities held by Directors as at 31 December 2007 are disclosed in the Directors' Report of this Annual Report at page 127. Particular attention is given to dealings by Directors in shares in CLP. Since 1989, the Company has adopted its own Code for Securities Transactions by Directors, largely based on the Model Code set out in Appendix 10 of the Listing Rules. Our Code for Securities Transactions also applies to other "Specified Individuals" such as Members of the CLP Group's Senior Management. Our Code is periodically updated to reflect new regulatory requirements, as well as our strengthened regime of disclosure of interests in our securities. This 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 throughout the year ended 31 December 2007 they complied with the required standard set out in the Model Code and our own Code for Securities Transactions.

Appointment of Directors

CLP follows a formal, considered and transparent procedure for the appointment of new directors. Appointments are first considered by the Nomination Committee. The recommendations of the Committee are then put to the full Board for decision. Thereafter, all Directors are subject to election by shareholders at the AGM in their first year of appointment.

As approved by shareholders at the AGM in 2005, all Non-executive Directors are appointed for a term of not more than four years. This term is subject to curtailment upon that Director's retirement by rotation and re-election by shareholders. One-third of the Directors, including both Executive and Non-executive Directors, are required to retire from office at the AGM in each year. A retiring director is eligible for re-election.

All Non-executive Directors have a formal letter of appointment, modelled on the letter of appointment in the "Higgs Report" in the U.K. on the "Review of the Role and Effectiveness of Non-Executive Directors". Non-executive Directors are paid fees for their services on Board and Board Committees, based on a formal independent review.
The remuneration policy and fees paid to each Non-executive Director in 2007 are set out in the Remuneration Report at page 120 of this Annual Report.

Chairman and Chief Executive Officer

The posts of Chairman and CEO are held separately by The Hon. Sir Michael Kadoorie and Mr. Andrew Brandler respectively. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Company's business. The respective responsibilities of the Chairman and CEO are more fully set out in the CLP Code.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2007 and in 2008 up to the date of this Report (the "Relevant Period"). The terms of reference and membership of the Committees are disclosed in full on the CLP website. They are also available in writing upon request to the Company Secretary.

Membership of Nomination Committee

A majority of the members are Independent Non-executive Directors. The current members are The Hon. Sir Michael Kadoorie (Chairman), The Hon. Sir S. Y. Chung and Dr. William K. Fung.

Responsibilities and Work Done

This Committee is responsible for identification and recommendation to the Board of possible appointees as Directors, making recommendations to the Board on matters relating to appointment or reappointment of Directors, succession planning for Directors and assessing the independence of the Independent Non-executive Directors. The work performed by the Committee during the Relevant Period included

- nomination of Mr. Peter Lee as Independent Non-executive Director and Mr. Peter Greenwood as Executive Director with effect from 1 March 2007;
- nomination of Mr. Peter Lee, Mr. Vernon Moore and Mr. Hansen Loh for election/re-election as Independent Non-executive Directors at the 2007 AGM; and
- nomination of Mr. Paul Theys as Non-executive Director with effect from 1 January 2008.

At the 2008 AGM, Mr. Theys, who was appointed by the Board, will retire and present himself for election. Seven other Directors will retire by rotation and present themselves for re-election by shareholders. The independence of those who are Independent Non-executive Directors has been reviewed by the Nomination Committee.

Membership of Social, Environmental & Ethics Committee

Mr. Andrew Brandler (Chairman), Dr. William K. Fung, Professor Judy Tsui, Mr. Peter T. C. Lee, Mr. Jason Whittle, Mr. Peter W. Greenwood and Dr. Gail Kendall.

Responsibilities and Work Done

This Committee oversees CLP's positions and practices on issues of corporate social responsibility, principally in relation to social, environmental and ethical matters that affect shareholders and other key stakeholders. During the Relevant Period, the Committee reviewed

- the Group Climate Strategy, including climate risk matrix and targets;
- 2006 CLP Group Social and Environmental Report;
- CLP's investment in community support and development;
- the 2007 CLP Group Sustainability Report;
- the Group Climate Change Plan and environmental communications;
- the Group Sulphur Dioxide Emissions Criteria; and
- the status of CLP Group social and environmental goals.

Membership of Provident & Retirement Fund Committee

Mr. W. E. Mocatta (Chairman), Mr. R. Bischof, Mr. Peter P. W. Tse and a Trustee.

Responsibilities and Work Done

This Committee advises the Trustees on investment policy and objectives for the Group's retirement funds, namely the CLP Group Provident Fund Scheme and the Mandatory Provident Fund Scheme. During the Relevant Period, the Committee reviewed the position of the funds, monitored the performance of the investment managers and considered and made recommendations to the Trustees on the appointment and removal of investment managers. The Committee also reviewed the investment of available funds outside the portfolios of the investment managers.

Membership of Human Resources & Remuneration Committee

A majority of the members of the Committee are Independent Non-executive Directors. In line with good practice, there are no Executive Directors on this Committee. The current members are Mr. W. E. Mocatta (Chairman), The Hon. Sir S. Y. Chung, Mr. V. F. Moore and Sir Rod Eddington.

Responsibilities and Work Done

This Committee is responsible for the review of major human resources and pay issues, including the approval of the Remuneration Report which is included in this Annual Report. During the Relevant Period, the Committee approved the 2006 and 2007 Remuneration Reports, and reviewed

- the Group Performance for 2006 and 2007 and Group Targets for 2007 and 2008;
- Base Pay Review for 2007 and 2008 for Hong Kong payroll staff;
- remuneration for TRUenergy and the Group's staff in India and Huaiji;
- CEO's remuneration;
- the Senior Executive Remuneration, including annual incentive payments for 2006 and 2007 and Base Pay Increases for 2007 and 2008;
- the long-term incentive plan for Senior Executive grade staff;
- the fees payable to Non-executive Directors; and
- CLP Group Centenary Scholarship Programme.

Membership of Finance & General Committee

Mr. W. E. Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington, Mr. Jason Whittle, Mr. Andrew Brandler, Mr. Peter P. W. Tse, Mr. Peter W. Greenwood, Mrs. Betty Yuen and Mr. Richard McIndoe.

Responsibilities and Work Done

This Committee meets as and when required to review the financial operations of the Company. Such reviews include Group-wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets. The Committee also reviews major acquisitions or investments and their funding requirements. The work performed by the Committee during the Relevant Period included the review of

- the Company's interim and annual results and the amounts of dividends payable to shareholders for the financial years ended 31 December 2006 and 2007;
- the Group's commitment to the Jiangbian Hydro Project in China;
- the Group's investment in the expansion of the CLP Guohua joint venture in China;
- the Group's investment in renewable projects in India, China and Australia;
- the restructuring of the Group's investment in Shandong, China;
- the Group's investment in Eastern Star Gas, Australia;
- bids for assets or projects in India, Australia and Asia Pacific;
- OneEnergy's investment opportunities in Vietnam, Indonesia, Thailand, Taiwan and Singapore;
- the CLP Group business plan and budget 2008-2012; and
- the Company's undertakings, guarantees and indemnities.

Membership of Regulatory Affairs Committee

Mr. Andrew Brandler (Chairman), Mr. W. E. Mocatta, The Hon. Sir S. Y. Chung, Mr. V. F. Moore, Mr. Paul A. Theys, Mr. Hansen C. H. Loh, Mr. Peter P. W. Tse, Mrs. Betty Yuen, Mr. David C. L. Tong and Mr. Jason Whittle.

Responsibilities and Work Done

This Committee reviews and advises upon matters in respect of the present or future regulation of CLP's Hong Kong electricity business. In light of the importance of the post-2008 Regulatory Regime for that business, the full Board itself paid particular attention to these matters throughout 2007 and therefore the Committee has not met during the Relevant Period. The Board has decided to abolish this Committee as from 1 March 2008.

Membership of China Committee

The Hon. Sir. Michael Kadoorie (Chairman), Mr. Andrew Brandler (Vice Chairman), Professor Judy Tsui, Ms. Marjorie Yang, Mr. W. E. Mocatta, Mr. Paul A. Theys, Dr. Y. B. Lee, Mr. David C. L. Tong, Mr. Peter P. W. Tse, Mrs. Betty Yuen, Mr. Shen Zhongmin and Mr. Stefan Robertsson.

Responsibilities and Work Done

This Committee oversees CLP's strategy and standing in the Chinese mainland. During the Relevant Period, the Committee reviewed matters including

- the business environment for CLP in the Mainland;
- China relations; and
- renewables business in the Mainland.

Audit Committee

Details of the Audit Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Audit Committee Report at page 118 of this Annual Report.

Management and Staff

The task of CLP's management and staff is the successful implementation of the strategy and direction as determined by the Board. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and CLP's shareholders and other stakeholders.

The division of responsibilities as between the Board, Board Committees, CEO and management is aligned with the provisions of the CLP Code. The written procedures documenting the delegation by the Board of specific authorities, including those to management, are expressed in the form of a "Company Management Authority Manual" (CMAM). Revisions to the CMAM which amend the approved authority delegated from the Board to Board Committees and the CEO require the approval of the Board. Revisions to delegation to management and staff below the level of the CEO can be approved by the CEO.

All management and staff, as well as Directors themselves, are subject to a formal Code of Conduct which places them under specific obligations as to the ethics and principles by which our business is conducted. This Code of Conduct is also set out in full on our website. Management and staff receive training on the Code and its implications. Management and staff above a designated level are required to sign annual statements confirming compliance with the Code. Non-compliance results in disciplinary action. Disciplinary measures are decided by the relevant line management and reviewed by a Code of Conduct Committee comprised of the CFO, Director – Group Legal Affairs and Director – Group Human Resources in order to ensure consistency and fairness.

During 2007, there were 9 breaches of the Code. Sanctions applied in 2007 ranged from reprimands to dismissal. None of the breaches of the Code involved senior managers or was material to the Group's financial statements or overall operations. No waivers of any of the requirements of the Code of Conduct were granted to any Director or senior manager or, for that matter, any other employee.

Senior Management (comprising the 10 managers, whose biographies are set out on page 102 of this Annual Report) and Specified Individuals are subject to the CLP Code for Securities Transactions in the same manner as Directors with respect to the notification and reporting requirements to the Company for dealings in CLP Holdings' securities and the prohibitions to deal. Save for the shareholdings disclosed by the Executive Directors in the Directors' Report at page 127 of this Annual Report and the 600 shares held by Group Director – Operations, other Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2007. Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2007, they complied with the standard set out in the Model Code and our own Code for Securities Transactions.

Members of Senior Management are paid remuneration in line with market practice and with regard to their performance. The principles and details of remuneration paid to individual members of Senior Management are set out in the Remuneration Report at page 120 of this Annual Report.

Professor Judy Tsui, our Director, hosting a Shareholders' Visit

Internal Auditors

CLP's Group Internal Audit department plays a major role in monitoring the internal governance of the CLP Group. The department is led by the Director – Group Internal Audit and includes 20 other professional staff. The tasks of the department are set out in the CLP Code and include

- unrestricted access to review all aspects of the CLP Group's activities and internal controls;
- comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries on a regular basis; and
- special reviews of areas of concern identified by management or the Audit Committee.

The Director – Group Internal Audit reports directly to the Audit Committee and the CEO and has direct access to the Board through the Chairman of the Audit Committee. The Director – Group Internal Audit has the right to consult the Committee without reference to management.

During 2007, the Group Internal Audit department issued reports to Senior Management covering various operational and financial units of the Group, including joint venture activities outside Hong Kong. Group Internal Audit also conducted reviews of major projects and contracts as well as areas of concern identified by management.

The annual audit plan, which is reviewed by the Audit Committee, is based on a risk assessment methodology, which assists in determining business risks and establishing audit frequencies. Concerns which have been reported by Group Internal Audit are monitored quarterly by management and by the Audit Committee until corrective measures have been implemented.

External Auditors

The Group's external auditors are PricewaterhouseCoopers. In order to maintain their independence, PricewaterhouseCoopers will not be employed for non-audit work unless this constitutes permissible non-audit work as defined in the Sarbanes-Oxley Act and has been pre-approved by the Audit Committee. In addition, there must be clear efficiencies and value-added benefits to CLP from that work being undertaken by the external auditors, with no adverse effect on the independence of their audit work, or the perception of such independence.

During the year, the external auditors (which for these purposes include any entity under common control, ownership or management with the external auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and permissible non-audit services to the Group:

	2007 HK$M	2006 HK$M
Audit	28*	30*
Permissible non-audit services		
Due diligence and accounting/tax advisory services relating to business developments	18	1
U.S. compliance review services	–	1
Other advisory services	3	1
Total	49	33

* Includes compliance review fees for Sarbanes-Oxley Act Section 404.

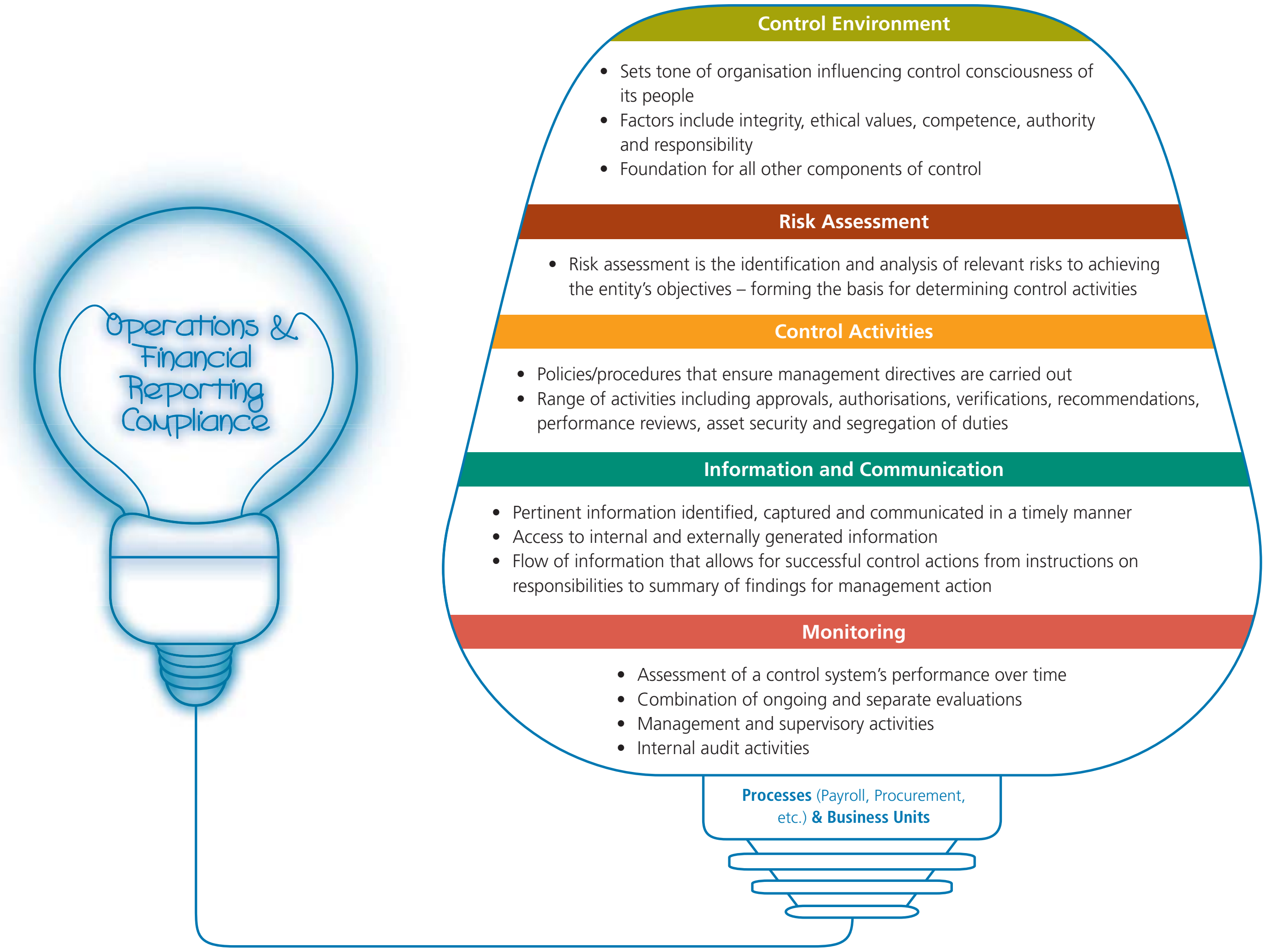
By virtue of U.S. securities legislation to which the Company was subject, a lead audit partner may not serve for more than five consecutive years, starting from May 2003. The lead audit partner of our external auditors after having served the Company's statutory audits in that capacity since 2001, has retired after the year ended 31 December 2006 and has been replaced by a partner who has not had any previous involvement in the CLP Group audit.

Other Stakeholders

Good governance requires due regard to the impact of business decisions (including environmental impact), both on shareholders and on other key stakeholders. This Annual Report and our Sustainability Report explain how we discharge our responsibilities to employees, customers, lenders, the environment and the communities in which we operate.

Internal Control

The Company has had in place for many years an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework as illustrated below:



Under our framework, management is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board of Directors and its Audit Committee oversee the actions of management and monitor the effectiveness of the controls that have been put in place.

Control Standards, Checks and Balances

The Company's expectations regarding duty and integrity are clearly spelt out in formal policy manuals, which include the Company's Code of Conduct and Management Control Standards Manual. Overseas subsidiaries are required to implement similar controls.

Our Management Control Standards form the backbone of all our major policies and procedures. They set out the basic control standards required for the formulation and administration of Group policies and for the planning, organising, and functioning of business entities. The standards cover those required for administrative and operating activities such as delegation of authority, personnel administration, planning, budgeting, performance monitoring, contracting, computer systems and facilities, safeguarding information and derivative instruments. They also cover those standards established to ensure the integrity and objectivity of accounting and financial records and that the objectives of authorisation, accounting and safeguarding of assets are met.

In CLP, our internal control system covers every activity and transaction of our Group. Our system is based on clear stewardship responsibilities, authorities and accountability. We emphasise to our employees that everyone, no matter where he or she stands in the corporate hierarchy, is an important part of our internal control system and we expect them to contribute to that system.

Built into our system are checks and balances such that no one party can "monopolise" a transaction, activity or process to conceal irregularities. As an integral part of our internal control system, well defined policies and procedures are properly documented and communicated.

In addition to setting out guidelines, principles and values, we recognise that an environment where employees feel free to bring problems to management is also necessary to make our internal control system successful. Our Code of Conduct makes it clear that all reports to management will be handled confidentially to the extent possible under the circumstances and, most importantly, that everyone in Senior Management will fully support those who in good faith report potential or actual breaches of the Code of Conduct.

No matter how well an internal control system is designed and maintained, it can only provide reasonable, but not absolute assurance. No system of control can totally eliminate the possibility of human error or deliberate attempts to defraud the Company. Recognising this, we maintain an effective Internal Audit function, whose main features include

- fully empowered auditors with access to all data and every operation of the Group;
- adequately resourced and well qualified and capable staff; and
- risk-based auditing, concentrating on areas with significant risks or where significant changes have been made.

Control Processes

Upon the redemption of its "Yankee" bonds on 17 April 2006, the compliance obligations of CLP Power Hong Kong Limited with the U.S. Sarbanes-Oxley Act were suspended. As a foreign private issuer, CLP Holdings Limited remained subject to the Sarbanes-Oxley Act until 29 January 2008 when CLP's application for deregistration from the U.S. Securities and Exchange Act reporting system took effect on 30 January 2008.

Although the compliance obligations of both CLP Power Hong Kong and CLP Holdings are now suspended, the system of internal control is retained at the level achieved to comply with the material requirements of the Sarbanes-Oxley Act. It has been a long-standing commitment of CLP to maintain a strong and effective system of internal control, whether or not CLP is subject to the reporting requirements under the U.S. Securities Exchange Act.

Since early 2004, management and employees, assisted by external consultants with particular experience in the design and implementation of internal control systems, evaluated our control environment, conducted risk assessments of businesses and processes, both at the entity level and the various processes/transactions levels. We have documented those processes which are critical to the Group's performance.

Within this exercise, key risks have been identified, along with the controls required to mitigate those risks. Key controls are now tested at least annually by our internal auditors. Based on the results of those tests, process owners are able to certify to Senior Management that their internal controls are working as intended or that necessary corrections have been made where control weaknesses have been found. Internal auditors certify to Senior Management that controls have been working properly or that changes have been made to ensure the integrity of financial statements. The external auditors also test these key controls.

The CEO and CFO have a personal obligation to maintain the effectiveness of the disclosure controls and internal controls over financial reporting, and to report to the Audit Committee and the Group's external auditors any significant changes, deficiencies and material weaknesses in, and fraud related to, such controls.

The CEO and CFO submit an annual "General Representation Letter" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures. These letters rest on similar letters of representation issued by individual managers across the CLP Group, which certify compliance with internal controls as to their particular businesses, departments and activities. These General Representation Letters reinforce personal responsibility for good governance and controls at all levels within the Group.

In order to ensure that the risk management framework of TRUenergy is adequate and effective, a Risk Management Committee of TRUenergy reviews and considers risk related issues affecting, or potentially affecting, the TRUenergy business such as policies relating to energy trading, derivatives and credit risk management.

In keeping with best practices, CLP Holdings has developed and implemented an anti-fraud policy that states the Company's commitment to preventing, detecting and reporting fraud. The policy clearly defines the roles and responsibilities of directors, officers, employees and auditors in developing and carrying out specific programmes to eliminate fraud.

Individual managers are required to make annual representations related to the prevention, identification and detection of fraud in their respective areas. A checklist providing examples of fraud schemes and potential fraud risks has been developed to assist each business unit to conduct a fraud risk assessment and to identify appropriate anti-fraud controls.

Control Effectiveness

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Group Internal Audit and management conduct reviews of the effectiveness of the Company's system of internal control, including those of its subsidiaries. The Audit Committee reviews the findings and opinion of Group Internal Audit and management on the effectiveness of the Company's system of internal control twice each year, and reports annually to the Board on such reviews.

In respect of the year ended 31 December 2007, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

The effectiveness of the Audit Committee itself is reviewed annually through a formal process which involves the Company Secretary preparing an evaluation of its effectiveness. This is examined by both the internal and external auditors before being submitted to the Board for endorsement.

Price-Sensitive Information

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company

- is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately it is the subject of a decision;
- conducts its affairs with close regard to the "Guide on Disclosure of Price-sensitive Information" issued by the Hong Kong Stock Exchange in 2002;
- has implemented and disclosed its own policy on fair disclosure (set out in Section V of the CLP Code);
- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or insider information; and
- has established and implemented procedures for responding to external enquiries about the Group's affairs. Senior managers of the Group are identified and authorised to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

Communication

CLP has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards, in that it provides our shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback to us. We understand that more disclosure does not necessarily result in increased transparency. The integrity of the information provided is essential for building market confidence.

Financial Reporting

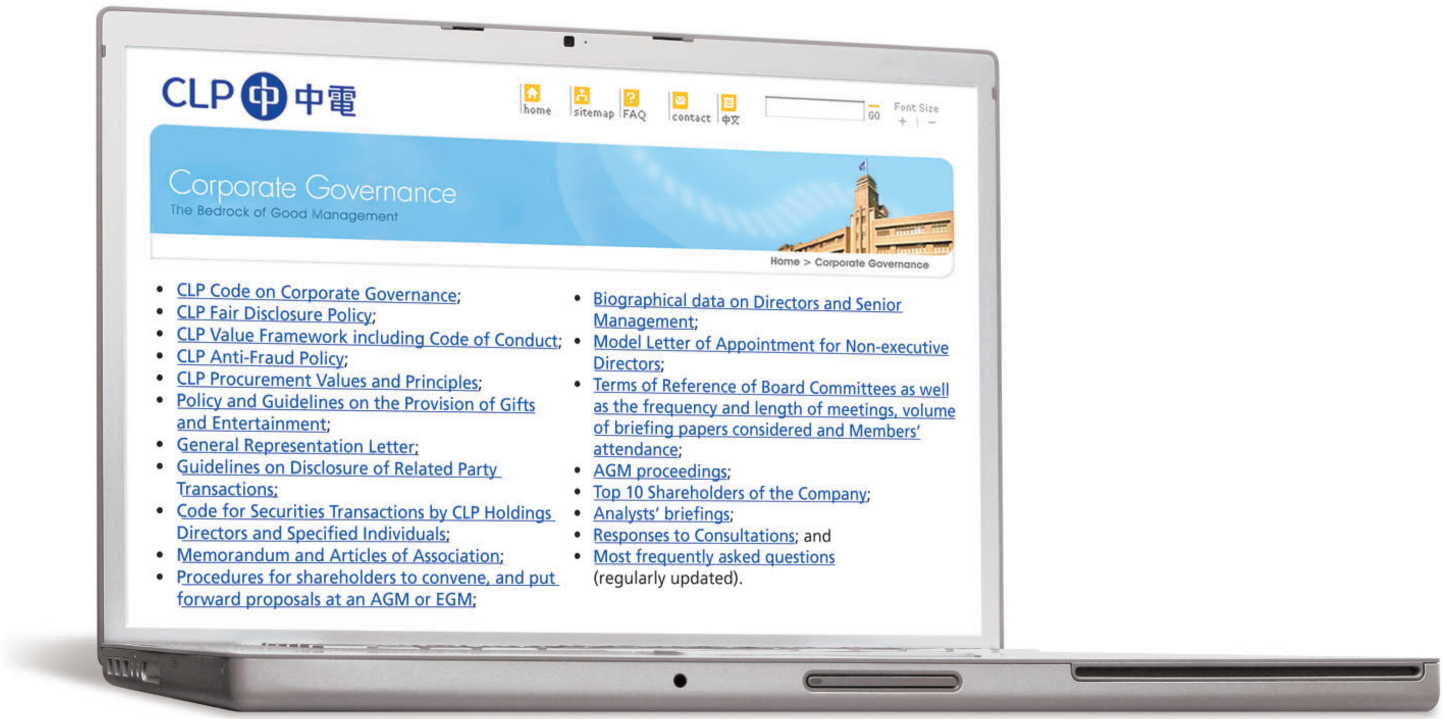
CLP aims to present a clear and balanced assessment of its financial position and prospects. Financial results are announced as early as possible, and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep shareholders informed of the performance and operations of the Group.

Social and Environmental Reporting

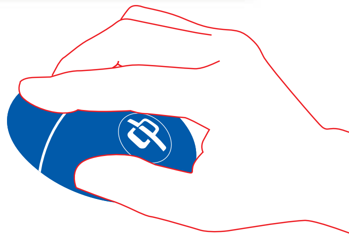
The CLP Group's 2007 Sustainability Report, published at the same time as this Annual Report, gives a detailed description of our environmental performance on a Group-wide basis for 2007. Our annual Sustainability Reports, complemented by an online version, aim to disclose our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. We shall continue to engage our stakeholders openly and report honestly on our progress in those areas. We welcome constructive and critical feedback.

Reporting via Internet

The CLP website provides our shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "Corporate Governance" section of our website includes



We recognise that not all shareholders and stakeholders have ready access to the internet. For those who do not, hard copies of the CLP Group website information listed above are available free of charge upon request to the Company Secretary.



Corporate Governance – Continuing Evolution

We are an active contributor to the ongoing debate on the future shape of corporate governance in Hong Kong. For example, we have commented on various corporate governance issues and proposed listing rules and regulations by making submissions in response to Consultation Papers issued by the Financial Services and the Treasury Bureau, Securities and Futures Commission and Hong Kong Exchanges and Clearing Limited. We have also sponsored The Policy Oriented Corporate Governance Research Fund of The Chinese University of Hong Kong.

We will continue to review and, where appropriate, improve on our corporate governance practices in light of evolving experience, regulatory requirements and international developments. Good corporate governance enhances credibility and increases shareholder value. In striving for excellence in corporate governance, we also make our contribution to raising Hong Kong's reputation as a world-class financial centre for local and overseas investors.

By Order of the Board

April Chan
Company Secretary
Hong Kong, 28 February 2008

Audit Committee Report

The Audit Committee

The Audit Committee is appointed by the CLP Holdings' Board of Directors and comprises three members, all of whom are Independent Non-executive Directors. The Chairman, Vernon Moore, and Professor Judy Tsui have appropriate professional qualifications and experience in financial matters and Mr. Hansen C. H. Loh has wide experience in business. The Audit Committee has been given written terms of reference by the CLP Holdings Board which have been prepared by reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants. Full details of its terms of reference are set out in the CLP Code on Corporate Governance and published on the CLP website. The primary responsibilities of the Audit Committee are

- to assure that adequate internal controls are in place and followed;
- to assure that appropriate accounting principles and reporting practices are followed;
- to satisfy itself as to the adequacy of the scope and direction of external and internal auditing; and
- to satisfy itself that good accounting, audit and compliance principles, internal controls and ethical practices are applied on a consistent basis throughout the CLP Group.

The Audit Committee meets four times per annum so that full attention can be given to the increasing range of matters submitted to the Audit Committee. Special meetings may be called at the discretion of the Chairman or at the request of the CEO or Director – Group Internal Audit to review significant control or financial issues. The Audit Committee is accountable to the Board and the minutes of all meetings are circulated to the Board for information. In addition, the Audit Committee Chairman gives an annual report to the Board covering the Committee's activities for the year, highlighting any significant issues.

Summary of Work Done

During the period from 1 January 2007 to 28 February 2008, being the date of this Report, the Audit Committee has discharged its responsibilities in its review of the half-yearly and annual results and system of internal control and its other duties as set out in the CLP Code on Corporate Governance. The Committee has reviewed the Financial Statements for the year ended 31 December 2007, including the CLP Group's adopted accounting principles and practices, in conjunction with the internal and external auditors. The Committee has also reviewed the compliance by the Company with the Stock Exchange Code on Corporate Governance Practices throughout the year ended 31 December 2007. In 2007, the work performed by the Committee, at its four meetings, included reviews of

- the 2006 Annual Report including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2006 and the annual results announcement, resulting in a recommendation to the Board for approval;
- the 2007 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2007 and the interim results announcement, resulting in a recommendation to the Board for approval;
- compliance by the Company with the Stock Exchange Code on Corporate Governance Practices throughout the year ended 31 December 2006 and throughout the six months ended 30 June 2007. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 104 of this Annual Report*;
- the Company's compliance with the Listing Rules, Companies Ordinance and Securities and Futures Ordinance throughout the year ended 31 December 2006. No breaches were identified*;
- the actions taken by management regarding legal cases in which CLP Holdings or any member of the CLP Group was a named defendant, none of them was material*;
- a General Representation Letter signed jointly by the CEO and the CFO regarding compliance with internal control systems, disciplines and procedures for the year ended 31 December 2006*;
- the report and management letter submitted by external auditors, which summarised matters arising from their audit on the CLP Group for the year ended 31 December 2006, such as in respect of auditing and accounting matters, taxation issues and internal controls, together with the manner in which they had been addressed*;
- the audit fees payable to external auditors for the year ended 31 December 2006 for approval by the Board, with a recommendation to the Board for their reappointment for the financial year 2007, subject to final approval by shareholders* (which was given on 24 April 2007);

- the audit strategy submitted by external auditors, PricewaterhouseCoopers (PwC) for the year ended 31 December 2007;
- the proposed engagement of external auditors in respect of audit-related and permissible non-audit services*;
- 22 reports on the CLP Group's affairs submitted by Group Internal Audit during 2006. Of these, 4 carried an unsatisfactory audit opinion. The issues arising from these have been addressed;
- the staffing and resources of the Group's Internal Audit department;
- the Group internal audit plan for 2007 with areas of emphasis identified;
- Code of Conduct issues identified in 2007, none of the 9 breaches of the Code involved senior managers or was material to the Group's financial statements or overall operations; and
- management development and succession planning for key finance and accounting positions within the CLP Group.

At its meeting on 19 February 2008, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2007 and the annual results announcement with a recommendation to the Board for approval. The Committee was advised that 1 out of 24 reports on the Group's affairs submitted by Group Internal Audit during 2007 carried an unsatisfactory audit opinion, and the issues arising from these audits are being addressed. The Committee reviewed changes in accounting policies arising from revised financial reporting standards, the staffing and resources of the Group Internal Audit department and the internal audit plan for 2008. Other work performed by the Committee at that meeting included that marked "*" in the above list, save that in each case the work related to the year ended 31 December 2007.

The Committee also carried out other work pertaining to U.S. reporting requirements arising from the registration of the Company's American Depositary Receipts with the U.S. Securities and Exchange Commission. This work included review and approval of the Form 20-F of the Company for the financial year ended 31 December 2006 for filing with the U.S. Securities and Exchange Commission. The Committee also reviewed the status of compliance by the CLP Group with the Sarbanes-Oxley Act, including Section 404 of that Act. With the Committee's oversight, on 31 October 2007, CLP, after satisfying the deregistration criteria, filed a Form 15F with the U.S. Securities and Exchange Commission to deregister its securities from the U.S. Securities and Exchange Act reporting system. The deregistration took effect on 30 January 2008. The Audit Committee has requested and is satisfied with management's assurance that the system of internal control is retained at the level achieved to comply with all material requirements of the Sarbanes-Oxley Act, even after deregistration.

Internal Control

Based on the information received from management, the external auditors and Group Internal Audit, the Audit Committee believes that overall financial and operating controls for the Group during 2007 continue to be effective and adequate. Significant issues which have been raised by external or internal auditors during 2007 have been or are in the process of being satisfactorily addressed by management. Further information about the control standards, checks and balances and control processes are set out in the Corporate Governance Report at page 103. The Audit Committee confirms that it is discharging its responsibilities in accordance with the requirements of the CLP Code on Corporate Governance and is satisfied that the Group has complied with all the Code Provisions of the Stock Exchange's Code on Corporate Governance Practices with respect of internal controls.

External Auditors

PwC were reappointed independent auditors of the Company at the 2007 Annual General Meeting. The audit engagement partner changed as part of a rotation process in June 2007. PwC audit all companies in the CLP Group which require statutory audit opinions. Having reviewed PwC's performance during 2007 and satisfied itself of their continuing independence and objectivity within the context of applicable regulatory requirements and professional standards, the Committee has recommended to the Board the reappointment of PwC as independent auditors at the forthcoming Annual General Meeting. A resolution to that effect has been included in the Notice of Annual General Meeting.

Vernon J Moore

Vernon Moore
Chairman, Audit Committee
Hong Kong, 28 February 2008

Remuneration Report

1. Introduction

On behalf of the Board, the Human Resources & Remuneration Committee pays close attention to the remuneration policies applied within the CLP Group, including the remuneration of Non-executive and Executive Directors and of Senior Management. Our objective is to ensure that CLP applies properly structured and fair remuneration policies which align the interests of Directors and Senior Management with those of the Company and its shareholders. This Report explains the policies applied to determining remuneration levels and sets out the remuneration paid to Non-executive Directors, Executive Directors and Senior Management. This Remuneration Report has been reviewed and endorsed by the Committee.

Sections 5 to 8 below comprise the "auditable" part of the Remuneration Report and have been audited by the Company's Auditors.

2. Policies

The main elements of CLP's remuneration policy have been in place for a number of years and are incorporated in the CLP Code on Corporate Governance (CLP Code).

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom CLP competes for human resources; and
- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders.

3. Non-executive Directors – Principles of Remuneration

The above policies apply to the remuneration of the Non-executive Directors, with appropriate adjustments to reflect good corporate governance practices, the particular nature of their duties and that they are not Company employees.

We have taken into account the Report of the Committee on the Financial Aspects of Corporate Governance of December 1992 (The Cadbury Report) which noted that the calibre of non-executive directors was especially important in setting and maintaining standards of corporate governance. The "Review of the Role and Effectiveness of Non-executive Directors" (The Higgs Report) of January 2003 concluded that "the level of remuneration appropriate for any particular non-executive director should reflect the likely workload, the scale and complexity of the business and the responsibility involved" and that "it may be helpful in assessing remuneration for non-executive directors to use as a benchmark the daily remuneration of a senior representative of the company's professional advisors". In Hong Kong, the Code on Corporate Governance Practices (Appendix 14 to the Listing Rules) includes the principle that an issuer should disclose information relating to its directors' remuneration policy and that there should be a formal and transparent procedure for fixing the remuneration packages of all directors. The Listing Rules note that an independent non-executive director must not be financially dependent on the issuer.

In light of these considerations, CLP's Non-executive Directors are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. Those fees were previously reviewed at the beginning of 2004 (the 2004 Review) and reviewed again at the beginning of 2007 (the 2007 Review). The methodology adopted in the 2007 Review was the same as that used in the 2004 Review and as explained to shareholders in the CLP Code. The methodology is aligned with the recommendations of the Higgs Report and includes

- the application of an hourly rate of HK$4,000 as an average of the partner rates charged by legal and financial advisors and accounting and consulting firms in providing professional services to CLP (there was no increase in this rate between the 2004 Review and the 2007 Review);
- the calculation of the time spent by Non-executive Directors on CLP's affairs (including attendance at Board and Board Committee meetings, reading papers, etc.). This exercise revealed a significant increase between 2004 and 2007 in the time spent by Non-executive Directors in performing their duties on the Board and on Board Committees; and
- an additional fee of about 40% and 10% per annum for the Chairmen of the Board/Board Committees and the Vice Chairman of the Board respectively (reflecting the additional workload and responsibility which these offices involve).

The resulting fees were then benchmarked against those paid by leading listed companies in Hong Kong and major utility companies listed on the London Stock Exchange. The methodology and resulting fees were independently reviewed by Stephenson Harwood & Lo (SHL). Further to CLP's commitment to the adoption of a transparent methodology for determining Non-executive Directors' remuneration, the 2007 Review and the opinion of SHL on that Review are placed on CLP's website.

In line with our policy that no individual should determine his or her own remuneration, the fees set out in the following table were proposed by Management, reviewed by SHL and approved by our shareholders at the Annual General Meeting on 24 April 2007. In this respect, CLP's approach goes beyond that required by law or regulation in Hong Kong or the provisions of the Hong Kong Stock Exchange's Code on Corporate Governance Practices. The revised fees have taken effect from 25 April 2007 and were paid to Directors on a pro rata basis for the financial year ended 31 December 2007.

	Fees per annum (w.e.f. 25 April 2007) HK$	Fees per annum in 2006 and up to 24 April 2007 HK$
Board		
Chairman	**430,000**	280,000
Vice Chairman	**340,000**	220,000
Non-executive Director	**310,000**	200,000
Nomination Committee*		
Chairman	**14,000**	10,000
Member	**10,000**	10,000
Audit Committee		
Chairman	**220,000**	140,000
Member	**160,000**	100,000
Finance & General Committee		
Chairman	**215,000**	110,000
Member	**155,000**	80,000
Human Resources & Remuneration Committee		
Chairman	**40,000**	14,000
Member	**30,000**	10,000
Regulatory Affairs Committee**		
Chairman	**20,000**	30,000
Member	**15,000**	20,000
Provident & Retirement Fund Committee***		
Chairman	**14,000**	Nil
Member	**10,000**	Nil
Social, Environmental & Ethics Committee		
Chairman	**45,000**	30,000
Member	**35,000**	20,000
China Committee		
Chairman	**60,000**	56,000
Member	**45,000**	40,000

* A nominal fee has been maintained for the Chairman and Members of the Nomination Committee.

** In light of the importance of the post-2008 regulatory regime for our Hong Kong electricity business, matters relating to the Scheme of Control have been considered by the full Board during 2007 instead of being referred to the Regulatory Affairs Committee. The fees of the Regulatory Affairs Committee were therefore reduced to reflect its average workload from 2004 to 2006. The Board has decided to abolish this Committee with effect from 1 March 2008.

*** Nominal fees have been maintained for the Chairman and Members of the Provident & Retirement Fund Committee, on which no Independent Non-executive Directors serve and which oversees the status and performance of the Group's retirement funds for its employees.

Note : Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

4. Senior Management – Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 102. In determining the remuneration of members of Senior Management, the remuneration data of comparable positions in the market, including local and regional companies of comparable size, complexity and business scope, are referenced. This is consistent with our remuneration policy to align with companies with whom CLP competes for human resources. Achievement of performance plays a significant part in individual rewards as part of our policy to attract, motivate and retain high performing individuals. The four components of remuneration of members of Senior Management are explained below, including the proportion of total remuneration which each component represented in 2006 and 2007.

Components	Explanation	**2007**	2006
Base Compensation	Base Compensation accounts for approximately 56% of total remuneration. It is reviewed annually taking into consideration the competitive market position, market practice and the individual performance of members of Senior Management.	**56%**	56%
Performance Bonus	The levels of the performance bonus are set by the Human Resources & Remuneration Committee. No members of Senior Management serve on the Committee.		
Annual Incentive	The annual incentive payout depends upon the performance of the CLP Group and the individuals concerned. Key measures include achievement of financial goals and operational performance targets, and individual objectives such as the demonstration of key leadership competencies. Each of the Senior Management members is assigned a "target" annual incentive, which accounts for 28% of his/her total remuneration. Only individuals who attain at least a satisfactory performance rating are awarded any annual incentive. The amount of annual incentive is capped at twice the "target" annual incentive, with the actual amount being determined by organisational and individual performance. An award was made in 2007, based on an assessment of the 2006 performance of the Group and the individuals concerned. The average payout to this group in 2007 was 98% above the target level based on the above target achievement of financial goals, operational performance targets and individual objectives for 2006.	**28%**	28%
Long-term Incentive	The Long-term Incentive Plan (LTIP) is designed to align the interests of members of the Senior Management with those of the shareholders by an award that is pegged to the creation of shareholder value. A three-year financial target is set every year to drive towards higher performance and to ensure that such performance is sustained over the long term. At the end of the three-year period, an award is made which is based on performance against the financial target. The award ranges from zero to one-and-a-half times the "target" long-term incentive. The actual payout is further adjusted to reflect the share price performance of CLP Holdings, with dividends reinvested, over the same three-year period. Subject to certain vesting conditions, the award is payable in the fourth year. The LTIP was introduced in 2001 with the first award being paid to the eligible individuals in 2004. The final award under this scheme will be paid in March 2008. For subsequent years, payments will be under the scheme introduced in 2006 as detailed below. In order to strengthen the linkage to organisational and individual performance and enhance its effectiveness as a retention plan, the LTIP was modified in 2006. The key modifications are that the performance multiplier (which is derived from a weighted combination of individual and organisational performance for the year preceding that in which the award is made) is applied to the target LTIP award at the beginning of the three-year cycle rather than the end, the maximum award is increased to two times the "target award" and 50% of the award is allocated to a notional cash deposit. The first payments under the revised LTIP will be made in 2009.	**9%**	9%
Pension Arrangements	The members of the Senior Management are eligible to join the defined contribution section of the Group's retirement fund. The Group's contribution to the retirement fund amounts to a maximum of 12.5% of base compensation, subject to a 5% contribution by the employee. This accounts for 7% of his/her target total remuneration.	**7%**	7%

The Group does not have, and has never had, a share option scheme.

No Executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of 6 months or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind.

The remuneration policies applied to Senior Management are subject to the approval of the Human Resources & Remuneration Committee.

5. Non-executive Directors – Remuneration in 2007

The fees paid to each of our Non-executive Directors in 2007 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below. There was an increase in the levels of Non-executive Directors' fees with effect from 25 April 2007. The increase in total Directors' fees, compared to 2006, was also due to the appointment of an additional Independent Non-executive Director and the re-designation of an Executive Director as Non-executive Director in 2007.

In HK$	Board	Audit Committee	Nomination Committee	Finance & General Committee	Regulatory Affairs Committee	Human Resources & Remuneration Committee	Provident & Retirement Fund Committee	Social, Environmental & Ethics Committee	China Committee	Total 2007	Total 2006
Non-executive Directors											
The Hon. Sir Michael Kadoorie	382,763	–	12,740	–	–	–	–	–	58,740	**454,243**	344,608
Mr. W. E. Mocatta	302,210	–	–	181,934	16,575	31,812	9,591	–	43,425	**585,547**	403,006
Mr. J. S. Dickson Leach	275,359	–	–	–	–	–	–	–	–	**275,359**	219,669
Mr. R. J. McAulay	275,359	–	–	–	–	–	–	–	–	**275,359**	200,000
Mr. J. A. H. Leigh	275,359	–	–	–	–	–	–	–	–	**275,359**	200,000
Mr. R. Bischof	275,359	–	–	–	–	–	6,851	–	–	**282,210**	200,000
Mr. I. D. Boyce	275,359	–	–	–	–	–	–	–	–	**275,359**	200,000
Mr. P. C. Tan(1)	261,038	–	–	–	15,882	–	–	–	41,347	**318,267**	259,006
Mr. Jason Whittle	275,359	–	–	131,381	16,575	–	–	30,276	–	**453,591**	206,851
Dr. Y. B. Lee (2)	258,232	–	–	–	–	–	–	–	40,000	**298,232**	–
Independent Non-executive Directors											
The Hon. Sir S. Y. Chung	275,359	–	10,000	–	16,575	23,702	–	–	–	**325,636**	315,000
Dr. William K. Fung	275,359	–	10,000	–	–	–	–	30,276	–	**315,635**	230,000
Mr. V. F. Moore	275,359	194,807	–	131,381	16,575	23,702	–	–	–	**641,824**	450,000
Mr. Hansen Loh	275,359	141,105	–	–	16,575	–	–	–	–	**433,039**	320,000
Mr. Paul M. L. Kan	275,359	–	–	–	–	–	–	–	–	**275,359**	200,000
Professor Judy Tsui	275,359	141,105	–	–	–	–	–	30,276	43,425	**490,165**	359,006
Sir Rod Eddington(3)	275,359	–	–	131,381	–	18,895	–	8,232	–	**433,867**	233,261
Mr. Peter T. C. Lee (4)	242,762	–	–	–	–	–	–	22,044	–	**264,806**	–
									Total	**6,673,857**	4,340,407

Notes:

(1) Mr. P. C. Tan resigned as a Director and a Member of the Regulatory Affairs Committee and China Committee on 15 December 2007.

(2) Dr. Y. B. Lee retired as an Executive Director on 31 January 2007 and served as a Non-executive Director with effect from 1 February 2007.

(3) Sir Rod Eddington stepped down from the Social, Environmental & Ethics Committee and was appointed a Member of the Human Resources & Remuneration Committee, both with effect from 15 May 2007.

(4) Mr. Peter T. C. Lee was appointed an Independent Non-executive Director on 1 March 2007 and a Member of the Social, Environmental & Ethics Committee on 15 May 2007.

Mr. W. E. Mocatta also received HK$227,000 (2006: HK$237,000) as fees for his service on the boards of CLP Power Hong Kong Limited, Hong Kong Nuclear Investment Company Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited.

6. Executive Directors – Remuneration in 2007

The remuneration paid to the Executive Directors of the Company in 2007 was as follows:

	Base Compensation, Allowances & Benefits HK$M	Performance Bonus (Note A) Annual Incentive HK$M	Performance Bonus (Note A) Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total HK$M
2007					
CEO					
(Mr. Andrew Brandler)	6.4	6.2	2.0	0.8	15.4
Group Executive Director & CFO					
(Mr. Peter P. W. Tse)	4.4	3.8	1.6	0.5	10.3
Executive Director – Strategy					
(Mr. Peter W. Greenwood)	4.0	2.0	–	0.5	6.5
Group Executive Director					
(Dr. Y. B. Lee) (Note B)	0.5	1.5	3.8	–	5.8
	15.3	13.5	7.4	1.8	38.0
2006					
CEO	5.9	5.5	1.8	0.7	13.9
Group Executive Director & CFO	4.2	3.6	1.5	0.5	9.8
Group Executive Director	3.6	2.7	1.3	0.4	8.0
	13.7	11.8	4.6	1.6	31.7

Note A:
Performance bonus consists of (a): annual incentive and (b): long-term incentive.

(a) The annual incentive for the Executive Directors and the members of Senior Management for 2007 is yet to be reviewed and approved by the Human Resources & Remuneration Committee. Accordingly, the total amount of annual incentive includes: i) the accruals that have been made in the performance bonus for the Executive Directors and members of Senior Management at the target level of performance; and ii) the actual bonus paid in 2007 for the last year in excess of the previous accruals made.

(b) The long-term incentive is the incentive for 2004, paid in 2007 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2003 paid in 2006). About 42% of the amount of 2004 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2004 and 2006, with dividends reinvested.

Note B:
Dr. Y. B. Lee retired as an Executive Director on 31 January 2007. The annual incentive amount of HK$1.5 million included HK$1.2 million related to 2006. The long-term incentive amount of HK$3.8 million was for the years 2004, 2005, 2006 and January 2007 paid to Dr. Lee upon retirement.

7. Total Directors' Remuneration in 2007

The total remuneration of Non-executive and Executive Directors in 2007 was:

	2007 HK$M	2006 HK$M
Fees	7	5
Base compensation, allowances and benefits in kind	15	14
Performance bonus*		
– Annual incentive	14	12
– Long-term incentive	7	4
Provident fund contributions	2	2
	45	37

* Refer to Note A above on performance bonus.

Of the total remuneration paid to Directors, HK$2 million (2006: HK$3 million) has been charged to the SoC operation.

8. Senior Management – Remuneration in 2007

The five highest paid individuals in the Group included two Directors (2006: two Directors) and three members of Senior Management (2006: two members and a former Senior Manager of the CLP Group). The total remuneration of the five highest paid individuals in the Group is shown below:

	2007 HK$M	2006 HK$M
Base compensation, allowances and benefits in kind	28	24
Performance bonus*		
– Annual incentive	22	20
– Long-term incentive	7	8
Provident fund contributions	3	3
Ex-gratia payment#	–	1
	60	56

* Refer to Note A on performance bonus on page 124.

\# Ex-gratia payments may be payable, where appropriate, upon approval by the Chairman of the Human Resources & Remuneration Committee and are not part of the remuneration arrangements for Executive Directors or Senior Management.

The remuneration paid to these five individuals is within the following bands:

	Number of Individuals 2007	2006
HK$ 7,500,001 – HK$ 8,000,000	1	–
HK$ 9,500,001 – HK$10,000,000	–	1
HK$10,000,001 – HK$10,500,000	1	2
HK$10,500,001 – HK$11,000,000	1	–
HK$11,500,001 – HK$12,000,000	–	1
HK$13,500,001 – HK$14,000,000	–	1
HK$15,000,001 – HK$15,500,000	1	–
HK$15,500,001 – HK$16,000,000	1	–

The Senior Management Group comprises the Executive Directors, the Group Director – Managing Director Hong Kong, the Group Director – Managing Director Australia, the Group Director – Operations, Managing Director – China, Managing Director – India, Chief Executive Officer – OneEnergy Limited and the Group Director – Corporate Finance and Development.

Details of remuneration of the Senior Management of the Group (excluding Executive Directors) are set out in the table below.

	Base Compensation, Allowances & Benefits HK$M	Performance Bonus* Annual Incentive HK$M	Performance Bonus* Long-term Incentive HK$M	Provident Fund Contribution HK$M	Other Payments HK$M	Total HK$M
2007						
Group Director – Managing Director Hong Kong (Mrs. Betty Yuen)	**4.4**	**4.3**	**1.6**	**0.6**	**–**	**10.9#**
Group Director – Managing Director Australia (Mr. Richard McIndoe)	**4.4**	**4.3**	**1.5**	**0.6**	**5.1(a)**	**15.9**
Managing Director – China (Mr. Shen Zhongmin)	**2.7**	**1.6**	**–**	**0.3**	**1.7(a)**	**6.3**
Managing Director – India (Mr. Rajiv Mishra)	**2.0**	**2.0**	**0.2**	**0.2**	**–**	**4.4**
Chief Executive Officer – OneEnergy Limited (Mr. Mark Takahashi)	**2.9**	**2.9**	**0.9**	**0.4**	**–**	**7.1**
Group Director – Operations (Mr. Peter Littlewood)	**3.1**	**3.1**	**0.9**	**0.4**	**–**	**7.5**
Group Director – Corporate Finance and Development (Mr. Stefan Robertsson)	**2.5**	**2.2**	**0.7**	**0.3**	**–**	**5.7**
	22.0	**20.4**	**5.8**	**2.8**	**6.8**	**57.8**
2006						
Group Director – Managing Director Hong Kong	4.2	4.1	1.5	0.5	–	10.3#
Group Director – Managing Director Australia	4.2	4.1	1.4	0.5	1.5(a)	11.7
Managing Director – China	0.9	0.5	–	0.1	1.0(b)	2.5
Managing Director – India	1.5	1.1	0.1	0.2	–	2.9
Chief Executive Officer – OneEnergy Limited	2.6	1.9	0.1	0.3	–	4.9
Group Director – Operations	2.9	2.6	0.8	0.4	–	6.7
Group Director – Corporate Finance and Development	2.0	1.6	0.2	0.3	–	4.1
	18.3	15.9	4.1	2.3	2.5	43.1

Notes:
(a) Payment for tax equalisation, housing allowance and children's education allowances, if any, for secondment to offices outside Hong Kong.
(b) Lump sum payment upon joining the Group as Managing Director – China effective from 21 August 2006.
* Refer to Note A on performance bonus on page 124. # The total of this remuneration has been charged to the SoC operation.

9. Continued Scrutiny and Disclosure

The Human Resources & Remuneration Committee reaffirms its commitment to the establishment and application of remuneration principles, policies and practices which further the interests of the Company and its shareholders, to the careful oversight of remuneration levels, and to honest and open disclosure to shareholders on these matters.

W. E. Mocatta
Chairman, Human Resources & Remuneration Committee
Hong Kong, 28 February 2008

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2007.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are the generation and supply of electricity. Particulars of the Company's principal subsidiary companies are shown under Note 15 to the Financial Statements.

Consolidated Financial Statements

The consolidated Financial Statements incorporate the Financial Statements of the Company and its subsidiaries (collectively referred to as the Group) together with the Group's interests in jointly controlled entities and associated companies. Details of the jointly controlled entities and associated companies are provided under Notes 16 and 17 to the Financial Statements respectively.

Earnings and Final Dividend

	2007 HK$M	2006 HK$M
Total earnings for the year	**10,608**	9,900
Less: Interim dividends of HK$1.56 (2006: HK$1.50) per share paid	**(3,757)**	(3,612)
Balance after interim dividends	**6,851**	6,288
The Directors recommend that this balance be dealt with as follows:		
Final dividend of HK$0.92 (2006: HK$0.89) per share	**2,216**	2,144
Special final dividend of nil (2006: HK$0.02 per share)	**–**	48
Retained profits for the year	**4,635**	4,096
	6,851	6,288

Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting to be held on 29 April 2008 (AGM), the final dividend will be paid on 30 April 2008.

Performance

A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided on pages 16 to 62 of this Annual Report.

Share Capital

There was no movement in the share capital of the Company during the year.

Purchase, Sale or Redemption of the Company's Listed Shares

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

Reserves

Distributable reserves of the Company amounted to HK$20,854 million as at 31 December 2007 (2006: HK$19,913 million). Movements in the reserves of the Group and the Company during the year are set out in the Statement of Changes in Equity on pages 139 and 140 of this Annual Report.

Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK$8,256 million, comprising HK$7,651 million in owned assets (on transmission and distribution equipment, land and buildings) and HK$605 million in leased assets. In 2006, a total addition of HK$9,161 million was recorded, made up of HK$5,855 million for owned assets and HK$3,306 million for leased assets.

Additions to the fixed assets of the jointly controlled generating companies incorporated in Hong Kong totalled HK$1,378 million for the year.

Details of movements in the fixed assets of the Group are shown under Note 13 to the Financial Statements.

Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2007 amounted to HK$28,360 million (2006: HK$30,278 million). Particulars of borrowings are set out in Note 23 to the Financial Statements.

Financial Assistance and Guarantees to Affiliated Companies

The financial assistance given to affiliated companies and the guarantees given for facilities granted to affiliated companies aggregated to 5.3% of the Group's total assets as at 31 December 2007.

Finance Costs Capitalised

Finance costs amounting to HK$302 million (2006: HK$275 million) were capitalised by the Group during the year as set out in Note 8 to the Financial Statements.

Donations

Donations by the Group for charitable and other purposes amounted to HK$3,902,000 (2006: HK$4,649,000).

Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2007 and for the previous four financial years are set out on pages 202 and 203 of this Annual Report. A ten-year summary of the results, assets and liabilities of the Group is on the CLP Website.

Directors

With the exception of Messrs. Peter T. C. Lee, Peter W. Greenwood and Paul A. Theys, the Directors of the Company, whose names appear on pages 100 and 101 of this Annual Report, were Directors for the whole year. Their biographical details as at the date of this Report are set out on the same pages. Details of Directors' remuneration are set out in the Remuneration Report at page 120 of this Annual Report.

Mr. Peter T. C. Lee and Mr. Peter W. Greenwood were respectively appointed as Independent Non-executive Director and Executive Director of the Company both with effect from 1 March 2007.

Mr. P. C. Tan resigned as a Non-executive Director of the Company with effect from 15 December 2007.

Mr. Paul A. Theys, being a new Non-executive Director appointed by the Board on 1 January 2008, retires at the AGM in accordance with Article 109 of the Company's Articles of Association and, being eligible, offers himself for election.

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Article 103 of the Company's Articles of Association, The Hon. Sir Michael Kadoorie, The Hon. Sir S. Y. Chung, Mr. J. A. H. Leigh, Mr. Paul M. L. Kan, Mr. R. J. McAulay, Professor Judy Tsui and Sir Rod Eddington retire by rotation and, being eligible, offer themselves for re-election.

None of the Directors offering themselves for election or re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

No contracts of significance in relation to the Group's business to which the Company or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

Alternate Directors

The Alternate Directors in office during the year ended 31 December 2007 were as follows:

Mr. W. E. Mocatta, alternate to Mr. J. S. Dickson Leach }
Mr. J. A. H. Leigh, alternate to Mr. R. Bischof } (for the year)
Mr. I. D. Boyce, alternate to Mr. R. J. McAulay and Mr. W. E. Mocatta }
Mr. Jason Whittle, alternate to Mr. R. J. McAulay }

Mr. Bradley W. Corson resigned as alternate to Mr. P. C. Tan on 1 June 2007.

Mr. Neo Kim Teck was appointed as alternate to Mr. P. C. Tan with effect from 1 June 2007, and he ceased to be Mr. Tan's alternate upon the resignation of Mr. Tan on 15 December 2007.

Mr. Neo Kim Teck was appointed as alternate to Mr. Paul A. Theys upon the appointment of Mr. Theys to the Board on 1 January 2008.

Interests of Directors and Chief Executive Officer

The interests/short positions of each of the Directors and Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 31 December 2007, as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, are set out in the table and explanatory notes below:

1. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

The interests of Directors and Chief Executive Officer in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2007 were as follows:

Directors	Capacity	Total Interests in Number of Ordinary Shares of the Company	% of the Issued Share Capital of the Company
The Hon. Sir Michael Kadoorie	Note (a)	475,381,026	19.73972
Mr. W. E. Mocatta	Founder of a discretionary trust	250,000	0.01038
Mr. J. S. Dickson Leach	Founder of a discretionary trust Note (b)	3,436	0.00014
Mr. R. J. McAulay	Note (c)	439,800,565	18.26228
The Hon. Sir S. Y. Chung	Beneficial owner	393,789	0.01635
Dr. William K. Fung	Beneficial owner	120,000	0.00498
Mr. J. A. H. Leigh	Note (d)	402,035,991	16.69414
Mr. R. Bischof	Beneficial owner	50,000	0.00208
Mr. Andrew Brandler (Chief Executive Officer)	Note (e)	10,600	0.00044
Mr. Peter P. W. Tse	Note (f)	20,600	0.00086
Dr. Y. B. Lee	Note (g)	15,806	0.00066
Mr. Jason Whittle	Note (h)	238,409,771	9.89973
Mr. Peter W. Greenwood	Beneficial owner	600	0.00002

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 475,381,026 shares in the Company. These shares were held in the following capacity:

i) 1,243 shares were held by his spouse, Lady Kadoorie in a personal capacity.
ii) 236,335,571 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and/or discretionary objects.
iii) 239,044,212 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

For the purpose of the Securities and Futures Ordinance, the spouse of The Hon. Sir Michael Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the shares referred to in (ii) and (iii) above. The spouse of The Hon. Sir Michael Kadoorie was therefore deemed to be interested in 475,381,026 shares in the Company representing approximately 19.74% of the issued share capital of the Company, of which 1,243 shares were held by her in a personal capacity and 236,335,571 and 239,044,212 shares were attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in these 236,335,571 and 239,044,212 shares attributed to her for disclosure purposes.

(b) According to the register of directors' and chief executives' interests and short position required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, Mr. J. S. Dickson Leach is the beneficial owner of 3,436 ordinary shares of the Company. The Company was notified by Mr. J. S. Dickson Leach that the capacity of his interest had been changed from Beneficial Owner to Founder of a Discretionary Trust.

(c) Mr. R. J. McAulay was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 439,800,565 shares in the Company. These shares were held in the following capacity:

i) 13,141 shares were held in a personal capacity.
ii) 236,335,571 shares were ultimately held by discretionary trusts, of which Mr. R. J. McAulay is one of the discretionary objects.
iii) 203,451,853 shares were ultimately held by a discretionary trust, of which Muriel, Lady Kadoorie, mother-in-law of Mr. R. J. McAulay, is the founder and a beneficiary and Mr. R. J. McAulay, his wife and members of his family are discretionary objects.

(d) Mr. J. A. H. Leigh, in his capacity as one of the trustees of a trust was deemed to be interested in 401,993,991 shares which formed part of the 236,335,571 and 203,451,853 shares referred to in (c) above. 42,000 shares were held by Mr. J. A. H. Leigh in a beneficial owner capacity.

(e) 600 shares were held in a personal capacity and 10,000 shares were held in a beneficial owner capacity.

(f) 600 shares were held in a personal capacity and 20,000 shares were held in a beneficial owner capacity.

(g) 600 shares were held in a personal capacity and 15,206 shares were held jointly with spouse.

(h) Mr. Jason Whittle was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 238,409,771 shares in the Company. These shares were held in the following capacity:

i) 600 shares were held in a personal capacity.
ii) 236,335,571 shares were ultimately held by discretionary trusts, of which Mr. Jason Whittle is one of the discretionary objects.
iii) 2,073,600 shares were ultimately held by a discretionary trust, of which Mr. Jason Whittle is one of the discretionary objects.

Messrs. I. D. Boyce, V. F. Moore, Hansen C. H. Loh, Paul M. L. Kan, and Peter T. C. Lee, Professor Judy Tsui and Sir Rod Eddington have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2007.

None of the Directors or the Chief Executive Officer had interests in debentures, under equity derivatives or in underlying shares of the Company and its associated corporations as at 31 December 2007.

2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations

None of the Directors or the Chief Executive Officer had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company and its associated corporations as at 31 December 2007.

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors and the Chief Executive Officer of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

Interests of Substantial Shareholders

The interests/short positions of substantial shareholders in the shares and underlying shares of the Company as at 31 December 2007, as recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, are set out in the table and explanatory notes below:

1. Aggregate long position in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2007.

Substantial Shareholders	Capacity	Total Interests in Number of Ordinary Shares of the Company	% of the Issued Share Capital of the Company
Acorn Holdings Corporation	Beneficiary	236,335,571 Note (a)	9.81
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	678,831,636 Note (a)	28.19
Bermuda Trust (Cayman) Limited	Trustee/Interests of controlled corporations	399,920,391 Note (b)	16.61
HWR Trustees Limited (now known as Harneys Trustees Limited)	Interests of controlled corporations	240,482,771 Note (a)	9.99
Lakshmi Company Limited	Beneficiary	196,468,538 Note (a)	8.16
Merlin Investments Limited	Beneficiary	196,468,538 Note (a)	8.16
Mikado Holding Inc.	Trustee	239,044,212 Note (a)	9.93
Mikado Investments Limited	Interest of controlled corporation/ Beneficiary of trusts	239,044,212 Note (a)	9.93
Muriel, Lady Kadoorie	Founder and Beneficiary	203,451,853 Note (b)	8.45
New Boron Holding Corporation	Trustee	200,615,738 Note (a)	8.33
Oak CLP Limited	Beneficiary	196,554,172 Note (b)	8.16
Oak (Unit Trust) Holdings Limited	Trustee	196,554,172 Notes (a) & (b)	8.16
Mr. R. Parsons	Trustee	401,993,991 Note (c)	16.69
The Hon. Sir Michael Kadoorie	Note (d)	475,381,026 Note (d)	19.74
Mr. R. J. McAulay	Note (e)	439,800,565 Note (e)	18.26
Mr. Jason Whittle	Note (f)	238,409,771 Note (f)	9.90
Guardian Limited	Beneficiary/Interests in controlled corporations	401,993,991 Note (c)	16.69
The Mikado Private Trust Company Limited	Trustee/Interests in controlled corporations	475,379,783 Note (a)	19.74
Mr. J. A. H. Leigh	Note (c)	402,035,991 Note (c)	16.69
Goshawk Investments Limited (now known as Merlin Investments No.2 Limited)	Beneficiary	198,542,138 Note (a)	8.24
Lawrencium Mikado Holdings Limited	Beneficiary	239,044,212 Note (a)	9.93
The Magna Foundation	Beneficiary	239,044,212 Note (a)	9.93
Lawrencium Holdings Limited	Beneficiary	236,335,571 Note (a)	9.81

Notes:

(a) The interests of Bermuda Trust Company Limited in the shares of the Company include the interests in the Company held by Acorn Holdings Corporation, Goshawk Investments Limited, (now known as Merlin investments No.2 Limited), Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited, The Magna Foundation, The Mikado Private Trust Company Limited, Mikado Holding Inc., Mikado Investments Limited, Oak (Unit Trust) Holdings Limited, Lakshmi Company Limited and Merlin Investments Limited and also the majority of Mr. J. A. H. Leigh's deemed interests.

The interests of Bermuda Trust Company Limited in the shares of the Company also include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr. R. J. McAulay and/or Mr. Jason Whittle are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, Mikado Holding Inc., Mikado Investments Limited, Oak (Unit Trust) Holdings Limited, Lakshmi Company Limited and Merlin Investments Limited were interested, either in the capacity as trustee or by virtue of having direct or indirect control over such companies.

Bermuda Trust (Cayman) Limited controlled Lakshmi Company Limited and Merlin Investments Limited and was therefore deemed to be interested in the shares in which Lakshmi Company Limited and Merlin Investments Limited were interested. The Company has been advised that Lakshmi Company Limited, Merlin Investments Limited, Acorn Holdings Corporation and Lawrencium Holdings Limited were deemed to be interested in the same 196,468,538 shares in which New Boron Holding Corporation was deemed to be interested.

Bermuda Trust Company Limited controlled Acorn Holdings Corporation and was therefore deemed to be interested in the shares in which such company was deemed interested. In addition, Bermuda Trust Company Limited was deemed interested in 39,867,033 shares through other controlled corporations controlled by it.

The Mikado Private Trust Company Limited controlled Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.

HWR Trustees Limited controlled New Boron Holding Corporation and was therefore deemed to be interested in the shares in which New Boron Holding Corporation was interested. HWR Trustees Limited was also deemed to be interested in 39,867,033 shares through other controlled corporations controlled by it.

In addition, the Company was notified by Oak (Unit Trust) Holdings Limited that it was interested in 196,554,172 shares as at 26 August 2003. However, Bermuda Trust Company Limited indicated in its latest disclosure form that as at 24 June 2005, it was interested in, inter alia, 203,451,853 shares through its wholly-owned subsidiary, Oak (Unit Trust) Holdings Limited. Therefore, Oak (Unit Trust) Holdings Limited was interested in the same 203,451,853 shares as at 24 June 2005 but was not itself under a duty to notify the Company of the change under the Securities and Futures Ordinance.

(b) The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the interests in the Company in which Oak CLP Limited, Oak (Unit Trust) Holdings Limited and Muriel, Lady Kadoorie were deemed to be interested.

The interests of Muriel, Lady Kadoorie in 203,451,853 shares of the Company include shares in which Mr. R. J. McAulay and Mr. R. Parsons were deemed to be interested.

Bermuda Trust (Cayman) Limited was also interested in the 203,451,853 shares by virtue of its capacity as trustee of a trust of which Muriel, Lady Kadoorie is the founder and a beneficiary and Mr. R. J. McAulay is one of the discretionary objects. Bermuda Trust (Cayman) Limited, in its capacity as trustee of a discretionary trust, controlled Oak CLP Limited and was therefore deemed to be interested in the shares in which Oak CLP Limited was interested. The Company was notified by Oak CLP Limited that it was interested in 196,554,172 shares as at 26 August 2003. However, Bermuda Trust (Cayman) Limited indicated in its latest disclosure form that as at 5 February 2004, it was interested in 203,451,853 shares through its wholly-owned subsidiary, Oak CLP Limited. Therefore, Oak CLP Limited was interested in the same 203,451,853 shares as at 5 February 2004 but was not itself under a duty to notify the Company of the change under the Securities and Futures Ordinance.

(c) Mr. R. Parsons and Mr. J. A. H. Leigh, in their capacities as trustees of a trust, jointly controlled Guardian Limited and therefore were deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 401,993,991 shares in which Guardian Limited was interested is duplicated within the interests attributed to each of Mr. J. A. H. Leigh and Mr. R. Parsons.

Mr. J. A. H. Leigh also held 42,000 shares in a beneficial owner capacity.

(d) The aggregate long position in the shares of the Company of The Hon. Sir Michael Kadoorie is listed below:

Interests in the Ordinary Shares of the Company Number	Capacity
1,243	Interest of spouse
475,379,783	Founder of discretionary trusts
475,379,783	Discretionary object or beneficiary of various discretionary trusts

The interests of The Hon. Sir Michael Kadoorie as a founder and a beneficiary or discretionary object of various discretionary trusts are duplicated between each other. His interests, apart from the interest of his spouse, are also duplicated by the interests in the Company held by Bermuda Trust Company Limited and certain discretionary trusts of which Mr. R. J. McAulay and Mr. Jason Whittle are among the discretionary objects or beneficiaries as disclosed in Notes (e) and (f) below.

For the purpose of the Securities and Futures Ordinance, the spouse of The Hon. Sir Michael Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the 475,379,783 shares referred to above. The spouse of The Hon. Sir Michael Kadoorie was therefore deemed to be interested in 475,381,026 shares in the Company representing approximately 19.74% of the issued share capital of the Company, of which 1,243 shares were held by her in a personal capacity and 475,379,783 shares were attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in these 475,379,783 shares attributed to her for disclosure purposes.

(e) See Note (c) under "Interests of Directors and Chief Executive Officer".

(f) See Note (h) under "Interests of Directors and Chief Executive Officer".

2. Aggregate short position in the shares and underlying shares of the Company

As at 31 December 2007, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

Interests of Any Other Persons

As at 31 December 2007, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Senior Management

The biographical details of the Senior Management as at the date of this Report are set out on page 102 of this Annual Report. Details of the remuneration of the Senior Management are set out in the Remuneration Report at page 120 of this Annual Report.

Major Customers and Suppliers

Purchases from the Group's five largest suppliers together accounted for 73.96% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 38.79% from Castle Peak Power Company Limited (CAPCO) of which Mr. Neo Kim Teck, Mr. W. E. Mocatta and Mr. Andrew Brandler are directors and Mr. J. A. H. Leigh is an alternate director. CAPCO is 40% owned by CLP Power Hong Kong Limited (CLP Power Hong Kong) and supplies electricity to CLP Power Hong Kong only. CLP Power Hong Kong is a wholly-owned subsidiary of the Company.
2. 14.26% from National Electricity Market Management Company Limited (NEMMCO) in which the Group has no interest. NEMMCO is the administrator and operator of the national electricity market in Australia, from whom electricity is bought to supply TRUenergy group customers and to whom electricity is sold from TRUenergy group generators.
3. 10.31% from Guangdong Nuclear Investment Company, Limited (GNIC) in which the Group has no interest.
4. 5.73% from Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) of which Mr. Andrew Brandler and Mr. Peter P. W. Tse are directors. GNPJVC is 25% and 75% owned by the Group and GNIC respectively and supplies electricity to the Group.
5. 4.87% from SPI Electricity Pty Ltd. (SPI) in which the Company has no interest. SPI is an energy distribution network which supplies distribution services to a large number of TRUenergy group customers.

As at 31 December 2007, Acorn Holdings Corporation, Bermuda Trust Company Limited, Bermuda Trust (Cayman) Limited, HWR Trustees Limited (now known as Harneys Trustees Limited), Lakshmi Company Limited, Merlin Investments Limited, Mikado Holding Inc., Mikado Investments Limited, Muriel, Lady Kadoorie, New Boron Holding Corporation, Oak CLP Limited, Oak (Unit Trust) Holdings Limited, Mr. R. Parsons, The Hon. Sir Michael Kadoorie, Lady Kadoorie, Mr. R. J. McAulay, Mr. Jason Whittle, Guardian Limited, The Mikado Private Trust Company Limited, Mr. J. A. H. Leigh, Goshawk Investments Limited (now known as Merlin Investments No. 2 Limited), Lawrencium Mikado Holdings Limited, The Magna Foundation and Lawrencium Holdings Limited who are substantial shareholders of the Company, had indirect interests in CAPCO and GNPJVC, which interests arose from the Company’s interests in CAPCO and GNPJVC.

Sales to the Group's five largest customers together represented less than 30% of the Group's total turnover during the year.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 32 to the Financial Statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

Corporate Governance

The Company’s corporate governance principles and practices are set out in the Corporate Governance Report at page 103 of this Annual Report.

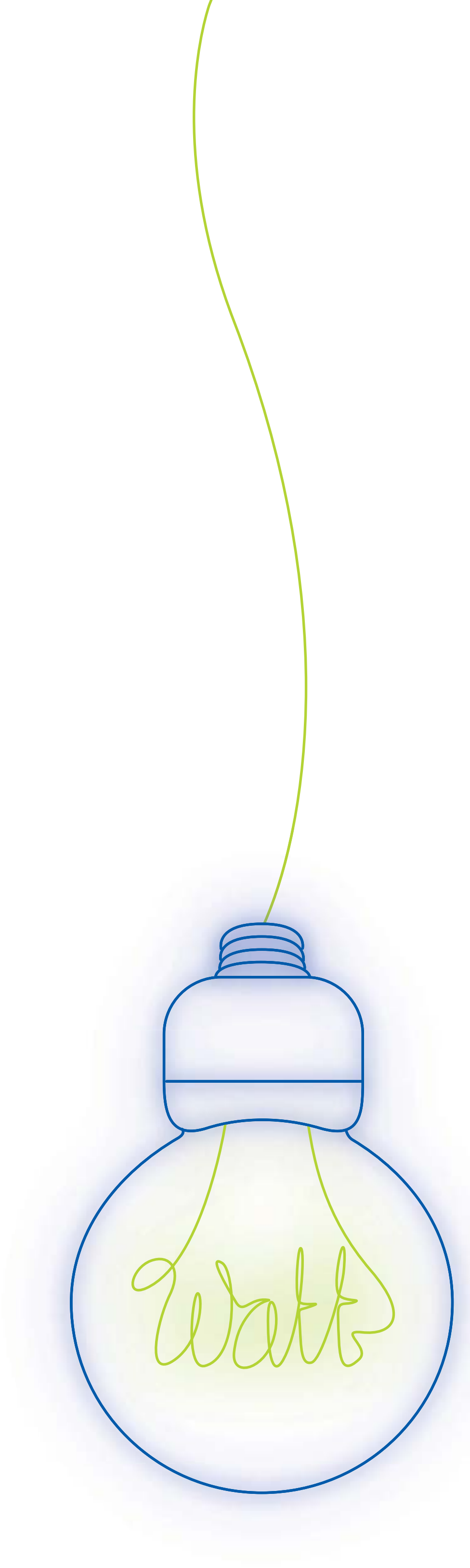
Auditors

The Financial Statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the AGM of the Company.

By Order of the Board

The Hon. Sir Michael Kadoorie
Chairman
Hong Kong, 28 February 2008

WHAT IS IN OUR ACCOUNTS?



Consolidated Income Statement

for the year ended 31 December 2007

	Note	2007 HK$M	2006 HK$M
Revenue	4	50,789	45,702
Expenses			
Purchases of electricity, gas and distribution services		(17,973)	(13,924)
Operating lease and lease service payments	5	(7,372)	(7,176)
Staff expenses		(1,900)	(1,812)
Fuel and other operating expenses		(7,729)	(5,710)
Depreciation and amortisation		(4,650)	(4,968)
		(39,624)	(33,590)
Other income, net	6	2,122	55
Operating profit	7	13,287	12,167
Finance costs	8	(5,024)	(4,762)
Finance income	8	160	138
Share of results, net of income tax			
jointly controlled entities	16	3,024	2,936
associated companies	17	1	114
Profit before income tax		11,448	10,593
Income tax expense	9	(837)	(683)
Profit for the year		10,611	9,910
Profit attributable to minority interests		(3)	(10)
Earnings attributable to shareholders	10	10,608	9,900
Dividends	11		
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	12	HK$4.40	HK$4.11

The notes and disclosures on pages 142 to 198 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as at 31 December 2007

	Note	2007 HK$M	2006 HK$M
Non-current assets			
Fixed assets	*13(A)*	86,413	83,418
Leasehold land and land use rights	*13(B)*	2,196	2,235
Goodwill and other intangible assets	*14*	8,135	7,326
Interests in jointly controlled entities	*16*	17,684	19,163
Interests in associated companies	*17*	299	18
Finance lease receivables [1]	*18*	3,130	2,740
Deferred tax assets	*25*	3,915	3,305
Derivative financial instruments [2]	*19*	675	425
Other non-current assets		552	145
		122,999	118,775
Current assets			
Inventory – stores and fuel		667	647
Trade and other receivables [2]	*20*	7,121	8,799
Finance lease receivables [1]	*18*	152	126
Fuel clause account	*26*	132	–
Derivative financial instruments [2]	*19*	2,427	1,131
Bank balances, cash and other liquid funds	*21*	2,779	1,613
		13,278	12,316
Current liabilities			
Customers' deposits	*20(a)*	(3,589)	(3,417)
Trade and other payables [2]	*22*	(6,023)	(5,893)
Income tax payable		(237)	(186)
Bank loans and other borrowings [2]	*23*	(2,868)	(4,264)
Obligations under finance leases [1]	*24*	(1,431)	(1,945)
Derivative financial instruments [2]	*19*	(1,689)	(1,285)
Scheme of Control (SoC) reserve accounts	*27*	(2,300)	–
		(18,137)	(16,990)
Net current liabilities		(4,859)	(4,674)
Total assets less current liabilities		118,140	114,101

1 To understand the various items labelled "lease", have a look at pages 18 and 19.

2 The risk exposures of these financial instruments are detailed in "Financial Risk Management" on pages 192 to 198.

Consolidated Balance Sheet (continued)

as at 31 December 2007

	Note	2007 HK$M	2006 HK$M
Financed by:			
Equity			
Share capital	*28*	12,041	12,041
Share premium		1,164	1,164
Reserves	*29*		
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 [2]	*23*	25,492	26,014
Obligations under finance leases [1]	*24*	20,785	20,865
Deferred tax liabilities	*25*	6,344	6,054
Derivative financial instruments [2]	*19*	559	735
Fuel clause account	*26*	–	294
SoC reserve accounts	*27*	–	3,346
Other non-current liabilities		964	877
		54,144	58,185
Equity and non-current liabilities		118,140	114,101

The Hon. Sir Michael Kadoorie
Chairman
Hong Kong, 28 February 2008

Andrew Brandler
Chief Executive Officer

Peter P. W. Tse
Chief Financial Officer

The notes and disclosures on pages 142 to 198 are an integral part of these consolidated financial statements.

Balance Sheet

as at 31 December 2007

	Note	2007 HK$M	2006 HK$M
Non-current assets			
Fixed assets	*13(A)*	**22**	10
Investments in subsidiaries	*15*	**36,650**	40,604
Advance to a subsidiary	*15*	**41**	41
Other non-current assets		**5**	7
		36,718	40,662
Current assets			
Trade and other receivables	*20*	**9**	9
Bank balances and cash		**4**	10
		13	19
Current liabilities			
Trade and other payables	*22*	**(103)**	(101)
Advances from subsidiaries	*32(C)*	**(87)**	(186)
Bank loans and other borrowings	*23*	**–**	(2,794)
		(190)	(3,081)
Net current liabilities		**(177)**	(3,062)
Total assets less current liabilities		**36,541**	37,600
Financed by:			
Equity			
Share capital	*28*	**12,041**	12,041
Share premium		**1,164**	1,164
Reserves			
Proposed dividends		**2,216**	2,192
Others		**21,120**	20,203
Shareholders' funds		**36,541**	35,600
Non-current liabilities			
Bank loans and other borrowings	*23*	**–**	2,000
Equity and non-current liabilities		**36,541**	37,600

The Hon. Sir Michael Kadoorie
Chairman
Hong Kong, 28 February 2008

Andrew Brandler
Chief Executive Officer

Peter P. W. Tse
Chief Financial Officer

The notes and disclosures on pages 142 to 198 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

		Attributable to shareholders				
	Note	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Minority Interests HK$M	Total HK$M
Balance as at 1 January 2006		12,041	1,164	37,424	111	50,740
Net exchange gains	29	–	–	1,425	4	1,429
Cash flow hedges, net of tax	29	–	–	(385)	–	(385)
Net gains recognised directly in equity		–	–	1,040	4	1,044
Profit for the year		–	–	9,900	10	9,910
Total recognised income for the year		–	–	10,940	14	10,954
Dividends paid						
2005 finals		–	–	(2,264)	–	(2,264)
2006 interims		–	–	(3,612)	–	(3,612)
Acquisition of additional interest in a subsidiary		–	–	–	(47)	(47)
Other reserves realised upon disposal of interest in an associated company		–	–	(18)	–	(18)
Share of movements in reserves of jointly controlled entities	29	–	–	163	–	163
		–	–	(5,731)	(47)	(5,778)
Balance as at 31 December 2006		12,041	1,164	42,633	78	55,916
Balance as at 1 January 2007		12,041	1,164	42,633	78	55,916
Net exchange gains	29	–	–	2,621	10	2,631
Cash flow hedges, net of tax	29	–	–	558	–	558
Net gains recognised directly in equity		–	–	3,179	10	3,189
Profit for the year		–	–	10,608	3	10,611
Total recognised income for the year		–	–	13,787	13	13,800
Dividends paid						
2006 finals		–	–	(2,192)	–	(2,192)
2007 interims		–	–	(3,757)	–	(3,757)
Dividend paid to minority interests		–	–	–	(5)	(5)
Capital contribution from minority interests		–	–	–	9	9
Share of movements in reserves of jointly controlled entities	29	–	–	225	–	225
		–	–	(5,724)	4	(5,720)
Balance as at 31 December 2007		**12,041**	**1,164**	**50,696**	**95**	**63,996**

The notes and disclosures on pages 142 to 198 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

for the year ended 31 December 2007

	Share Capital HK$M	Share Premium HK$M	Capital Redemption Reserve HK$M	Retained Profits HK$M	Total HK$M
Balance as at 1 January 2006	12,041	1,164	2,482	19,631	35,318
Profit for the year	–	–	–	6,158	6,158
Dividends					
2005 finals	–	–	–	(2,264)	(2,264)
2006 interims	–	–	–	(3,612)	(3,612)
Balance as at 31 December 2006	12,041	1,164	2,482	19,913[(a)]	35,600
Balance as at 1 January 2007	12,041	1,164	2,482	19,913	35,600
Profit for the year	–	–	–	6,890	6,890
Dividends					
2006 finals	–	–	–	(2,192)	(2,192)
2007 interims	–	–	–	(3,757)	(3,757)
Balance as at 31 December 2007	**12,041**	**1,164**	**2,482**	**20,854[(a)]**	**36,541**

Note (a): The proposed final dividends as at 31 December 2007 were HK$2,216 million (2006: HK$2,192 million) and the balance of retained profits after proposed final dividends was HK$18,638 million (2006: HK$17,721 million).

As at 31 December 2007, distributable reserves of the Company amounted to HK$20,854 million (2006: HK$19,913 million).

The notes and disclosures on pages 142 to 198 are an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 HK$M	2007 HK$M	2006 HK$M	2006 HK$M
Operating activities					
Net cash inflow from operations	*30(A)*	15,687		16,794	
Interest received		162		143	
Income tax paid		(1,026)		(1,009)	
Net cash inflow from operating activities			14,823		15,928
Investing activities					
Capital expenditure		(6,632)		(5,826)	
Capitalised interest paid		(295)		(289)	
Additions of intangible assets		(86)		(10)	
Proceeds from disposal of fixed assets		93		143	
Acquisition of other non-current assets		(106)		–	
Acquisition of additional interest in a subsidiary		–		(39)	
Proceeds from asset swap with AGL	*30(B)*	1,913		–	
Proceeds from transfer of Ho-Ping to OneEnergy		3,203		–	
Investments in and advances to jointly controlled entities		(300)		(846)	
Dividends received from jointly controlled entities		3,759		2,775	
Net cash inflow/(outflow) from investing activities			1,549		(4,092)
Net cash inflow before financing activities			16,372		11,836
Financing activities					
Proceeds from long-term borrowings		14,076		16,354	
Repayment of long-term borrowings		(16,342)		(17,161)	
Repayment of obligations under finance leases		(1,270)		(1,958)	
(Decrease)/increase in short-term borrowings		(1,126)		787	
Interest and other finance costs paid		(4,778)		(4,407)	
Dividends paid		(5,954)		(5,876)	
Net cash outflow from financing activities			(15,394)		(12,261)
Net increase/(decrease) in cash and cash equivalents			978		(425)
Cash and cash equivalents at beginning of year			1,094		1,473
Effect of exchange rate changes			88		46
Cash and cash equivalents at end of year			2,160		1,094
Analysis of balances of cash and cash equivalents					
Short-term investments			519		–
Deposits with banks			1,932		1,336
Cash at banks and on hand			328		277
Bank balances, cash and other liquid funds	*21*		2,779		1,613
Excluding cash restricted for specific purposes			(619)		(519)
			2,160		1,094

The notes and disclosures on pages 142 to 198 are an integral part of these consolidated financial statements.

Significant Accounting Policies

1. 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.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgements on pages 151 and 152.

2. Changes in Accounting Policies

(A) Adoption of new/revised HKFRS effective 1 January 2007

HKFRS 7 "Financial Instruments: Disclosures", and the complementary amendment to HKAS 1 "Presentation of Financial Statements – Capital Disclosures", introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the Group's financial instruments.

HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments, and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group's financial statements.

Other new/revised HKFRS effective 1 January 2007 are not relevant to the Group.

(B) New/revised HKFRS that have been issued but are not yet effective

The following new/revised HKFRS, potentially relevant to the Group's operations, have been issued and are mandatory for accounting periods beginning on or after 1 January 2008, but have not been early adopted by the Group:

- HKAS 1 (Revised) "Presentation of Financial Statements"
- Amendment to HKAS 23 "Borrowing Costs"
- HKFRS 8 "Operating Segments"
- HK(IFRIC)-Int 12 "Service Concession Arrangements" – the new standard addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services where infrastructure assets should be recognised as intangibles, financial assets or a combination of the two.

The Group is in the process of assessing the impact of HK(IFRIC)-Int 12 "Service Concession Arrangements" on certain power projects in the Chinese mainland. Apart from the aforementioned and certain presentational changes, the adoption of these new/revised HKFRS standards and interpretations will have no significant impact on the Group's financial statements.

3. Basis of Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries made up to 31 December and include the Group's interests in jointly controlled entities and associated companies on the basis set out in Note 11 and Note 12 below, respectively.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Purchases of minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries, jointly controlled entities and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, jointly controlled entities and associated companies that have a functional currency different from the Group's presentation currency (i.e. Hong Kong dollars), assets and liabilities for each balance sheet presented are translated at the year-end closing rate; whilst income and expenses for each income statement item are translated at average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised as a separate component of equity. When a foreign entity is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing rate.

5. Segment Reporting

A geographical segment is a group of assets and operations engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format.

Segment assets consist primarily of fixed assets, intangible assets, receivables and other operating assets, and exclude investments in jointly controlled entities and associated companies and income tax assets. Segment liabilities comprise operating liabilities and exclude items such as income tax liabilities and borrowings. Segment revenue is based on the country in which the electricity is generated and/or services are rendered. Segment capital additions represent the total cost incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year.

Unallocated items comprise mainly corporate expenses, corporate assets, and the Company's liquid funds and borrowings.

6. Leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease and the corresponding lease income/expense, e.g. up-front payments for leasehold land or land use rights, are amortised on a straight-line basis over the term of the lease to the income statement.

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. A fixed asset under a finance lease is depreciated over the shorter of its useful life or

How does the Group manage foreign currency risk?
See pages 192 and 193.

the lease term. The corresponding rental obligations, net of finance charges, are included as obligations under finance leases in current and non-current liabilities.

For a finance lease, each lease receipt/payment is allocated between the receivable/liability and finance income/charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt/payment is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable/liability for each period.

In the case of an electricity supply or a power purchase contractual arrangement, where the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use these assets, such a contractual arrangement is accounted for as containing a finance or an operating lease. Payments for services and the cost of inputs of the arrangement are excluded from the calculation of the minimum lease payments. In respect of the power purchase arrangement between CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO), the effective interest rate of the finance lease obligation is a variable rate akin to a price index which moves with reference to the return allowed under the Scheme of Control (SoC) Agreement and accordingly, the finance charge has been treated as contingent rent. Contingent rent is recognised in the income statement in the period in which it is incurred.

7. Related Parties

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, jointly controlled entities, associated companies and key management personnel, where the individual or company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party. Parties are also considered to be related if they are under common control.

8. Revenue

Revenue primarily represents sales of electricity and gas, engineering and maintenance service fees, other electricity-related revenue such as temporary electricity supply works and reconnection fees and adjustments stipulated under the SoC. It is measured at the fair value of the consideration received or receivable, net of applicable tax, discounts and rebates.

Sales of electricity and gas are based on either actual and accrued consumption derived from meter readings or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

Lease service income comprises servicing income and fuel costs received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receipts on lease receivables and is recognised over the lease period using the effective interest method.

Interest income is recognised on a time proportion basis using the effective interest method.

9. Employee Benefits

(A) Retirement benefits

The Group operates and/or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme and Mandatory Provident Fund (MPF) scheme administered by HSBC Life (International) Limited. These schemes are set up as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of these schemes are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further payment obligations once the contributions have been paid.

Pages 18 and 19 will give you further explanation.

The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices.

Contributions to the defined contribution plans are recognised as an expense in the income statement in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(B) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the balance sheet date, where there is a contractual obligation or past practice has created a constructive obligation.

10. Subsidiaries

A subsidiary is an entity which is controlled by the Company through, directly or indirectly, controlling the composition of the board of directors, controlling more than half of the voting power or holding more than half of the issued share capital. Control represents the power to govern the financial and operating policies of that entity. Where an entity in which the Company holds, directly or indirectly, more than half of the issued share capital, is excluded from consolidation on the grounds of lack of effective control, it would be accounted for as a jointly controlled entity or an associated company, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Investments in subsidiaries are carried on the balance sheet of the Company at cost together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, less provision for impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

11. Jointly Controlled Entities

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interests in jointly controlled entities in the consolidated financial statements are initially recognised at cost and are subsequently accounted for by the equity method of accounting. The Group's share of its jointly controlled entities' post-acquisition results is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated balance sheet, interests in jointly controlled entities comprise the Group's share of the net assets and its net advances made to the jointly controlled entities (where the advances are neither planned nor likely to be settled in the foreseeable future), plus goodwill identified on acquisition and net of accumulated impairment losses.

When the Group's shared losses in a jointly controlled entity equal or exceed its interest therein, the Group does not recognise further losses.

Here is a quick guide to the classification of different entities in our accounts:

Control → Subsidiary
Joint Control → Jointly Controlled Entity
Significant Influence → Associated Company

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

12. Associated Companies

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Interests in associated companies in the consolidated financial statements are initially recognised at cost and are subsequently accounted for by the equity method of accounting. The Group's share of its associated companies' post-acquisition results is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated balance sheet, interests in associated companies comprise the Group's share of the net assets and its net advances made to the associated companies (where the advances are neither planned nor likely to be settled in the foreseeable future), plus goodwill identified on acquisition and net of accumulated impairment losses.

When the Group's shared losses in an associated company equal or exceed its interest therein, the Group does not recognise further losses.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

13. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset. Cost may also include transfer from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the year in which they are incurred. For any asset replacement, the carrying amount of the replaced part is derecognised.

Fixed assets employed for the electricity business in Hong Kong, also referred to as SoC fixed assets, represent a major portion of the assets of the Group. Depreciation of these assets is on a straight-line basis using the rates authorised under the SoC which reflect the pattern in which the assets' economic benefits are consumed:

Leasehold land	unexpired term of the lease
Buildings	35 years
Cable tunnels	100 years
Overhead lines (132 kV and above)	35 years
Overhead lines (below 132 kV) and cables	30 years
Generating plant	25 years
Switchgear and transformers	35 years
Meters	15 years
System control equipment, furniture, tools, communication and office equipment	10 years
Computers and office automation equipment other than those forming part of the generating plant	5 years
Motor vehicles	5 years
Refurbished or improved assets	remaining original life plus any life extension

Under the SoC, leasehold land is considered as one class of fixed assets on which a permitted return is earned.

Fixed assets used for the non-SoC business, primarily relating to the electricity business located outside Hong Kong, are also depreciated on a straight-line basis. Their estimated useful lives are similar to those of the SoC fixed assets and are set out as follows:

Buildings	30 – 40 years
Generating plant	17 – 31 years
Switchgear and transformers	17 – 45 years
Gas storage plant	25 years
Other equipment	10 – 30 years
Furniture and fittings	5 – 10 years
Computers and office equipment	3 – 7 years
Motor vehicles	3 – 10 years
Leasehold land	unexpired term of the lease
Land use rights	30 years
Freehold land	not depreciable

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

For plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

14. Intangible Assets

(A) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity or associated company at the date of acquisition. It is capitalised in the balance sheet as a separate asset if it relates to the acquisition of a subsidiary. Goodwill is included within interests in jointly controlled entities or associated companies if arising from an acquisition of these respective entities and is tested for impairment as part of the overall balance. Goodwill is tested for impairment annually or whenever there is an indication that it may be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units which are expected to benefit from the business combination in which the goodwill arose.

(B) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life of 6 – 14 years and carried at cost less accumulated amortisation and accumulated impairment losses. An intangible asset with an indefinite useful life is tested for impairment annually or whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses.

This is called impairment. Policy No. 15 tells you how it is assessed.

15. Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and in any case, at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

An impairment loss recognised in prior years for an asset other than goodwill is reversed when there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.

16. Derivative Financial Instruments and Hedging Activities

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges, which are hedges of the fair value of recognised assets or liabilities or firm commitments (e.g. fixed interest rate loans, foreign currency trade receivables) or cash flow hedges, which are hedges of highly probable forecast transactions (e.g. floating interest rate loans, future purchase of fuels denominated in U.S. dollars).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(A) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, which will offset any changes in the fair value recorded in the income statement of the corresponding hedged asset or liability that are attributable to the hedged risk and achieve the overall hedging result.

(B) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged items affect earnings. Such transfer from equity will offset the effect on earnings of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised

Read more about our financial risk management on pages 192 to 198.

when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(C) Derivatives not qualifying for hedge accounting or held for trading purposes

Certain derivative financial instruments do not qualify for hedge accounting or are held for trading purposes. Changes in the fair value of these derivative financial instruments are recognised immediately in the income statement.

The Group enters into sale and purchase transactions for commodities within the ordinary course of business. Transactions that take the form of contracts that are within the scope of HKAS 39 are fair valued at each balance sheet date. Contracts that were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected sale, purchase or usage requirements are not within the scope of HKAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion shall be separated from its host contract and measured as if it were a stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

17. Inventory

Inventory comprises stores and fuel which are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores and gas, and on the first-in, first-out basis for oil and naphtha. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

18. Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the income statement.

19. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

20. Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

21. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to the income statement or cost of the qualifying assets over the period of the borrowings using the effective interest method.

Borrowing costs are charged to the income statement in the year in which they are incurred, except to the extent that they are capitalised when they are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

22. Current and Deferred Tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, jointly controlled entities and associated companies operate and generate taxable income.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is also provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

23. Provisions and Contingent Liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

What is the difference between a legal obligation and a constructive obligation?

A legal obligation derives from a contract, legislation or the operation of law. A constructive obligation derives from an established pattern of past practice or published policies which create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

Critical Accounting Estimates and Judgements

In preparing the consolidated financial statements, management is required to exercise significant judgements in the selection and application of accounting principles, as well as in making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgements and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

1. Asset Impairment

The Group has made substantial investments in tangible long-lived assets and equity investments. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment of goodwill annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. In 2006, owing to changes in market conditions in Australia and reduced performance of the ageing plant during the year, the recoverable amount of fixed assets at Yallourn Power Station, Australia, was assessed to fall short of its carrying amount and an impairment charge was recognised. In 2007, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management concluded that there was no material impairment loss for the Yallourn Power Station with a carrying value of HK$11,611 million (2006: HK$12,205 million), goodwill and other long-lived assets.

In addition, the financial operations of CLP Power Hong Kong and CAPCO are governed by a Scheme of Control Agreement entered with the Hong Kong Government which will expire on 30 September 2008. On 7 January 2008, CLP Power Hong Kong and CAPCO signed an agreement with the Hong Kong Government on the terms of a new SoC effective 1 October 2008 (key changes of the new SoC are set out in Note 34 to the financial statements). The Group considers that, after assessment of the circumstances and with regard to the relevant terms of the new SoC, there will not be any impairment to the fixed assets of HK$69,711 million (2006: HK$68,258 million) employed by CLP Power Hong Kong.

2. Deferred Tax

As at 31 December 2007, a deferred tax asset of HK$5,600 million (2006: HK$4,790 million) in relation to unused tax losses was recognised in the consolidated balance sheet. Estimating the deferred tax asset arising from tax losses requires a process that involves determining appropriate tax provisions, forecasting future years' taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax asset may arise, which would be recognised in the income statement for the period in which such a reversal takes place. The Group's deferred tax asset arising from tax losses is from our Australian business. While the current financial models indicate that the tax losses can be utilised in the future, any changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset.

To understand the impairment assessment process, read this together with Significant Accounting Policy No. 15 on page 148.

3. SoC-related Accounts

As stipulated in the current SoC, the Development Fund shall represent a liability in the financial statements of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. In addition, an interest charge of 8% per annum on the average Development Fund balance is to be accrued to the Rate Reduction Reserve account.

The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the current SoC to customers such that the SoC reserve account balances of HK$2,300 million (2006: HK$3,346 million) meet the definition of a liability. [1]

4. Lease Accounting

The application of HKFRS-Int 4 "Determining whether an Arrangement contains a Lease" has resulted in finance lease accounting being applied to CLP Power Hong Kong as lessee (for its Electricity Supply Contract with CAPCO), whilst being applied to Gujarat Paguthan Energy Corporation Private Limited (GPEC), Ho-Ping Power Company (Ho-Ping), Electricity Generating Public Company Limited (EGCO) and BLCP Power Limited (BLCP) as lessors (for the Power Purchase Agreements with their respective off-takers). To apply finance lease accounting, a number of assumptions in the lease models have been made, such as the determination of minimum lease payments, implicit interest rates and residual values of the power plant at the end of contract periods. For the power purchase arrangement between CLP Power Hong Kong and CAPCO, in determining the minimum lease payments, the assumption has been made that the return contained in the lease is a variable rate return which moves with reference to the return allowed under the SoC and accordingly, the finance charge has been treated as contingent rent. Any future changes to these assumptions will affect the value of the lease assets and liabilities recognised and the corresponding lease income and expenses in the Group's financial statements. [2]

5. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 3 Fair Value Estimation on page 198.

1 You can find more SoC coverage on page 200.

2 Puzzled? See pages 18 and 19.

Notes to the Financial Statements

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, and its jointly controlled entity, CAPCO, are governed by a SoC entered into with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The main features of the current SoC are summarised on page 200. 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 34.

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

2. Changes in the Group

During the year, the Group injected its entire 40% interest in Ho-Ping into OneEnergy Limited (OneEnergy) and completed an asset 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.

Further details of the asset swap are set out in Note 30(B).

3. 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 set out in the following pages.

3. 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 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

3. 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.

4. Revenue

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

	2007 HK$M	2006 HK$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 (Note 27).

5. 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.

6. Other Income, net

	2007 HK$M	2006 HK$M
Gain on transfer of Ho-Ping to OneEnergy (Note 2(A))	1,030	–
Gain on asset swap with AGL (Note 2(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

Taking into account the income tax effect, the gain on asset swap with AGL is HK$767 million and the total net other income is HK$1,797 million (2006: HK$408 million).

Difficult to follow? Pages 18 and 19 might help.

7. Operating Profit

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

	2007 HK$M	2006 HK$M
Charging		
Staff costs		
Salaries and other costs	1,752	1,649
Retirement benefits costs [a]	148	163
Auditors' remuneration [b]		
Audit	28	30
Permissible non-audit services	21	3
Operating lease expenditure on the agreement with Ecogen	246	216
Net loss on disposal of fixed assets	211	216
Initial outsourcing costs of TRUenergy	653	–
Coal mine subsidence of TRUenergy	180	–
Net fair value loss/(gain) on derivative financial instruments		
Cash flow hedges, transfer from equity to fuel and other operating expenses	(4)	13
Fair value hedges	(70)	(26)
Transactions not qualifying as hedges	(391)	132
Loss on hedged items in fair value hedge	87	35
Net exchange loss	54	49
Crediting		
Net rental income from properties	(12)	(13)
Capital gain on disposal of properties	–	(25)

Notes:

(a) The retirement benefit plans for staff employed by Group companies in Hong Kong are regarded as defined contribution schemes. The current scheme, named CLP Group Provident Fund Scheme (GPFS), provides benefits linked to contributions and investment returns on the scheme. Contributions to defined contribution schemes, including GPFS and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$181 million (2006: HK$186 million), of which HK$63 million (2006: HK$65 million) was capitalised.

Staff employed by subsidiaries outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK$68 million (2006: HK$82 million). The Group's financial obligations to these arrangements are not material.

(b) Fees related to U.S. Sarbanes-Oxley Act Section 404 compliance audit are included as part of audit fees. Permissible non-audit services comprise primarily accounting/tax advisory services for business development.

8. 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 [(a)]	3,422	3,020
Development Fund [(b)]	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 [(c)]	(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

Notes:

(a) Finance charges under finance leases primarily relate to contingent rent in respect of the power purchase arrangement between CLP Power Hong Kong and CAPCO accounted for as finance lease in accordance with HKFRS-Int 4.

(b) 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 (Note 27).

(c) Finance costs have been capitalised at the average interest rate of 4.69% (2006: 4.87%) per annum for CLP Power Hong Kong and 6.74% (2006: 6.35%) per annum for TRUenergy.

9. 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.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2007 HK$M	2006 HK$M
Profit before income tax	11,448	10,593
Less: Share of results, net of income tax		
jointly controlled entities	(3,024)	(2,936)
associated companies	(1)	(114)
	8,423	7,543
Calculated at an income tax rate of 17.5% (2006: 17.5%)	1,474	1,320
Effect of different income tax rates in other countries	33	(459)
Income not subject to tax	(190)	(256)
Expenses not deductible for tax purposes	91	194
Transfers (from)/to SoC reserve accounts not subject to tax (Note 27)	(26)	11
Tariff rebates deductible for tax purposes	(157)	(156)
(Over)/under-provision in prior years	(13)	27
Utilisation of previously unrecognised tax losses	(1)	(2)
Tax losses not recognised	5	4
Reversal of temporary differences owing to sales of TIPS	(379)	–
Income tax expense	837	683

10. Earnings Attributable to Shareholders

Earnings attributable to shareholders amounted to HK$10,608 million (2006: HK$9,900 million). Of this amount, HK$6,890 million (2006: HK$6,158 million) has been dealt with in the financial statements of the Company.

11. 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.

12. Earnings per Share

The earnings per share are 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).

13. 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

Group

	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
Cost	8,677	9,334	72,517	35,216	125,744
Accumulated depreciation and impairment	(1,995)	(4,329)	(23,159)	(16,752)	(46,235)
Net book value, as at 1 January 2006	6,682	5,005	49,358	18,464	79,509
Net book value, as at 1 January 2006	6,682	5,005	49,358	18,464	79,509
Additions	459	277	5,396	3,029	9,161
Transfers and disposals	(14)	(7)	(291)	(134)	(446)
Depreciation	(219)	(256)	(2,579)	(1,697)	(4,751)
Impairment charge	(5)	–	(1,171)	–	(1,176)
Exchange differences	38	–	939	144	1,121
Net book value, as at 31 December 2006	6,941	5,019	51,652	19,806	83,418
Cost	9,136	9,597	78,686	38,173	135,592
Accumulated depreciation and impairment	(2,195)	(4,578)	(27,034)	(18,367)	(52,174)
Net book value, as at 31 December 2006	6,941	5,019	51,652	19,806	83,418
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**

Included in fixed assets is plant under construction, the book value of which as at 31 December 2007 was HK$8,324 million (2006: HK$6,572 million) for the Group.

13. Fixed Assets, Leasehold Land and Land Use Rights (continued)

(A) Fixed Assets (continued)

Note (a): The above leased assets include:

(i) 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 a finance lease in accordance with HKFRS-Int 4. The net book value of these leased fixed assets amounted to HK$22,116 million as at 31 December 2007 (2006: HK$22,921 million); and

(ii) Leased generating plant for our electricity business in Australia held under agreements which are treated as finance leases. The net book value of these leased assets as at 31 December 2007 was HK$28 million (2006: HK$1,904 million).

Company

The net book value of fixed assets of the Company was HK$22 million (2006: HK$10 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$15 million (2006: HK$4 million) and HK$3 million (2006: HK$2 million) respectively.

(B) Leasehold Land and Land Use Rights

	2007 HK$M	2006 HK$M
Net book value, as at 1 January	2,235	2,233
Additions	15	52
Amortisation	(57)	(52)
Exchange differences	3	2
Net book value, as at 31 December	2,196	2,235
Cost	2,412	2,393
Accumulated amortisation	(216)	(158)
Net book value, as at 31 December	2,196	2,235

The tenure of the leasehold land and land use rights of the Group is as follows:

	2007 HK$M	2006 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	156	179
On medium-term leases (10-50 years)	1,984	2,013
	2,140	2,192
Held outside Hong Kong:		
On medium-term leases (10-50 years)	56	43
	2,196	2,235

Pages 18 and 19 will help you understand this.

14. Goodwill and Other Intangible Assets

	Goodwill HK$M	Other Intangible Assets HK$M	Total HK$M
Cost	5,513	1,481	6,994
Accumulated amortisation	–	(64)	(64)
Net carrying value, as at 1 January 2006	5,513	1,417	6,930
Net carrying value, as at 1 January 2006	5,513	1,417	6,930
Additions	–	15	15
Amortisation	–	(165)	(165)
Exchange differences	441	105	546
Net carrying value, as at 31 December 2006	5,954	1,372	7,326
Cost	5,954	1,615	7,569
Accumulated amortisation	–	(243)	(243)
Net carrying value, as at 31 December 2006	5,954	1,372	7,326
Net carrying value, as at 1 January 2007	5,954	1,372	7,326
Additions	–	155	155
Amortisation	–	(198)	(198)
Exchange differences	694	158	852
Net carrying value, as at 31 December 2007	**6,648**	**1,487**	**8,135**
Cost	6,648	1,966	8,614
Accumulated amortisation	–	(479)	(479)
Net carrying value, as at 31 December 2007	**6,648**	**1,487**	**8,135**

Goodwill predominantly arose from the previous acquisition of the Merchant Energy Business (MEB) in Australia. In accordance with its accounting policies, the Group has assessed the recoverable amount of goodwill for the MEB cash generating unit and determined that such goodwill has not been impaired. The recoverable amount has been determined by a value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a period of five years and a pre-tax discount rate based on MEB's weighted average cost of capital. Cash flows beyond the five-year period are extrapolated using estimated growth rates based on Consumer Price Index (CPI) in Australia. The discount rate used reflects specific risks relating to the business and the growth rates are in line with the forecasts adopted by the industry.

Other intangible assets mainly include contracted customers and a lease arrangement under the long-term hedge agreement with Ecogen arising from the acquisition of MEB in May 2005.

Remember that our goodwill is assessed for impairment annually. See page 147.

15. Investments in and Advances to Subsidiaries

	2007 HK$M	2006 HK$M
Unlisted shares, at cost	23,607	23,590
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	13,143	17,114
	36,650	40,604

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 32(C)). These advances are considered equity in nature.

Apart from the above advances to subsidiaries which are considered equity in nature, the Company has also made an advance to CLP Engineering Limited of HK$41 million (2006: HK$41 million), which is interest-free and due on or after 30 June 2009 upon demand. This advance is classified as a long-term receivable in the Company's financial statements.

The table below lists the principal subsidiaries of the Group at 31 December 2007:

Name	Issued Share Capital/ Registered Capital	% of Issued Capital Held at 31 December 2007	Place of Incorporation/ Operation	Principal Activity
CLP Power Hong Kong Limited	2,488,320,000 ordinary shares of HK$5 each	100	Hong Kong	Generation and Supply of Electricity
Hong Kong Nuclear Investment Company Limited	300,000 ordinary shares of HK$1,000 each	100	Hong Kong/ Chinese mainland	Power Projects Investment Holding
CLP Engineering Limited	2,170 ordinary shares of HK$10,000 each	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands/ International and Chinese mainland	Power Projects Investment Holding
CLP Power China Limited	192,000,000 ordinary shares of US$1 each	100*	British Virgin Islands/ Chinese mainland	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100*	British Virgin Islands/ International	Power Projects Investment Holding
CLP Properties Limited	15,000,000 ordinary shares of HK$10 each	100	Hong Kong	Property Investment Holding
CLP Research Institute Limited	1 ordinary share of US$1 each	100	British Virgin Islands/ Hong Kong	Research and Development

15. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital/ Registered Capital	% of Issued Capital Held at 31 December 2007	Place of Incorporation/ Operation	Principal Activity
TRUenergy Holdings Pty Ltd (formerly known as "CLP Australia Holdings Pty Ltd")	5 ordinary shares of A$1 each; 5,336,760 redeemable preference shares of A$100 each	100*	Australia	Energy Business Investment Holding
TRUenergy Yallourn Pty Ltd	15 ordinary shares of A$1 each	100*	Australia	Generation and Supply of Electricity
TRUenergy Pty Ltd	1,331,686,988 ordinary shares of A$1 each	100*	Australia	Retailing of Electricity and Gas
Gujarat Paguthan Energy Corporation Private Limited	728,597,871 shares of Rs.10 each	100*	India	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited**	RMB69,098,976	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited**	RMB249,430,049	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited**	US$13,266,667	84.9*	Chinese mainland	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited**	RMB141,475,383	84.9*	Chinese mainland	Generation of Electricity

* Indirectly held

** Registered as Sino-Foreign Cooperative Joint Ventures under the People's Republic of China (PRC) law

16. Interests in Jointly Controlled Entities

	2007 HK$M	2006 HK$M
Share of net assets other than goodwill	**10,292**	11,075
Goodwill	**768**	924
Advances	**6,546**	7,086
Special loan	**78**	78
	17,684	19,163

Advances to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms except for an advance of HK$4 million (2006: HK$9 million) to a joint venture undertaken with a subsidiary of Cheung Kong (Holdings) Limited, of which HK$4 million (2006: HK$8 million) carries interest of 5% (2006: 5%) per annum. These advances are considered equity in nature.

16. Interests in Jointly Controlled Entities (continued)

The Group's interests in jointly controlled entities are analysed as follows:

		2007				2006			
		Share of Net Assets Other Than Goodwill HK$M	Goodwill HK$M	Advances and Special Loan HK$M	Total HK$M	Share of Net Assets Other Than Goodwill HK$M	Goodwill HK$M	Advances and Special Loan HK$M	Total HK$M
Castle Peak Power Company Limited	(A)	187	–	6,287[(a)]	6,474	143	–	6,833[(a)]	6,976
Guangdong Nuclear Power Joint Venture Company, Limited	(B)	2,297	–	–	2,297	2,497	–	–	2,497
OneEnergy Limited	(C)	2,454	–	–	2,454	2,342	–	–	2,342
Ho-Ping Power Company	(D)	–	–	–	–	1,555	237	–	1,792
CLP Guohua Power Company Limited	(E)	1,298	134	–	1,432	1,223	118	–	1,341
Shandong Zhonghua Power Company, Limited	(F)	1,122	–	–	1,122	1,111	–	–	1,111
CLP Guangxi Fangchenggang Power Company Limited	(G)	947	–	–	947	504	–	–	504
Roaring 40s Renewable Energy Pty Ltd	(H)	676	224	–	900	537	200	–	737
Guizhou CLP Power Company Limited	(I)	524	–	–	524	481	–	–	481
Hong Kong Pumped Storage Development Company, Limited	(J)	5	–	333	338	11	–	322	333
Others	(K)	782	410	4	1,196	671	369	9	1,049
		10,292	768	6,624	17,684	11,075	924	7,164	19,163

Note (a): Includes a special loan of HK$78 million (2006: HK$78 million).

16. Interests in Jointly Controlled Entities (continued)

The Group's share of net assets, capital commitments and contingent liabilities of the jointly controlled entities as at 31 December and its share of profit for the year then ended are as follows:

	2007 HK$M	2006 HK$M
Non-current assets	**31,729**	32,263
Current assets	**6,538**	7,884
Current liabilities	**(6,642)**	(6,087)
Non-current liabilities	**(19,919)**	(21,328)
Minority interests	**(646)**	(733)
Net assets	**11,060**	11,999
Income	**11,529**	11,842
Expenses	**(7,885)**	(8,296)
Profit before income tax	**3,644**	3,546
Income tax expense	**(530)**	(504)
Minority interests	**(90)**	(106)
Share of profit for the year	**3,024**	2,936
Capital commitments	**9,498**	8,546
Contingent liabilities	**55**	273

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 31. There are no contingent liabilities relating to the Group's interest in these entities.

Details of the jointly controlled entities are summarised below:

(A) CAPCO is 40% owned by CLP Power Hong Kong and 60% owned by ExxonMobil Energy Limited (EMEL) and is incorporated in Hong Kong. Its principal activity is the generation of electricity for the sole supply to CLP Power Hong Kong. While CAPCO owns the power generation assets, CLP Power Hong Kong builds and operates all CAPCO's power stations and is the sole off-taker. In accordance with HKFRS-Int 4, such arrangement is considered as a finance lease and the power generation assets are accounted for as leased fixed assets on the Group's balance sheet (Note 13).

Under the terms of the revised CAPCO Deed of Subordination, in the event of the winding up of CAPCO, CLP Power Hong Kong's advances to it would be subordinated to certain loans of CAPCO. CLP Power Hong Kong's advances to CAPCO may be withdrawn only to the extent that the shareholders' funds exceed two-thirds of the aggregate principal amount outstanding of the said loans. In this context the shareholders' funds represent the sum of the issued share capital, shareholders' advances, special advances, deferred tax, retained profits and any proposed dividend.

The advances to CAPCO include a special loan of HK$78 million (2006: HK$78 million). The special loan to CAPCO carries interest, at a deemed interest rate of 7.87% (2006: 7.87%) payable semi-annually, is unsecured, and repayable in full on 30 September 2008.

16. Interests in Jointly Controlled Entities (continued)

An extract of the financial statements of CAPCO for the year ended 31 December is set out as follows:

	2007 HK$M	2006 HK$M
Results for the year		
Income	10,910	10,331
Profit after income tax	3,596	3,637
Group's share of profit after income tax	1,472	1,459
Net assets (note)		
Non-current assets	24,207	23,644
Current assets	2,747	3,564
Current liabilities	(5,565)	(3,505)
Deferred tax	(2,735)	(2,689)
Non-current liabilities	(2,596)	(3,704)
	16,058	17,310

Note: The amounts exclude the special loan and advances from shareholders.

(B) GNPJVC is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited and is incorporated in the Chinese mainland. This company constructed and operates the Guangdong Daya Bay Nuclear Power Station and its principal activity is the generation of electricity for supply to Hong Kong and Guangdong Province.

An extract of the management financial statements of GNPJVC for the year ended 31 December is set out as follows:

	2007 HK$M	2006 HK$M
Results for the year		
Income	6,920	6,911
Profit after income tax	2,891	2,763
Group's share of profit after income tax	723	691
Net assets		
Non-current assets	9,633	11,155
Current assets	6,417	8,320
Current liabilities	(1,338)	(3,734)
Non-current liabilities	(5,525)	(5,754)
	9,187	9,987

16. Interests in Jointly Controlled Entities (continued)

(C) OneEnergy, a company incorporated in Cayman Islands, is a 50:50 strategic jointly controlled entity owned by Mitsubishi Corporation of Japan and the Group. This company operates as an investment vehicle in the Southeast Asia and Taiwan markets and currently owns a 22.4% interest in EGCO, Thailand and 40% interest in Ho-Ping, Taiwan.

An extract of the management financial statements of OneEnergy for the year ended 31 December is set out as follows:

	2007 HK$M	2006 HK$M
Results for the year		
Income	–	1
Profit after income tax	575	120
Group's share of profit after income tax	287	60
Net assets		
Non-current assets	4,416	1,939
Current assets	510	2,762
Current liabilities	(17)	(17)
	4,909	4,684

(D) Before the injection into OneEnergy (Note 2(A)), the Group had an interest in 40% of the issued share capital of Ho-Ping, a company incorporated in Taiwan. This company constructed, owns and operates a coal-fired power station of 1,320MW and an associated 53km of 345kV transmission line at Ho-Ping in eastern Taiwan. All power generated is supplied to Taiwan Power Company (Taipower), the government-owned utility of Taiwan.

(E) CLP Guohua Power Company Limited, the joint stock company with 51% owned by China Shenhua Energy Company Limited and 49% by the Group, is incorporated in the Chinese mainland. It holds interests in three coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin and Sanhe Power Station in Hebei, with a combined installed capacity of 2,100MW, of which the joint stock company owns 1,435 equity MW.

(F) Shandong Zhonghua Power Company, Limited is 29.4% owned by the Group and is incorporated in the Chinese mainland. This company owns four coal-fired power stations, namely Shiheng I, Shiheng II, Heze II and Liaocheng, with a combined installed capacity of 3,000MW. All power generated is for supply to the Shandong power grid.

(G) CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) is 70% owned by the Group and is incorporated in the Chinese mainland. This company owns and operates a 1,200MW coal-fired power station in Guangxi. Unit 1 was commissioned in September 2007 whilst unit 2 was commissioned in January 2008. All power generated is for supply to the Guangxi power grid.

Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activity of Fangchenggang; and hence, the Group's interest is accounted for as a jointly controlled entity.

(H) Roaring 40s Renewable Energy Pty Ltd is 50% owned by the Group and is incorporated in Australia. This company provides a platform to develop renewable energy business in Australia and elsewhere in the Asia-Pacific region, and owns a number of wind farms.

16. Interests in Jointly Controlled Entities (continued)

(I) Guizhou CLP Power Company Limited (Guizhou CLP Power) is 70% owned by the Group and is incorporated in the Chinese mainland. This company constructed and operates a coal-fired power station, Anshun II Power Station, in Guizhou with an installed capacity of 600MW. All power generated is for supply to the Guizhou power grid.

Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activity of Guizhou CLP Power; and hence, the Group's interest is accounted for as a jointly controlled entity.

(J) Hong Kong Pumped Storage Development Company, Limited is 49% owned by the Group and is incorporated in Hong Kong. This company has the right to use 50% of the capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Guangdong Province until 2034.

(K) The Group's other investments include the following key projects:

- 50% interest in two jointly controlled entities undertaken with a subsidiary of Cheung Kong (Holdings) Limited in Hong Kong to develop the Hok Un site (named Laguna Verde) and to provide second mortgage financing to purchasers of Laguna Verde. The joint venture only holds a commercial complex with 270,000 sq. ft. for leasing to tenants after all the residential units have now been sold;
- 49% interest in CLP Guohua Shenmu, which is incorporated in the Chinese mainland and holds an interest in a coal-fired power station, Shenmu Power Station, with an installed capacity of 200MW; and
- 33 1/3% interest in SEAGas Partnership, which is incorporated in Australia and owns and operates a gas pipeline from Port Campbell in Western Victoria to Adelaide in South Australia.

17. Interests in Associated Companies

The Group's interests in associated companies are analysed as follows:

	2007 HK$M	2006 HK$M
Connect Now Pty Ltd (A)	15	10
Gascor Pty Ltd (B)	9	8
Solar Systems Pty Ltd (C)	275	–
	299	18

(A) The Group indirectly holds a 50% interest in Connect Now Pty Ltd, an unlisted company incorporated in Australia whose principal activity is to provide a service to the public arranging for the connection of utilities to residential properties.

(B) The Group indirectly holds a 1/3 interest in Gascor Pty Ltd, an unlisted company incorporated in Australia whose principal activity is to manage the gas sales between Victoria's main gas wholesaler and retailers.

(C) In December 2007, the Group acquired a 20% interest in Solar Systems Pty Ltd, an unlisted company incorporated in Australia whose principal activity is research, development and manufacture relating to solar energy generation technology.

17. Interests in Associated Companies (continued)

Summarised financial information in respect of the Group's associated companies is set out below:

	2007 HK$M	2006 HK$M
Total assets	1,699	223
Total liabilities	(269)	(178)
Net assets	1,430	45
Group's share of associated company's net assets	299	18
Income	3,356	2,787
Profit after income tax	2	507
Group's share of profit after income tax	1	114

There are no capital commitments and contingent liabilities relating to the Group's interests in the associated companies.

18. Finance Lease Receivables

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2007 HK$M	2006 HK$M	2007 HK$M	2006 HK$M
Amounts receivable under finance leases:				
Within one year	590	509	152	126
After one year but within five years	2,213	1,884	669	524
Over five years	4,256	4,041	2,461	2,216
	7,059	6,434	3,282	2,866
Less: unearned finance income	(3,777)	(3,568)		
Present value of minimum lease payments receivable	3,282	2,866		
Analysed as:				
Current finance lease receivables (recoverable within 12 months)			152	126
Non-current finance lease receivables (recoverable after 12 months)			3,130	2,740
			3,282	2,866

Need help? See pages 18 and 19.

18. Finance Lease Receivables (continued)

The carrying amounts of the finance lease receivables are denominated in the following currencies:

	2007 HK$M	2006 HK$M
Indian rupees	**2,548**	2,369
Sterling pound	**490**	331
Euro	**244**	166
	3,282	2,866

The finance lease receivables, accounted for as finance lease in accordance with HKFRS-Int 4, relate to the 20-year power purchase agreement under which GPEC sells all of its electricity output to its off-taker, Gujarat Urja Vikas Nigam Ltd. (GUVNL). The effective interest rate implicit in the finance lease is approximately 13.4% for both 2006 and 2007.

The carrying amounts of the finance lease receivables approximate their fair values.

19. Derivative Financial Instruments

	2007		2006	
	Assets [1] HK$M	Liabilities [2] HK$M	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	**145**	**170**	67	566
Interest rate swaps	**400**	**64**	170	25
Energy contracts	**750**	**789**	315	438
Fair value hedge				
Cross currency & interest rate swap	**132**	**36**	69	43
Held for trading or not qualifying as hedges				
Forward foreign exchange contracts	**12**	**11**	21	5
Interest rate swaps	**–**	**–**	–	5
Energy contracts	**1,663**	**1,178**	914	938
	3,102	**2,248**	1,556	2,020
Analysed as:				
Current	**2,427**	**1,689**	1,131	1,285
Non-current	**675**	**559**	425	735
	3,102	**2,248**	1,556	2,020

1 Derivative assets – the amounts we would receive if the position were closed out at year end.

2 Derivative liabilities – the amounts we would pay if the position were closed out at year end.

19. Derivative Financial Instruments (continued)

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	2007 HK$M	2006 HK$M
Forward foreign exchange contracts	41,425	41,828
Interest rate swaps/cross currency & interest rate swaps	16,531	14,741
Energy contracts	32,080	19,859

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

The net fair value and remaining terms of the derivative financial instruments are set out below:

	2007 HK$M	2006 HK$M
Forward foreign exchange contracts		
Within one year	(36)	(81)
Between one and two years	31	(134)
Between two to five years	(19)	(267)
Over five years	–	(1)
	(24)	(483)
Interest rate swaps/cross currency & interest rate swaps		
Within one year	(57)	(55)
Between one and two years	22	26
Between two to five years	467	221
Over five years	–	(26)
	432	166
Energy contracts		
Within one year	657	(70)
Between one and two years	(148)	(81)
Between two to five years	(63)	4
	446	(147)

Derivative financial instruments qualifying as cash flow hedges as at 31 December 2007 have a maturity of up to five years (2006: six years) from the balance sheet date.

The maturities of the derivative financial instruments used for hedging will correlate to the timing of the cash flows associated with the corresponding hedged items. As for the energy contracts that are hedges of anticipated future purchases and sales of electricity (cash flow hedge), any unrealised gains or losses on the contracts will be recognised in the measurement of the underlying purchases or sales. The unrealised gains or losses are deferred in equity in the hedging reserve and re-classified in the income statement, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.

20. Trade and Other Receivables

	Group 2007 HK$M	Group 2006 HK$M	Company 2007 HK$M	Company 2006 HK$M
Trade receivables [a]	5,473	5,586	–	–
Deposits and prepayments	1,598	1,332	8	7
Other receivables [b]	–	1,000	–	–
Dividend receivable from a jointly controlled entity [c]	5	858	–	–
Current accounts with jointly controlled entities [c]	45	23	–	–
Current accounts with subsidiaries [c]	–	–	1	2
	7,121	8,799	9	9

Trade and other receivables attributed to overseas subsidiaries amounted to HK$4,450 million (2006: HK$5,303 million). GPEC has obtained payment for some of its receivables from GUVNL through bill discounting with recourse and the transactions have been accounted for as collateralised borrowings (Note 23).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Notes:

(a) Trade receivables

40% and 45% of the gross trade receivables relate to the sales of electricity in Hong Kong and sales of electricity and gas in Australia respectively. There is no significant concentration of credit risk with respect to these trade receivables as their customer bases are widely dispersed in different sectors and industries.

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. As at 31 December 2007, such cash deposits amounted to HK$3,584 million (2006: HK$3,412 million) and the bank guarantees stood at HK$954 million (2006: HK$955 million). The customer deposits are repayable on demand, bear interest at the HSBC bank savings rate and their carrying value approximates their fair value. Impairment provisions on trade receivables are recognised on an individual basis once a receivable is more than 90 days overdue and are calculated by reference to the historical past due recovery pattern together with any customer deposits held. For subsidiaries outside Hong Kong, the credit term for trade receivables ranges from about 30 to 60 days. For TRUenergy in Australia, the individually impaired receivables relate primarily to known insolvencies, final bills outstanding and balances aged over 91 days.

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

	2007 Not impaired HK$M	2007 Impaired HK$M	2007 Provision for impairment HK$M	2007 Total HK$M	2006 Not impaired HK$M	2006 Impaired HK$M	2006 Provision for impairment HK$M	2006 Total HK$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

As at 31 December 2007, trade receivables of HK$416 million (2006: HK$769 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default.

20. Trade and Other Receivables (continued)

Movements in the provision for impairment of trade receivables are as follows:

	2007 HK$M	2006 HK$M
Balance at 1 January	214	273
Provision for impairment of receivables	186	114
Receivables written off during the year as uncollectible	(145)	(106)
Unused amounts reversed	–	(76)
Exchange differences	24	9
Balance at 31 December	279	214

The trade receivables in currencies other than Hong Kong dollars are denominated in the functional currencies of the respective overseas entities.

(b) In 2006, other receivables refer to an amount due from EGCO relating to the share transfer in BLCP.

(c) The amounts receivable from jointly controlled entities and subsidiaries are unsecured, interest-free and have no fixed repayment terms.

21. Bank Balances, Cash and Other Liquid Funds

	2007 HK$M	2006 HK$M
Trust fund for unclaimed dividends [(a)]	4	9
Trust accounts under TRAA [(b)]	615	510
Cash restricted for specific purposes	619	519
Short-term investments and bank deposits	1,841	829
Bank balances and cash	319	265
	2,779	1,613

Notes:

(a) As part of the restructuring arrangements in relation to the transfer of HK$10,116,789,910 from the share premium account to distributable reserves approved by the court in 2002, a trust fund was set up to cover unclaimed dividends. The Company has an obligation to pay such dividends until they can be forfeited after six years from the date they were declared.

(b) Pursuant to a Trust and Retention Account Agreement (TRAA) between GPEC and its lenders, GPEC allocates monthly receipts from its off-taker, GUVNL to various trust accounts for fuel, operating and major maintenance expenses and debt service payments. These amounts are placed by GPEC on short-term deposits or investments prior to being applied for the designated purposes.

The average effective interest rate on the Group's bank balances, cash and other liquid funds is 4.8% (2006: 6.7%).

The Group's bank balances, cash and other liquid funds denominated in the functional currencies of the respective overseas entities amounted to HK$1,835 million (2006: HK$1,471 million). Of these, HK$900 million (2006: HK$1,319 million) was denominated in Indian rupees and HK$866 million (2006: HK$18 million) was in Australian dollars.

22. Trade and Other Payables

	Group		Company	
	2007 HK$M	2006 HK$M	2007 HK$M	2006 HK$M
Trade payables [(a)]	2,772	2,679	–	–
Other payables and accruals	2,503	2,090	93	92
Current accounts with jointly controlled entities [(b)]	748	1,124	–	–
Current accounts with subsidiaries [(b)]	–	–	10	9
	6,023	5,893	103	101

22. Trade and Other Payables (continued)

Notes:

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

	2007 HK$M	2006 HK$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

As of 31 December 2007, HK$260 million (2006: HK$365 million) of the trade payables were denominated in a currency other than the functional currency of the corresponding entities of the Group.

(b) The amounts payable to jointly controlled entities and subsidiaries are unsecured, interest-free and have no fixed repayment terms. Of these, HK$507 million (2006: HK$911 million) was due to CAPCO.

23. Bank Loans and Other Borrowings

	Group		Company	
	2007 HK$M	2006 HK$M	2007 HK$M	2006 HK$M
Current				
Short-term bank loans	606	1,798	–	589
Long-term bank loans	2,262	2,466	–	2,205
	2,868	4,264	–	2,794
Non-current				
Long-term bank loans (note)	13,260	15,375	–	2,000
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 (note)	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	–	2,000
Total borrowings	28,360	30,278	–	4,794

Note: CLP Power Hong Kong arranged a total of HK$1.5 billion new credit facilities during the year in the form of notes and bank loan to support the capital requirements of the electricity business in Hong Kong. In January 2007, it issued HK$1 billion fixed-rate notes due in 2017 under the MTN Programme set up by its wholly-owned subsidiary CLP Power Hong Kong Financing Limited.

Total borrowings included secured liabilities (bank loans and collateralised borrowings) of HK$879 million (2006: HK$888 million). Of these, HK$475 million (2006: HK$635 million) and HK$340 million (2006: HK$253 million) were related to GPEC and subsidiaries in Huaiji respectively.

Bank loans for GPEC are secured by fixed and floating charges over its immoveable and moveable properties with carrying amounts of HK$1,848 million (2006: HK$1,831 million). Bank loans for Huaiji are secured by right of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights at HK$802 million (2006: HK$714 million). Collateralised borrowings for GPEC are secured by trade receivables, the carrying amounts of which were HK$248 million (2006: HK$334 million).

Bank loans and other borrowings totalling HK$14,747 million (2006: HK$12,431 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

23. Bank Loans and Other Borrowings (continued)

As at 31 December 2007, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Within one year	**2,868**	4,264	**–**	–	**2,868**	4,264
Between one and two years	**3,885**	3,031	**–**	–	**3,885**	3,031
Between two to five years	**9,128**	11,870	**6,890**	–	**16,018**	11,870
Over five years	**247**	474	**5,342**	10,639	**5,589**	11,113
	16,128	19,639	**12,232**	10,639	**28,360**	30,278

As at 31 December 2007, the Company did not have any borrowings (2006: HK$2,794 million repayable within 12 months and HK$2,000 million between two to five years).

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$M	HK$M	**HK$M**	HK$M
Hong Kong dollars and foreign currency hedged into Hong Kong dollars	**13,613**	17,847	**–**	4,794
Australian dollars	**13,375**	10,954	**–**	–
Indian rupees and foreign currency hedged into Indian rupees	**968**	1,224	**–**	–
Other currencies	**404**	253	**–**	–
	28,360	30,278	**–**	4,794

23. Bank Loans and Other Borrowings (continued)

The exposure of the Group's and the Company's borrowings to interest rate changes and the contractual repricing dates are as follows:

Group

	Floating Interest Rate HK$M	Fixed Interest Rate Maturing in				Total HK$M
		1 year or less HK$M	1 to 2 years HK$M	2 to 5 years HK$M	Over 5 years HK$M	
As at 31 December 2007						
Total borrowings	**18,564**	**49**	**49**	**4,698**	**5,000**	**28,360**
Effect of interest rate swaps	**(6,733)**	**–**	**–**	**6,733**	**–**	**–**
	11,831	**49**	**49**	**11,431**	**5,000**	**28,360**
As at 31 December 2006						
Total borrowings	21,720	71	48	91	8,348	30,278
Effect of interest rate swaps	(6,008)	–	–	7,363	(1,355)	–
	15,712	71	48	7,454	6,993	30,278

As at 31 December 2007, the Company did not have any borrowings (2006: HK$4,794 million at floating interest rates).

As disclosed above, the loans and borrowings of the Group are predominantly in Hong Kong dollars or Australian dollars. The effective interest rates at the balance sheet date were as follows:

	2007		2006	
	HK$	**A$**	HK$	A$
Fixed rate loans and loans swapped to fixed rates	**4.2% – 5.0%**	**6.2% – 6.6%**	4.2% – 6.1%	6.2% – 6.6%
Variable rate loans and loans swapped from fixed rates	**3.3% – 5.7%**	**7.7% – 7.8%**	4.0% – 4.8%	6.4% – 7.0%

The carrying amounts of loans and borrowings approximate their fair values. The fair value of long-term borrowings is determined using the expected future payments discounted at market interest rates prevailing at the year end.

As at 31 December 2007, the Group had undrawn bank loan and overdraft facilities of HK$15,248 million (2006: HK$12,245 million).

24. 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. CAPCO's power purchase arrangement is accounted for as a finance lease in accordance with HKFRS-Int 4.

	Minimum Lease Payments 2007 HK$M	2006 HK$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. The carrying amounts of the finance lease obligations approximate their fair values.

25. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date in the respective jurisdictions.

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately in the consolidated balance sheet:

	2007 HK$M	2006 HK$M
Deferred tax assets	**3,915**	3,305
Deferred tax liabilities	**(6,344)**	(6,054)
	(2,429)	(2,749)

Most of the deferred tax balances are to be recovered or settled after more than 12 months.

25. Deferred Tax (continued)

The gross movement on the deferred tax account is as follows:

	2007 HK$M	2006 HK$M
As at 1 January	(2,749)	(3,181)
Disposal of subsidiaries	(59)	–
Credited to income statement	17	196
(Charged)/credited directly to equity	(193)	88
Withholding tax	224	–
Exchange differences	331	148
As at 31 December	(2,429)	(2,749)

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred tax assets (prior to offset)

	Tax Losses		Accruals and Provisions		Others		Total	
	2007 HK$M	2006 HK$M	2007 HK$M	2006 HK$M	2007 HK$M	2006 HK$M	2007 HK$M	2006 HK$M
As at 1 January	4,790	3,815	297	746	468	396	5,555	4,957
Disposal of subsidiaries	–	–	(59)	–	–	–	(59)	–
(Charged)/credited to income statement	240	639	30	(478)	113	38	383	199
Charged directly to equity	–	–	(19)	(8)	–	–	(19)	(8)
Exchange differences	570	336	31	37	59	34	660	407
As at 31 December (note)	5,600	4,790	280	297	640	468	6,520	5,555

Note: The deferred tax asset arising from tax losses is related to the electricity business in Australia. There is no expiry on the tax losses recognised. In accordance with the Group's accounting policy, this asset is subject to impairment review. Current financial projections indicate it is probable that future taxable profits will be available against which the unused tax losses can be utilised. However, any significant adverse change to the business environment in the future may affect the financial projections, resulting in reduced future taxable profits. Should such circumstances arise, it may be necessary for this deferred tax asset to be impaired with the impairment being charged to the income statement. Apart from the tax losses in Australia, there are no significant unused tax losses not recognised.

25. Deferred Tax (continued)

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding/ Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
As at 1 January	**(6,436)**	(6,386)	**(394)**	(318)	**(279)**	(235)	**(331)**	(242)	**(864)**	(957)	**(8,304)**	(8,138)
(Charged)/credited to income statement	**94**	48	**(80)**	(61)	**(94)**	(24)	**(7)**	(14)	**(279)**	48	**(366)**	(3)
(Charged)/credited directly to equity	**–**	–	**–**	–	**–**	–	**–**	–	**(174)**	96	**(174)**	96
Withholding tax	**–**	–	**219**	–	**–**	–	**–**	–	**5**	–	**224**	–
Exchange differences	**(103)**	(98)	**(25)**	(15)	**(37)**	(20)	**(34)**	(75)	**(130)**	(51)	**(329)**	(259)
As at 31 December	**(6,445)**	(6,436)	**(280)**	(394)	**(410)**	(279)	**(372)**	(331)	**(1,442)**	(864)	**(8,949)**	(8,304)

26. Fuel Clause Account

Costs of fuel consumed by CLP Power Hong Kong are passed on to the customers. The variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest at prime rate) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers of CLP Power Hong Kong. The carrying amount of fuel clause account approximates its fair value.

27. 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 (A)	**2,117**	2,932
Rate Reduction Reserve (B)	**183**	414
	2,300	3,346

27. SoC Reserve Accounts (continued)

Movements in the SoC reserve accounts are as follows:

	2007 HK$M	2006 HK$M
(A) Development Fund		
As at 1 January	2,932	3,685
Transfer to income statement (Note 4)	(353)	(202)
Special rebate to customers [(a)]	(462)	(551)
As at 31 December	2,117	2,932
(B) Rate Reduction Reserve		
As at 1 January	414	489
Interest expense charged to income statement (Note 8)	202	265
Special rebate to customers [(a)]	(94)	–
Rebate to customers [(b)]	(339)	(340)
As at 31 December	183	414

The carrying amounts of the SoC reserve accounts approximate their fair values.

Notes:

The following rebates were made to customers during the year:

(a) A special rebate of HK¢1.8 per unit (2006: HK¢1.8 per unit), of which HK¢1.5 per unit (2006: HK¢1.8 per unit) was funded from the Development Fund and HK¢0.3 per unit (2006: nil) from the Rate Reduction Reserve; and

(b) A rebate of HK¢1.1 per unit (2006: HK¢1.1 per unit).

28. Share Capital

	2007 Number of Ordinary Shares of HK$5 Each	2007 Amount HK$M	2006 Number of Ordinary Shares of HK$5 Each	2006 Amount HK$M
Authorised, as at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid, as at 31 December	2,408,245,900	12,041	2,408,245,900	12,041

There was no movement in the share capital of the Company during the year (2006: none).

29. Reserves

	Capital Redemption Reserve[(a)] HK$M	Translation & Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance as at 1 January 2006	2,482	(350)	666	34,626	37,424
Exchange differences on translation of:					
subsidiaries	–	1,170	–	–	1,170
jointly controlled entities	–	241	–	–	241
associated companies	–	14	–	–	14
Net exchange gains not recognised in income statement	–	1,425	–	–	1,425
Cash flow hedges, net of tax					
Net fair value losses	–	(580)	–	–	(580)
Transfer to income statement	–	14	–	–	14
Transfer to assets – basis adjustment	–	(5)	–	–	(5)
Tax on above movements	–	105	–	–	105
Translation difference	–	(1)	–	–	(1)
Share of jointly controlled entities	–	82	–	–	82
	–	(385)	–	–	(385)
Revaluation reserves realised upon depreciation	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	17	(17)	–
Other reserves realised upon disposal of interest in an associated company	–	–	(18)	–	(18)
Earnings attributable to shareholders	–	–	–	9,900	9,900
Dividends paid					
2005 finals	–	–	–	(2,264)	(2,264)
2006 interims	–	–	–	(3,612)	(3,612)
Share of movements in reserves of jointly controlled entities	–	–	163	–	163
Balance as at 31 December 2006	2,482	690	825	38,636[(b)]	42,633

29. Reserves (continued)

	Capital Redemption Reserve[a] 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
Exchange differences on translation of:					
subsidiaries	–	2,220	–	–	2,220
jointly controlled entities	–	400	–	–	400
associated companies	–	1	–	–	1
Net exchange gains not recognised in income statement	–	2,621	–	–	2,621
Cash flow hedges, net of tax					
Net fair value gains	–	689	–	–	689
Transfer to income statement	–	(15)	–	–	(15)
Transfer to assets – basis adjustment	–	78	–	–	78
Tax on above movements	–	(163)	–	–	(163)
Translation difference	–	4	–	–	4
Share of jointly controlled entities	–	(35)	–	–	(35)
	–	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					
2006 finals	–	–	–	(2,192)	(2,192)
2007 interims	–	–	–	(3,757)	(3,757)
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**[b]	**50,696**

Notes:

(a) Capital redemption reserve represents the nominal value of the shares repurchased which was paid out of the distributable reserves of the Company.

(b) 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.

30. Notes to the Consolidated Cash Flow Statement

(A) Reconciliation of profit before income tax to net cash inflow from operations:

	2007 HK$M	2006 HK$M
Profit before income tax	11,448	10,593
Adjustments for:		
Finance costs	5,024	4,762
Finance income	(160)	(138)
Share of results, net of income tax		
jointly controlled entities	(3,024)	(2,936)
associated companies	(1)	(114)
Depreciation and amortisation	4,650	4,968
Impairment charge	353	1,214
Net loss on disposal of fixed assets	211	216
Capital gain on disposal of properties	–	(25)
Excess of share of net assets acquired over consideration on acquisition of additional interest in a subsidiary	–	(8)
Gain on transfer of Ho-Ping to OneEnergy	(1,030)	–
Gain on asset swap with AGL	(1,092)	–
Gain on formation of OneEnergy	–	(343)
Gain on transfer of BLCP to EGCO	–	(888)
Fair value loss on borrowings under fair value hedges and net exchange difference	49	33
SoC items		
increase in customers' deposits	172	104
decrease in fuel clause account	(436)	(41)
rebate to customers under SoC	(339)	(340)
special rebate	(556)	(551)
transfer from Development Fund	(353)	(202)
	(1,512)	(1,030)
Decrease/(increase) in trade and other receivables	4	(110)
(Increase)/decrease in cash restricted for specific purposes	(100)	49
Increase in trade and other payables	260	260
(Increase)/decrease in finance lease receivables	(52)	127
Decrease in derivative financial instruments	57	185
Increase/(decrease) in current accounts due to jointly controlled entities	602	(21)
Net cash inflow from operations	15,687	16,794

30. Notes to the Consolidated Cash Flow Statement (continued)

(B) Asset swap with AGL

	HK$M
Net assets disposed of:	
Fixed assets (Note 13(A))	2,114
Deferred tax assets	59
Inventories – stores & fuel	121
Trade and other receivables	301
Bank balances, cash and other liquid funds	8
Trade and other payables	(91)
Other non-current liabilities	(158)
	2,354
Gain on asset swap	1,092
	3,446
Satisfied by:	
Cash	1,987
Non-cash consideration	
Fixed assets	505
Derivative financial instruments	627
Other assets	327
	3,446

	HK$M
Analysis of net inflow of cash and cash equivalents in respect of the asset swap with AGL:	
Cash	1,987
Direct costs relating to the asset swap	(66)
Cash and cash equivalents in the subsidiary disposed of	(8)
Net inflow of cash and cash equivalents in respect of the asset swap	1,913

31. Commitments

(A) Capital expenditure on fixed assets, leasehold land and land use rights authorised but not brought into the financial statements is as follows:

	Group		Company	
	2007 HK$M	2006 HK$M	2007 HK$M	2006 HK$M
Contracted but not provided for	5,361	4,407	1	2
Authorised but not contracted for	6,917	7,965	6	–
	12,278	12,372	7	2

31. Commitments (continued)

(B) The Group has entered into a number of joint venture arrangements to develop power projects in the Chinese mainland. Equity contributions required and made by the Group under each project are summarised below:

Project Name	Total Equity Contributions Required	Amount Contributed as at 31 December 2007	Remaining Balance to be Contributed	Expected Year for Last Contribution
Fangchenggang power project	RMB966 million	RMB900 million (HK$894 million)	RMB66 million (HK$70 million)	2008
Weihai wind power project	RMB34 million	RMB29 million (HK$30 million)	RMB5 million (HK$5 million)	2008
Jiangbian hydro power project	RMB335 million	Nil	RMB335 million (HK$358 million)	2009
Guohua power project	RMB729 million	Nil	RMB729 million (HK$779 million)	2009

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007 HK$M	2006 HK$M
Within one year	700	703
Later than one year but not later than five years	2,309	2,569
Over five years	7,660	9,319
	10,669	12,591

Of the above amount, HK$7,488 million (2006: HK$9,559 million) was related to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,953 million (2006: HK$2,854 million) was related to the 20-year Master Hedge Agreement between TRUenergy and Ecogen. Under the latter Agreement, TRUenergy has the right to call upon electricity from the power stations at predetermined charging rates over the life of the Agreement. Other non-cancellable operating leases are for leases of various offices and equipment.

(D) CLP Power Hong Kong has a commitment to provide a funding facility to CAPCO for financing the installation of emissions control facilities at Castle Peak "B" Power Station. The funding commitment is contingent upon the serving of a 3-month advance notice from EMEL to CLP Power Hong Kong with the effective date falling within the period from 2 October 2008 to three months after the commissioning of the first unit of the emissions control facilities. Under this funding facility, EMEL can request CLP Power Hong Kong to provide all the necessary shareholder's advances to CAPCO for financing the emissions control project. Such shareholder advances will be unsecured, interest-free with no fixed term of repayment, but are eligible for permitted return and net return applicable to the emissions control facilities. The maximum shareholder advances, if requested, are estimated to be HK$5,364 million and expected to occur in 2011.

32. Related Party Transactions

Below are the more significant transactions with related parties for the year ended 31 December:

(A) Purchases of electricity and gas from jointly controlled entities and associated companies

(i) Details of electricity supply contracts relating to the electricity business in Hong Kong with jointly controlled entities are shown below:

	2007 HK$M	2006 HK$M
Lease and lease service payment to CAPCO (a)	12,025	12,114
Purchases of nuclear electricity from GNPS (b)	4,971	5,040
Pumped storage service fee to PSDC (c)	353	340
	17,349	17,494

(a) Under the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is obliged to purchase all of CAPCO's generating capacity. The Electricity Supply Contract provides that the price paid by CLP Power Hong Kong to CAPCO is sufficient to cover all of CAPCO's operating expenses, including fuel cost, depreciation, interest expenses and current and deferred taxes, as well as CAPCO's share of the return permitted under the SoC.

Pursuant to the requirements of HKFRS-Int 4 and HKAS 17, the electricity supply contract arrangement was assessed to contain finance leases, operating leases and service elements. The payment made to CAPCO pursuant to the contract has been allocated to the different leases and service elements according to the requirements of the standards.

(b) Under the off-take and resale contracts, CLP Power Hong Kong is obliged to purchase the Group's 25% equity share of the output from Guangdong Daya Bay Nuclear Power Station (GNPS) and an additional 45% of such output from Guangdong Nuclear Investment Company, Limited. The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the power purchase agreements is determined by a formula based on GNPS's operating costs and a calculation of profits by reference to shareholders' funds and the capacity factor for that year.

(c) Under a capacity purchase contract, Hong Kong Pumped Storage Development Company, Limited (PSDC) has the right to use 50% of the 1,200MW capacity of Phase 1 of the Guangzhou Pumped Storage Power Station. CLP Power Hong Kong has entered into a contract with PSDC to make use of this capacity. The price paid by CLP Power Hong Kong to PSDC is sufficient to cover all of PSDC's operating expenses and net return. PSDC's net return is based on a percentage of its net fixed assets in a manner analogous to the SoC, subject to a minimum return level.

(ii) Gascor Pty Ltd (Gascor) is a party to a gas supply contract in Victoria with Esso Australia Resources Pty Ltd (Esso) and BHP Billiton Petroleum (Bass Strait) Pty Ltd (BHP). The contract terms between Gascor and Esso/BHP are effectively replicated in the Master Agreement between TRUenergy and Gascor. TRUenergy purchases gas at the wholesale market price from Gascor, which in turn obtains the gas from Esso and BHP. The amount paid to Gascor in 2007 was HK$1,008 million (2006: HK$858 million).

Amounts due to the related parties as at 31 December 2007 are disclosed in Note 22.

32. Related Party Transactions (continued)

(B) Rendering of services to jointly controlled entities

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the year amounted to HK$1,023 million (2006: HK$1,061 million) and a portion of the charges which is accounted for as operating expenses by CAPCO is covered under the Electricity Supply Contract referred to in (A)(i)(a) above.

Amounts due from the related parties as at 31 December 2007 are disclosed in Note 20. No provision has been made for the amounts owed by the related parties.

(C) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$13,143 million (2006: HK$17,114 million) made to its subsidiaries (Note 15), HK$11,856 million (2006: HK$16,616 million) was advanced to CLP Power Asia Limited to fund investments in power projects in Australia, the Chinese mainland, Southeast Asia and Taiwan. Movements of the advance account to CLP Power Asia Limited are as follows:

	2007 HK$M	2006 HK$M
Balance as at 1 January	**16,616**	16,827
Amounts advanced	**766**	1,018
Amounts repaid	**(5,526)**	(1,229)
Balance as at 31 December	**11,856**	16,616

The Company also has advances from subsidiaries, which are unsecured, interest-free and have no fixed repayment terms. The total amount of advances from subsidiaries amounted to HK$87 million (2006: HK$186 million), of which HK$86 million (2006: HK$185 million) was from CLP Properties Group.

(D) The loan and advances made to jointly controlled entities totalled HK$6,624 million (2006: HK$7,164 million) (Note 16). Of these, HK$6,209 million (2006: HK$6,755 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO. Details are as follows:

	2007 HK$M	2006 HK$M
Balance as at 1 January	**6,755**	6,427
Amounts advanced	**1,985**	2,128
Amounts repaid	**(2,554)**	(1,819)
Exchange differences	**23**	19
Balance as at 31 December	**6,209**	6,755

As at 31 December 2007, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2006: nil).

(E) Injection of interest in Ho-Ping into OneEnergy

Details of the injection are disclosed in Note 2(A).

32. Related Party Transactions (continued)

(F) Emoluments of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. It comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include the Executive Directors and seven senior management personnel (2006: seven). The total remuneration of the key management personnel is shown below:

	2007 HK$M	2006 HK$M
Fees	7	5
Base compensation, allowances and benefits in kind	44	34
Performance bonus		
Annual incentive	34	28
Long-term incentive	13	9
Provident fund contributions	5	4
	103	80

As at 31 December 2007, the CLP Holdings' Board was composed of 17 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year 2007 totalled HK$45 million (2006: HK$37 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included two Directors (2006: two Directors) and three senior management personnel (2006: two senior management personnel and a former senior manager). The total remuneration of these five highest paid individuals amounted to HK$60 million (2006: HK$56 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in sections 5, 6, 7 and 8 of the Remuneration Report on pages 123 to 126 respectively. These sections form the "auditable" part of the Remuneration Report and are part of the financial statements.

33. Contingent Liabilities

Under the original power purchase agreement between GPEC and its off-taker 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 plant. 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.

This is covered in this Note because the concept of "related parties" extends beyond corporate entities to include natural persons (i.e. individuals).

34. 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 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, NO_x and respirable suspended particulates. The new SoC also introduces a number of incentives/penalties linked with supply reliability, customer services, promotion of energy efficiency and renewable generation. These 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 obligations.

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

The new Scheme of Control is an important development for the Group – that's why it is also discussed on pages 10 and 11 of the CEO's Review.

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and energy price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and wholesale market energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. Other than certain energy trading activities engaged by subsidiaries of TRUenergy Holdings Pty Ltd (TRUenergy), all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominately the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those respective companies. Overseas subsidiaries, jointly controlled entities and associated companies conduct their risk management activities in accordance with the policies approved by their respective Boards. Group Treasury identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and cash management.

(A) Market risk

(i) Foreign exchange risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Australian dollars and Indian rupees. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its U.S. dollar-denominated debts, nuclear power purchase off-take commitments and other fuel-related payments.

The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions and recognised liabilities which are denominated in a currency that is not its functional currency. Hedging is only considered for firm commitments and highly probable forecast transactions.

Under the current SoC and the new agreement effective 1 October 2008, CLP Power Hong Kong is allowed to pass through all realised exchange gains and losses to its customers through tariff adjustments, which can mitigate the foreign exchange risk. As a measure of additional prudence, CLP Power Hong Kong hedges all its U.S. dollar debt repayment obligations for the full tenor and a significant portion of its U.S. dollar obligations on fuel purchases for up to five years, provided that the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK$7.8:US$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs in Hong Kong.

For CLP Power Hong Kong, exchange rate fluctuations will have no ultimate impact on the income statement on the basis that all foreign exchange gains and losses are recoverable under the Scheme of Control. At the balance sheet date, the fair value movement of the derivative financial instruments in a cash flow hedge relationship is recorded in equity and to the extent that the Hong Kong dollar had weakened/strengthened by 0.6% against the U.S. dollar, with all other variables held constant, the impact would have been an increase/decrease of HK$181 million (2006: HK$172 million) to equity. This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in the income statement, the amount is recoverable under the SoC.

1. Financial Risk Factors (continued)

(A) Market risk (continued)

(i) Foreign exchange risk (continued)

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks. The Group closely monitors translation risk using Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. As of 31 December 2007, the Group's net investment subject to translation exposure was approximately HK$30 billion (2006: HK$27 billion), arising mainly from our investments in Australia, India and the Chinese mainland. This means that, for each 1% average foreign currency movement, our translation exposure will vary by about HK$300 million. We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Certain investments have also incorporated indexation in their project agreements to reduce earnings impact from foreign exchange fluctuations.

Apart from CLP Power Hong Kong, most of foreign exchange exposures of other Group entities are well hedged and their transactions are predominantly conducted through the functional currency of the respective Group entity. Therefore, the Group's sensitivity to foreign exchange rate is not considered as significant and is not presented.

(ii) Energy price risk

TRUenergy sells and purchases electricity to/from the Australian National Electricity Market. Hedging contracts are entered into to cover forecast generation loads and retail customer demands, despite TRUenergy's vertically integrated business structure. These contracts fix the price of electricity within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price.

In addition to its physical market position, TRUenergy enters into financial transactions and other contractual commitments for energy trading purposes. This activity does create exposures which are actively monitored and managed.

TRUenergy manages such exposures through an established risk management framework consisting of policies to place appropriate limits on overall energy market exposures, delegations of authority on trading, pre-defined product lists, regular reporting of exposures, and segregation of duties. The corporate governance process also includes the oversight by a Risk Management Committee which acts on behalf of TRUenergy's Board.

TRUenergy measures the risk of the fluctuation of the spot market price using VaR analysis and stress testing analysis. VaR is a risk measurement technique that probabilistically calculates the market risk of a portfolio using historical volatility and correlation over a defined holding period. As the VaR calculation is based on historical data, there is no guarantee that it will accurately predict the future. TRUenergy's VaR is determined using a variance-covariance methodology including all long (generation and bought contract) and short (retail and sold contract) positions measured over a four years' time horizon. The distribution of value of these positions will vary according to the variability of market prices. This is measured by using historical price distribution and correlations over a holding period of four weeks at a 95% confidence level.

The VaR for TRUenergy's energy contracts portfolio as at 31 December 2007 was HK$629 million (2006: HK$461 million). The change reflects an increase in the size of TRUenergy's current trading positions. During 2007, the VaR ranged between a low of HK$384 million (2006: HK$250 million) and a high of HK$782 million (2006: HK$461 million).

1. Financial Risk Factors (continued)

(A) Market risk (continued)

(ii) Energy price risk (continued)

Analyses below show the effect on profit after tax and equity if market prices were 15% (2006: 5%) higher or lower with all other variables held constant. Concurrent movements in market prices and parallel shifts in the yield curves are assumed. A sensitivity of 15% has been selected based on historical data relating to the level of volatility in the electricity commodity prices. The sensitivity assumed does not reflect the Group's expectations as to the future movement in commodity prices. The sensitivity undertaken has been increased from the 2006 sensitivity of 5% to 15% due to the dramatic increase in the volatility of historical market data over the current year.

	2007 HK$M	2006 HK$M
If market prices were 15% (2006: 5%) higher with all other variables held constant		
Post-tax profit for the year	111	96
Equity – hedging reserve	(102)	(56)
If market prices were 15% (2006: 5%) lower with all other variables held constant		
Post-tax profit for the year	(109)	(97)
Equity – hedging reserve	102	56

The Group enters into trading and non-trading forward electricity contracts in accordance with the Group's risk management policies. In accordance with these risk management policies, the Group is able to enter into held-for-trading contracts that are considered to be economic hedges against future retail and generation activities. It should be noted that while mark-to-market gains and losses on economic hedges are recognised in earnings in the period in which they occur, they will offset the impact of price movements on future profits relating to retail and generation activities occurring at the time of settlement.

(iii) Interest-rate risk

The Group's interest-rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk whilst borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group manages its interest-rate risk by using fixed rate borrowings and interest rate swaps which have the economic effect of converting borrowings from floating rates to fixed rates.

The appropriate level of the fixed/floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed/floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications. As at 31 December 2007, 58% (2006: 48%) of the Group's borrowings was at fixed rates.

The sensitivity analysis below presents the effects on the Group's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) and equity (as a result of change in the fair value of cash flow hedges of borrowings). Such amounts accumulated in equity are transferred to the income statement in the periods when the hedged items affect profit or loss, and offset one another in the income statement.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the balance sheet date. For floating-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. The sensitivity to interest rate used is considered reasonable given the market forecasts available at the balance sheet date and under the economic environments in which the Group operates, with all other variables held constant.

1. Financial Risk Factors (continued)

(A) Market risk (continued)

(iii) Interest-rate risk (continued)

	2007 HK$M	2006 HK$M
Hong Kong dollars		
If interest rates were 0.5% (2006: 0.5%) higher		
Post-tax profit for the year	(25)	(47)
Equity – hedging reserve	37	18
If interest rates were 0.5% (2006: 0.5%) lower		
Post-tax profit for the year	25	47
Equity – hedging reserve	(37)	(18)
Australian dollars		
If interest rates were 0.5% (2006: 0.5%) higher		
Post-tax profit for the year	(15)	(9)
Equity – hedging reserve	78	82
If interest rates were 0.5% (2006: 0.5%) lower		
Post-tax profit for the year	15	9
Equity – hedging reserve	(78)	(82)

(B) Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity and/or gas in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has policies in place to monitor the financial viability of counterparties. CLP Power Hong Kong has established a credit policy to allow electricity sale customers to settle their bills within two weeks after issue. To limit the credit risk exposure, CLP Power Hong Kong also has the policy to require cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days determined from time to time by reference to the usage of the customers. For TRUenergy, receivables are due for settlement no more than 30 days after issue and collectibility is reviewed on an ongoing basis.

GPEC, our subsidiary in India, sells all of its electricity output to GUVNL through a 20-year power purchase agreement (PPA). With management's close monitoring of outstanding receivables and the implementation of an amended PPA in recent years, the position of overdue and disputed receivables has improved significantly.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counterparties with acceptable credit quality in conformance to the Group treasury policies to minimise credit exposure. Acceptable credit ratings from reputable credit rating agencies and scrutiny of financials for non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to limit credit risk concentrations relative to the underlying size and credit strength of each counterparty, and regularly monitors potential exposures to all counterparties utilising VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, jointly controlled entities and associated companies without recourse to the Company.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the each financial asset, including trade and other receivables and derivative financial instruments, as reported on the balance sheet.

1. Financial Risk Factors (continued)

(C) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available.

Management also monitors rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

The table below analyses the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities (both net settled and gross settled), which are based on contractual undiscounted cash flows:

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
As at 31 December 2007					
Non-derivative financial liabilities					
Bank loans	3,819	4,673	10,148	292	18,932
Other borrowings	712	723	8,845	5,936	16,216
Obligations under finance leases	1,432	1,342	4,005	15,447	22,226
Customers' deposits	3,589	–	–	–	3,589
Trade and other payables	6,023	–	–	–	6,023
SoC reserve accounts	2,300	–	–	–	2,300
	17,875	6,738	22,998	21,675	69,286
Derivative financial instruments liabilities					
Net settled:					
Forward foreign exchange contracts	10	–	–	–	10
Interest rate swaps	23	27	19	–	69
Energy contracts	–	162	77	–	239
Gross settled:					
Forward foreign exchange contracts	9,353	8,173	23,394	–	40,920
Cross currency & interest rate swaps	103	95	2,616	–	2,814
	9,489	8,457	26,106	–	44,052

1. Financial Risk Factors (continued)

(C) Liquidity risk (continued)

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
As at 31 December 2006					
Non-derivative financial liabilities					
Bank loans	5,178	3,834	13,586	538	23,136
Other borrowings	614	614	1,842	11,564	14,634
Obligations under finance leases	1,945	1,812	4,887	14,176	22,820
Customers' deposits	3,417	–	–	–	3,417
Trade and other payables	5,893	–	–	–	5,893
Fuel clause account	–	294	–	–	294
SoC reserve accounts	–	3,346	–	–	3,346
	17,047	9,900	20,315	26,278	73,540
Derivative financial instruments liabilities					
Net settled:					
Forward foreign exchange contracts	2	–	–	–	2
Interest rate swaps	15	7	12	–	34
Energy contracts	55	68	65	–	188
Gross settled:					
Forward foreign exchange contracts	9,997	8,502	22,502	22	41,023
Cross currency & interest rate swaps	111	110	344	2,398	2,963
	10,180	8,687	22,923	2,420	44,210

As at 31 December 2007, the Company did not have any borrowings, whilst as at 31 December 2006, the maturity profile of the Company's bank loans, included in the Group shown in the table above, was HK$2,911 million repayable within one year, HK$85 million within one to two years and HK$2,118 million within two to five years.

2. Accounting for Derivative Financial Instruments and Hedging Activities

These are covered under the Significant Accounting Policy No.16 on pages 148 and 149.

3. Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at each balance sheet date. A discounted cash flow method is used to determine the fair value of long-term borrowings. The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the balance sheet date. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

The carrying values of the current financial assets and current financial liabilities approximate their fair values.

4. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2006 and 2007.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios at 31 December 2007 and 2006 were as follows:

	2007 HK$M	2006 HK$M
Total debt [(a)]	**28,360**	30,278
Net debt [(b)]	**25,581**	28,665
Total equity	**63,996**	55,916
Total capital (based on total debt) [(c)]	**92,356**	86,194
Total capital (based on net debt) [(d)]	**89,577**	84,581
Total debt to total capital ratio (%)	**30.7**	35.1
Net debt to total capital ratio (%)	**28.6**	33.9

The decrease in the above gearing ratios in 2007 is primarily the result of the combined effect of the repayment of bank loans and the increase in earnings retained during the year.

Certain entities of the Group are subject to certain loan covenants. For both 2006 and 2007, these entities have fully complied with those imposed loan covenants.

Notes:

(a) Total debt equals to bank loans and other borrowings.

(b) Net debt equals to total debt less bank balances, cash and other liquid funds.

(c) Total capital (based on total debt) equals to total debt plus total equity.

(d) Total capital (based on net debt) equals to net debt plus total equity.

Independent Auditor's Report

To the Shareholders of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CLP Holdings Limited (the "Company") and its subsidiaries (together, "the Group") set out on pages 135 to 198, which comprise the consolidated and company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated and company statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 28 February 2008

Scheme of Control Statement

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 the financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (SoC Companies) have been governed by a Scheme of Control (SoC) Agreement 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 the 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 agreement, which took effect from 1 October 1993, covers the period to 30 September 2008. On 7 January 2008, the SoC Companies signed a new SoC with the Hong Kong Government. The key terms of the new SoC in relation to the calculation of permitted return and net return are described in Note 34 "Events after the Balance Sheet Date" to the financial statements on page 191.

Permitted and Net Return

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

- The annual permitted return is 13.5% of the SoC Companies' average net fixed assets relating to the electricity business in Hong Kong; plus a further 1.5% on the average net fixed assets financed by shareholders' investments and acquired after 30 September 1978.
- Any difference between the permitted return and the profit for SoC operations is transferred to or from a Development Fund. The Development Fund does not form part of distributable shareholders' funds and is, in effect, a liability owing to customers carried in CLP Power Hong Kong's books.
- Four charges are deducted from the permitted return. First, shareholders of the SoC Companies pay interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets. Second, shareholders of CLP Power Hong Kong pay a charge of 8% per annum on the sum of the average balances of the Development Fund and special provision account. This charge is credited to a Rate Reduction Reserve in CLP Power Hong Kong's books and is applied as rebates to customers. By a Supplemental Agreement which took effect from 1 October 1998, two more charges have been introduced. Third, shareholders of the SoC Companies pay an excess capacity adjustment of 13.5% on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure. This excess capacity adjustment will only apply to additional generating units installed after the SoC Companies' Black Point Units 7 and 8 are commissioned. Fourth, shareholders of CLP Power Hong Kong pay interest up to 8% per annum on the increase in the average balance of the customers' deposits in excess of the balance as at 30 September 1998.
- The net return is the permitted return less the deductions. The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2007 was 13.15% (2006: 12.96%).

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 the year 2007, 64% (2006: 63%) of the net return was allocated to CLP Power Hong Kong and 36% (2006: 37%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Development 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 below are in accordance with the SoC Agreement and the agreements between the SoC Companies:

	2007 HK$M	2006 HK$M
SoC revenue	29,331	29,091
Expenses		
Operating costs	3,342	3,328
Fuel	4,905	4,363
Purchases of nuclear electricity	4,971	5,040
Depreciation	3,699	4,117
Operating interest	739	718
Taxation	1,909	1,878
	19,565	19,444
Profit after taxation	9,766	9,647
Interest on increase in customers' deposits	33	35
Interest on borrowed capital	728	754
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(160)	(186)
Profit for SoC	10,367	10,250
Transfer from Development Fund	353	202
Permitted return	10,720	10,452
Deduct interest		
On increase in customers' deposits	33	35
On borrowed capital as above	728	754
On Development Fund transferred to Rate Reduction Reserve	202	265
	963	1,054
Net return	9,757	9,398
Divisible as follows:		
CLP Power Hong Kong	6,242	5,878
CAPCO	3,515	3,520
	9,757	9,398
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	6,242	5,878
Interest in CAPCO	1,410	1,412
	7,652	7,290

Five-year Summary: CLP Group Financial & Operating Statistics

	2007	2006	2005	2004	2003
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong (HK)	**29,684**	29,293	28,303	26,733	25,662
Energy business outside HK	**20,879**	16,143	9,973	3,722	2,257
Others	**226**	266	215	194	198
Total	**50,789**	45,702	38,491	30,649	28,117
Operating profit	**13,287**	12,167	11,586	10,931	9,484
Earnings*					
Electricity business in HK	**7,589**	7,290	7,047	6,788	6,281
Other investments/operations	**2,200**	2,778	2,789	2,271	2,058
Other income, net	**1,797**	408	–	–	–
Coal mine subsidence and outsourcing costs of TRUenergy	**(583)**	–	–	–	–
Tax consolidation benefit from Australia	**–**	–	2,004	–	–
Unallocated net finance costs	**(90)**	(283)	(151)	(61)	(63)
Unallocated Group expenses	**(305)**	(293)	(269)	(269)	(527)
Total	**10,608**	9,900	11,420	8,729	7,749
Ordinary dividends	**5,973**	5,756	5,467	5,009	4,527
Special dividends	**–**	48	265	361	241
Total dividends	**5,973**	5,804	5,732	5,370	4,768
Capital expenditure					
Owned assets	**7,666**	5,907	5,558	5,809	5,592
Leased assets	**605**	3,306	3,226	642	808
Depreciation & amortisation					
Owned assets	**3,340**	3,015	2,645	2,287	2,204
Leased assets	**1,310**	1,953	1,714	1,519	1,469
Consolidated Cash Flow Statement, HK$M					
Net cash inflow from operations	**15,687**	16,794	16,578	11,502	7,858
Consolidated Balance Sheet, HK$M					
SoC fixed assets	**49,684**	47,516	45,099	42,415	39,258
Other fixed assets	**38,925**	38,137	36,643	32,334	32,830
	88,609	85,653	81,742	74,749	72,088
Goodwill and other intangible assets	**8,135**	7,326	6,930	(1,022)	(1,017)
Interests in jointly controlled entities	**17,684**	19,163	16,719	15,115	14,746
Interests in associated companies	**299**	18	1,798	1,820	1,761
Other non-current assets	**8,272**	6,615	6,109	4,101	3,991
Current assets	**13,278**	12,316	10,825	6,768	5,825
Total assets	**136,277**	131,091	124,123	101,531	97,394
Shareholders' funds	**63,901**	55,838	50,629	44,643	40,573
Minority interests	**95**	78	111	–	393
Equity	**63,996**	55,916	50,740	44,643	40,966
Bank loans and other borrowings	**28,360**	30,278	29,391	18,774	18,697
Obligations under finance leases	**22,216**	22,810	21,497	20,069	21,038
SoC reserve accounts	**2,300**	3,346	4,174	3,720	3,607
Other current liabilities	**11,538**	10,781	10,912	7,738	7,810
Other non-current liabilities	**7,867**	7,960	7,409	6,587	5,276
Total liabilities	**72,281**	75,175	73,383	56,888	56,428
Equity and total liabilities	**136,277**	131,091	124,123	101,531	97,394

	2007	2006	2005	2004	2003
Per Share Data, HK$					
Shareholders' funds per share	**26.53**	23.19	21.02	18.54	16.85
Earnings per share	**4.40**	4.11	4.74	3.62	3.22
Dividends per share					
Ordinary	**2.48**	2.39	2.27	2.08	1.88
Special	**–**	0.02	0.11	0.15	0.10
Total	**2.48**	2.41	2.38	2.23	1.98
Share closing price					
Highest	**59.95**	57.90	46.25	45.30	37.70
Lowest	**50.25**	43.15	42.80	36.50	31.30
As at year-end	**53.25**	57.50	45.00	44.70	37.00
Ratios					
Return on equity, %	**17.7**	18.6	24.0	20.5	20.0
Total debt to total capital, %	**30.7**	35.1	36.7	29.6	31.3
Net debt to total capital, %	**28.6**	33.9	35.0	26.7	30.4
Interest cover, times	**8**	7	8	11	12
Price / Earnings, times	**12**	14	9	12	11
Price / Book value, times	**2**	2	2	2	2
Dividend yield, %	**4.7**	4.2	5.3	5.0	5.4
Dividend payout, %	**56.3**	58.6	50.2	61.5	61.5
Other Information					
Shareholders	**20,113**	20,351	22,140	21,989	22,107
Shares in issue (million)	**2,408.25**	2,408.25	2,408.25	2,408.25	2,408.25
Employees					
SoC	**3,861**	3,866	3,862	3,873	3,915
Non-SoC	**1,834**	2,221	2,197	760	790
	5,695	6,087	6,059	4,633	4,705
Group generating capacity (owned/operated/under construction)**, MW					
– by region					
Hong Kong	**6,908**	6,908	6,908	6,908	6,908
Australia	**3,112**	4,213	3,775	1,480	1,362
Chinese mainland ***	**4,477**	4,124	4,080	3,163	3,163
India***	**680**	655	655	655	655
Southeast Asia & Taiwan	**728**	992	2,015	1,953	1,786
	15,905	16,892	17,433	14,159	13,874
– by status					
Operational	**14,693**	15,381	15,279	12,643	11,752
Construction	**1,212**	1,511	2,154	1,516	2,122
	15,905	16,892	17,433	14,159	13,874

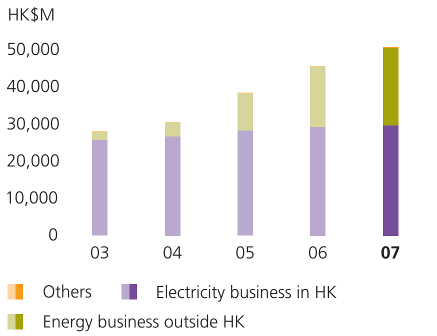
* Figures have been reclassified to reflect the effect of changes due to re-organisation at corporate level.

** 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.

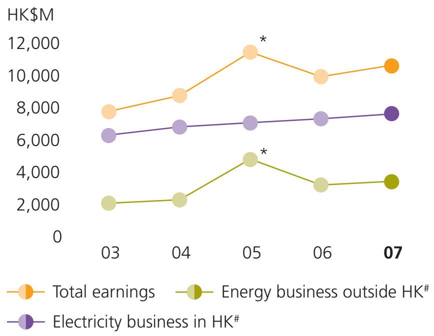
*** Including our interests in wind farms held through Roaring 40s.

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

Revenue



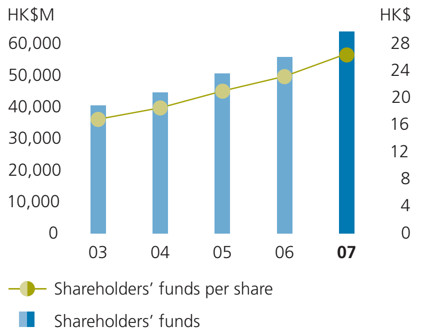
Earnings



* Included a one-off tax consolidation benefit from Australia of HK$2,004 million

\# Excluded unallocated Group expenses/finance costs

Shareholders' Funds



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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

	2007	2006	2005	2004	2003
SoC Financial Statistics, HK$M					
Combined Profit & Loss Statement					
Profit for SoC	**10,367**	10,250	10,750	10,066	9,889
Transfer from/(to) Development Fund	**353**	202	(527)	(219)	(572)
Permitted return	**10,720**	10,452	10,223	9,847	9,317
Less: Interest on					
Increase in customers' deposits	**33**	35	12	–	–
Long-term financing	**728**	754	769	679	679
Development Fund and Special provision account	**202**	265	274	253	287
Net return	**9,757**	9,398	9,168	8,915	8,351
Combined Balance Sheet					
Net assets employed					
Fixed assets	**75,239**	73,156	71,890	69,882	66,711
Non-current assets	**533**	934	808	298	298
Current assets	**3,504**	3,402	3,040	2,382	1,650
	79,276	77,492	75,738	72,562	68,659
Less: current liabilities	**14,429**	10,257	12,723	9,740	9,557
Net assets	**64,847**	67,235	63,015	62,822	59,102
Exchange fluctuation account	**51**	5	(63)	(34)	(46)
	64,898	67,240	62,952	62,788	59,056
Represented by					
Shareholders' funds	**40,404**	38,842	36,569	35,689	33,568
Long-term loans and other borrowings	**13,828**	16,161	13,720	15,084	13,893
Deferred liabilities	**8,549**	9,305	8,978	8,844	8,459
Special provision account	**–**	–	–	–	176
Development Fund	**2,117**	2,932	3,685	3,171	2,960
	64,898	67,240	62,952	62,788	59,056
Other SoC Information					
Total electricity sales	**29,236**	29,004	28,750	26,661	25,677
Capital expenditure	**6,123**	5,673	6,005	6,961	7,273
Depreciation	**3,699**	4,117	3,746	3,452	3,439
SoC Operating Statistics					
Customers and Sales					
Number of Customers (thousand)	**2,261**	2,236	2,205	2,160	2,118
Sales analysis, millions of kWh					
Commercial	**12,144**	11,957	11,428	11,086	10,698
Manufacturing	**2,418**	2,653	2,734	2,833	2,856
Residential	**7,724**	7,469	7,525	7,149	7,180
Infrastructure and Public Services	**7,676**	7,482	7,695	7,564	7,301
Local	**29,962**	29,561	29,382	28,632	28,035
Export	**4,035**	4,528	4,497	3,087	3,008
Total Electricity Sales	**33,997**	34,089	33,879	31,719	31,043
Annual change, %	**(0.3)**	0.6	6.8	2.2	3.9
Local consumption, kWh per person	**5,301**	5,162	5,161	5,140	5,072
Local sales, HK¢ per kWh (average)					
Basic tariff	**88.1**	88.0	88.2	88.1	88.4
Fuel clause charge/(rebate)	**2.0**	2.0	0.2	(0.3)	1.9
SoC rebate	**(1.1)**	(1.1)	(1.1)	(0.6)	(0.6)
Special rebate	**(1.8)**	(1.8)	–	–	(2.2)
Total	**87.2**	87.1	87.3	87.2[1]	87.5[1]
Annual basic tariff change, %	**0.1**	(0.2)	0.1	(0.3)	(0.1)
Annual total tariff change, %	**0.1**	(0.2)	0.1	(0.3)	(0.1)

	2007	2006	2005	2004	2003
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,888**	8,888	8,576	8,263	8,263
System maximum demand					
Local, MW	**6,284**	6,435	6,475	6,329	5,874
Annual change, %	**(2.3)**	(0.6)	2.3	7.7	0.8
Local and the Chinese mainland, MW	**7,730**	8,318	7,817	7,862	7,646
Annual change, %	**(7.1)**	6.4	(0.6)	2.8	10.9
System load factor, %	**55.0**	50.9	53.8	50.2	50.8
Generation by CAPCO stations, millions of kWh	**26,698**	26,408	26,247	25,109	23,690
Sent out, millions of kWh –					
From own generation	**25,200**	25,024	24,887	23,809	22,332
Net transfer from/(to)					
Hongkong Electric	**–**	–	(1)	–	(1)
Landfill gas generation	**6**	5	4	1	1
GNPS/GPSPS	**10,164**	10,256	10,212	9,165	9,968
Total	**35,370**	35,285	35,102	32,975	32,300
Fuel consumed, terajoules –					
Oil	**868**	1,116	1,202	2,024	1,671
Coal	**179,599**	148,830	144,938	133,403[2]	153,450[2]
Gas	**63,552**	85,462	85,733	85,777	59,367
Total	**244,019**	235,408	231,873	221,204	214,488
Cost of fuel, HK$ per gigajoule – Overall	**20.14**	18.42	17.87	15.73	13.56
Thermal efficiency, % based on units sent out	**37.2**	38.3	38.6	38.8[2]	37.5[2]
Plant availability, %	**90.0**	89.9	89.5	88.4	90.7
Transmission and Distribution					
Network, circuit kilometres					
400kV	**554**	554	554	554	538
132kV	**1,346**	1,255	1,167	1,137	1,079
66kV & 33kV	**88**	171	274	301	414
11kV	**11,076**	10,978	10,328	9,963	9,614
Transformers, MVA	**56,423**	55,769	55,953	54,611	53,684
Substations –					
Primary	**202**	208	210	202	196
Secondary	**12,784**	12,623	12,434	12,215	11,861
Employees and Productivity					
No. of SoC employees	**3,861**	3,866	3,862	3,873	3,915
Productivity, thousands of kWh per employee	**7,755**	7,650	7,597	7,353	7,207

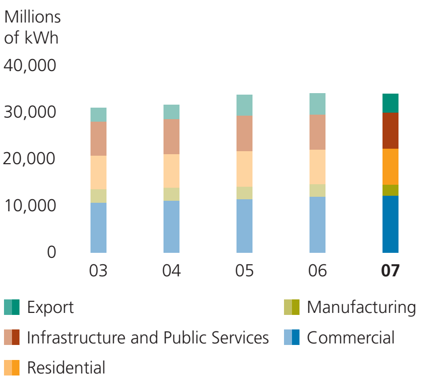
Notes:

1 The effective total tariff, including the one-off rebates in 2003 and 2004 is HK¢82.6 per unit and HK¢85.5 per unit respectively.

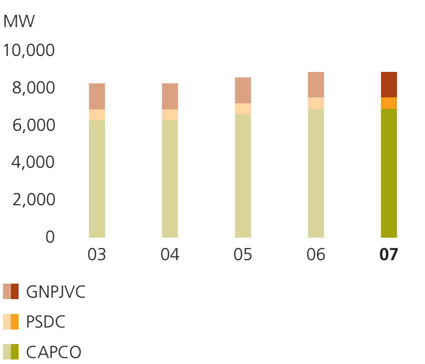
2 Figures restated to exclude coal stock adjustments.

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

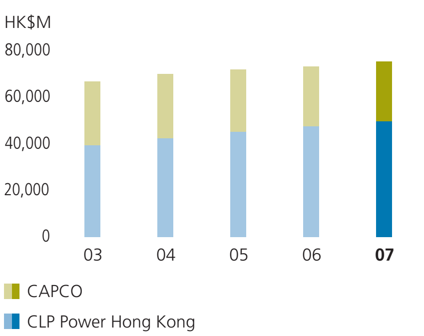
Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets



How can you contact us?

Annual Report

Printed in English and Chinese languages, available on our website at www.clpgroup.com on 13 March 2008 and posted to Shareholders on 31 March 2008.

Those Shareholders who (a) received our 2007 Annual Report electronically and would like to receive a printed copy or vice versa; or (b) received our 2007 Annual Report in either English or Chinese language only and would like to receive a printed copy of the other language version or to receive printed copies of both language versions in the future, are requested to write to the Company Secretary or the Company's Registrars.

Shareholders may at any time change their choice of the language or means of receipt of the Company's corporate communications free of charge by notice in writing to the Company Secretary or the Company's Registrars.

Information for American Depositary Receipts Holders

The Group's financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs). HKFRSs differ in certain respects from United States Generally Accepted Accounting Principles.

The Company's duty to file or submit reports under Sections 13(a) or 15(d) of the United States Securities Exchange Act of 1934, as amended (the Exchange Act) was terminated on 30 January 2008 after the Company filed a Form 15F with the United States Securities and Exchange Commission on 31 October 2007. The information contemplated in Rule 12g3-2(b)(1)(iii) under the Exchange Act is and will be published on the Company's website.

Register of Shareholders

To be closed from 21 to 29 April 2008, both days inclusive.

Annual General Meeting (AGM)

To be held on 29 April 2008. Details of the AGM including shareholders' right to demand a poll are set out in the Notice of Annual General Meeting sent to Shareholders together with a proxy form on 31 March 2008.

Company's Registrars

Computershare Hong Kong Investor Services Limited

Address:	46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong
Telephone:	(852)2862 8628
Facsimile:	(852)2865 0990
E-mail:	hkinfo@computershare.com.hk

Share Listing

CLP Holdings shares are listed on the Stock Exchange of Hong Kong and are traded over the counter in the United States in the form of American Depositary Receipts.

Our Stock Code

The Stock Exchange of Hong Kong:	002
Bloomberg:	2 HK
Reuters:	0002.HK
Ticker Symbol for ADR Code:	CLPHY
CUSIP Reference Number:	18946Q101

April Chan

Company Secretary

Contact Us

Address:	**147 Argyle Street, Kowloon, Hong Kong**	
Telephone:	**(852) 2678 8228** *(Shareholders' hotline)*	**(852) 2678 8322** *(Investor Relations Manager)*
Facsimile:	**(852) 2678 8390** *(Company Secretary)*	**(852) 2678 8530** *(Investor Relations Manager)*
E-mail:	**cosec@clp.com.hk** *(Company Secretary)*	**IR_Dept@clp.com.hk** *(Investor Relations Manager)*

Angela Chang

Investor Relations Manager

CLP welcomes your views...

CLP 中電

Section A – Feedback on 2007 Annual Report

The Annual Report is a key document in the communication between us and our shareholders and other stakeholders.

1. To enhance the quality of our annual reporting, please let us have your views, by circling the appropriate number below.

		Easy to understand?				Did this provide helpful information?			
		strongly disagree			strongly agree	strongly disagree			strongly agree
2	Chairman's Statement	1	2	3	4	1	2	3	4
	How are we performing?								
7	CEO's Review	1	2	3	4	1	2	3	4
16	Financial Review	1	2	3	4	1	2	3	4
34	Business Performance and Outlook	1	2	3	4	1	2	3	4
63	Risk Management	1	2	3	4	1	2	3	4
	How do we engage our Stakeholders?								
76	CLP and our Shareholders	1	2	3	4	1	2	3	4
83	CLP and our Lenders	1	2	3	4	1	2	3	4
86	CLP and our Customers	1	2	3	4	1	2	3	4
92	CLP and our Employees	1	2	3	4	1	2	3	4
96	CLP and our Community	1	2	3	4	1	2	3	4
	How do we govern our Company?								
103	Corporate Governance Report	1	2	3	4	1	2	3	4
118	Audit Committee Report	1	2	3	4	1	2	3	4
120	Remuneration Report	1	2	3	4	1	2	3	4
	What is in our Accounts?								
135	Financial Section	1	2	3	4	1	2	3	4
	Questions and Answers with CLP Management	1	2	3	4	1	2	3	4

2. Your overall rating of this Annual Report is:
(Please " ✔ " appropriate box)

Poor ☐ Fair ☐ Good ☐ Very Good ☐ Excellent ☐

.../cont'd

3. Was there any additional information you expected to receive in the Annual Report? Please specify.

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4. Do you have any question to be addressed in next year's Annual Report or answered on the "Frequently Asked Questions" section of the Company's website? If so, please ask.

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5. Any other comments/suggestions?

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Section B – Request for Additional Information

Our Annual Report identifies those areas where additional information, beyond that set out in the Report itself, is available through our website (www.clpgroup.com) or in other printed publications.

You can get hard copies of that web information (if you do not have ready access to the Internet) and/or printed copies of our other publications by indicating as appropriate below:

Name of Shareholder(s) ______________________________

Address ______________________________

____

(Please " ✔ " appropriate box)

☐ Web Information Required (Please specify which) ______________________________

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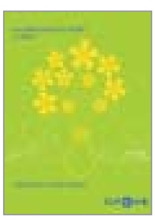
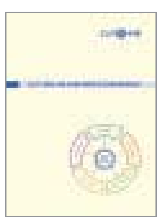
☐ 2007 Sustainability Report – In Essence



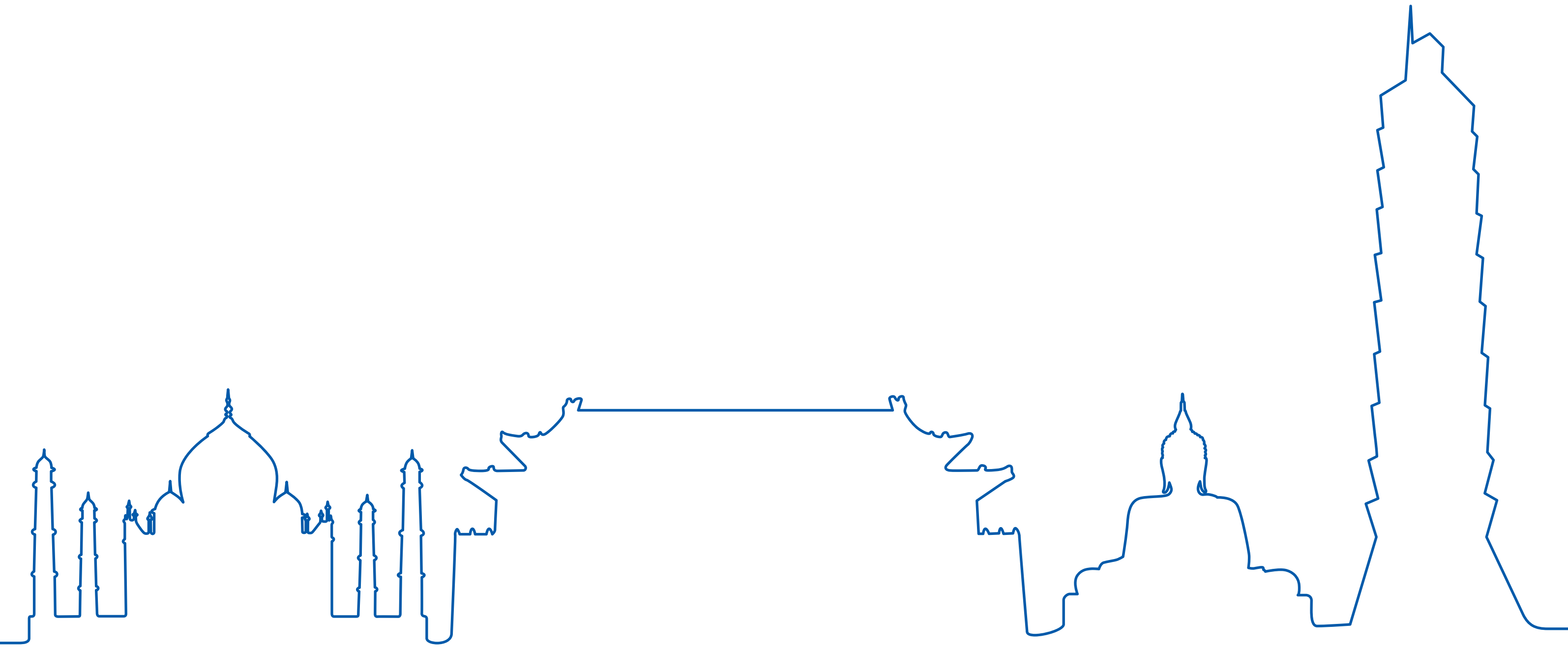
☐ CLP Code on Corporate Governance (2007 update)



☐ CLP Value Framework – From Vision to Reality

Please send your feedback to CLP Holdings Limited by
the enclosed prepaid envelope;
fax: (852) 2678 8390; or
e-mail: cosec@clp.com.hk

CLP's people - lighting Asia, lighting lives



CLP Holdings Limited

147 Argyle Street, Kowloon, Hong Kong
Tel: (852) 2678 8111
Fax: (852) 2760 4448
www.clpgroup.com

Stock Code: 002

This Annual Report is printed on environmentally friendly paper.