CLP 中電

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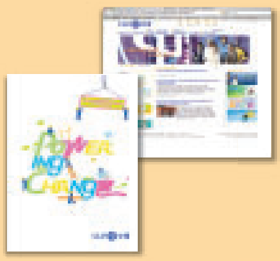
About this Annual Report

- 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. The Annual Report is just one of the numerous channels through which we report to our shareholders and stakeholders.
- This Annual Report focuses on the financial and operational performance of CLP in 2008 and our outlook. Our Sustainability Report (SR) issued alongside the Annual Report describes our plans and performance in managing the social and environmental dimensions of our activities.



- Our website, which is regularly updated, contains a wealth of detailed information about CLP. For example, our social and environmental reporting includes a comprehensive on-line sustainability report (which is lively and informative – well worth a look).
- 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 .
- Thanks to strong support from the Hongkong Post, we believe this is the first time a Hong Kong annual report has been sent to shareholders in an environmentally-friendly reusable posting bag, saving over 20,000 plastic wrappings.
- Shareholders can support charity and help the environment by choosing to receive CLP's corporate communications, including the Annual Report, in electronic form – details on the inside back cover.
- Finally, with the current financial turmoil, this has been a challenging year for many. We decided, in the circumstances, to brighten and lighten up our Annual Report this year.

Powering Asia – CLP's vision is to be a leading investor

Hong Kong

Business Description

- Electricity supplier since 1903
- Owner and operator of an electricity supply business in Hong Kong, comprising
  - Generation: 6,908 megawatts (MW) of installed generating capacity*
  - Energy Delivery: over 13,000 kilometres (km) of transmission and high voltage distribution lines
  - Customer Service: 2.29 million customer accounts (representing over 80% of Hong Kong's population)
- Regulated by the Hong Kong Government under a Scheme of Control (SoC) Agreement

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

2008 Highlights

- New SoC Agreement became effective on 1 October 2008
- Local demand achieved a historic peak of 6,749MW in September 2008
- Total tariff reduced by an average of 3%
- Development Plan for 2008 to 2013 approved by Government
- Memorandum of Understanding (MOU) signed by Central People's Government and Hong Kong SAR Government for continued supply of nuclear energy and natural gas
- Following the MOU, planning commenced for commercial agreements and development of infrastructure necessary to bring gas to Hong Kong

Australia

Business Description

- Developer, investor, project manager, retailer and operator in the private sector power business since 1999
- Operator in energy markets throughout Australia (except Western Australia)
- Operator of a vertically integrated energy business, comprising
  - Generation: 2,080MW from wholly-owned large thermal and gas-fired power stations and a 966MW long-term hedge contract
  - 1.29 million business and household customer accounts (gas and electricity)
  - Gas storage and distribution
  - Significant renewable energy purchases and investments

2008 Highlights

- Completed sale of SEAGas pipeline in September 2008
- Synchronised Tallawarra Stage A Power Station to the grid in October 2008 and progressed expansion project
- Announced acquisition of a 20% equity interest in Solar Systems and a project agreement to build a 154MW solar power station
- Progressed a new retail information technology (IT) platform
- Fully restored the Yallourn coal mine operations and completed major overhauls at Yallourn Power Station, which has subsequently set new generation records
- Achieved cost savings of 10% across the business
- Invested in Petratherm's Paralana geothermal project

Chinese Mainland

Business Description

- Developer, investor, project manager and operator in the private sector power business since 1985
- Largest external investor in the Chinese mainland electricity industry with 5,206 equity MW
- Interests in different types of generating assets including nuclear, pumped storage, coal-fired, hydro, wind and biomass in Guangdong, Beijing, Shandong, Shaanxi, Liaoning, Inner Mongolia, Guangxi, Guizhou, Sichuan, Jilin and Yunnan

2008 Highlights

- Completed injection of five power plant assets from Shenhua into CSEC Guohua joint venture
- PRC authorities approved two tariff increases, but could only recover approximately 35% of the increase in coal costs in 2008
- Continued development of Huaiji hydro project and wind farm projects including Weihai, Guangdong Nanao Island, Shuangliao, Rongcheng, Changling II and Laizhou and a biomass project in Shandong
- Completed commissioning of the second unit of 2 x 630MW supercritical coal-fired Fangchenggang project
- Continued construction of the 330MW Jiangbian hydro project

India

Business Description

- 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, Gujarat
- Developer of a 100.8MW wind farm at Samana in Gujarat, an 82.4MW wind farm in Saundatti in Karnataka and a 113.6MW wind farm in Andhra Lake in Maharashtra
- Constructing a 1,320MW coal-fired power plant at Jhajjar, in Haryana

2008 Highlights

- GPEC maintained high operational, safety and environmental standards
- GPEC delivered a strong financial performance
- Nearing completion of Phase I of the Samana wind farm
- Started construction of the Saundatti wind farm
- Agreed to develop a 113.6MW wind project at Andhra Lake
- CLP India made a winning bid in March 2008 to develop a greenfield project at Jhajjar on a "Build, Own and Operate Basis"

Southeast Asia and Taiwan

Business Description

- 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 joint venture with Mitsubishi Corporation, and CLP's subsidiaries, has 796 equity MW of interests in generating assets in Taiwan, Thailand, The Philippines and Laos

2008 Highlights

- Improved reliability at Ho-Ping Power Station and maintained high availability of the generation assets of Electricity Generating Public Company Limited (EGCO)
- The independent power producer (IPP) solicitation in Taiwan concluded with no bids selected (Ho-Ping Power had bid an expansion of its existing facility)
- EGCO's bids for the IPP solicitation in Thailand were not successful, whilst it completed acquisition of 23.4% interest in the Quezon power project in The Philippines
- Signed MOU with Vietnam Electricity (EVN) for development of the Vinh Tan Power Complex in Binh Thuan Province, Vietnam
- Participated in the bidding process for two generating companies in Singapore but ultimately were not successful
- Identified sites and initiated power purchase agreement (PPA) application process for wind and solar projects in Thailand

-operator in the Asia-Pacific electric power sector

Financial Highlights

2008 operating earnings rose by 4.6% to HK$9.7 billion.
Total earnings down by 1.7% to HK$10.4 billion.

More information on pages 18 to 37

	2008	2007	Increase / (Decrease) %
For the year *(in HK$ million)*			
Revenue			
Electricity business in Hong Kong (HK)	30,191	29,684	1.7
Energy business outside HK	23,822	20,879	14.1
Others	284	226	
Total	54,297	50,789	6.9
Earnings			
Electricity business in HK	7,549	7,589	(0.5)
Other investments / operations	2,564	2,120	20.9
Unallocated net finance costs	(21)	(90)	
Unallocated Group expenses	(345)	(305)	
Operating earnings	9,747	9,314	4.6
Other income	657	1,797	
Other one-off items of TRUenergy	19	(503)	
Total earnings	10,423	10,608	(1.7)
Net cash inflow from operations	15,916	15,687	1.5
As at 31 December *(in HK$ million)*			
Total assets, including leased assets	132,831	136,277	(2.5)
Total borrowings	26,696	28,360	(5.9)
Obligations under finance leases	21,765	22,216	(2.0)
Shareholders' funds	63,017	63,901	(1.4)
Per share *(in HK$)*			
Earnings per share	4.33	4.40	(1.6)
Dividends per share			
Interim	1.56	1.56	
Final	0.92	0.92	
Total dividends	2.48	2.48	–
Shareholders' funds per share	26.19	26.53	(1.3)
Ratios			
Return on equity (%)	16.4	17.7	
Total debt to total capital[1] (%)	29.7	30.7	
Net debt to total capital[2] (%)	29.1	28.6	
Interest cover[3] (times)	9	8	
Price / Earnings[4] (times)	12	12	
Price / Book value[5] (times)	2	2	
Dividend yield[6] (%)	4.7	4.7	

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

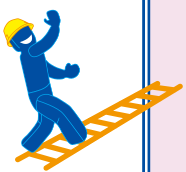
5 Price / Book value = Closing share price on the last trading day of the year / Shareholders' funds per share

6 Dividend yield = Dividends per share / Closing share price on the last trading day of the year

2009 Outlook

- Pursue energy supply options under MOU with Central People's Government and Hong Kong SAR Government
- Careful management of basic tariff and fuel clause accounts
- Continue to apply cost control and efficiency disciplines
- Progress on Castle Peak "B" emissions reduction project
- Continue progress towards 2010 Hong Kong Government's emissions targets
- Contribute to Hong Kong Government's proposed consultation on Air Quality Objectives and engage public on discussions on Hong Kong's long-term energy policy
- Continue to enhance supply reliability, power quality and customer service
- Strengthening employee and contractor safety

- Continue to implement the TRUenergy Climate Strategy and prepare for the introduction of the Australian Carbon Pollution Reduction Scheme
- Build on efficiency gains and cost savings initiatives to continue improvement in earnings
- Manage the introduction of state-based energy efficiency schemes for retail customers
- Reposition retail business with focus on higher value retail customers
- Complete introduction of retail IT platform to support service improvement
- Complete expansion of the Iona Gas Plant and storage capacity
- Progress development approval for Tallawarra Stage B Power Station
- Strengthening employee and contractor safety



- Effectively manage Fangchenggang operations including pursuit of higher dispatch
- Consider restructuring existing joint ventures in the light of the evolving position on tariff, fuel prices and the ability of CLP to apply its expertise effectively
- Pursue opportunities for continued involvement in nuclear power, especially in Southern China
- Continue to pursue renewable energy project opportunities
- Study feasibility of development of combined-cycle gas-fired power plant
- Promote safe construction of the 330MW Jiangbian hydro project
- Strengthening employee and contractor safety

- Move forward with construction of Jhajjar Power Station
- Pursue growth opportunities in reforming states, in generation with a special focus on gas and hydro, and in the distribution sector
- Pursue new opportunities becoming available in the transmission sector
- Secure reliable long-term gas supplies for GPEC
- Complete construction of Phase II of the Samana wind project
- Start construction of the Andhra Lake project
- Expand our renewables portfolio and strengthen our own development capability in cogeneration plants, biomass-based projects, landfill gas projects and wind energy projects
- Strengthening employee and contractor safety

- Advance development of the Vung Ang 2 and Vinh Tan coal-fired projects in Vietnam
- Participate in the ongoing IPP solicitations in Indonesia and Vietnam
- Manage Ho-Ping for higher availability and profitability
- Keep the Ho-Ping expansion project ready to participate in future IPP solicitations in Taiwan
- Pursuit of renewable energy projects, particularly in Thailand
- Support EGCO's growth strategy
- Strategic review of the OneEnergy corporate structure with respect to development cost sharing and investment structure
- Strengthening employee and contractor safety

Chairman's Statement

Dear Shareholders,

I am pleased to report that, in a challenging economic climate, the responsible stewardship of CLP's business and assets resulted in a satisfactory financial performance for 2008. The Group's operating earnings in 2008 were up by 4.6% to HK$9.7 billion. Total earnings for the year were HK$10.4 billion, representing only a 1.7% decline against the previous year, despite the significant reduction in the permitted return to shareholders from our Hong Kong electricity business, following the coming into effect of a new SoC Agreement with the Hong Kong SAR Government on 1 October 2008.

The Board has been able to recommend a final dividend for 2008 of HK$0.92 per share. This, together with the three interim dividends paid during the year, would result in a total dividend of HK$2.48 per share, the same as in 2007.

The underlying operational and financial performance of our various business streams is more fully described in the following sections of this Annual Report. In order to explain the implications of the current economic slowdown in greater detail to shareholders and stakeholders, the CEO's Review and the Risk Management Report respectively explain the impact until now on CLP of the economic downturn and, looking ahead, the various measures that we have in place to mitigate the risks that unfavourable business conditions may create or exacerbate.

In this Chairman's Statement, I wish to focus on political and regulatory developments in the past 12 months which have borne upon our Hong Kong electricity business and which have consequences for that business going forward. During the past year, this business continued to contribute the lion's share of overall Group earnings. I believe that this will continue to be the case for the foreseeable future. For that reason the Board pays particular attention to matters which have a material impact on that business.

Regulatory Regime

We have previously reported fully to shareholders on the terms of the new SoC Agreement. In essence, the previous SoC, which ran for a 15-year term to 2008, allowed shareholders a permitted annual return on average net fixed assets of 13.5% for those investments financed by borrowings and 15% for those financed by shareholders' funds. Under the new SoC, the permitted return has been reduced to 9.99%. This means that, on a like for like basis (i.e. assuming no change in the asset base or in gearing and interest rate levels) shareholder earnings from the Hong Kong electricity business will be reduced by around 30%. Because of the size of that business within our overall operations this will have a material impact on Group earnings – in 2007, the last full year of the previous SoC, earnings from Hong Kong represented about 70% of the Group's total earnings. The duration 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. If this occurs, CLP is entitled to earn the permitted return until 2023 on all investments previously approved.

As I remarked in my Chairman's Statement in last year's Annual Report, while the significant reduction in return 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. This point is demonstrated by the approval by the Hong Kong Government in September 2008 of the Development Plan covering the period from October 2008 to December 2013 under the new SoC Agreement. About HK$40 billion of new capital investment will need to be made over the five-year period to ensure that the current world-class standards of electricity supply will be maintained.

Maintaining the quality of Hong Kong's electricity infrastructure means that we as a society must move forward, in a methodical, balanced and focused way with the development of a long-term energy strategy. Without such a strategy, and its implementation in a timely, skilled and farsighted manner, our community will face the risk of an electricity service which no longer meets its expectations, be this in terms of reliability, security of supply, cost, customer service or environmental performance.

CLP believes that it would be in Hong Kong's interest for our society to be engaged in early discussions on the development of a long-term energy strategy, given the accelerated pace of integration with the Mainland and the increasing challenges faced by the energy sector worldwide. CLP will welcome the opportunity to contribute our experience and play an active role in the public discussion on the future development of Hong Kong's power industry. We will promote an outcome striking the right balance between shareholders, customers and the community as a whole, which will be crucial in ensuring the continuation of Hong Kong's outstanding electricity supply. We believe that the excellence of the electricity service which CLP offers to our customers in Kowloon and the New Territories is clear, can be objectively assessed and compares most favourably with the standards achieved in other cities and regions including, for that matter, with those currently achieved within neighbouring Guangdong Province.

Supply of Gas and Nuclear Energy

On 28 August 2008, the Central People's Government and the Government of the Hong Kong SAR announced their Memorandum of Understanding (MOU) on the continued supply of natural gas and nuclear energy to Hong Kong from the Mainland.

The MOU came as a surprise to CLP. Since 2002, we had been engaged in the large-scale exercise of planning for supplies of liquefied natural gas (LNG), and the provision of the related infrastructure, including an LNG receiving terminal on the South Soko Island, to replace the depleting Yacheng 13 gas field which presently meets our requirements for gas-fired generation at Black Point. In the months immediately preceding the MOU, we had been working closely with the Hong Kong Government on our LNG project. The necessary environmental impact assessment had been approved by the Director of Environmental Protection in April 2007 and in a briefing to the Legislative Council on 30 June 2008, Government had acknowledged the importance of commencing the planning process for the LNG project in ensuring that a replacement gas supply was in place by 2013.

The MOU was, therefore, a new development – one which represents a significant change in the policy of the Central People's Government and Hong Kong Government in relation to Hong Kong's energy and fuel supply. Previously, we had been consistently advised that Hong Kong should be responsible for meeting its own energy needs, as China wrestled with the very real challenge of securing reliable gas supplies for the fast growing cities and provinces across the Mainland. We had also been advised that domestic demands for gas in the Mainland exceeded the available supply and that little, if any, gas could be made available to CLP. In addition, we understood that the certainty of the supply was questionable and the timing for delivery was unsure. We believe that the change in policy to include Hong Kong in overall gas supply planning by the Central People's Government is attributable to recent successes in securing new gas supplies, including those from Central Asia.

CLP has welcomed Beijing's support for long-term energy supplies to Hong Kong. Our task is to turn this new development into reality and complete the deal on behalf of Hong Kong's people. The MOU (which can be viewed at www.epd.gov.hk) raises the opportunity of drawing gas from three sources:

- new gas fields planned to be developed in the South China Sea;
- the second West-to-East Gas Pipeline, bringing gas from Turkmenistan; and
- an LNG terminal to be located in the Mainland that will supply Hong Kong.

None of these sources is yet in place. As electricity demand grows through the next decade and a higher level of gas-fired generation is required in order to lower emissions, our needs for gas are so substantial that we will require not one or two of the three sources contemplated by the MOU to be brought on stream, but all three.

It is a measure of Beijing's good faith that we have immediately been able to begin discussions with counterparts at the National Development and Reform Commission (NDRC) and with Mainland energy suppliers. Construction of the second West-to-East Gas Pipeline Project was inaugurated by Vice Premier Li Keqiang in Shenzhen on 7 February 2009. Planning is underway for the development of the infrastructure necessary to bring gas sources to Hong Kong, including a new LNG receiving terminal in Shenzhen on Dachan Island in the Pearl River Delta, together with pipeline connections. A Letter of Intent has been signed with the relevant Mainland entities whereby CLP will jointly develop the new LNG receiving terminal, with an equity interest of 24.5%. Commercial discussions on the volume, timing and price of gas supplies, issues that were left open in the MOU, have also begun. There is a great deal of ground to cover.

We face an acute time challenge to make adequate quantities of gas available by 2013. However, nothing could be stronger than a government to government agreement on such matters. If we are to ensure power supply reliability in Hong Kong over the coming decade, strong support from both the HKSAR and Central People's Governments will be of critical importance all the way to completion.

In addition to setting a new direction for the supply of gas to Hong Kong, the MOU also provided welcome confirmation that the existing supply of nuclear energy from Daya Bay is to be extended for a further 20 years, beyond the initial term of the current arrangements in 2014. Since commissioning in 1994, Daya Bay has been a source of substantial, clean and reliable electricity to Hong Kong, providing about 30% of CLP's power generation during 2008. We will work with our Mainland counterparts, including China Guangdong Nuclear Power Holding Co. (CGNPC), to discuss the necessary arrangements for the continued delivery of nuclear energy to Hong Kong.

With former State Leader Mr. Li Peng and his wife, Madam Zhu Lin at the 30 Years Reform Forum held at Daya Bay

Integration

The government to government MOU is an example of the increasing integration between Hong Kong and the Mainland on all fronts. Hong Kong has moved away from a policy of substantial energy independence towards a position where planning for supplies of gas and nuclear energy will now largely fall beyond the control of the Hong Kong SAR Government. CLP looks forward to playing its full part in meaningful cross-boundary collaboration in the power sector, be that in the implementation of the MOU or in the longer term evolution of Hong Kong and the Pearl River Delta's electricity industry, such as strengthened interconnection. With its long history of co-operation with Mainland authorities and partners, CLP has a great deal to contribute to this process. I recently attended a forum at Daya Bay to mark the thirtieth anniversary of China's "open door" policy. This occasion, and my earlier meetings in Beijing with Madam Liu Yandong of the State Council and Mr. Zhang Guobao of the NDRC, reinforced my opinion of the excellent relationship which CLP enjoys with Mainland industry counterparts and with the Central People's Government. The MOU is a reminder that the pace of integration between Hong Kong and the Mainland's energy market will accelerate more rapidly than we might have expected. We must continue to enhance our relationship with the Central People's Government and with our Mainland counterparts and become more involved in the development of their energy strategies and policies.

I am confident that CLP has the reputation, the relationships and the capability to adjust to the new realities of the Hong Kong electricity industry. With the support of our Board and Management, who are presented in the following section of this Report, I am equally confident that our business in Hong Kong will continue to serve as the cornerstone of the CLP Group's activities for the years ahead, whilst we continue to diversify and expand our activities elsewhere in the wider Asia-Pacific region.

The Group's prosperity and growth will be built on our longstanding values, including our commitment to sustainable development. In the current economic downturn we must redouble our efforts to deliver financial value to our shareholders and social and environmental value to all our stakeholders. Our actions in this latter respect are more completely described in our Sustainability Report. These take many forms, ranging from emissions reduction projects and the supply of reliable and cost-effective electricity through to the offer of rewarding career and training opportunities to young people in the communities we serve.

I look forward to reporting to shareholders at the AGM and in the next interim and annual reports on the effective stewardship of your Company's business and assets and upon the continued delivery of value to you and other stakeholders.

The Hon. Sir Michael Kadoorie
Hong Kong, 26 February 2009

With Mr. Zhang Guobao, Vice Chairman of NDRC...

... and Mr. Qian Zhimin, Chairman of CGNPC

Board of Directors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Non-executive Directors

① The Honourable Sir Michael Kadoorie

GBS, LLD (Hon.), DSc (Hon.), aged 67, 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. and Heliservices (Hong Kong) 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 55, Vice Chairman, C, F&G, H, P (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. and Kar Ho Development Co. Ltd.; Deputy Chairman of Hong Kong Pumped Storage Development Co., Ltd.; an Alternate Director of Hutchison Whampoa Ltd., as well as a Director of TRUenergy Holdings Pty Ltd, The Hongkong and Shanghai Hotels, Ltd. and other companies in Hong Kong.

③ Ronald James McAulay

MA, CA, aged 73 (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 and the father-in-law of Mr. Jason Whittle, a Non-executive Director. 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.

④ John Andrew Harry Leigh

aged 55 (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.

⑤ Rudolf Bischof

aged 67, 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.

⑥ Ian Duncan Boyce

FCA, aged 64 (Appointed on 19 November 1999)

A chartered accountant from the U.K., 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.

⑦ Jason Holroyd Whittle

MA, aged 41 (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, a Non-executive Director and a substantial shareholder of CLP Holdings. 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.

⑧ Lee Yui Bor

BSc, MSc, PhD, DIC, C.Eng., MIET, FHKIE, aged 62, 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 the Chairman of Longmen Group Ltd. and UPS Consultancy Ltd., and a Director of 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.

⑨ Paul Arthur Theys

aged 51, C (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

⑩ The Honourable Sir Sze Yuen Chung

GBM, GBE, PhD, FREng., JP, aged 91, N (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.) 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).


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(11) Vernon Francis Moore

BBS, FCA, FCPA, aged 62, A, F&G, H
(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 Appeals Tribunal.

(12) Loh Chung Hon Hansen

aged 71, A, N (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.

(13) Kan Man Lok Paul

CBE, Comm OSSI, Chevalier de la Légion d'Honneur, JP, MBA, aged 62
(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.

(14) Tsui Lam Sin Lai Judy

PhD, MSc, BCom, FCPA, FCPA(Aust.), CA, aged 54, A, C, S (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.

(15) Sir Roderick Ian Eddington

aged 59, 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 (Australia and New Zealand) of JP Morgan Chase Bank N.A. 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.

(16) Lee Ting Chang Peter

JP, aged 55, H, S (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

(17) Andrew Clifford Winawer Brandler

MA, MBA, ACA, aged 52, C, F&G, S
(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 Chairman of The Hong Kong General Chamber of Commerce.

(18) Tse Pak Wing Peter

BSc(Eng.), MSc, FCA, FCPA, aged 57, C, F&G, P
(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.

(19) Peter William Greenwood

MA, FCS, FCIS, aged 52, F&G, S
(Appointed on 7 September 2001 and reappointed 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 Group 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
S Sustainability 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, including their directorships in the subsidiary companies of CLP Holdings are available on our website.

Senior Management

From left to right: Rajiv Mishra, Richard McIndoe, Mark Takahashi, Giuseppe Jacobelli, Peter Littlewood, Peter Tse, Andrew Brandler, Betty Yuen, Stefan Robertsson, Peter Greenwood, Y. M. Ko

Rajiv Ranjan Mishra

Managing Director – India, MBA, aged 43

Mr. Mishra is responsible for asset management and business development of CLP's investments in India. He joined CLP in 2002 and has 13 years' experience in the power industry, India and internationally, mostly in project financing, investment appraisal, finance and accounting and general management. Mr. Mishra assumed his current role in July 2005. He holds a Bachelor's degree in Chemical Engineering (first class distinction) and an MBA degree from the Indian Institute of Management, Lucknow.

Richard Iain James McIndoe

Group Director – Managing Director Australia, MA, MBA, aged 44, F&G

Before taking up his position as Managing Director of TRUenergy in 2006, Mr. McIndoe was responsible for the development and management of our international electricity business in the Asia-Pacific region. Mr. McIndoe joined CLP 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.

Mark Takahashi

Chief Executive Officer – OneEnergy Limited, BSc (Eng.), MBA, aged 50

Before taking up responsibility for the business of OneEnergy Limited, Mr. Takahashi was CLP's Group Director – Corporate Development, responsible for development and financing activities, including project development, acquisitions, project finance and treasury. He joined CLP in 2003. He has over 19 years' experience in the power industry in the U.S. 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.

Giuseppe Jacobelli

Group Director – Carbon Ventures, MA, aged 43, S

Mr. Jacobelli is responsible for our low carbon related activities comprising the management of carbon credits and low-carbon related investments and projects. Before joining CLP in June 2008, Mr. Jacobelli worked as a utilities equity analyst for 18 years for major global investment banks in Asia. He has an MA in International Law and Relations from the National Taiwan University.

Peter Albert Littlewood

Group Director – Operations, MA, aged 57

Mr. Littlewood is responsible for 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.

Tse Pak Wing Peter

Group Executive Director & Chief Financial Officer

Mr. Tse's biography is on page 7.

Andrew Clifford Winawer Brandler

Chief Executive Officer

Mr. Brandler's biography is on page 7.

Yuen So Siu Mai Betty

Group Director – Managing Director Hong Kong, B.Comm., CA (Canada), aged 51, C, F&G

Mrs. Yuen has overall responsibility for the operations of the Hong Kong business. She began her career in public accounting in Canada. She worked for an international oil company for 13 years 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.

John Stefan Robertsson

Group Director – Corporate Finance and Development, aged 44, C

Mr. Robertsson is responsible for corporate finance and development activities 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 16 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.

Peter William Greenwood

Group Executive Director – Strategy

Mr. Greenwood's biography is on page 7.

Ko Yu Ming

Managing Director – China, PhD, aged 53, C

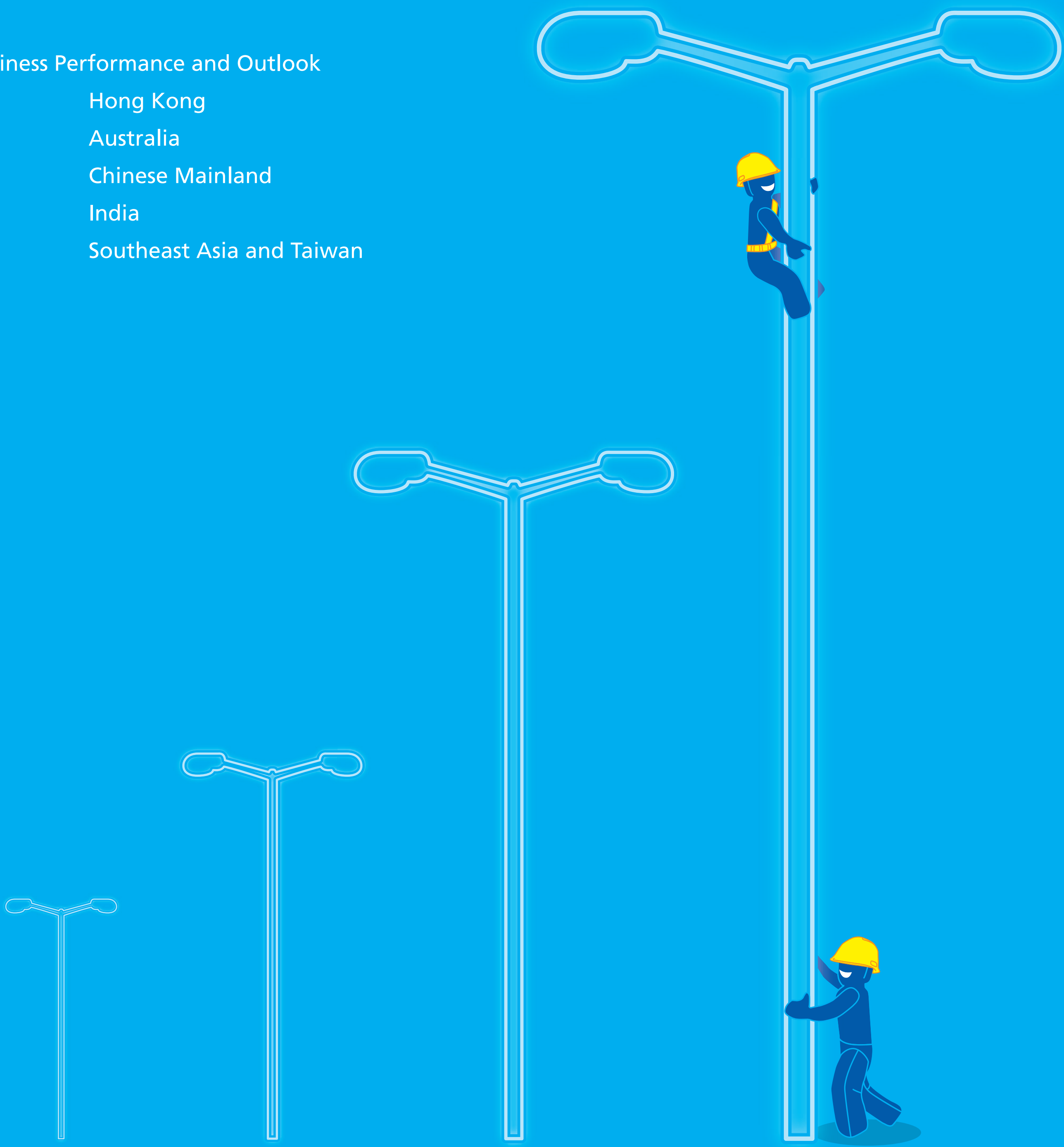
Dr. Ko is responsible for the Group's activities in the Chinese mainland. Dr. Ko joined CLP in 1974 and has been involved in the power market in the Mainland since 1992. He has also served in the planning and customer services functions of CLP. Dr. Ko holds a PhD degree from University of Manchester Institute of Science and Technology.

C China Committee   F&G Finance & General Committee   S Sustainability Committee

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

How are we performing?

Business Performance and Outlook



2008 will remain long in people's memories as a year of economic slowdown, uncertainty and loss of confidence. The impact of the initial collapse of the U.S. mortgage market quickly spread into the wider financial sector and then, inevitably, through into what is often referred to as the "real economy". Worldwide, commentators have likened events to those of the Great Depression in 1929 and, here in Asia, the expression "Financial Tsunami" has had a particular resonance. That comparison and that description may have their weaknesses, but both convey the speed and scale with which events have occurred and the fear and uncertainty which they have created.

There will be few, if any, readers of this Annual Report who have not been affected in some way, directly or indirectly by these events – be it in terms of the value of their investments, the security of their employment, access to credit and, potentially, the availability and pricing of goods and services.

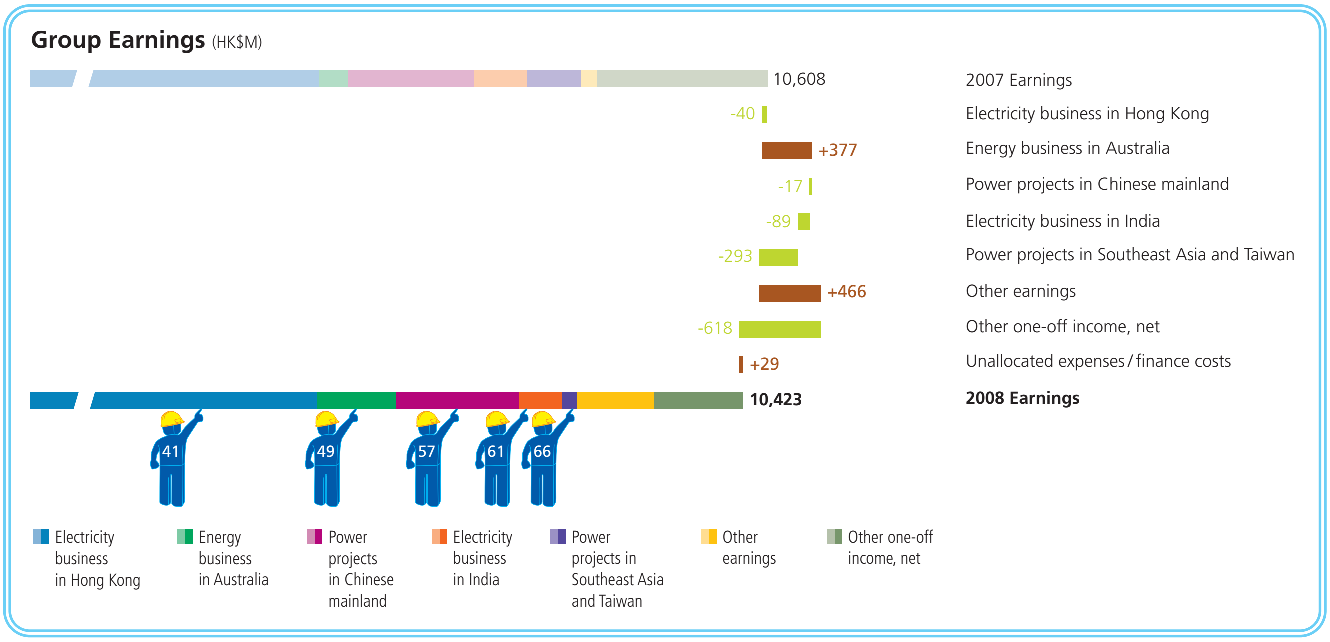
In this CEO's review, I want to address, head on, the implications of the economic downturn so far on CLP. In the Risk Management Report, which is on page 109 of this Annual Report, I have asked our Chief Financial Officer to explain the disciplines, mechanisms and means that we are using to manage and mitigate the risks to CLP's business going forward which may arise from continued volatile and difficult economic conditions.

Shareholder Returns

The durability of CLP's earnings and the strength of our balance sheet has meant that shareholders' interests have been safeguarded in challenging times. During 2008, CLP's share price held firm, falling only 1%, whilst the Hang Seng Index fell 48%. This made CLP the best performing stock in the Hang Seng Index in 2008, reflecting our status as an essentially defensive stock and the market perception of CLP as a sound business, managed on a prudent and long-term basis. In line with our commitment to provide shareholders with a substantial and stable dividend stream, we have been able to propose for shareholders' approval in the forthcoming Annual General Meeting a final dividend of HK$0.92 per share. If approved, this would mean that the total dividend per share for 2008 will have been maintained at the same level, in absolute terms, as those in the preceding 12 months.

Earnings

CLP's earnings for 2008 have stood up well to the challenges posed by the economic slowdown. Total earnings were HK$10,423 million, compared to HK$10,608 million in the previous year, a decline of only 1.7%.



In Hong Kong, our earnings were subject to the reduced permitted rate of return allowed under the new SoC Agreement as from 1 October 2008. Nonetheless, this business still delivered HK$7,549 million to the Group's earnings, falling by only 0.5% from the previous year.

The Australia energy business, carried on by our wholly owned subsidiary TRUenergy, delivered higher earnings this year, at HK$604 million, compared to HK$227 million in 2007. This reflected high levels of power generation from Yallourn, improved electricity and gas sales as well as lower operating expenditure after the outsourcing of some of our customer services and a successful focus by TRUenergy on reducing its corporate overhead costs.

In India, GPEC provided steady earnings to the Group, contributing HK$320 million, compared to HK$409 million in 2007 which included one-off gains. Our GPEC Power Station continued to operate at the same high level of availability. In the Chinese mainland, performance was affected by coal price increases not being fully compensated by two tariff adjustments in July and August, which made good only about 35% of the additional fuel burden in 2008.

Operating earnings from our Southeast Asia activities, carried on through the OneEnergy joint venture with Mitsubishi Corporation, fell by HK$293 million compared to 2007. This was largely due to a lower contribution from Ho-Ping as a result of a number of factors, including higher coal prices and that CLP's shareholding in Ho-Ping had been reduced from 40% to 20%, as a consequence of the investment being injected into the OneEnergy joint venture in March 2007.

Further explanations on other earnings and one-off items are provided in the Financial Review.

Balance Sheet

CLP's balance sheet remains strong and is a powerful resource to support the Group's expansion in a turbulent economic climate. As at the end of 2008, our net debt to total capital ratio was 29.1%, which is a fairly low debt level in the global and regional utility sector. On the equity side, we have shareholders' funds of HK$63 billion to help finance our investments. Total borrowings of the Group have reduced by HK$1.7 billion to HK$26.7 billion, largely as a result of lower Australian dollar and Indian Rupee exchange rates adopted to translate the foreign currency loan balances. Our low debt gearing level, sizeable equity base and prudent financing management approach will help us weather the financial market turmoil and support further business growth.

Financing

The impact of financial market instability has been mitigated by CLP's conservative management of its balance sheet, and the principles that we have long applied to our financing needs, including the use of diversified funding sources and spreading out the maturity profile of borrowings in order to reduce financing and refinancing risks. These are more fully described in our Risk Management Report.

Our robust balance sheet and careful approach to financing have enabled us to complete a new funding and refinancing programme for CLP Holdings, CLP Power Hong Kong and CAPCO of approximately HK$15 billion in 2008 without major difficulties. In the Mainland, we were able to obtain good levels of non-recourse, project level RMB loans for our renewable investments, despite the austere lending environment. Although the credit crunch has made the financing of our Jhajjar greenfield power station project in India tougher, we are confident that project finance will be obtained on terms which will be sustainable for this project.

Costs

The boom of recent years, particularly in Asia which has seen extraordinary levels of growth, had led to substantial increases in some of the costs which affect the electricity industry. The most striking example of this has been fuel costs, with coal prices rising by around 150% between mid-2007 and mid-2008 alone. Rises in other commodity prices, such as for iron and steel, coupled with the demand for power equipment to meet the surging demand for electricity in the developing countries of Asia have also contributed to substantial increases in engineering, procurement and construction costs for new electricity infrastructure.

Although it is still too early to be certain, the worldwide recession may restrain input cost increases, which power producers have had to bear in recent years. For example, since mid-2008 average coal prices have fallen significantly (from US$180 to US$80 for Australian-sourced coal, for example) even if these remain above 2007 levels on average.

Climate Change

We have not yet seen clear evidence that the economic turmoil has affected governments' determination to tackle climate change – in other words, that the downturn is materially changing the way in which policy decisions reflect a balance between the environmental benefits of reducing greenhouse gas emissions and the economic costs of doing so.

In Australia, we have also seen the release of the Carbon Pollution Reduction Scheme (CPRS) White Paper setting out the framework for the Australian government's proposed emissions trading regime. In the first instance, the White Paper outlines transitional assistance for coal-fired generators such as our Yallourn Power Station, to offset the economic impact of the CPRS on our substantial investment in Australia. The government's recognition of the importance of maintaining the economic value and operating reliability of baseload coal-fired generation is sensible, particularly given the recommendations from government advisers to ignore requests for such assistance for generators.

Q: The new SoC Agreement of lower permitted return of 9.99% will affect CLP's investment decisions in the future plus the demand in emission performance of new generating plants. What is CLP going to do to maintain or improve the current standards, yet achieving the goals of supply reliability, fuel diversity, emission performance and competitive tariff to meet customers' demands?

Mr. Larry Sze
CEO, Gilman Group

A: The new SoC provides a basis, in the short to medium term, for continued investment in our Hong Kong electricity business, including in emissions reduction equipment for our coal-fired plant of Castle Peak. That investment is not made for its own sake, but is judged by us and, for that matter, the Hong Kong Government as our regulator, on its contribution to achieving the goals you mention.

This Annual Report describes some of the work we undertook in 2008 and our plans for the coming years to continue to improve our performance. Looking beyond, the challenge for Government, if it wishes to make changes to the electricity sector after the current SoC, is to create a framework which continues to meet these goals. That means a regime which allows and encourages large-scale, long-term and targeted investment by CLP's shareholders. The development of government policy will need to include explaining to the public the consequences and trade-offs of various options. For example, cheaper tariffs might be achievable at the cost of supply reliability, whilst environmental improvement may come at an additional cost to customers. We'll be contributing actively to the public debate on these issues.

Andrew Brandler
Chief Executive Officer

Investment Opportunities

It might be thought that the current economic climate would present greater opportunities for CLP to capture greenfield projects or acquire existing assets on more favourable terms than those available during the exuberance of recent years.

I firmly believe that this will be the case once the full effect of the financial crisis has flowed through. However, we have not yet seen an adjustment in private asset prices that fully reflects changes in the underlying risk / reward profile and the falls in public equity markets. In part, this is because competitors for investments, notably "national champions" with particular interests or advantages in any given market, have remained active in their pursuit of growth opportunities. In part, it is also because project proponents or asset sellers have not yet adjusted their expectations downwards in line with a less favourable economic environment. To date, CLP has seen limited scope for "bargain hunting", at least as concerns investments of the quality which we believe our shareholders would wish us to pursue. This may change in the coming months.

One exception to this overall picture may be clean technology. Until recently, this sector was characterised by considerable "froth" with a boom in the pricing of clean technology stocks which was reminiscent of the phenomenon of internet and telecommunication shares in the early 2000s. In 2008 the picture changed, including as a result of falling oil prices (clean technology being an alternative to conventional energy sources and applications), restricted access to credit and lower capital availability. The S&P Global Clean Energy Index fell by 60% in 2008. This market adjustment may provide openings for CLP to broaden its participation in emerging clean power technology at more realistic valuations.

Capital Constraints and Investment Approach

The power industry demands substantial capital investment, mostly made on a long-term basis against a changing regulatory and market framework. Current economic conditions have meant that, whilst CLP continues to seek growth opportunities, we must recognise that capital is constrained. In the past, CLP's growth was rightly disciplined by the absence of investment opportunities which met our investment criteria. During 2008 the position has evolved, in that capital constraints may be an additional brake on the pace of new investment, even if CLP has kept the firepower to invest for business growth, especially in assets or investments which add value to markets, facilities or relationships in which CLP is already present.

In this Review I have described a business which has proved resilient to the current financial turmoil. The Risk Management Report explains how we will continue to manage the risks which affect a company such as CLP and seek to avoid or minimise their adverse impact. Whilst our business model has proved to be robust, it is important that we continue to review and revise this in the light of experience and industry developments. Our fundamental strategy of focussing only on the energy sector, principally electricity, and doing so only in the Asia-Pacific region remains unchanged. The policy of diversification across different markets, moving beyond our Hong Kong base, helps creates new earnings sources. It also eases reliance on the Hong Kong electricity business which is vulnerable to regulatory change, as demonstrated by the significant cut in shareholder returns made by the Hong Kong Government in the new SoC.

The electricity sector is increasingly volatile and dynamic. The rapid emergence of carbon regulation in Australia within the past 18 months is an example of how quickly events can move. Until now, our approach to overseas investments has been characterised by a desire to build meaningful businesses, that is to say a substantial presence, in selected markets. Moving forward, I see CLP becoming more flexible, even opportunistic, in the conduct of our non-Hong Kong activities. This will include a more proactive approach to "harvesting" or realising value from those investments, such as through local listings, portfolio offerings and selective asset sales. Although we will not become a "trader" of our asset portfolio, we will move on from a tendency to regard each and every investment we make as a holding to be kept for many years ahead, come what may.

The past few months have not been easy. The prudent business strategy we have pursued in recent years, including a disciplined approach to investments and the maintenance of a conservative capital structure, has meant that CLP has been well positioned to weather the economic storm, even though its impact cannot yet be fully assessed. I am confident that CLP is not only able to ride out the storm, but also ready to capture the opportunities that the power sector in the Asia-Pacific region will offer in the coming years.

Andrew Brandler
Hong Kong, 26 February 2009

Assets / Investments as at 31 December 2008

Chinese Mainland Investments Gross / Equity MW

Equity Interest

1 | 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)

2 | 49%
Hong Kong Pumped Storage Development Company, Limited (PSDC) 1,200 / 600MW
PSDC may use half of the 1,200MW pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station until 2034

3 | 27%
CSEC Guohua International Power Company Limited (CSEC Guohua) 7,620 / 1,194MW(1)
CSEC Guohua holds interests in five coal-fired power stations:

- Beijing Yire in Beijing (北京) (100% interest / 400MW capacity)
- Panshan in Tianjin (天津) (65% / 1,000MW)
- Sanhe I and II in Hebei Province (河北省) (55% / 1,300MW)
- Suizhong I and II in Liaoning Province (遼寧省) (50% / 3,600MW)
- Zhungeer II and III in Inner Mongolia Autonomous Region (內蒙古自治區) (65% / 1,320MW)

4 | 49%
CLP Guohua Shenmu Power Company Limited (Shenmu) 200 / 98MW
Shenmu owns and operates Shenmu Power Station (200MW) in Shaanxi Province (陝西省)

5 | 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

6 | 29.4%
Shandong Zhonghua Power Company, Ltd. (SZPC) 3,060 / 900MW
SZPC owns four coal-fired power stations, Shiheng I and II (totalling 1,260MW), Liaocheng (1,200MW) and Heze II (600MW) in Shandong Province (山東省)

7 | 70%
CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) 1,260 / 882MW
Fangchenggang owns and operates two 630MW supercritical coal-fired units at Fangchenggang (防城港), Guangxi (廣西)

8 | 84.9%
Huaiji Hydropower Stations (Huaiji Hydro) 125 / 106MW
12 small hydro power stations in Huaiji County (懷集縣) and Guangning County (廣寧縣), Guangdong Province

9 | 100%
Dali Yang_er Hydropower Development Co., Ltd. (Yang_er Hydro) 50 / 50MW
Yang_er Hydro is in Yangbi County (漾濞縣) of Dali City (大理市), Yunnan Province (雲南省). It is under construction and expected to achieve commercial operation by third quarter of 2009

10 | 45%
HNEEP-CLP Changdao Wind Power Co., Ltd. (Changdao Wind) 27 / 12MW
Changdao wind farm is connected to the Shandong provincial grid to serve Yantai City (煙台市)

11 | 45%
HNNE-CLP Weihai Wind Power Company Limited (Weihai Wind) 69 / 31MW
Weihai Wind is located in Shandong Province and has a capacity of 19.5MW for Phase I and 49.5MW for Phase II

12 | 25%
Huaneng Shantou Wind Power Company Limited (Nanao II Wind) 45 / 11MW
Nanao II Wind is located on Nanao Island (南澳島) off Shantou (汕頭), Guangdong Province, serving Shantou City

13 | 45%
Sinohydro CLP Wind Power Company Limited (Changling II Wind) 50 / 22MW
Changling II Wind is located in Changling County (長嶺縣) of Songyuan City (松原市), Jilin Province. It is scheduled for completion by third quarter of 2009

14 | 45%
Huadian Laizhou Wind Power Company Limited (Laizhou Wind) 41 / 18MW
Laizhou Wind is located in Laizhou City (萊州市) of Shandong Province. It was commissioned in September 2008

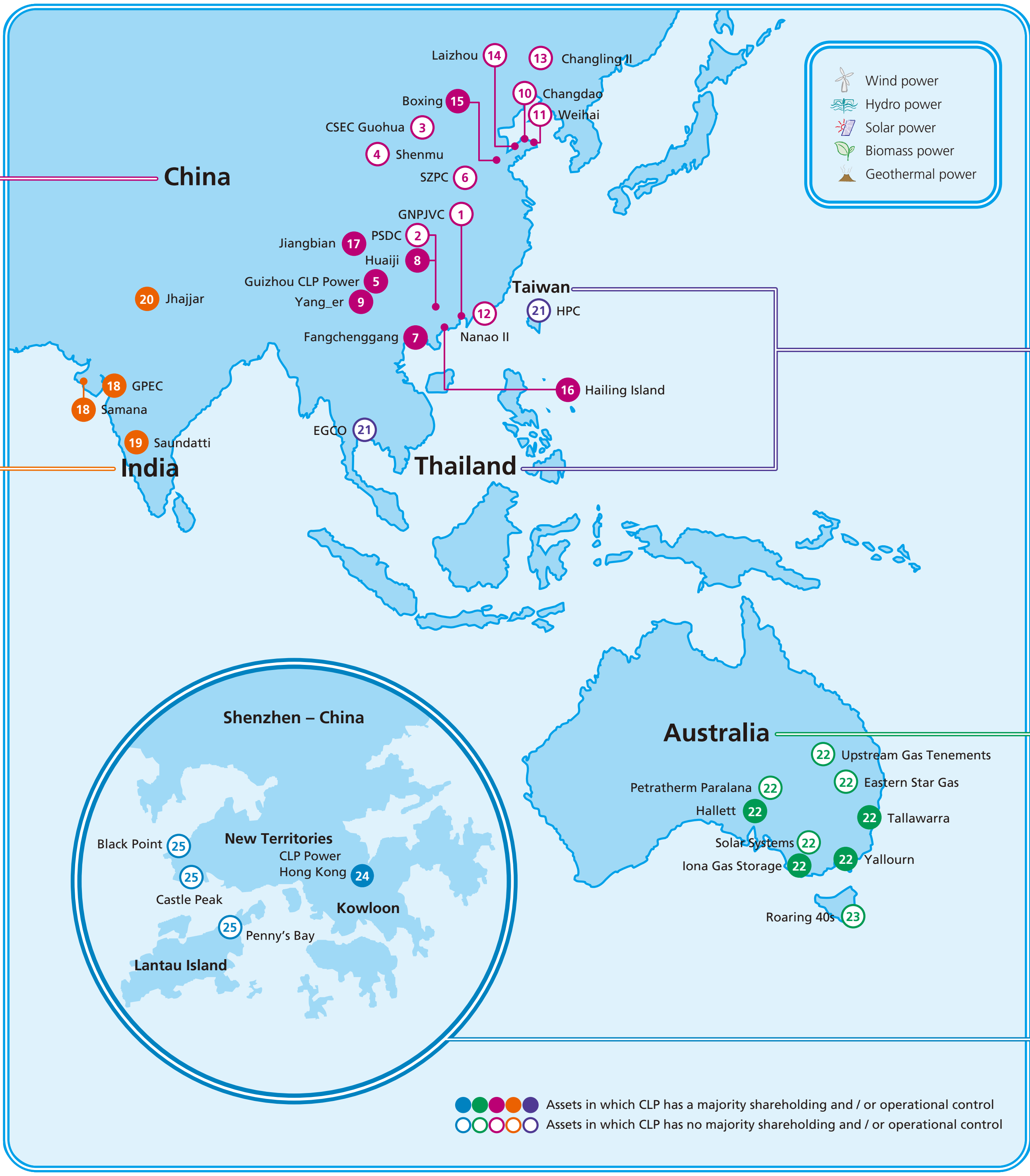
15 | 79%
CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing Biomass) Equivalent of 14 / 11MW
A biomass combined heat and power project, with 1 x 75 tonnes / hour cotton straw-fired boiler + 6MW generator. It is in Boxing County (博興縣), Binzhou City (濱州市), Shandong Province and commissioned in December 2008

16 | 100%
CLP Yangjiang Hailing Island Wind Power Company Limited (Hailing Island Wind) 22 / 22MW
Located on Hailing Island (海陵島) of Yangjiang City (陽江市), Guangdong Province. It is scheduled for commissioning by 2010

17 | 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 (1): The 1,194 equity MW attributed to CLP, through its 27% equity interest in CSEC Guohua, takes into account that CSEC Guohua holds varying equity interests in the generating assets included in the 7,620 gross MW.

More than 18,000 equity MW, 8 different fuels,...



India Investments Gross / Equity MW

Equity Interest	
18 — 100%	**Gujarat Paguthan Energy Corporation Private Limited (GPEC) 705 / 705MW** GPEC owns and operates a 655MW gas-fired combined-cycle power station. It is constructing a 50.4MW wind project (**Samana Phase I**) in Gujarat
19 — 100%	**CLP Wind Farms (India) Private Limited (CLP Wind Farms) 133 / 133MW** CLP Wind Farms is constructing the second phase – 50.4MW of the **Samana** project and the 82.4MW **Saundatti** project in Karnataka
20 — 100%	**Jhajjar Power Limited (Jhajjar) 1,320 / 1,320MW** **Jhajjar** is constructing a 1,320MW (2 x 660MW) coal-fired project, based on supercritical technology, in Jhajjar, Haryana; the first unit of the plant is scheduled for commissioning in December 2011 and the second unit in May 2012

...over 50 assets and investments – One Group

Southeast Asia and Taiwan Investments Gross / Equity MW

Equity Interest

21 — 50%

OneEnergy Limited (OneEnergy) 8,586 / 796MW[(2)]

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 (CLP also has a 1.3% direct interest in EGCO). 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 power station in Thailand
- 50% interest in the operating 1,510MW Kaeng Khoi 2 combined-cycle gas turbine power station in Thailand
- 25% interest in the 1,087MW Nam Theun 2 hydro project under construction in Laos
- 23.4% interest in the 503MW Quezon Power coal-fired power station in The Philippines
- 322MW out of a total of 676MW 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 in Taiwan. Operation is by a separate joint venture, with the same shareholdings, and OneEnergy management leadership

Note (2): The 796 equity MW attributed to CLP, through its 50% equity interest in OneEnergy and its 1.3% direct interest in EGCO, takes into account that OneEnergy indirectly holds varying equity interests in the generating assets included in the 8,586 gross MW.

Australia Investments Gross / Equity MW

Equity Interest

22 — 100%

TRUenergy 3,046 / 3,046MW

TRUenergy is an integrated generation and retail electricity and gas business in Victoria, South Australia (SA), New South Wales (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
- 420MW gas-fired **Tallawarra Power Station** in NSW, currently under construction
- 12 petajoule **Iona Gas Storage facility** in Victoria
- Various long-term gas supply contracts
- 1.29 million business and residential electricity and gas customer accounts
- 20% stake in **Solar Systems**, a developer of concentrated photovoltaic solar technology
- Project agreement for 154MW solar power station in northern Victoria
- 30% stake in **Petratherm Paralana geothermal project**
- 5.14% equity stake in **Eastern Star Gas**
- Direct investment in **Upstream Gas Tenements** in Queensland

23 — 50%

Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) 753 / 233MW[(3)]

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 three wind farm projects in Jilin Province (吉林省), China, with an aggregate generating capacity of around 148MW; of which the 49.3MW Datang Shuangliao and 49.5MW Datang Datong wind farms are in operation
- 49% interest in seven wind farm projects in Shandong Province, China, with an aggregate generating capacity of around 349MW; of which the 49MW Guohua Rongcheng wind farm is in operation
- 100% of the 50.4MW Khandke wind farm in Maharashtra, India; of which 36MW is in operation

Note (3): The 233 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 753 gross MW.

Hong Kong Investments

Equity Interest

24 — 100%

CLP Power Hong Kong Limited (CLP Power Hong Kong)[(4)]

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

- 554 km of 400kV lines, 1,386 km of 132kV lines, 62 km of 33kV lines and 11,240 km of 11kV lines
- 57,187 MVA transformers and 214 primary and 12,914 secondary substations in operation

25 — 40%

Castle Peak Power Company Limited (CAPCO)[(4)], 6,908MW 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-fired gas turbine units of 100MW each

Note (4): 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.

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%

CSEC Guohua

CLP	27%
China Shenhua Energy	73%

Shenmu

CLP	49%
China Shenhua Energy	51%

Guizhou CLP Power

CLP	70%
China Huadian Corp.	18%
Guizhou Development & Investment Co., Ltd.	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%

Yang_er Hydro

CLP	100%

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%

Changling II Wind

CLP	45%
Sinohydro New Energy Co., Ltd.	55%

Laizhou Wind

CLP	45%
Huadian Power International Corporation Limited	55%

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%

Jhajjar

CLP	100%

CLP Wind Farms

CLP	100%

Southeast Asia and Taiwan

OneEnergy

CLP	50%
Mitsubishi Corporation	50%

EGCO

CLP	1.3%
OneEnergy	22.4%
Other Shareholders	76.3%

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. In this Financial Review, we try to explain these in a way that will be accessible to those readers who do not have an accounting background. Of course, the definitions and explanations of the financial statements in this Review are for guidance purposes only. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards.

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, in this case, for the year 2008. It also represents how the Group has moved from its financial position of last year to the current year (as illustrated on pages 24 and 25). The income statement is further analysed on pages 26 and 27.

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, in this case, our year end at 31 December 2008. It also shows how the economic resources contributed by lenders and shareholders are deployed in the business. Further analysis is set out on pages 28 to 32.

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. 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 in the form of debt and equity.

Another key component of the 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 33.

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).

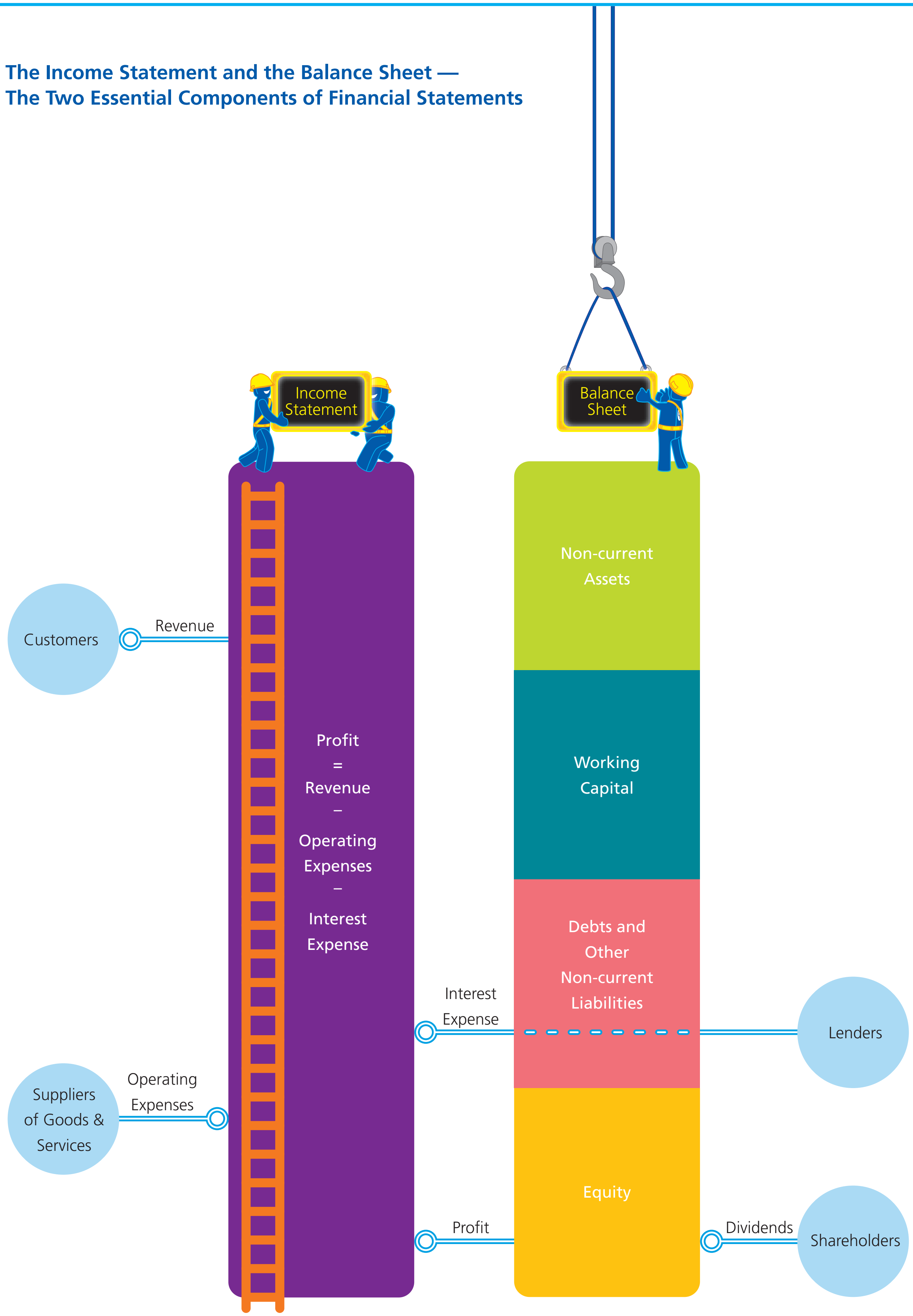
Debts and Other Non-current Liabilities

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 as 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.

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



Fair value, Derivatives, Hedging and CLP

The recent financial turmoil has placed the use of fair value (also known as "mark-to-market"), derivatives and hedging under the spotlight. To help our readers understand this topical yet complex issue, we try to explain in a simple way how it works and how it applies to CLP, without going into the more technical complications. The use of fair value in financial accounting has always been controversial. We applaud the relevance of fair value to the valuation of a company at the balance sheet date. But fair value accounting also introduces greater fluctuation into a company's earnings from year to year, not to mention the issue whether fair value reflects the "real value" of a company. Today fair value is widely used in accounting, from impairment assessment to the valuation of investment properties, securities and derivatives. To put our readers at ease, the use of fair value at CLP is limited and mainly relates to the valuation of our derivatives, including exchange forward contracts, cross-currency and interest rate swaps and energy contracts in Australia.

What is fair value?

It is the price which a buyer is willing to pay and a seller is willing to accept in an arm's length transaction. If the definition is simple, its determination is not always easy, especially when the market is illiquid or comparable transactions are few.

What is a derivative?

In a nutshell, a derivative is a contract for future performance, the value of which is "derived" from the value of something else, like interest rates or foreign exchange rates. Forward contracts, options and swaps fall within the scope of derivatives.

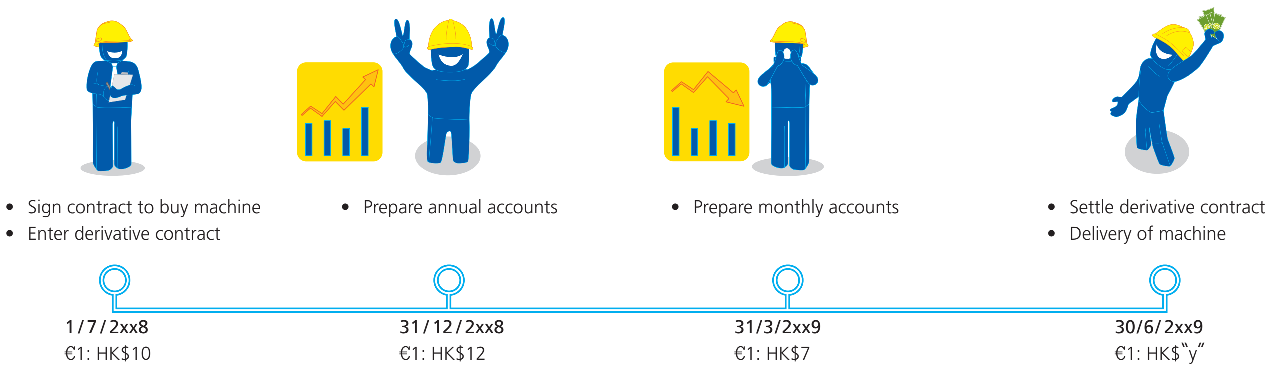
There are many reasons for people entering into derivatives, like speculating on gains or trading for profit, but at CLP there is only one principal purpose – hedging against risks, or in other words, reducing the future uncertainties faced by the Group. The profit or loss associated with derivatives is a "by-product" rather than the motive for entering into those hedging arrangements.

The mechanism for hedging

CLP uses derivatives to hedge its financial risks. To illustrate, assume on 1 July "2xx8", CLP contracts to buy a machine from France at a cost of Euro(€)10 million payable in one year's time (30 June "2xx9"). To reduce the exchange rate risk, CLP also enters into a forward contract to buy €10 million in the same one year's time at €1: HK$10, i.e. HK$100 million.

On 31 December 2xx8, suppose Euro rises in value to €1: HK$12, i.e. HK$120 million is needed to acquire €10 million. CLP holds a forward contract to pay only HK$100 million for the same. This potential saving of HK$20 million represents a fair value (mark-to-market) gain to CLP. This is only a "paper" gain without any "real cash" inflow to CLP and would turn into "real cash" upon settlement of the forward contract on 30 June 2xx9.

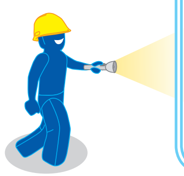
Subsequently, suppose on 31 March 2xx9, Euro depreciates to €1: HK$7 and only HK$70 million is needed to acquire €10 million. As CLP is bound to the forward contract to buy at HK$100 million, the extra HK$30 million CLP is required to pay represents a fair value (mark-to-market) loss on the forward contract. Similarly, this is only a "paper" loss without any "real cash" outflow and would be realised in "real cash" only upon settlement.



Merits of hedging

The common feature of both the above scenarios is that, no matter how the Euro exchange rate moves, it is certain that CLP needs to pay HK$100 million to acquire the €10 million on 30 June 2xx9, no more and no less. This is the essence of hedging – to remove the uncertainty on future cash flows by locking / closing out an open position so that we can plan ahead. Observers are often surprised, even shocked, by the reported "paper" gain or loss figures, but overlook the economic motive for hedging.

The previous illustration may over-simplify different hedging scenarios faced by CLP, but the principle holds true whether the derivatives are forward exchange contracts, interest rate swaps or energy contracts in Australia.



Energy contracts in Australia

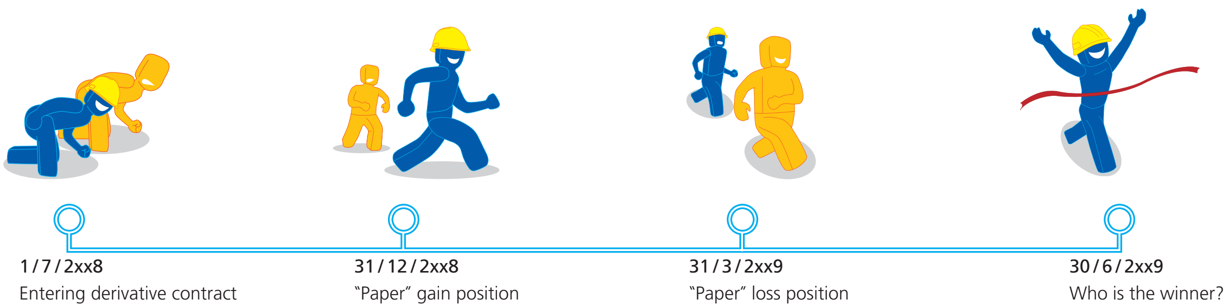
The vast majority of our Australian energy contracts now held are for hedging purposes. The hedging mechanism is analogous to that illustrated above: energy contracts are entered to balance the portfolio position between generation and purchases from a central electricity pool for retail sales in order to minimise exposure to fluctuations in the spot price of electricity. Whilst this approach can limit potential upside to high spot prices in the markets where we are naturally long (i.e. we have spare generating capacity), this prudent approach allows for stable returns to be locked in. In markets where we are naturally short (i.e. our generating capacity may be less than the amount of electricity we are obliged to sell), it prevents negative exposure to the volatile nature of prices and potential for extremely high price outcomes.

The remaining contracts held for trading are extremely small and held within tightly controlled parameters. The purpose is to maintain access to market intelligence (which can only be obtained through transacting) in order to ensure we are in the best position when executing hedge transactions, and in order to facilitate better forecasting.

Pitfalls of fair value accounting

As pointed out above, one of the pitfalls of fair value accounting is that the mark-to-market "paper" gain or loss reported is only a snap-shot of the market position at the close of the year. The gain or loss will continue to fluctuate until final settlement. It is like watching a 26-mile Marathon race on your TV. Each time when you turn to the TV, the leading athlete in the pack (the "paper" gain or loss) will be different. However, until the race finishes (the settlement date), you cannot tell who is the winner ("real cash" gain or loss). In this race, our objective is neither winning nor losing, but to complete the race (certainty in future cash flows).

The "Derivative Marathon"



Another pitfall of fair value accounting is whether the fair value really represents the "true" value of the underlying transaction. At times of vigorous market swings, like the peaks and troughs of fuel prices and exchange rates we have experienced in the past 12 months, fair values can be easily distorted by extreme market conditions and sentiments. The resulting mark-to-market impact on earnings can be a roller coaster.

Economic Hedge versus Accounting Hedge

We have explained the above hedging from the economic perspective – what we call an economic hedge. In reality, these "paper" gains or losses will not affect earnings until final settlement, as they are deferred in reserve during the life of the derivative contract when certain criteria under Hong Kong Financial Reporting Standards (which are beyond the scope of this text) are met. This is what we call an effective accounting hedge. However, if those criteria are not met and the hedge becomes an ineffective accounting hedge, such "paper" gains or losses will directly affect earnings in the current accounting period.

Hedging or Speculating?

Some may say hedging by derivatives is speculating: you are betting that the fair value of derivatives will move favourably to you. We do not necessarily agree. Hedging by derivatives is speculative when you are not sure whether the forecast transaction (the purchase of a machine from France in the previous illustration) will happen or not, or if the expected amount is uncertain (€10 million in the illustration). Otherwise, hedging by derivatives is a way to mitigate risk. In fact, in the case where the forecast transaction is probable and the expected amount is certain, the decision not to hedge is itself a kind of speculation – a bet that the exchange rate or interest rate will not move against you.

Beneficial or detrimental?

Derivatives are a tool we use in hedging. Like any tool, if derivatives are used improperly, the result can be disastrous. However, if used properly and responsibly, derivatives are a powerful tool in financial risk management.

Set out below is a summary of the Group's and CAPCO's positions on derivatives at 31 December 2008. Derivatives entered by the Group's subsidiaries and jointly controlled entities are on their own accounts without recourse to the Company, and except for CAPCO, jointly controlled entities have no significant positions in derivatives.

	As at 31 December 2008	
	Notional Amount HK$M	**Fair Value Gain / (Loss) HK$M**
CLP Group		
Forward foreign exchange contracts	62,127	696
Interest rate swaps	12,249	(485)
Cross currency & interest rate swaps	2,926	198
Energy contracts	18,236	435
	95,538	**844**
CAPCO		
Forward foreign exchange contracts	1,037	(117)
Interest rate swaps	2,291	(92)
Total	**98,866**	**635**

Financial Analysis

Financial Outlook for 2009

Financial statements are all about historical figures – things that happened in the past. We know people are more interested in the figures for the future. Before embarking on a more detailed review of our 2008 financial performance, let us take a glimpse at our financial outlook for 2009. While we do not have a crystal ball, to help readers better appreciate our business prospectively, we have highlighted those factors which may have a bearing on the Group's financial outlook in 2009:

- The current SoC between CLP Power Hong Kong, CAPCO and the Hong Kong Government took effect from 1 October 2008, immediately following the expiry of the previous one. The framework and principles of the current and previous SoC are similar, except for changes in certain specific terms, most notably the reduction of the permitted return from 13.5% – 15% to 9.99%. Since only three months' impact of the lower permitted return under the current SoC has been reflected in the 2008 results, the full year effect will first be felt in 2009. The ongoing capital investments and the current low interest environment will alleviate part of the impact.
- The proposed Carbon Pollution Reduction Scheme (CPRS) in Australia continues to cast a shadow over TRUenergy's financial outlook, particularly over Yallourn's brown coal-fired generation business. Notwithstanding the issue of the White Paper on CPRS in mid-December by the Australian Government, there remain significant uncertainties on the final terms of the CPRS, mainly about the target emission cuts by 2020 (5% or up to 15%) and the level of assistance to the most emissions intensive electricity generators (like Yallourn itself). Targeted to commence from July 2010, the CPRS will take shape in 2009 as the draft legislation moves forward. Any resulting asset impairment loss could be significant.
- The fluctuations of foreign exchange rates against the Hong Kong dollar have been highly volatile amidst the current financial crisis. These ups and downs may continue well into 2009 and mainly affect the translated figures of our Australian and Indian entities in the consolidated financial statements.
- The business environment for the electricity industry in the Chinese mainland will continue to be challenging, in view of the unresolved disparity between coal prices and electricity tariffs.

Events that Shaped Our Financial Performance in 2008

CLP inevitably felt the weight of the economic downturn. Apart from this, there were several notable events that shaped our business and financial performance in 2008:

- Financial results of CLP Power Hong Kong and CAPCO for the first nine months of 2008 occurred under the previous SoC (with SoC assets at a permitted return of 13.5% – 15%), whilst the last three months are under the current one (with a permitted return of 9.99%). The key features of the current SoC are set out on pages 205 and 206 of this Annual Report.
- In June 2008, TRUenergy disposed of its entire interest in SEAGas, an Australian jointly controlled entity, for a total consideration of HK$895 million (A$119 million) and realised a gain of HK$502 million (after tax HK$432 million).
- CSEC Guohua (formerly known as "CLP Guohua") underwent a restructuring during the year with additional capital being injected from both joint venture partners. Whilst CLP's total investment in CSEC Guohua increased, its interest was diluted from 49% to 27% at year end, giving rise to a deemed disposal gain of HK$225 million. A subsequent cash injection in 2009 will bring CLP's interest back to 30%.
- The Australian dollar and Indian rupee dived 22% and 20% respectively against the Hong Kong dollar as compared to the 2007 year end, having a corresponding downward translation effect on the reported amounts (especially assets and liabilities) for both TRUenergy and GPEC.
- The sharp rise in coal prices, ranging from 17% to 47%, during the year together with the delay in fuel-linked tariff adjustments have driven down the Group's earnings in the Chinese mainland.
- During 2008, Moody's and S&P lowered the credit ratings of the Company and CLP Power Hong Kong. Since the new ratings are still within investment grade, its impact on our finance costs are not significant. Further details are set out in "CLP and our Lenders" on pages 76 to 78.

CLP Group's Financial Results and Position at a Glance

Last Year's Balance Sheet (Consolidated Balance Sheet as at 31.12.2007)

	HK$M
Assets	
Fixed assets, leasehold land and land use rights	88,609
Goodwill and other intangible assets	8,135
Interests in jointly controlled entities	17,684
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	1,650
	136,277
Equity and Liabilities	
Share capital, premium & reserves	20,616
Retained profits	43,285
Shareholders' funds	63,901
Minority interests	95
Borrowings	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

Earnings For The Year (Consolidated Income Statement for the year ended 31.12.2008)

	Note	2008 HK$M	2007 HK$M	Increase/ (Decrease) %
Revenue		54,297	50,789	
Expenses		(41,717)	(39,607)	
Other income	1	727	2,122	
Share of results of jointly controlled entities and associated companies, net of tax		2,597	3,025	
Net finance costs		(4,121)	(4,881)	
Income tax expense		(1,349)	(837)	
Profit attributable to minority interests		(11)	(3)	
Earnings attributable to shareholders		10,423	10,608	(1.7)
Analysis of Earnings				
Electricity business in HK	2	7,549	7,589	(0.5)
Other investments/operations				
Sales to Chinese mainland from HK		80	102	
Generating facilities in Chinese mainland serving HK	3	931	712	
Other power projects in Chinese mainland	4	5	241	
Energy business in Australia	5	604	227	
Electricity business in India	6	320	409	
Power projects in Southeast Asia and Taiwan	7	116	409	
Other earnings	8	508	20	
		2,564	2,120	20.9
Unallocated net finance costs		(21)	(90)	
Unallocated Group expenses		(345)	(305)	
Operating earnings		9,747	9,314	4.6
Other income	1	657	1,797	
Deferred tax write back for TIPS		–	379	
TIPS related contracts – MTM amortisation	9	(108)	(299)	
Yallourn coal mine subsidence insurance recovery / (costs)		127	(126)	
Costs of TRUenergy's outsourcing		–	(457)	
Total earnings		10,423	10,608	(1.7)

1. Other income comprised the gain of HK$502 million (after tax HK$432 million) on the sale of SEAGas in Australia and also the deemed disposal gain of HK$225 million (after tax HK$225 million) arising from the restructuring of CSEC Guohua (formerly "CLP Guohua") in the Chinese mainland.
2. As expected, there was a slight fall in the SoC earnings owing to the reduction in the permitted return from 13.5% – 15% to 9.99% under the current SoC effective 1 October 2008. This fall was mitigated by the continuing investment in our transmission and distribution network to provide reliable supply to our local customers.
3. This represents earnings 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. Increased earnings were mainly the result of higher generation output and lower expenses at Daya Bay Nuclear Power Station.
4. Our earnings from the Chinese mainland have continued to suffer from the upsurge in coal prices, while fuel-linked tariff adjustments were not adequate to compensate for the increase in cost. This was worsened by a reduction in electricity demand in the Chinese mainland as economic growth slowed down.
5. Increased operating earnings in Australia were due to higher gross margin on account of higher rates and volumes for electricity and gas retail sales, as well as on portfolio management as a result of better hedge contract positions. Improved performance at Yallourn power station also contributed to the increase.

Cash Flow For The Year
(Consolidated Cash Flow Statement for the year ended 31.12.2008)

	Note	HK$M
Cash inflow from operating activities		15,238
Dividends paid less dividends received		(3,297)
Investments in / advances to jointly controlled entities		(1,347)
Capital expenditure	10	(6,569)
Net increase in borrowings		380
Repayment of finance lease obligations		(1,558)
Other net outflow, including exchange effect		(4,227)
Net decrease in cash		(1,380)
Cash and cash equivalents at 31.12.2007		2,160
Cash and cash equivalents at 31.12.2008		780

Profits Retained For The Year
(Consolidated Retained Profits for the year ended 31.12.2008)

	HK$M
Earnings attributable to shareholders	10,423
Dividends paid for the year	
– 2007 final	(2,216)
– 2008 interim	(3,757)
Repurchase of shares	(101)
Others	65
Net increase in retained profits	4,414
Retained profits at 31.12.2007	43,285
Retained profits at 31.12.2008	47,699

Today's Balance Sheet
(Consolidated Balance Sheet as at 31.12.2008)

	Note	HK$M
Assets		
Fixed assets, leasehold land and land use rights		89,123
Goodwill and other intangible assets		6,324
Interests in jointly controlled entities		17,791
Finance lease receivables		2,515
Deferred tax assets		2,992
Derivative financial instruments		2,879
Trade and other receivables		8,239
Cash and cash equivalents		780
Cash restricted for specific purposes		2
Bank balances, cash and other liquid funds		782
Other assets		2,186
		132,831
Equity and Liabilities		
Share capital, premium & reserves		15,318
Retained profits		47,699
Shareholders' funds		63,017
Minority interests		105
Borrowings	11	26,696
Obligations under finance leases		21,765
SoC reserve accounts		1,826
Deferred tax liabilities		6,435
Derivative financial instruments		2,035
Customers' deposits		3,722
Trade and other payables		5,919
Other liabilities		1,311
		132,831

6. Higher profit for India in 2007 mainly arose from the release of dividend distribution tax provision no longer required. GPEC's power station continued to operate at a high level of availability.

7. Earnings from Southeast Asia and Taiwan dropped, mainly because of higher coal prices at Ho-Ping with delays in the compensating tariff increase, and lower share of profit from EGCO.

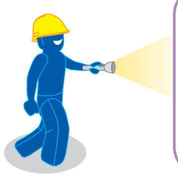
8. Other earnings in 2008 included the write-back of HK$389 million deferred tax resulting from a reduction in the Hong Kong profits tax rate from 17.5% to 16.5% for the fiscal year 2008 / 09.

9. This relates to electricity contracts transferred from AGL as part of the consideration on the asset swap of Torrens Island Power Station (TIPS) in July 2007. The forward electricity price at that time was at an exceptionally high level, resulting in high valuation of the contracts. The mark-to-market (MTM) gain, booked as part of the gain on the sale of TIPS, is being reversed and amortised over the life of the contracts.

10. The commencement of the new SoC during the year has not interrupted our capital works nor undermined our commitment to improve and develop our electricity generation facilities and supply network in Hong Kong. Elsewhere, new power plants are under construction in India.

11. Notwithstanding the shrinking credit market, the Group arranged new bank loan facilities of HK$3 billion and issued HK$740 million fixed-rate bonds under the Medium Term Note Programme during the year. The Group's gearing remained healthy, with the total debt to total capital ratio decreased from 30.7% to 29.7% and the net debt to total capital ratio slightly increased from 28.6% to 29.1%.

Group's Financial Results



Against the adverse economic environment and the negative factors we identified in the previous pages, CLP's earnings remained robust at HK$10.4 billion, close to the HK$10.6 billion in 2007. An overview of earnings from different business streams is on pages 24 and 25 of this Financial Review. Each business stream is discussed in more detail on pages 38 to 67 of this Report.

Financial Results	*Accounting Policy*	*Notes to the Financial Statements*	2008 HK$M	2007 HK$M	Increase / (Decrease) HK$M	%
Revenue	*8*	*3*	**54,297**	50,789	3,508	6.9
Expenses			**(41,717)**	(39,607)	2,110	5.3
Other income		*5*	**727**	2,122	(1,395)	(65.7)
Finance costs	*21*	*7*	**(4,245)**	(5,041)	(796)	(15.8)
Share of results of jointly controlled entities, net of income tax	*11*	*15*	**2,624**	3,024	(400)	(13.2)
Income tax expense	*22*	*8*	**(1,349)**	(837)	512	61.2
Earnings attributable to shareholders			**10,423**	10,608	(185)	(1.7)

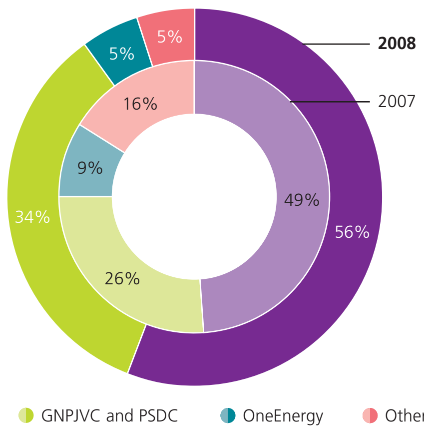
Income Tax Expense

The considerable rise in income tax expense is in line with higher operating earnings this year, notably from Australia. The end of a tax holiday enjoyed by GPEC in India also contributed to the increase. Partly offsetting the increase is the decrease in the profits tax rate in Hong Kong from 17.5% to 16.5%, coupled with a write-back of deferred tax of HK$327 million in Hong Kong owing to this reduced profits tax rate.

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

In the Chinese mainland and Ho-Ping in Taiwan, our performance in 2008 continued to be affected by our not being allowed to make timely increases in tariffs to offset surging coal prices. This largely accounted for the drop of 13% to HK$2.6 billion in our share of the results of jointly controlled entities.

Contribution from Jointly Controlled Entities



Revenue and Expenses

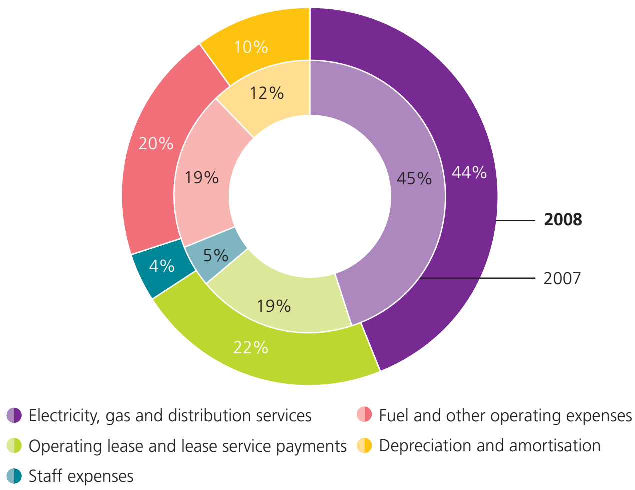
The Hong Kong electricity business continued to contribute more than half of our total revenue. A majority of the increase in total revenue relates to TRUenergy in Australia and GPEC in India, even though both the Australian dollar and Indian Rupee depreciated during the year. TRUenergy benefited from higher electricity and gas sales in terms of both rates and volume. GPEC's increased revenue arose from higher fuel purchases and the consequent higher fuel cost recovery from the off-taker under the pass-through mechanism.

The overall HK$2.1 billion increase in expenses was mainly ascribed to the HK$1.7 billion increase in "operating lease and lease service payments" and HK$858 million for "fuel and other operating expenses". The increase in the former resulted largely from higher fuel expenses (accounted as part of lease service payments under HKFRS-Int 4) for CAPCO. For the latter, the increase stemmed mainly from higher fuel cost experienced by GPEC, India, owing to its relying heavily on spot fuel purchases amidst rising prices of re-gasified LNG. Mitigating this fuel price increase is the cost cutting exercise, including the outsourcing to IBM, undertaken by TRUenergy in Australia. On the other hand, depreciation and amortisation decreased by 12.8% owing to the extended depreciable lives of the SoC fixed assets effective 1 January 2008.

	Revenue		Expenses	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Hong Kong	30,471	29,909	19,632	18,465
Australia	19,432	18,018	17,912	18,299
India	4,197	2,687	3,669	2,335
Others	197	175	504	508
	54,297	50,789	41,717	39,607

Note: About 39% (2007: 41%) 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

Other income comprised the gains of HK$502 million from the disposal of SEAGas and HK$225 million on the deemed disposal from the CSEC Guohua restructuring. This is opposed to the gains of HK$1 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 in 2007.

Finance Costs

Finance costs consist mostly of finance charges under finance leases as well as interest on bank loans and other borrowings. Finance costs dropped 16% to HK$4.2 billion, mainly due to lower finance charges under finance leases which are linked to the reduction in the rate of SoC permitted return on generating assets leased from CAPCO.

Group's Financial Position

A healthy balance sheet remains one of CLP's strengths. Despite total assets now standing at HK$132.8 billion, our gearing stays relatively low at 29.7% based on total debt (29.1% based on net debt).

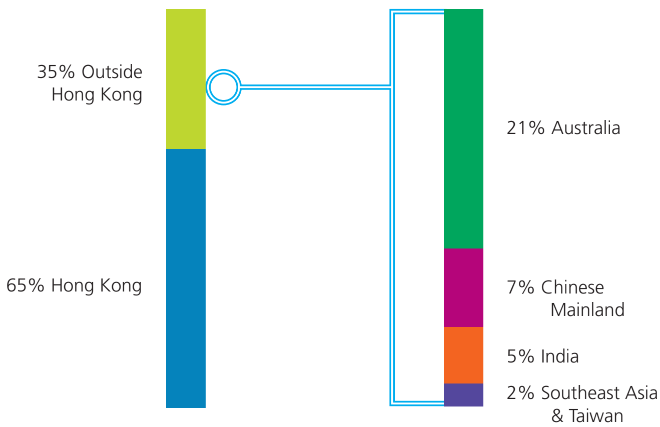
On the balance sheet

Non-current assets	*Accounting Policy*	*Notes to the Financial Statements*	2008 HK$M	2007 HK$M	Increase / (Decrease) HK$M	%
Fixed assets	*13*	*12(A)*	**86,873**	86,413	460	0.5
Leasehold land and land use rights	*13*	*12(B)*	**2,250**	2,196	54	2.5
Goodwill and other intangible assets	*14*	*13*	**6,324**	8,135	(1,811)	(22.3)
Interests in jointly controlled entities	*11*	*15*	**17,791**	17,684	107	0.6
Deferred tax assets	*22*	*24*	**2,992**	3,915	(923)	(23.6)
Total assets			**132,831**	136,277	(3,446)	(2.5)

Total Assets

Total assets dropped 2.5% to HK$132.8 billion, attributed mainly to lower exchange rates at 2008 year end for translating our investments in Australia and India. Alongside conventional power infrastructure assets (fossil-fuelled power stations and power grids), we are building a portfolio of renewables which includes wind, hydro, solar and biomass power projects in Australia, India and the Chinese mainland.

Total Assets by Geographical Location



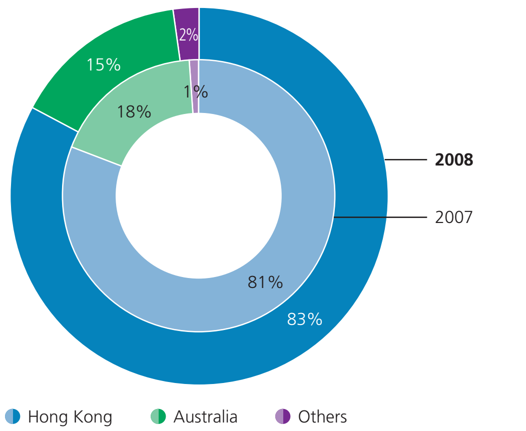
Deferred Tax Assets

Most of the deferred tax assets relates to TRUenergy's unused prior year tax loss. As noted, the improved earnings of TRUenergy this year has utilised part of these tax losses. Coupled with the effect of depreciation of the Australian dollar, deferred tax assets dropped 23.6% to HK$3 billion.

Fixed Assets, Leasehold Land and Land Use Rights

As electricity is a basic necessity of modern life, we have maintained our capital investment to improve and develop our transmission and distribution network in Hong Kong. Together with other capital works, fixed asset additions amounted to HK$7.6 billion in 2008. On the other hand, the depreciation periods of certain SoC fixed assets have been extended (up to 60 years for some categories) effective 1 January 2008, resulting in a lower depreciation charge in current and subsequent years.

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



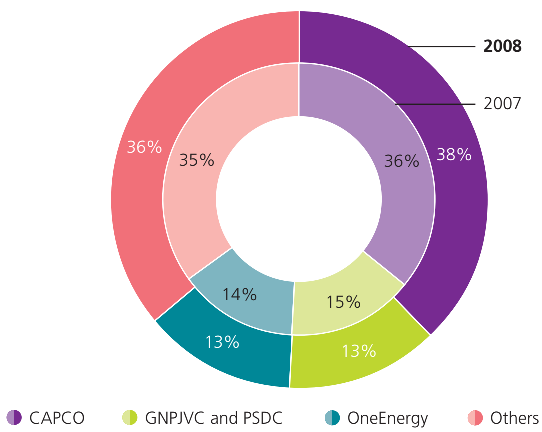
Goodwill and Other Intangible Assets

The impact of the decrease in the Australian dollar exchange rate can best be illustrated in the value of goodwill and other intangible assets. Almost all of the HK$1.8 billion net decrease in the balance is accounted for by currency depreciation, as most of the goodwill and intangible assets relates to TRUenergy.

Interests in Jointly Controlled Entities

Additional investment in CSEC Guohua of HK$494 million was offset by the disposal of SEAGas for HK$492 million and hence our interests remain comparable with the prior year balance.

The Group's Major Jointly Controlled Entities



In accordance with accounting standards, the Group has separately presented its interests in jointly controlled entities and associated companies as a single-line item on the face of the consolidated balance sheet. To enhance transparency, the Group's financial obligations in respect of these interests are presented on pages 36 and 37.

Group's Financial Position

On the balance sheet

Working capital, Debts and other non-current liabilities and Equity	*Accounting Policy*	*Notes to the Financial Statements*	2008 HK$M	2007 HK$M	Increase / (Decrease) HK$M	%
Derivative financial instrument assets (current & non-current)	*16*	*18*	2,879	3,102	(223)	(7.2)
Derivative financial instrument liabilities (current & non-current)	*16*	*18*	(2,035)	(2,248)	(213)	(9.5)
Trade and other receivables	*18*	*19*	8,239	7,121	1,118	15.7
Bank balances, cash and other liquid funds	*19*	*20*	782	2,779	(1,997)	(71.9)
SoC reserve accounts		*26*	(1,826)	(2,300)	(474)	(20.6)
Bank loans and other borrowings (current & non-current)	*21*	*22*	(26,696)	(28,360)	(1,664)	(5.9)
Obligations under finance leases (current & non-current)	*6*	*23*	(21,765)	(22,216)	(451)	(2.0)
Shareholders' funds			63,017	63,901	(884)	(1.4)

Shareholders' Funds

Shareholders' funds represents our shareholders' net interest in the Group. Though our earnings remained stable, shareholders' funds dropped to HK$63 billion, a 1.4% decrease from 2007 on account of lower exchange rates at 31 December 2008 in translating our investments in Australia and India. At 31 December 2008, HK$21.4 billion of the reserves are distributable to shareholders.

Obligations under Finance Leases

The obligations under finance leases are mostly related to CLP Power Hong Kong and CAPCO's power purchase arrangement accounted for as finance lease under HKFRS-Int 4. Regular payments under the arrangement (lease payment) during the year reduced the balance.

Bank Loans and Other Borrowings

Excluding the translation effect of the Australian dollar denominated loans, bank loans and other borrowings increased by HK$0.9 billion. Against the backdrop of a worldwide credit crunch, the Group successfully arranged new bank loan facilities of HK$3 billion and issued HK$740 million fixed-rate bonds under the MTN programme during the year.

SoC Reserve Accounts

The Tariff Stabilisation Fund and Rate Reduction Reserve make up the SoC reserve accounts balance. Rebates and special rebates of HK$739 million were made to our customers this year, thereby reducing the balance in these accounts.

Derivative Financial Instruments and Hedging

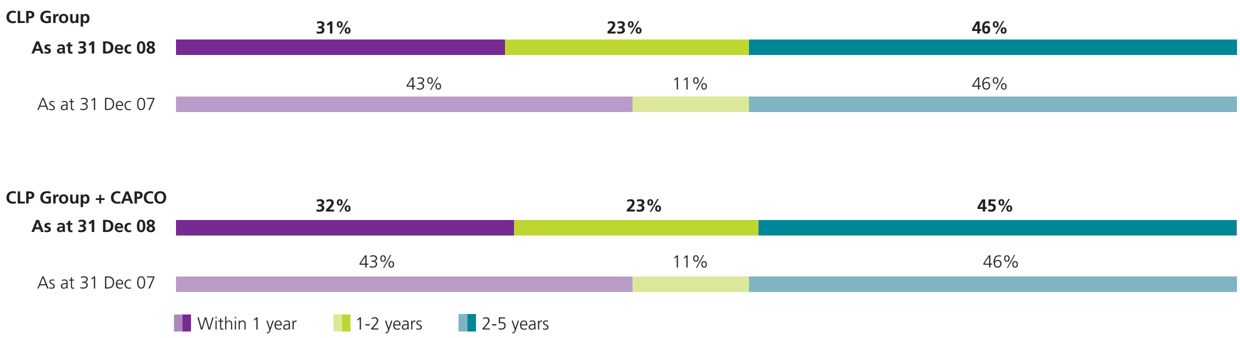
CLP uses derivative financial instruments solely for hedging purposes, except for limited energy trading activities by TRUenergy which are gradually phasing out. The type and maturity profile of the derivative financial instruments are set out below:

	Notional Amount		Fair Value Gain / (Loss)	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
CLP Group				
Forward foreign exchange contracts [1]	62,127	41,425	696	(24)
Interest rate swaps [2]	12,249	14,191	(485)	336
Cross currency & interest rate swaps	2,926	2,340	198	96
Renewable energy certificates	608	502	53	108
Energy hedging & trading caps & options	140	–	–	(198)
Energy hedging & trading swaps	17,488	31,578	382	536
	95,538	90,036	844	854
CAPCO				
Forward foreign exchange contracts [3]	1,037	–	(117)	–
Interest rate swaps	2,291	2,915	(92)	(36)
Total	98,866	92,951	635	818

Notes:

1. Increased notional amount resulted from the increased hedging of the U.S. dollar fuel payments, and the foreign currency requirements for the construction project at Jhajjar, India. The fair value gain is due to higher U.S. dollar forward exchange rates against the HK dollar.
2. The fair value loss is due largely to our unfavourable position in interest rate swaps, which effectively locked the Group into fixed interest rates higher than the unprecedented low interest rates in the market prevailing at year end.
3. This mainly refers to the new hedging requirement for the emissions control project at Castle Peak "B".

Maturity Profile



Trade and Other Receivables

The increase is mainly due to the dividends receivable from GNPJVC and CSEC Guohua totalling HK$447 million and deposits of HK$817 million for the acquisition of land and construction contracts for the Jhajjar project in India.

Bank Balances, Cash and Other Liquid Funds

The reduction of HK$1,997 million in 2008 is mainly due to the utilisation of cash for investment in Jhajjar and other renewable projects, as well as for increasing purchases of naphtha as fuel (previously gas was purchased on credit) in India.

Group's Financial Position

Beyond the balance sheet

CLP carefully manages its off-balance sheet exposures including contingencies and commitments. They are summarised below to give readers a full picture of the Group's financial position.

Charges on Assets

GPEC, Huaiji and Boxing assets of HK$3 billion (2% of the Group's total assets) are charged against their respective borrowings of HK$1.4 billion in total. These secured borrowings are to satisfy local financing needs without recourse to the Company.

Operating Commitments

The Group's operating commitments predominantly (76%) arose from the application of lease accounting in respect of CLP Power Hong Kong's obligation to purchase electricity from CAPCO for supply to the Hong Kong customers. The remainder of the commitments mainly relates to the right to request electricity supply under the Master Hedge Agreement between TRUenergy and Ecogen.

Contingent Liabilities

The Group did not identify any material contingent liabilities except for the dispute between GPEC and its off-taker over the payments of "deemed generation incentive". The issue, which has been explained in our financial statements for a number of years, is gradually working its way through the Indian regulatory and legal system. The claim plus interest amounted to HK$1.2 billion at year end. No provision has been made in our financial statements, on the basis of legal advice that we have a strong case on the merits. The matter is treated as a contingent liability and disclosed in Note 32 to the financial statements.

Capital Commitments

Capital commitments totalled HK$22 billion (2007: HK$12.3 billion) at year end. Major commitments include the commencement of construction of Jhajjar Power Plant and continued investment in our transmission and distribution network in Hong Kong.

CLP Power Hong Kong has committed to provide all necessary shareholders' advances to CAPCO to finance the installation of emissions control facilities at Castle Peak "B" Power Station. The maximum advance is estimated to reach HK$5.5 billion in 2011.

Cash Flow

The existence of a company depends on its ability to generate cash. While CLP Power Hong Kong continues to provide strong liquidity to the Group, we ensure appropriate cash flows are available in time to meet the Group's operation, investment and financing needs. Before exchange effect, cash and cash equivalents decreased by HK$1,241 million in 2008. The different types of cash flows and a reconciliation between operating profit and operating cash flows are set out below.

	2008 HK$M	2007 HK$M	Increase / (Decrease) HK$M	%
Operating activities	15,238	14,823	415	2.8
Investing activities	(5,153)	1,549	(6,702)	N/A
Financing activities	(11,326)	(15,394)	4,068	26.4
	(1,241)	978	(2,219)	

Financing Activities

The main financing cash outflows during the year were the payments of interest to lenders (HK$4.1 billion) and dividends to our shareholders (HK$6 billion).

Investing Activities

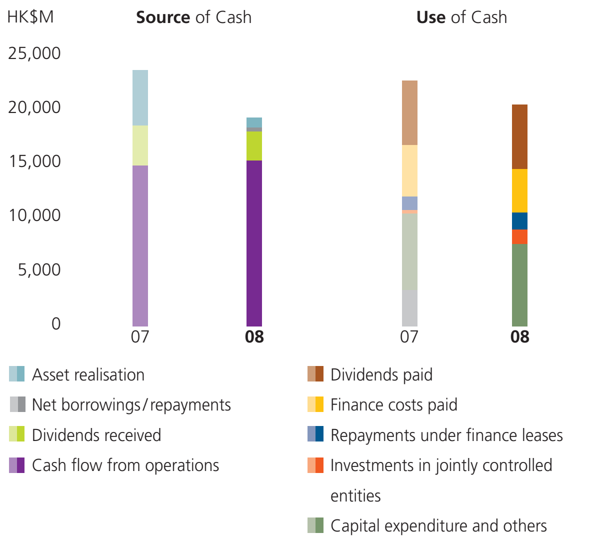
The Group's capital expenditure on fixed assets in Hong Kong and overseas and the additional investment in CSEC Guohua were the major investing cash outflows in the year.

Operating Activities

Even in a tough climate, CLP improved its operating cash inflow slightly by HK$0.4 billion.

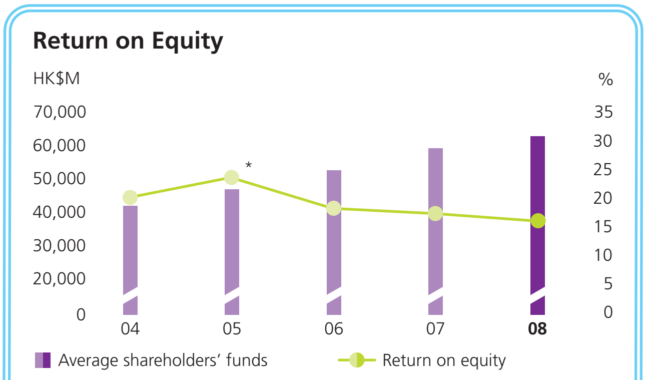
From "Operating Profit" to "Cash from Operating Activities"	HK$M
Operating profit	13,307
Depreciation and amortisation	4,055
Impairment charge	131
Net gain on asset realisation	(587)
SoC items	(1,061)
Changes in working capital	(714)
Others	107
Net cash inflow from operating activities	15,238

Cash Utilisation



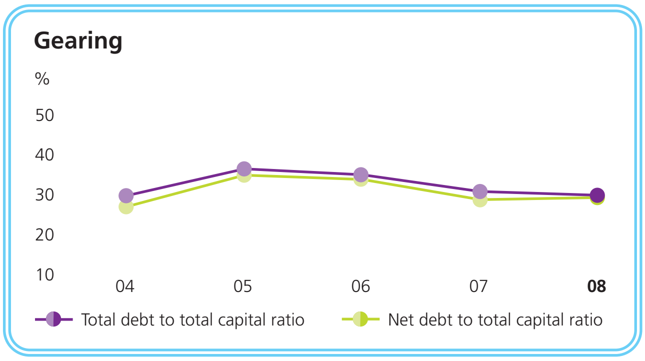
A Broader Perspective

The market falls of recent months may have shifted investors' focus towards the short term. However, we believe the strategy and "real value" of a company can only be judged over the long term, especially in the electricity industry. The following long-term analyses may be helpful.

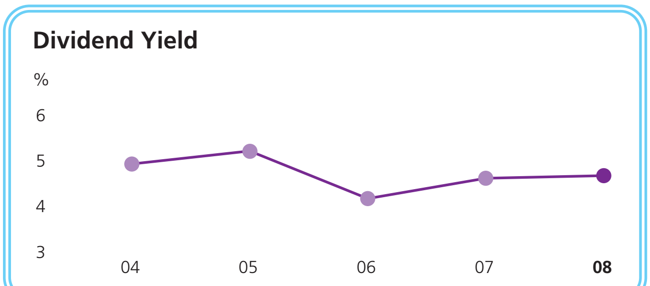


* Included the one-off tax consolidation benefit from Australia of HK$2 billion

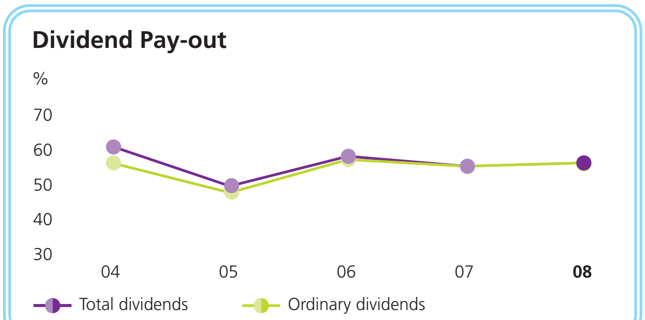
Shareholders' funds have built up considerably over the past five years. Part of the increase in earnings over this period has been retained and ploughed back into the business. This inevitably has a negative effect on our return on equity. Nevertheless, the average return of 19% (excluding the 2005 one-off Australian tax consolidation benefit of HK$2 billion) is still reasonable considering the size and business nature of the Group.



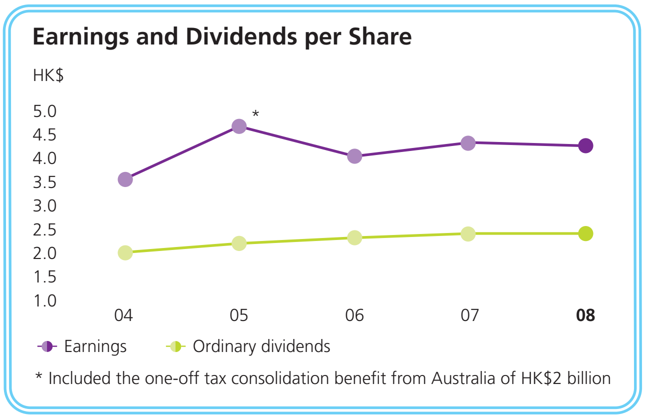
Whilst we have maintained a prudent gearing between 29% to 37% during the past five years, we have adopted a more liberal approach to the use of debt to finance new business opportunities whenever appropriate borrowings can be sourced. However, the build-up of equity (as explained above) has kept the overall gearing ratio within a healthy level.



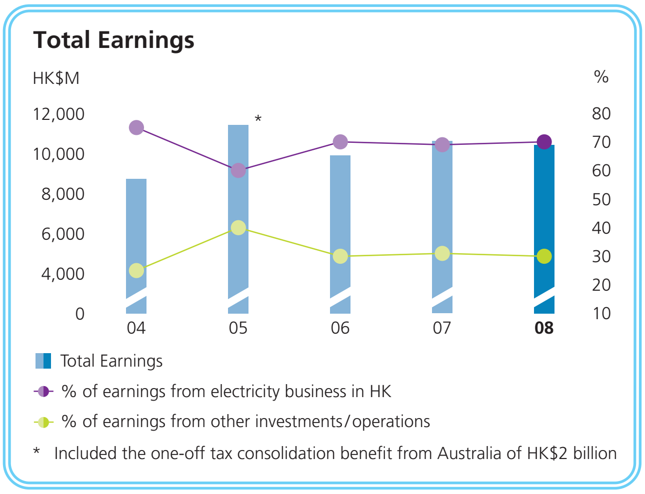
The considerable capital growth of CLP's share price might have obscured the average annual dividend growth of 5.8% over the past five years. Despite the current economic circumstances, CLP's dividend yield of 4.7% in 2008 is consistent with the past trend for the period under review, whilst its share price performed strongly in a bear market.



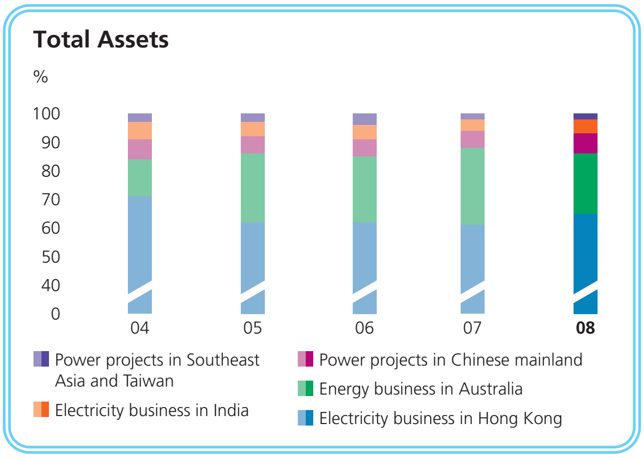
At times of severe financial disturbance, a steady and stable dividend policy is of real value to our shareholders. With a reduced SoC permitted return and an uncertain business climate, we have been able to preserve an ordinary dividend pay-out of around 57%, owing to our consistent cash flows and strong asset base.



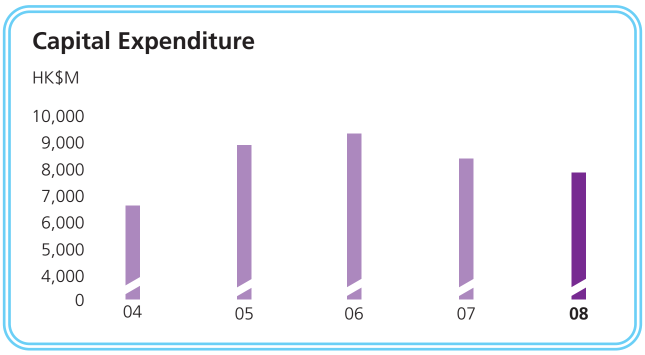
One of the two inputs to the widely used Price / Earnings (P / E) ratio is earnings per share (EPS). Our consistent EPS growth is matched by the rise in our share price leading to a relatively stable P / E ratio over the years. The growth of dividends per share is also in line with that for EPS as we aim at a consistent dividend pay-out ratio.



Total earnings have risen by 35% over the past five years. There are three main factors underlying this growth – first, our business expansion across the region; secondly, appreciation of the Australian dollar (until recently) translated into higher earnings; last but not least, the gradual and yet steady growth of our SoC business in Hong Kong.



Assets outside Hong Kong have grown from 29% of total assets in 2004 to 35% in 2008. This trend reflects our strategy to grow outside Hong Kong. The prudent business strategy we have pursued in recent years has well positioned us to weather the current economic storm and to capture investment opportunities in our targeted markets.



We place a high priority on capital expenditure. This stems from our commitment to offer our customers a reliable electricity supply. We have invested an accumulated sum of HK$40 billion over the past five years. Capital projects in the pipeline include the Castle Peak "B" emissions control project and the Jhajjar project in India.

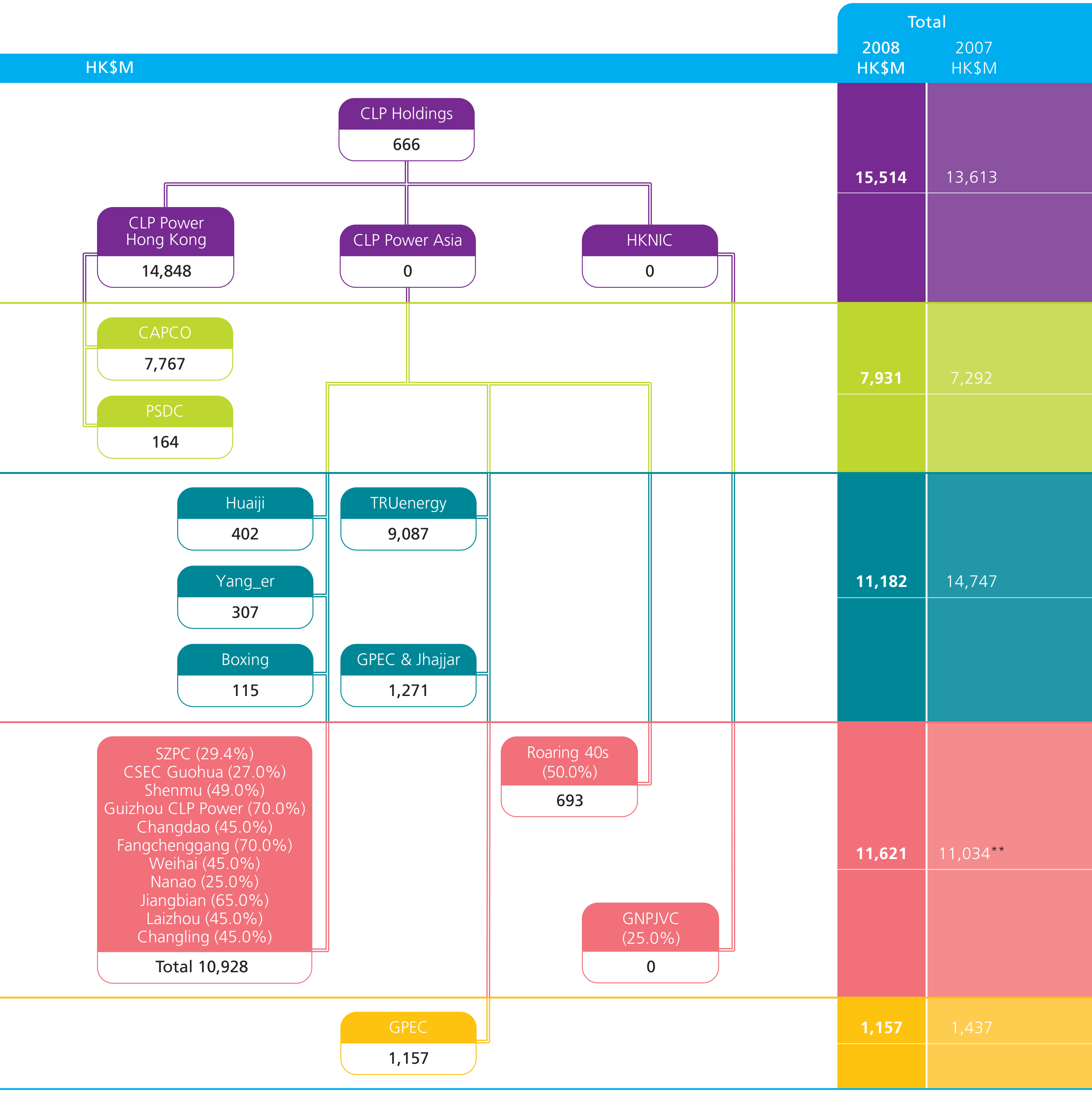
CLP Group's Financial Obligations at a Glance

as at 31 December 2008

The financial risks associated with borrowings and unconsolidated financial obligations of listed companies continue to be of market concern, especially amidst the recent financial turmoil. Our policy is to adopt a conservative 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 205 to 207 and Note 31 to the financial statements.
3 Borrowings of TRUenergy, GPEC, Jhajjar, Huaiji, Boxing and Yang_er	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 32 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.



** Including the share of debt amounting to HK$973 million in SEAGas which was disposed of in 2008.

Hong Kong

Business Environment and Strategy

The global economic slowdown will inevitably affect consumer behaviour, corporate profitability and the labour market in Hong Kong. Notwithstanding the support of the Central People's Government and the Hong Kong SAR Government's aim to boost the local economy through the launch of 10 major infrastructure projects, the local economic outlook is not encouraging over the near term. Business contraction will eventually, and inevitably, lead to slower growth in electricity sales, perhaps even to a decline in the coming months.

In the longer term, Hong Kong's economic growth is predicted to be moderate and in line with that of the advanced economies. Electricity sales growth in the coming decade may remain low at slightly less than 2% per annum, given that Hong Kong's transformation to a developed, service-based economy means that electricity demand growth is no longer closely aligned with underlying economic growth.

Under the 11th 5-year Plan, Guangdong Province has planned a sizeable amount of new generating capacity by 2010 as well as the transfer of more power from the western provinces. The supply and demand balance is likely to improve in the near future. Consequently, demand from Guangdong for electricity from CLP may reduce over the medium term.

Although the new SoC Agreement took effect on 1 October 2008, the development of the local electricity market, after the end of its initial 10-year term, remains uncertain. CLP will engage actively with the public on the development of a long-term policy for the power sector.

At present, CLP faces competition 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. Competition with other energy providers for commercial customers remains keen.

The signing of the energy and fuel supply MOU between the Central People's Government and the HKSAR Government marked an important policy change, which is discussed further in the Chairman's Statement to this Annual Report.

Ongoing concern about poor air quality in Hong Kong continues to drive tightening regulation of emissions from our power stations. Government is reviewing the Hong Kong Air Quality Objectives (AQOs) with a view to devising a long-term plan to meet World Health Organisation standards. The new AQOs and a long-term strategy on air quality management are expected to be finalised in 2009. Statutory emission caps have already been established for our power plants in 2010 and CLP is working to meet these. Further lowering of these caps will need to take into account the practicality of doing so, including technical, cost and supply reliability implications.

CLP's strategy for our Hong Kong electricity business is as follows:

- Pursue expeditiously the energy supply options contemplated by the MOU;
- Careful management of fuel procurement to minimise costs and resulting tariff pressure;
- Strong overall control of costs to minimise impact on tariff and the risk of lower electricity sales;
- Continued financial prudence in all aspects of our business;
- Active and informed contribution to the evolution of policy and environmental regulations regarding Hong Kong's electricity industry;
- Strengthened relationship management locally and in the Mainland, particularly in Guangdong and Beijing, in line with the growing integration of Hong Kong with neighbouring Guangdong Province and with the Mainland as a whole; and
- Ongoing operating excellence, characterised by world-class supply reliability, a strong safety record, excellence in environmental performance and enhanced customer service.

How did we do in

Throughout 2008, we worked hard on:

- meeting Hong Kong's electricity demand in a reliable, cost-efficient and environmentally responsible manner;
- moving forward with the capital investment required to maintain the quality of Hong Kong's electricity infrastructure; and
- delivering earnings to the CLP Group.

The Chairman's Statement discusses the implications of the new SoC, which came into effect on 1 October 2008, and of the MOU between the Central People's Government and the Hong Kong SAR Government on the continued supply of nuclear energy and natural gas to Hong Kong.

Meeting the Demand for Electricity

Sector	2008 Number of customers ('000)	2008 Electricity sales (GWh)	Sales Increase / (Decrease) over 2007 (%)	Average annual sales change over 2004-2008 (%)	Notes to 2008 performance
Residential	1,989	7,890	2.2	1.9	Colder weather experienced in winter and warmer weather in autumn
Commercial	183	12,312	1.4	2.8	Moderate economic growth
Infrastructure and public services	92	7,661	(0.2)	1.0	Growth offset by energy efficiency and conservation efforts
Manufacturing	27	2,202	(8.9)	(5.1)	Reduction in sales, particularly in the textile, clothing and electronics sectors
Total local sales	2,291	30,065	0.3	1.4	
Export sales	–	3,552	(12.0)	3.4	Declining electricity demand from Guangdong
Total Sales	2,291	33,617	(1.1)	1.6	

Overall, the demand for electricity from our Hong Kong customers increased slightly, compared to 2007.

Sales by CLP to the Chinese mainland fell by 12% compared to 2007 levels, due to the increased power supply into Guangdong from other provinces. CLP's total sales volume in 2008, including sales to the Mainland, was 1.1% below that achieved in 2007.

Whilst overall local sales increased only slightly, a new local maximum demand of 6,749MW was recorded on 22 September 2008. This exceeded the previous historic peak by 4.2%. As a result, CLP's reserve margin (the extent to which total generating capacity, assuming it were all available at the same time, is higher than the highest historic demand for electricity) fell to 31.7% for Hong Kong and 6.9% for the system as a whole, taking into account the demand from Guangdong.

Meeting the demand for electricity and satisfying our customers' expectation that adequate and reliable power supply is available at all times, demands high standards in the operation of our generating plant. These standards were achieved in 2008.

Station	Rating (MW)	Generation** (GWh)		Availability (%)		Operating Hours	
		2008	2007	2008	2007	2008	2007
Black Point Power Station	2,500	**10,088.3**	8,271.0	**88.1**	93.3	**33,683.2**	27,825.8
Castle Peak Power Station	4,108	**15,633.1**	18,426.7	**84.4**	87.6	**41,916.0**	45,883.2
Penny's Bay Power Station*	300	**0.6**	0.2	**99.5**	99.9	**18.0**	11.2

* 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.

During 2008 we continued to apply strict control disciplines and to pursue efficiency improvements. For example, we launched a "Process Simplification Project" to review our operational processes. So far, more than 15 improvement projects have been completed, leading to significant savings. In our network business, we use electrical equipment with a minimum total life cycle cost. We analyse the total cost to customers of particular equipment over its projected working life – including capital, operating and maintenance costs, and select equipment which has the lowest total costs. We are increasing the application of on-line monitoring technology. This allows us to assess the condition of equipment on a continuous basis, ensuring that maintenance work can be carried out at the right time – striking the best balance between using the equipment to its maximum capability and minimising disruption due to equipment failure. In addition, on refurbishment projects, such as those on our transmission overhead line system and gas insulated switchgear, we are finding ways to extend asset life.

Fuel is a major element in electricity costs, representing one-third of the total cost of supplying electricity to our customers. About 40% of CLP's power generation comes from coal, which was subject to unprecedented price increases from mid-2006 to mid-2008. In managing coal costs, whilst ensuring adequate and timely coal deliveries, CLP faces an additional challenge in that, for environmental reasons, high quality sub-bituminous coal accounts for the majority of CLP's total coal consumption. Supplies of this coal remain tight, due to growing worldwide recognition of its superior environmental performance.

Linesman working on 400kV overhead lines

We are applying a number of strategies to better manage our coal supply and price risk. These include strengthening long-term relationships with key suppliers and securing base supply volume from them, adopting different pricing mechanisms to mitigate market exposure and help stabilise fuel costs, as well as maintaining the greatest possible flexibility in both coal quality and quantities to accommodate fluctuations in electricity demand.

The use of ultra-low sulphur coals and the increased flexibility of our gas supply have helped to reduce the emissions from our power stations, in line with our ongoing commitment to the responsible environmental management of our business. Total emissions in 2008 were below the Hong Kong Government's emission caps and we achieved 100% compliance with environmental licence requirements. Our emissions control project at Castle Peak "B" Power Station continues at full pace. Presently around 1,500 staff and contractors are engaged on site, working to a very tight schedule, whilst ensuring that generating plant remains available to meet electricity demand. The project involves several plant improvements, including refurbishment of coal burners and the installation of flue gas desulphurisation and nitrogen oxide reduction equipment. On completion in 2011, this project will lead to substantial reductions in emissions of sulphur dioxide and nitrogen oxide for each unit of electricity generated at Castle Peak "B".

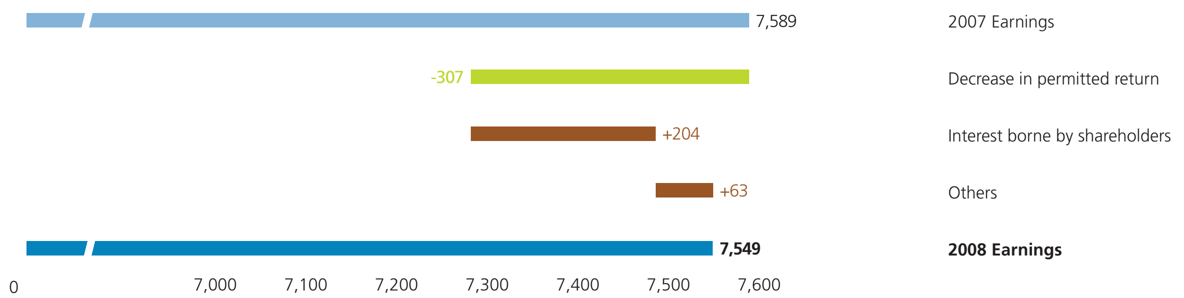
Capital Investment

Ongoing investment in our electricity infrastructure is essential, if we are to continue to meet Hong Kong's electricity demand in the years ahead and to do so in a manner which is reliable, cost-effective and environmentally sound. During 2008, we invested HK$7.7 billion in our generating facilities, transmission and distribution network, customer services and other supporting facilities. In addition to the Castle Peak emissions control project, some of our major projects included commissioning two of the largest naturally-cooled 400kV series reactors in the world on our Black Point to Castle Peak circuit, in order to improve fault prevention. We have increased the use of cable tunnels and trenchless construction, so as to strengthen electricity transmission, whilst minimising disturbance to the public during construction works. The expansion of our 132kV substation network provided supply to new commercial and residential developments, as well as enhancing supply flexibility and maintaining reliability.

Earnings

Our Hong Kong electricity business contributed HK$7,549 million to the Group's total earnings in 2008, compared to last year's HK$7,589 million. These earnings were determined in accordance with the provisions of the SoC. The decrease mainly resulted from the reduction in the rate of permitted return to 9.99% effective 1 October 2008 under the new SoC. This was partly offset by the increase in the average net fixed assets, as well as lower interest costs on borrowed capital and the Development Fund (which has become the Tariff Stabilisation Fund under the new SoC).

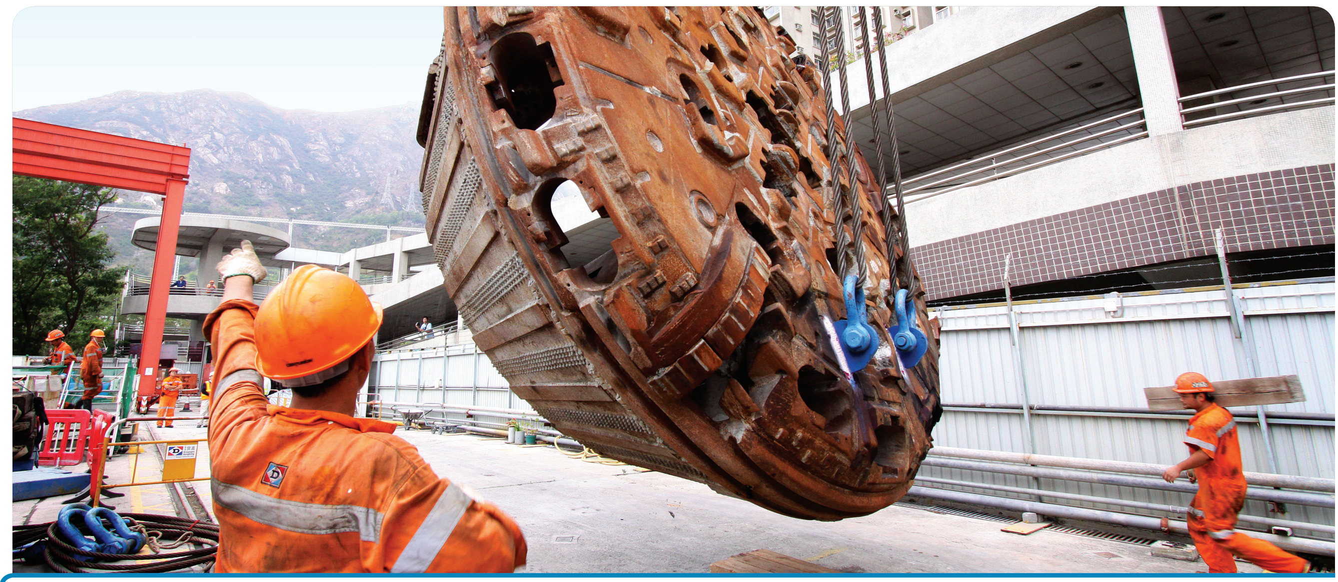
Hong Kong Earnings (HK$M)



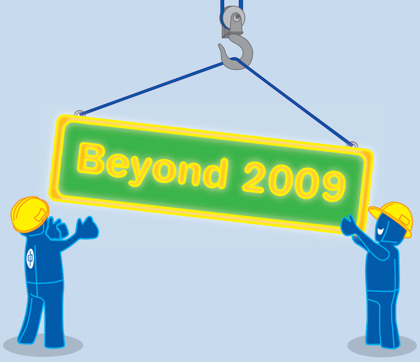
What are we going to deliver in 2009

All the elements of our action plan for 2009 reflect our ongoing commitment to operating excellence.

- Strengthening employee and contractor safety;
- Carrying forward the implementation of the MOU on the supply of natural gas and nuclear energy. This will include:
  - – developing the infrastructure necessary to bring gas sources to Hong Kong, including a Shenzhen LNG receiving terminal and pipeline connections;
  - – concluding gas sale and purchase agreements and LNG terminal use agreements;
  - – developing technical solutions to manage gas quality and to ensure that our generating plant is capable of burning gas delivered from differing sources with differing chemical characteristics; and
  - – working with our Chinese counterparts on arrangements for the continuing supply of nuclear energy from Daya Bay beyond 2014;
- Effective tariff management including:
  - – continuous stringent cost control and management of fuel procurement;
  - – monitoring of local sales growth to assess its impact on tariff strategy; and
  - – informing our customers, in a timely and transparent manner, of future tariff trends, including the implications of rising fuel costs in recent years;
- Ongoing improvement in environmental performance. In 2009, this will involve:
  - – progressing the emissions reduction project at Castle Peak "B" Power Station;
  - – striving to meet the emissions targets set by Government;
  - – engaging the Hong Kong Government and the public on the post-2010 emission caps and contributing to the review of air quality objectives and the development of the pilot emissions trading scheme for the Pearl River Delta;
  - – delivering energy efficiency services to meet the needs of customers and environmental regulations; and
  - – progressing feasibility studies and environmental impact assessment on an offshore wind farm; and
- Enhanced stakeholder management. This will include reinforcing our stakeholder engagement plans within Hong Kong and the Mainland to assist in the management of critical business issues, including tariff, environment, energy supplies, the implementation of the MOU and long-term changes in the local electricity market.



Extracting the cutterhead of the tunnel boring machine at Castle Peak



Over the longer term, our activities will include:

- implementation of the approved Development Plan for 2008 to 2013, including the required capital investment programmes;
- active, informed and effective communication to all stakeholders on proposals for possible changes to the electricity sector following the existing SoC. In addition, we will responsibly manage and operate our Hong Kong electricity business, so that this is best positioned to address and adapt to any changes in the market framework;
- continued improvement in our environmental performance, including through the emissions reductions achieved as a result of the completion of the emissions control reduction project at Castle Peak in 2011;
- implementation of the MOU on the supply of gas and nuclear energy. This will require new sources of gas to be available to supply our generating plant in Hong Kong by 2013 at the latest in order to replace the depleting resources available in the existing Yacheng 13 gas field; and
- meeting the growth in electricity demand in Hong Kong and doing so in a manner which takes into account considerations of cost, reliability, security of supply and environmental performance.

Q: How will CLP utilise the Development Fund?

Mr. Leung Chi Man
Shareholder

A: The Development Fund was renamed the Tariff Stabilisation Fund on 1 October 2008 at the start of the new SoC Agreement. The Fund balances any differences between total electricity revenues in any given year and the costs of providing our electricity services. This fund helps stabilise future tariff adjustments.

Peter P. W. Tse
Group Executive Director & Chief Financial Officer

Australia

Business Environment and Strategy

The energy industry in Australia continues to experience major change. A key factor influencing the market in 2008 was planning for the introduction of the Australian Government's Carbon Pollution Reduction Scheme (CPRS). If introduced in 2010 in accordance with the Government's policy statements, the CPRS will cap economy-wide carbon emissions, place a price on carbon emissions, and introduce a trading framework.

In December, the Government released a White Paper detailing a 5 to 15% reduction target for carbon emissions by 2020 (based on 2000 emission levels) under the CPRS. A critical element in the finalisation of the CPRS has been the extent of transitional assistance to industry, and to coal-fired electricity generators in particular, to support a smooth transition to a low carbon economy.

As part of its White Paper, the Federal Government announced that it would provide 130.7 million permits over the first five years of the scheme under an Electricity Sector Adjustment Scheme (ESAS). The estimated value of the permits is A$3.5 billion based on Australian Treasury modeling. Under this scheme, TRUenergy's Yallourn Power Station is expected to be provided with a certain value of the permits from the start of the CPRS in 2010 for the five years until 2015.

In December, the Federal Government released draft legislation to increase the national Renewable Energy Target to 20% by 2020. This will encourage investment in renewable energy generation. TRUenergy will continue to develop its renewables portfolio through strategic investments in wind, geothermal and solar technology.

Interest in Australian upstream gas positions continued to grow during 2008, driven by the desire to export Coal Seam Gas (CSG) as Liquefied Natural Gas (LNG) from Queensland. The interest in LNG exports provided a significant boost to market valuations, indicating an expectation of export prices rising above domestic levels. In the short term however, there appears to be some downward pressure on price as CSG producers build up production before export facilities are online. In the medium term, as LNG facilities are completed there may be upward pressure on price, depending on the international market for LNG, which may have an impact on the domestic market.

In retail markets, Australian state governments have announced plans for separate energy efficiency schemes. During the year, Victoria and SA unveiled their proposed schemes, to begin on 1 January 2009.

The Victorian Energy Efficiency Target (VEET) allocates greenhouse gas reduction targets to energy retailers in the form of certificates based on residential customer energy usage. Retailers earn certificates by assisting households to reduce their emissions. Any excess certificates can then be traded.

In South Australia, under the Residential Energy Efficiency Scheme (REES) electricity and gas suppliers will be required to achieve targets for delivering energy audits to low income households and implementing energy efficiency improvements in households.

TRUenergy's retail and generation businesses operate within the National Electricity Market (NEM), the wholesale market that supplies 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. Retailers, including TRUenergy, have the option to either buy electricity through the pool at market prices or through direct contracts with generators.

During 2008, pool prices in the NEM were subdued, compared to the high prices experienced in the previous year, because of milder weather, low baseload plant outage and changed bidding behaviour from contracted generators. SA was an exception due to record hot weather in March, resulting in record demand and price volatility.

The NSW government announced a revised electricity reform plan in September. This excludes the sale of state-owned generators and pursues a trader model instead. Further details of the privatisation process are expected to be announced during the first half of 2009.

In response to the business environment, TRUenergy internally relaunched its vision and strategic objectives in February. Strategic objectives were refined to provide greater clarity around goals and to make it easier to translate strategic objectives into actions at the business unit and individual level. TRUenergy's vision is to become Australia's best customer-focused energy management group. To realise this vision, TRUenergy's strategy is built on three pillars:

- Optimising core operations;
- Growing a balanced, national portfolio of customers, generation and fuel sources; and
- Innovating and leading in a low-carbon, energy-efficient world.

Q: While the earnings contribution from Australia has not been so significant, as a percentage of net asset value or capital tied up, this is by far the most significant part of CLP's overseas business. As returns from this business have been slightly behind expectations and future earnings might be further compounded by the proposed emission trading scheme, what are the options available for CLP to further improve its return on capital in Australia? In hindsight, what could CLP have done in Australia for better earnings performance to be achieved?

Mr. Edmond Lee
Executive Director
Head of Utilities and Infrastructure, Asia Pacific Equity Research, J.P. Morgan Securities (Asia Pacific) Limited

A: Historical returns from TRUenergy have been impacted by a series of one-off events.

- In 2005 and 2006, the Yallourn power station was impaired – this was as a result of an over allocation of value to Yallourn when CLP purchased the PowerGen assets. You will see the corresponding upside recognised on the GPEC assets in India realised in 2007.
- In 2007, TRUenergy outsourced its back office and information services function to IBM. This resulted in one off payments and asset write-offs as part of a prudent and extremely conservative review of TRUenergy's legacy retail and information system assets. This contract with IBM was put in place for the following 10 years and we will start to realise the benefits in 2009.
- In 2007, TRUenergy also experienced the subsidence of a mine wall at Yallourn. This was costly from a lost generation perspective and the business obviously required additional opex and capex to repair the failed batters and damaged conveyors.

In 2008, there has been a strong focus on strengthening the underlying operations of the business to better insulate it from any future one-off events. We are now well placed for the challenges ahead, including the introduction of the Carbon Pollution Reduction Scheme. The business has seen significant improvements in operations with increased returns from retail as well as improved reliability from Yallourn and the other generation assets.

TRUenergy's interest in the SEAGas pipeline was sold and receipt of significant insurance proceeds relating to the 2007 mine subsidence also occurred in 2008.

The release of the Government's White Paper in December outlined the proposed Electricity Sector Adjustment Scheme which proposes to provide assets such as Yallourn power station with transitional assistance. This assistance will provide some investment certainty for the first five years of the scheme from 2010 – 2015.

We will continue to focus on strengthening the underlying operations of the business as well as working with government to ensure an appropriate investment environment to improve the return on capital.

In hindsight, CLP is satisfied with its Australian investment. The Australian merchant energy market is one of the most competitive markets in the world. CLP has been able to understand and learn from the complex nature of this market, with a view to leveraging this knowledge under a deregulated Hong Kong scenario or in any other deregulated markets in the countries in which it operates.

Richard McIndoe
Group Director – Managing Director Australia

How did we do in

In line with its strategy, during the year TRUenergy specifically focused on:

- cost savings;
- realignment of the retail business to increase profitability in competitive markets;
- effective asset management;
- business development; and
- a proactive position on climate change.

Cost Savings

TRUenergy completed a project to identify and achieve 10% reductions in operating costs across the business.

Retail Market

A retail business strategy review was undertaken, including market assessments, analysis of the most profitable customer segments and identification of the most effective channels to market to pursue. As a result, our retail activities have an increased focus on Victoria for mass market, profitable, organic growth.

TRUenergy's retail business comprised 1.29 million customer accounts, despite continuing intense competition, particularly in Victoria. Whilst customer churn remained high, TRUenergy's customer churn was approximately 3% better than the market average with even stronger performance in its prime market, Victoria.

TRUenergy strengthened its customer retention activities through increased "customer save" initiatives and enhanced service training for customer consultants. In particular, TRUenergy continued to make strong gains in GreenPower customers – those buying accredited renewable energy. These reached 138,000 at the end of 2008, or 19% of all electricity accounts. This represented a year-on-year growth rate of 67%.

Progress was made towards the development of the new retail customer service and back office information technology platform with IBM. Piloting was delayed until 2009 to allow greater fine-tuning of the solution prior to the pilot. A full release of the system to customers is expected around mid-2009.

From 1 January 2009, government regulated retail prices were removed in Victoria. To date, government-mandated price caps have set a benchmark price for retail customers. The removal of these price caps reinforced the need for all retailers to carefully assess their cost to serve and underlined the strategic importance of reviewing TRUenergy's retail positioning during the year.

TRUenergy's Iona gas storage facility

Asset Management

TRUenergy has been positioning itself to reduce its carbon emissions through ongoing efficiency improvements and investment in low and zero-emission generation assets, such as the gas-fired Tallawarra Power Station, solar and geothermal technologies.

In March, a major outage was undertaken at the Yallourn Power Station to upgrade and overhaul Unit 2, including replacement of the last stage low pressure turbine blades. Following the outage, which was completed within 60 days, the power station set a monthly record for generation in July, exceeding the previous record generation that was set in March 2004. In October gross generation reached a new station record and for the first time since July 1998 all four units ran continuously synchronised during a calendar month.

In August, Yallourn concluded a new four-year Workplace Agreement with its workforce.

Following a mine subsidence in November 2007 which temporarily halted all three coal supply conveyor lines, the Yallourn Coal Mine was returned to full generation capability in January with the opening of a second coal conveyor. All three coal conveyors were fully operational by 19 February with full restoration work completed. TRUenergy's insurers have commenced making progress payments in the second half of 2008. The detailed loss adjustment process is underway and is expected to be completed in 2009.

Construction of the 400MW gas-fired, combined cycle Tallawarra Power Station was completed and the station achieved the first firing of its gas turbine in October. The final testing phase for the plant began in December. While full commissioning of the plant was slightly behind schedule, the plant achieved full operation in January 2009 and is the most efficient gas-fired power station in Australia. The plant has now been rated at 420MW.

To meet the increasing demand for gas in Victoria and SA, TRUenergy has progressed the design, procurement and site preparation works of a low pressure upgrade and expansion project to increase the Iona Gas Plant's daily processing capacity from 320 terajoules to 500 terajoules and its gas storage capacity from 12 petajoules to 22 petajoules. Plant construction will begin in early 2009 with full operation by the end of the year.

In September, TRUenergy completed the sale of its one-third equity stake in the SEAGas Pipeline to the Retail Employees Superannuation Trust for a price of A$119 million. The sale followed a strategic review of the asset early in the year.

The Iona Gas Plant completed nine years without a lost time injury.

Asset / Station	Rating (MW)		Generation (GWh)		Utilisation* (%)		Availability* (%)		Operating Hours	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Yallourn Power Station	**1,480**	1,480	**11,422**	10,192	**87.9**	78.6	**89.4**	85.8	**8,015**	7,429
Hallett Power Station (since 2 July 2007)	**180**	180	**16**	10.2	**2.7**	7.7	**96.4**	97	**1,840.7**	774

	Capacity (Terajoule / Day)		Throughput (Petajoule)		Utilisation (%)		Availability (%)		Compressor Hours	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Iona Gas Storage Facility	**320**	320	**43.8**	59.2	**37**	50.7	**92.3**	98.1	**24,134**	30,388

* 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.

In Australia, Roaring 40s (a 50:50 joint venture partnership between the CLP Group and Hydro Tasmania) has wind farm interests in Tasmania and SA with a combined total capacity of more than 200MW. Roaring 40s has planning approval for two further wind energy developments, one in Tasmania and one in SA, with a combined capacity of over 250MW. Roaring 40s aims to commence the construction of these projects before the end of 2009. CLP has a positive view of the range and quality of Roaring 40s' wind energy portfolio and will be looking for ways to build on this.

Wind Farm	Installed Capacity (MW)	Number x Wind Turbine Size	Generation at Farm Gate (GWh)		Availability (%)		Wind Speed m/s (target)	
			2008	2007	2008	2007	2008	2007
Bluff Point	65	37 x 1.75MW	217.7	207.8	96.5	93.5	8.8	9.1
Studland Bay	75	25 x 3MW	215.5	103.9	98.3	96.7	8.5	–
Cathedral Rocks	66	33 x 2MW	202.7	191.6	97.0	94.3	8.1	8.3

Business Development

In February 2008, TRUenergy announced the acquisition of a 20% equity interest in Solar Systems for A$40 million and entered into a Project Agreement with Solar Systems to build one of the world's largest and most efficient concentrated solar photovoltaic power stations in northern Victoria.

TRUenergy will contribute A$7 million to the development of a 2MW heliostat concentrated photovoltaic pilot plant. Subsequently, up to A$285 million will be invested to build the remaining stages of the project, including a 154MW power station. This is in addition to A$129.5 million provided by Federal and Victorian Government funds (subject to certain conditions) to assist in the development of new technologies.

Q: Does CLP's investment in Solar Systems represent a conscious shift in strategy to backward integrate into the equipment supply chain or is this a one-off equity investment in a promising new technology in line with the strategy laid down in the Climate Vision 2050?

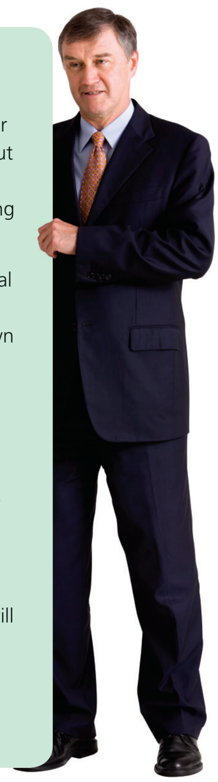
Mr. Avinash P. Rao
Deputy General Manager, Renewables
CLP Power India

A: A bit of both.

The Solar Systems investment was a new departure for CLP, as previously we had been shy about talking about an equity stake in new technologies. Utilities, such as CLP are, typically, less strong in creating and developing such technology than in applying it in practice.

In the case of Solar Systems, our investment was a dual one, in both upstream equity and a specific project in Victoria. It looked an interesting opportunity on its own merits. We also thought we could test this as a model of an approach which CLP might adopt elsewhere. It's still early days but, so far, our experience has been encouraging. Through our newly formed Carbon Ventures arm we are looking for other opportunities to take equity positions in promising clean technology where we believe CLP has something to add, such as the potential to assist and accelerate the roll-out of that technology through our business experience and capabilities in the Asia-Pacific region. Of course, we will be selective about this, both in the technologies we choose and the amount of capital we will put at risk.

Andrew Brandler
Chief Executive Officer



In October, Solar Systems opened a research and development facility near the Victorian regional centre of Bendigo, including a 140kW test bed. The Mildura region in northern Victoria was confirmed as the site for the first stage of the 154MW power station to be operated by TRUenergy. This station is scheduled to start generation in 2010 and to be completed by 2013.

TRUenergy expanded its Australian renewable energy portfolio in August 2008 with an investment of up to A$57 million in a geothermal joint venture with Petratherm, a leading Australian developer of geothermal technology, and Beach Petroleum, an oil and gas exploration company. TRUenergy will be able to acquire up to a 30% stake in Petratherm's advanced Paralana project as specific project milestones are achieved. Paralana is considered to be one of Australia's top tier geothermal projects with good prospects of progressing beyond exploration to a 30MW pilot stage by mid 2010.

TRUenergy commenced drilling up to five coal seam methane (CSM) coring wells on two tenements in the Surat Basin, Queensland in January 2009. Joint venture arrangements provide the potential for TRUenergy to hold up to a 70% interest in certain CSM resources in Queensland.

Climate Change

Throughout 2008, TRUenergy continued to progress its Climate Change Strategy launched in July 2007.

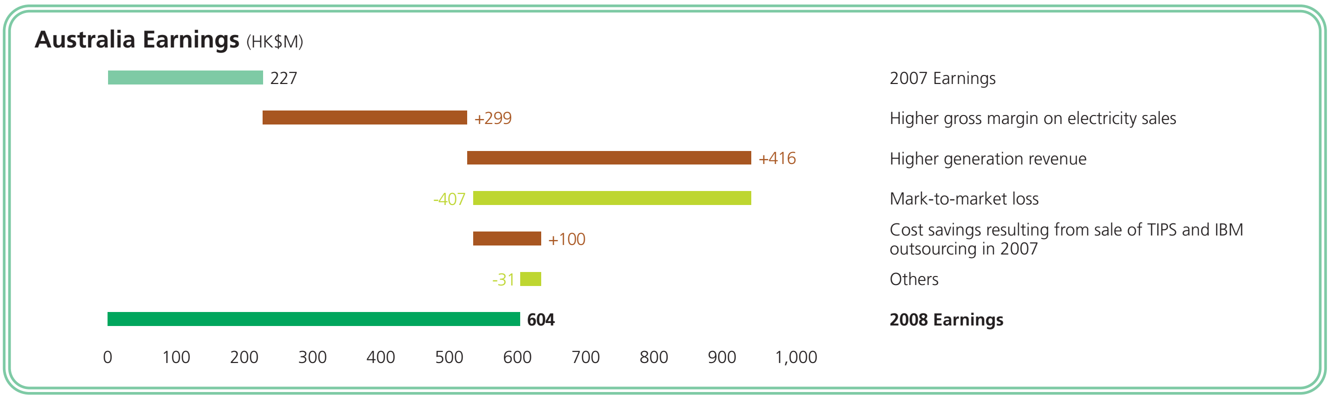
Along with the completion of Tallawarra, which offers low carbon emissions generating capacity, our new renewable energy investments will make a significant contribution to lowering the emissions intensity of TRUenergy's portfolio. Further gains have been made by working to reduce emissions at Yallourn.

On the retail side of the business, TRUenergy continued to provide customers with the opportunity to make a positive contribution toward combating climate change by switching to green energy. During the year, TRUenergy also launched Planet Neutral, a tool to allow customers to offset their carbon emissions and tested customer offers focused around home installation of solar hot water and solar photovoltaic energy systems.

These new initiatives complemented TRUenergy's continued participation in the Australian Greenhouse Office's Challenge Plus Program and its existing practice of offsetting emissions from all its non-generation offices.

Earnings

TRUenergy's earnings for 2008 were HK$604 million, up from HK$227 million in 2007, mainly because of improved operational performance. Higher generation revenue came from Yallourn, and lower operating expenditure resulted from outsourcing and the implementation of a cost cutting programme. In addition, the gross margin on electricity sales improved as a result of an increase in retail prices and higher sales volumes in the Mass Market Sector. Gains from one-off items during the year included the sale of SEAGas, and in 2007 the asset swap for Torrens Island Power Station (TIPS) netted off by the initial outsourcing costs.



What are we going to deliver in

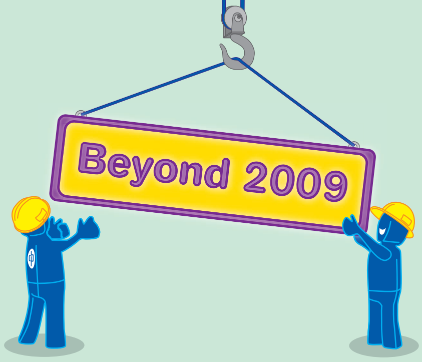
Key initiatives in 2009 will include:

- continuing to implement TRUenergy's Climate Change Strategy, including through the development of our renewable energy portfolio, and preparing for the introduction of the CPRS;
- positioning TRUenergy as an energy services company as part of its response to the introduction of state-based energy efficiency schemes;
- finalising the development approval and delivery planning for Tallawarra Stage B and continued work to advance development of Tallawarra Lands as a site for mixed use including land for businesses, residential communities, and more than 200 hectares of protected environmental and recreational reserves;
- completion of the Iona low pressure upgrade and expansion project;
- implementation of the new retail customer service and back office information technology platform being developed with IBM;
- development applications for two Combined Cycle Gas Turbine (CCGT) power stations in Victoria;
- achievement of retail growth in high value market segments and continued expansion of our green power customer base;
- investigation of "distributed generation" options for industrial and commercial customers. In addition to electricity generation, this point-of-use technology recovers waste heat for use to achieve energy efficiency conversion rates of up to 75%;
- assessment of longer-term, low-carbon technology options for the Yallourn Power Station. These could include, in phases and subject to government and regulatory support, coal drying, gasification and, ultimately, carbon capture and storage; and
- monitoring growth opportunities in NSW via the sale of energy assets as part of the privatisation process.

With the pending introduction of the CPRS, the demand for gas locally is expected to continue to grow, while international demand is also encouraging the development of new liquefied natural gas projects. There will continue to be a focus on processing coal seam gas into LNG for the export market and this can be expected to support upward pressure on gas prices in the medium term. TRUenergy will pursue opportunities to further secure gas supplies for the future.

In response to rising energy demand, TRUenergy is considering the development of Tallawarra Stage B, amongst other possibilities for expanding our gas-fired generation capacity. We have prepared a Development Consent application for a 400MW gas-fired plant adjacent to Tallawarra Stage A. This application including an environmental assessment, is expected to go on public exhibition in early 2009, prior to consideration for approval by the NSW Government.

NSW will release the timeline and process for achievement of its energy privatisation plans. The reform plan is expected to include the sale of the three state-owned retail businesses, generation development sites, as well as allowing the private sector to acquire the trading rights for state-owned generators, known as the trader model. TRUenergy will review the opportunities created by these privatisation plans.



TRUenergy's longer-term development will be driven by:

- growth in generating capacity, particularly lower emission gas-fired generation and investment in renewable generation and new, low emission technologies;
- strategies to improve the emissions profile of existing assets, in particular Yallourn Power Station;
- a focus on energy efficiency to assist customers to manage their energy consumption and achieve internal efficiencies at TRUenergy sites;
- strategies to focus on profitable growth segments in retail markets, including capitalising on enhanced customer service IT capabilities and transitioning to become an energy services provider;
- potential acquisition of gas assets to protect gas retail and generation assets; and
- opportunities which arise from the ongoing process of market consolidation.

We expect an ongoing strong focus on the reduction of carbon emissions associated with TRUenergy's business in line with its Climate Change Strategy. This will include attention to the sustainability of the business, the growth of renewable energy sources and the careful management of climate change risks.

Q: With Yallourn's outlook impacted by the introduction of carbon pricing, what does it mean for the type of skills and capabilities required in an organisation like TRUenergy? What new opportunities will arise for staff in both operations and office environments to capitalise on emerging technology solutions that may be implemented at Yallourn? How is CLP placed to develop those skills and capitalise on them across the broader CLP Group?

Mr. Anthony Elliott
Corporate Strategy and Development Manager, TRUenergy

A: The introduction of a carbon price will focus the energy industry on delivering the most cost effective low-emissions generation to meet the carbon targets and provide energy security to consumers. As such, the breadth of skills and capabilities required across the industry will grow to match the technological evolution of low-emissions generation.

Within the CLP Group, we already have a broad mix of skills, capabilities and experience based on the portfolio of generation we manage. We also have a policy in place to contract specialist knowledge as required and we use these opportunities to further develop the knowledge base of our own employees.

As new low-carbon solutions are implemented at Yallourn, there will be new opportunities in engineering, trading, finance and business development areas to name a few. Carbon management will present new challenges across the organisation including our ability to trade carbon in the various carbon markets, develop consumer products and pricing to match the evolving consumer market place, and harness growth opportunities. The possibilities for TRUenergy employees to assist the rest of the CLP Group are exciting and varied.

Richard McIndoe
Group Director – Managing Director Australia

Chinese Mainland

Business Environment and Strategy

To maintain economic growth through the present global recession, the Chinese Government has stepped up measures to boost domestic demand by introducing a 4 trillion yuan stimulus package, including investment in electricity infrastructure. Developments in the power industry will support industries such as steel, cement and engineering, and in turn boost domestic demand. Liquidity issues are easing as banks become readier to grant loans to power projects which generate stable and reliable returns.

The energy industry in the Chinese mainland continued to grow in 2008. Total installed capacity reached 793GW, with 91GW new units installed. Electricity demand rose by 5.2% in 2008, much lower than the growth of 14.8% in 2007. The average utilisation rate of power plants in the Mainland fell in 2008.

Coal prices continued to rise in the first half of 2008, with the benchmark Datong coal price reaching a record high in July. With a slowing economy and declining electricity demand and generation, the coal price then fell substantially. The PRC authorities approved two tariff hikes in July and August, but these increases could not cover the increase in coal costs in 2008. The timing and magnitude of the next coal price linked tariff adjustment remain uncertain.

To reduce emissions and to improve overall generation efficiency, the State will continue to shut down small coal-fired and small oil-fired units in the Mainland. A total of 17GW was decommissioned in 2008, exceeding the target set for the year. In last year's Annual Report, we mentioned that the Mainland's development focus will be on renewable, nuclear and more efficient coal-fired plants in the future. With global energy supply and environmental issues taking centre stage, renewable energy alternatives are receiving growing government attention. To support sustainable and scientific development, the Government has implemented the PRC Renewable Energy Law. The Mainland has set a target that the non-hydro power renewable energy capacity of power companies should reach 3% and 8% of their total installed capacity by 2010 and 2020 respectively. As at end 2008, the comparable figure was 1.1%, illustrating the tremendous growth expected in renewable energy.

To promote the renewable energy sector, including wind power projects and certain hydropower projects, the Mainland Government provides a corporate income tax incentive for qualifying projects approved after 1 January 2008 – three years income tax exemption and a 50% reduction for another three years. Value-added tax ("VAT") incentives for foreign investment enterprises on the acquisition of equipment have been repealed. As from 1 January 2009 both foreign investment enterprises and domestic entities are allowed to deduct VAT costs on equipment purchases from their total VAT bill.

Within this business environment, CLP's strategy is to:

- explore investment opportunities, wherever CLP has competitive advantages against other investors and in line with the Group's climate change strategy;
- develop projects which have synergy with existing investments;
- pursue combined cycle gas turbine projects in selected regions;
- investigate clean coal technology and explore opportunities for direct participation; and
- continue our development of renewable energy projects, including small and medium-sized hydro, wind, biomass, solar and geothermal, through acquisitions or greenfield projects.

How did we do in

In the following pages we describe the key aspects of CLP's business in the Mainland during 2008 and the contribution that this business made to overall Group earnings.

Completion of Fangchenggang Unit 2

Construction of the two supercritical coal-fired units has progressed well, with the two units entering commercial service in September 2007 and January 2008 respectively. A series of tests were conducted and the nameplate rating of the 2 units was upgraded from 600MW to 630MW.

CSEC Guohua

The Ministry of Commerce has approved the expansion of CLP Guohua and the change of name to CSEC Guohua in April 2008, with its registered capital being increased from 1.64 billion yuan to 4.01 billion yuan. Five more power plants, including Sanhe II (600MW), Suizhong I and II (3,600MW) and Zhungeer II and III (1,320MW) have been injected by Shenhua into CSEC Guohua. CLP will pay cash to top up the registered capital to maintain its shareholding ratio at 30%. Based on the actual injection made, CLP owns 27% of CSEC Guohua as of 31 December 2008.

Jiangbian Hydro

Frequent rock bursts encountered during excavation of one section of the water tunnel caused delays in progress and became a critical path item for the project. Improved methods of work were identified and additional equipment is being mobilised to recover time lost. Maintaining safety on site is the major challenge to the construction of the power station, due to its remoteness and difficult terrain. Added to this challenge is the lack of a safety culture amongst local contractors. CLP's major focus is to ensure proper safety policies and procedures are in place. Tremendous efforts have been, and will continue to be, made to improve the local safety culture.

Q: What are CLP's views on energy development in the Chinese mainland? Any suggestions to put forward?

Mr. Qin Dingguo
Party Committee Secretary and General Manager
Beijing Guohua Electric Power Corporation

A: Electricity demand growth in the Mainland is likely to continue to slow down in the next few years, affected by the current economic downturn. Both the PRC authorities and generating companies may take a more cautious approach in approving and building new power stations.

We fully support the PRC Government's focus on emissions reduction and the development of renewable, hydro and nuclear energy and clean coal technology in the next decade for sustainable development.

For improving efficiency, we also welcome the authorities' initiatives in strengthening the transmission networks to carry power generated in places where the natural resources are located to the load centres.

Currently, coal prices are subject to market forces while tariff is not. We believe this is not sustainable in the long term. Policies on energy development will need to tackle this.

Ko Yu Ming
Managing Director – China

Operation of Existing Assets

The following table explains the operating performance in 2008 of the generating plant in which CLP holds an interest:

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2008	2007	2008	2007	2008	2007	2008	2007
Daya Bay	1,968	15,430	14,775	93	90	93	90	8,221	7,967
Guangzhou Pumped Storage (Phase I)	1,200	1,589	1,784	15*	17*	88	94	3,248*	3,728*
Shiheng I and II	1,260**	6,609	6,888	63	66	95	95	5,508	5,740
Heze II	600	3,311	3,418	63	65	88	92	5,518	5,696
Liaocheng	1,200	6,764	6,262	64	60	93	88	5,637	5,218
Yire	400	2,417	2,545	69	73	96	92	6,042	6,363
Sanhe I and II	1,300	6,502	4,659	57	63	95	93	5,002	5,547
Panshan	1,000	6,043	5,952	69	68	96	85	6,043	5,952
Suizhong I	1,600	8,317	10,467	59	75	75	89	5,198	6,542
Zhungeer II and III	1,320	6,522	4,181	56	58	93	97	4,941	5,057
Shenmu	200	1,413	1,385	80	79	91	96	7,065	6,925
Anshun II	600	3,075	3,402	59	65	95	82	5,125	5,670
Huaiji	125	347	267	36	35	91	89	3,185	3,053
Fangchenggang	1,260	4,055	N/A	38	N/A	82	N/A	3,380	N/A

* Generating and pumping modes

** 4 units of Shiheng I and II had completed a capacity upgrade modification to increase the nameplate rating from 300MW to 315MW

CGNPC Joint Venture

As a large corporation under the leadership of the State-owned Assets Supervision and Administration Commission of the State Council, CGNPC was established in September 1994 with nuclear power as its core business. We have a strong relationship with CGNPC through our partnership in the Daya Bay nuclear station. Alongside the promotion of nuclear power projects, CGNPC has

Fangchenggang Power Station

launched the strategy of developing clean energy as its secondary business. It established CGNPC Wind Power Co., Ltd. ("CGNPC Wind") in 2007 to undertake wind power projects in the Mainland. CGNPC Wind is currently developing 6 wind power projects of about 600MW and has a strong development pipeline of about 16,000MW potential wind resources. CGNPC has invited CLP to acquire a 32% shareholding in CGNPC Wind as a strategic partner and to develop this as a major platform for our future expansion in wind power projects in China. We have completed the regulatory procedures as requested by the China Beijing Equity Exchange in November 2008. Final approval from the Ministry of Commerce is awaited.

Tariff Management

In addition to high levels of reliability and availability, the value of our generating portfolio is enhanced by diversified fuel sources and by securing and maintaining approved tariff levels from the relevant authorities for each station in that portfolio.

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 (Phase I)	Based on service charge per installed capacity	Agreed under long-term agreements	Pumped storage between dedicated reservoirs	
Shiheng I and II	47.25 for I 48.75 for II	Increased twice in 2008, Shiheng II obtained 1.5 fens FGD tariff	Coal – Shandong mines	Adequate coal supply but much increased price
Heze II Liaocheng	43.19 44.69	Increased twice in 2008, Liaocheng obtained 1.5 fens FGD tariff	Coal – Shanxi mines	
Yire Sanhe I and II Panshan Suizhong I Zhungeer II and III	47.68 41.03 for I 38.64 for II 44.58 38.72 27.95 for II 28.50 for III	Increased twice in 2008, Sanhe obtained 1.5 fens FGD tariff	Coal – Supplied by Shenhua from Shaanxi and Inner Mongolia	Adequate and stable coal supply
Shenmu	Normal: 33.95 Excess: 20.00	Increased twice in 2008	Coal – Local mines	Adequate coal supply but much increased price
Anshun II	33.51	Increased twice in 2008	Coal – Guizhou local mines	Operating hours may decrease due to surplus generation supply in Guizhou Province
Huaiji	Tariffs range from 20.40 to 56.20 fen / kWh according to the wet or dry season and depending on peak / non-peak generation	Higher tariffs achieved by use of reservoir regulating capability	Small hydropower	Renewable energy source
Fangchenggang	43.57	Including 1.5 fens FGD tariff	Imported coal	Operating hours may decrease due to competing high generation from hydropower. Possible extension of two more units

As part of our efforts to manage coal procurement risks in a highly volatile market, we are pursuing a long term contract with Indominco based on a new Indonesian mine. It is expected that coal mining operations will commence by fourth quarter of 2009 and some coal will be available by then for supply to the Fangchenggang plant.

Renewable Energy

The continuing growth of CLP's renewable energy portfolio in the Mainland means that, in addition to the Jiangbian hydro project, we now hold interests in 20 projects totalling 406 equity MW. These investments span four provinces and include wind, hydro and biomass generated electricity.

Datong
- achieved commercial operation in 2008

Shuangliao
- phase I operating reliably
- phase II construction on schedule

Laizhou
- CLP's first cooperation with Huadian Power International in Shandong
- entered commercial service in 2008

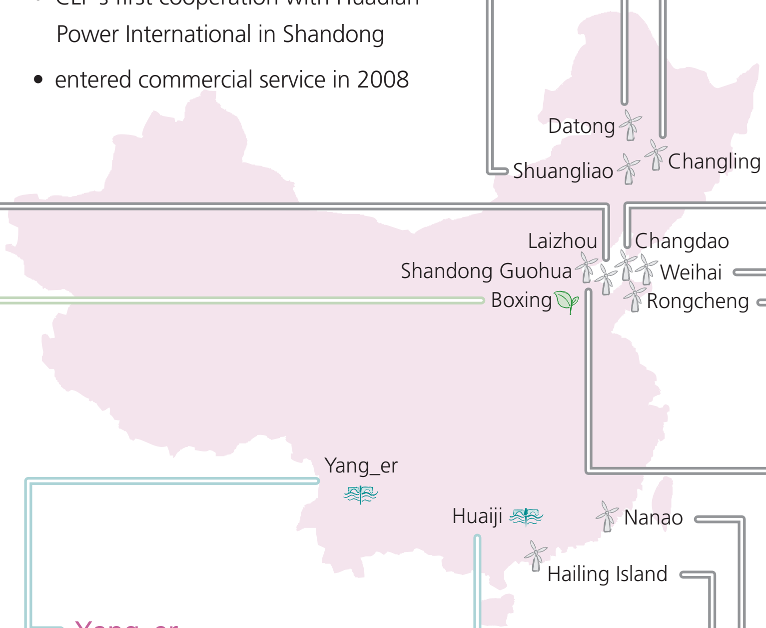
Changling II
- CLP's first investment with Sinohydro Group in Jilin
- construction works commenced and commissioning targeted for third quarter of 2009
- further expansion capacity of up to 300MW

Changdao
- UN registration as CDM project

Weihai
- UN CDM registration
- phase II entered service in 2008

Rongcheng
- all turbines passed reliability test

Shandong Guohua Six Wind Projects
- construction of Stage I is expected to be completed in 2009



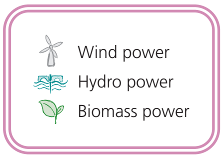
Yang_er
- UN Clean Development Mechanism (CDM) registration
- increase in project costs due to recent material and manpower price escalations
- target commissioning in 2009

Boxing
- achieved commercial operation in 2008
- plant modification planned to reflect changing operating environment

Nanao
- operating well

Hailing Island
- preparation for construction underway
- land use agreement signed with the local government

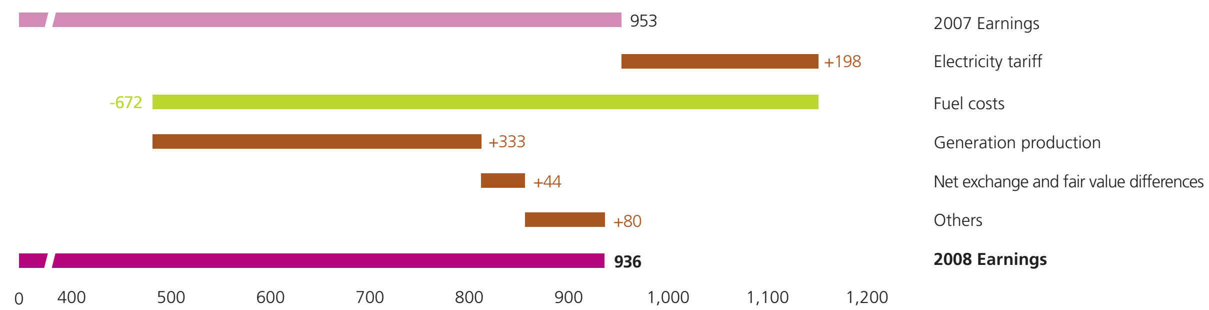
Huaiji
- acquisition of Niuqi hydropower station was completed



Earnings

Total earnings from our investments in the Chinese mainland were HK$936 million. Of this, HK$931 million came from our investments in those generating facilities serving Hong Kong. The increase of HK$219 million was mainly due to higher generation and lower operating cost at Daya Bay. Earnings for the year, other than from those generating facilities serving Hong Kong, were only HK$5 million, HK$236 million below 2007. This was mainly due to higher coal prices, ranging from 17% to 47%, experienced by our power stations in the Chinese mainland, and because the approved tariff adjustments in July and August 2008 did not fully compensate for increased coal costs.

Chinese Mainland Earnings (HK$M)



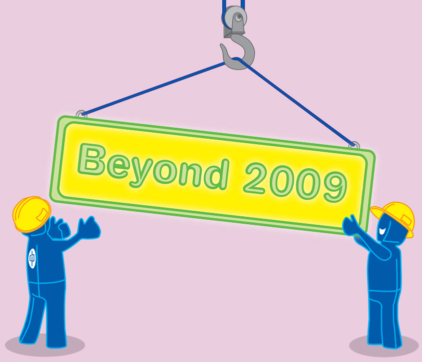
Q: Under the current tax reform in mainland China, how does CLP view the revised preferential tax policy on foreign enterprises? What is CLP's responding strategy?

Mr. Zhang Qiwen
General Manager
Shandong Zhonghua Power Co., Ltd.

A: CLP has always aimed to comply with local legislation and regulations including taxation, wherever we operate and we will continue to do so. Responsible tax planning forms part of the disciplines we apply to the management of our investments. In the case of the removal of preferential tax treatment for foreign enterprises in the Mainland, this was not unexpected, having regard to the PRC's commitments as a member of the World Trade Organisation. We had already factored this change into our investment decisions. Our strategy is to be conservative in the assumptions which underpin our investment decisions. We avoid undue reliance on the long-term continuation of favourable tax treatments which, as the PRC example shows, are always subject to changes in fiscal policy.

Peter P. W. Tse
Group Executive Director & Chief Financial Officer

What are we going to deliver in

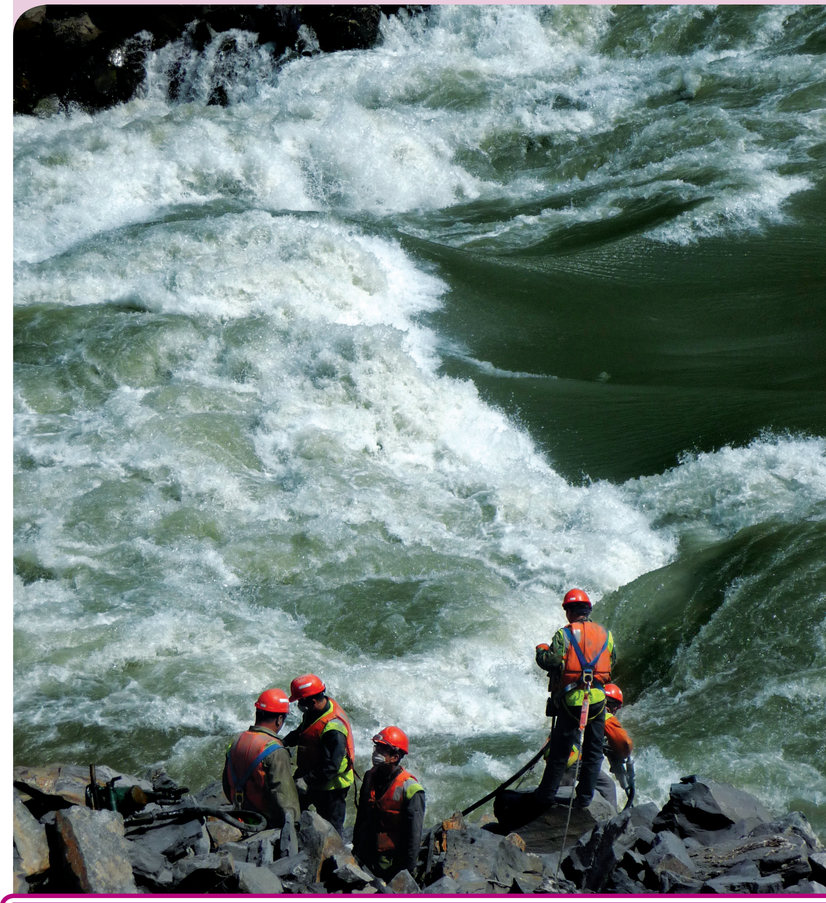


During the year ahead we will:

- seek to obtain higher dispatch for Fangchenggang. Generation from coal-fired plants in Guangxi decreased substantially in 2008 due to the sluggish economy, and high hydropower production (heavy rainfall and commissioning of Longtan hydropower station). We will continue to control our costs, particularly for fuel, by pursuing a long-term coal supply contract and securing alternative coal supplies when needed;
- support our joint venture with Shenhua, CSEC Guohua including integration of the new generating assets into the expanded joint venture and exploring further growth opportunities;
- work closely with our partners in the Shandong joint venture to tackle coal supply issues, including exploring different supply sources so as to mitigate the current high coal prices;
- review the existing arrangement at our Anshun II Power Station, which currently contracts its operations to Anshun I. We will explore the possibility of merging Anshun I and II and developing Anshun III;
- investigate and implement efficiency improvement projects at the JV power stations;
- continue to give high priority to the safe construction of the Jiangbian Hydro Project;
- pursue the expansion of Fangchenggang Phase II; and
- study the feasibility of developing combined-cycle gas-fired power plant in selected regions in line with the Group's climate change strategy. Our initial focus will be on opportunities in Shanghai and Sichuan, which are regions with secure gas supply arrangements and a reasonable tariff regime.

In the medium to longer term, CLP will:

- consolidate and rationalise our asset ownership and structure;
- maintain a balanced fuel mix within our generation portfolio, including a leading position in renewable energy;
- investigate clean coal technology and explore related investment opportunities;
- explore opportunities for broad-based strategic partnerships with major market players;
- continue the growth of our investing activities in hydro, wind, biomass, together with a move towards other renewable energy sources, such as solar and geothermal power; and
- carry the Jiangbian Hydro Project through to its targeted completion in 2011.



Jiangbian Hydro – blasting rocks in the Yalong River after mudslide

India

Business Environment and Strategy

With baseload and peaking shortages likely to continue for many years to come, coupled with the Indian Government's commitment to bridge the gap, it is expected that there will be investment opportunities in generation, transmission and distribution. The necessary legislative framework is in place and there is an increasing awareness of delinking reforms in the electricity sector from political considerations.

Sizeable additions in generation capacity will come from coal-based projects, while renewable energy will be a focus for the Government. Opportunities in generation, both on the conventional and non-conventional side, will continue to be available to CLP. While a major part of demand is expected to be met through new coal-based projects, select opportunities for gas-based generation will be pursued, once indigenous gas becomes available. CLP India will pursue growth in renewable energy, in line with its Climate Vision 2050. Hydro generation opportunities are expected to become available with more industry consolidation, owing to the difficult market conditions. CLP India will also pursue openings in the transmission and distribution sectors. Three new transmission projects have already come to the market and more are expected in the near future. Forthcoming opportunities in distribution are likely to come in the form of franchises in selected urban circles.

The competitive landscape in India is dominated by Indian conglomerates. The current macro economic issues have brought greater rationality into the market and the intense competitive landscape may well ease. The market may well see some fundamental changes in bidding behaviour, given that many projects awarded earlier have not actually moved ahead. While CLP is the largest foreign player, our presence is still a marginal one in terms of the industry as a whole. However, the growth in our investments in gas, coal and renewable energy generation and our strengthening relationships with industry stakeholders, mean that CLP's visibility is increasing.

Bidding for generation projects in the short and medium term is expected to be largely coal-based. More and more states are likely to go for the long-term procurement of power through a bidding process where both the fuel and location of the project are unspecified. This means that developers bid on the basis of existing projects being developed by them, rather than those where the State Government develops the project up to a point by arranging for land / fuel / water / environmental approvals and hands over the project vehicle to the lowest bidder on tariff (similar to CLP's Jhajjar project).

CLP is also the largest foreign investor in India's renewable energy sector. We have a large wind portfolio under development. Given the limited number of sites with a good wind resource, it is important to capture good projects well in advance. However, this exposes the projects to subsequent movements in debt markets and regulatory risks. CLP proposes to minimise the debt market exposure by timing the financing efforts appropriately and leveraging on its experience in financing projects across the Asia Pacific region. On the regulatory front, CLP will continue to engage in dialogue with policy makers and regulators to protect existing business interests and pave the way for further investments.

Our business strategy to grow our presence in the Indian power sector requires us to:

- operate and maintain the GPEC plant at the highest standards;
- develop a portfolio of projects in creditworthy states, whilst ensuring that growth is consistent with the Group's risk-return appetite and climate strategy;
- maintain a diversified fuel mix within our generating fleet;
- build a substantial "Renewables" portfolio, including graduating from being an essentially financial investor to deploying our own development, construction and operating capabilities;
- bid for the proposed new transmission projects;
- focus on projects which will provide synergy with existing investments, such as GPEC II and further projects in Gujarat, Western, Southern and Northern Grids; and
- examine select distribution / retail businesses upon the privatisation of state-owned utilities.

How did we do in

Our activities in 2008 centred on three areas: the successful management of our existing power station at GPEC, the growth of our renewable energy investments and the greenfield coal-fired project at Jhajjar.

GPEC

GPEC's off-taker, Gujarat Urja Vikas Nigam Ltd. (GUVNL) has continued to pay all amounts due to GPEC, with the exception of sums falling within a new dispute raised by GUVNL related to incentive payments. The total amount in dispute and withheld by GUVNL amounted to around HK$143 million at end 2008. GPEC is contesting GUVNL's position. A separate and longstanding dispute where GUVNL is claiming repayment of amounts totalling around HK$1,157 million for deemed generation is working its way through the Indian legal and regulatory system. We have been advised that we have a strong case in this dispute. GUVNL's claim is therefore treated as a contingent liability, under Note 32 to the Financial Statements. Meanwhile, the GPEC plant operated at a high level of availability.

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2008	2007	2008	2007	2008	2007	2008	2007
GPEC	655	4,102	4,145	71.3	72.3	87.8	89.5	7,674	7,761

We continued our efforts to secure long-term gas supplies to augment existing long-term arrangements. These have continued to decline sharply with about a third of the total requirement being met through long-term contracts and the balance through spot purchases. High international gas prices, combined with delays in commencement of indigenous gas supplies from the Krishna-Godavari Basin off the east coast of India, have resulted in almost no long-term gas being available to contract in the Indian market. However, it is expected that some long-term gas will be available to GPEC in the first half of 2009. GPEC was asked to operate the plant on naphtha in the last quarter of 2008 as naphtha prices sank below those of spot gas.

Samana Wind Farm, Gujarat

Renewable Energy

Our three projects, at Samana, Saundatti and Andhra Lake, will bring 296.8 equity MW of wind power into the CLP Group's portfolio.

Completion of Phase I (50.4MW) of our Samana project in Gujarat is expected to be achieved in February 2009, eight months later than scheduled due to delays in land acquisition and turbine supply. Phase II (also 50.4MW) is also expected to be delayed for around four months by land approvals, with completion now targeted for June 2009. Construction of the 82.4MW Saundatti wind farm in Karnataka is going well with development approvals and land acquisition on track, with the aim of completion also in June 2009.

In September 2008, CLP contracted for development of a 113.6MW wind project at Andhra Lake in Maharashtra with Enercon India — the single largest wind project being developed anywhere by the CLP Group. The project is scheduled to be completed in two equal phases by March and June 2010 respectively.

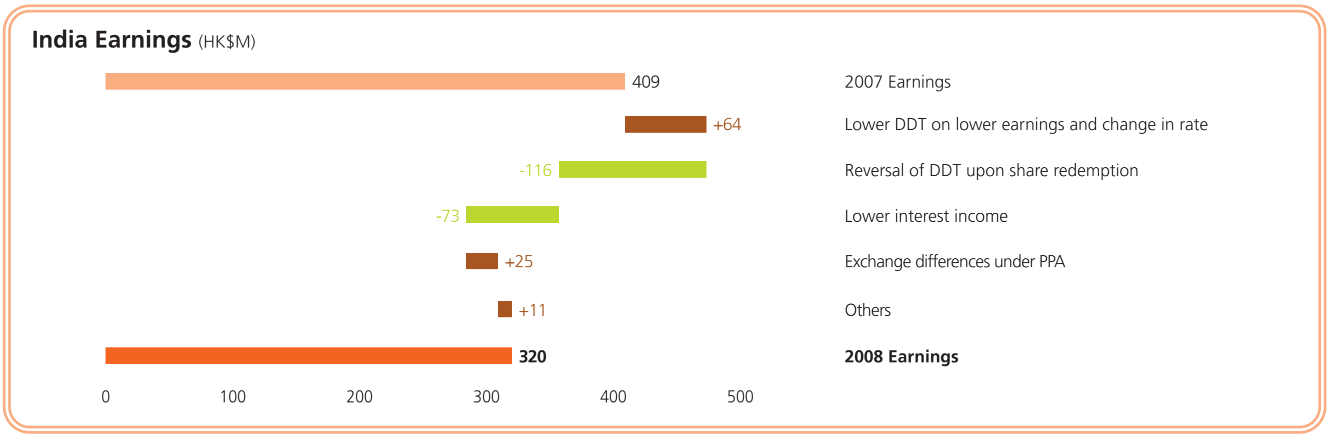
Jhajjar Project

CLP emerged as the successful bidder for the development of a 1,320MW domestic coal-based power plant at Matenhail in Jhajjar District, Haryana. CLP was selected through a tariff-based competitive bidding process initiated by the Haryana Power Generation Corporation Ltd. on behalf of the Haryana Distribution Companies in line with guidelines issued by the Ministry of Power, Government of India. The site occupies 1,227 acres, all of which has already been acquired. All statutory clearances to develop the project have been obtained. Water has been allocated to the project from the nearby "Jawahar Lal Nehru canal", which is approximately 14 km from the project site. A coal linkage for 5.21 million tonnes per annum has been issued by Ministry of Coal, Government of India. The coal will be supplied by Central Coalfields Limited, a Government of India company, from its North Karanpura mines in the state of Jharkhand. Engineering, plant procurement and construction will be undertaken by SEPCO III, a mainland Chinese contractor and Shandong TIEJUN Electric Power Engineering Co. SEPCO III will procure similar equipment to that used by CLP for our Fangchenggang project in the Chinese mainland.

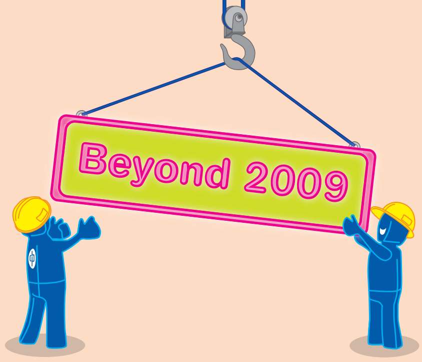
Project financing has been tough in the current financial climate. While Indian lenders have assessed the Project and have agreed in-principle to syndicate an all Rupee facility, the Company is planning a two-step financing, in which part of the Indian Rupee loans will be replaced with foreign currency loans which are likely to be available in the second half of 2009.

Earnings

During 2008, our investment in India contributed HK$320 million to Group earnings, compared to HK$409 million in the previous year. The reduction is mainly due to the release of dividend distribution tax (DDT) upon share redemption in 2007. The GPEC plant has delivered a similar operating profit to 2007.



What are we going to deliver in



In 2009 our principal objectives will be to:

- continue to operate and maintain GPEC to world-class standards;
- pursue long-term gas sources for GPEC;
- move forward with the construction of the Jhajjar Power Station safely, on time and within budget;
- complete Phase II of the Samana wind project and at Saundatti;
- start construction of the Andhra Lake wind project;
- pursue greenfield and acquisition opportunities in renewable energy, supported by an enhanced in-house project development capability; and
- pre-qualify and bid for new opportunities in transmission projects.

In the long-term we will:

- bring Jhajjar into efficient operation;
- bring forward a GPEC II expansion project once supplies of gas have been secured on a viable basis;
- selectively pursue other conventional generation projects once the financing of the Jhajjar project is secured and construction well-progressed;
- continue bidding for proposed new transmission projects and move into distribution activities, as and when attractive opportunities arise;
- continue to expand our renewable energy portfolio including in other technologies such as solar power, biomass (possibly with Indian business houses who are better positioned to work with farming communities to source fuel) and hydro projects; and
- strengthen CLP's management resources in India in line with the demands of a growing business.

Q: Why has CLP India not yet laid out a clear roadmap of doing at least 1,000MW of wind energy projects in India?

Mr. Yogesh Mehra
Managing Director, Enercon India Ltd.

A: CLP is usually fairly cautious about setting the type of absolute target which you mention – as this can misdirect management behaviour to achieving the target instead of taking a broader view and doing what is best for the business. Our mission is to deliver growth in earnings to our shareholders, rather than to concentrate on growth in generating capacity.

In India our aim is to build a balanced generating portfolio, including coal and gas-fired generation, as well as renewable energy and, in doing so, to contribute to the CLP Group's overall target of reducing the carbon emissions from our generating fleet in line with our Climate Vision 2050. Since 2007 CLP's own renewable energy investments in India have grown from none to 297 equity MW of projects under development, all of these being wind projects. As you know yourself, the regulatory regime in India is generally supportive of such projects. As long as this remains the case and sites with good wind resources remain available, I believe that our wind energy portfolio in India will continue to grow rapidly. This means looking beyond even 1,000MW of such projects, provided opportunities exist which meet our investment criteria and will create value for our shareholders.

Rajiv Mishra
Managing Director – India

Southeast Asia and Taiwan

Business Environment and Strategy

CLP conducts its business in this region primarily through OneEnergy, the joint venture established with Mitsubishi Corporation in 2006. The complementary strengths of CLP's expertise in construction and operation and Mitsubishi's local network and access to Japanese financing can enable us jointly to grow our presence in the independent power producer (IPP) market, especially for greenfield developments. We are working with Mitsubishi Corporation on refining OneEnergy's business model, particularly with respect to how we organise our development efforts, structure investments in a manner optimal for both shareholders, and pursue acquisition opportunities in an increasingly capital-constrained environment.

The global financial crisis has slowed economic growth and electricity consumption in Southeast Asia. However, medium to long-term forecasts remain favourable. In our incumbent markets, Thailand and Taiwan, the central planning authorities have adjusted downwards their forecasts on demand growth, leading to the postponement of new projects. However, substantial new build is still required for Vietnam and Indonesia, given the demographic trends in these markets, low per-capita electricity consumption and a desire to replace less efficient oil-fired generation.

Vietnam is still pursuing its 6th Power Development Plan approved in 2007. This mandated dramatic growth with substantial private sector participation. Indonesia is half way through its "Fast Track Programme" to build 10,000MW of new power generation facilities. It has already embarked on a second programme of another 10,000MW in 2009-2011 which will focus on renewable energy, mainly its vast unexploited geothermal resources. Singapore is a mature market with growth in demand highly linked to the economy and industrial output, both of which turned negative in the fourth quarter of 2008. Development of further new greenfield projects in The Philippines will depend on the speed at which the reserve margin (the excess of electricity generating capacity over maximum demand) narrows, as well as the ability of project owners to secure financing and to manage project revenues in the merchant electricity market.

The past year has seen significant volatility in fuel markets. Riding upon global economic expansion, commodity prices reached unprecedented highs in summer. Australian spot coal prices soared to above US$200 per tonne on a delivered basis. Natural gas prices, which are mostly linked to oil prices, also saw significant increases. However, later in 2008 the financial crisis caused coal and gas prices to fall substantially. We expect that fuel prices will continue to be volatile, albeit at levels much lower than the peaks observed in 2008. Coal will maintain its status as the fuel of choice for a number of emerging markets, while countries such as Singapore, Thailand and Indonesia will continue to progress the import of LNG to improve supply security.

Power plant equipment prices remain high, having almost doubled since 2000. However, project delays and lower commodity prices should gradually bring down price levels and improve delivery schedules. Government stimulus plans focused on infrastructure may provide floor price support on commodities. PRC and Korea-made equipment appears to be the low cost option for coal projects in the region, but financeability and project management and implementation remain a challenge.

Competition for new projects remains strong, but players will be more selective. Some recent aggressive winners who have relied on debt to bridge finance their equity investments will need to pause. Asian players may dominate the market, as evidenced by the recent sale of all three Singapore government-owned generating companies to Asian power players. Project financing is difficult, given the financial crisis and the debt capacity and appetite of major international banks. Use of local financing, multilateral support and export credit will be critical to the success of projects seeking project financing.

Against this backdrop, CLP will continue to pursue its strategy for the region to:

- through OneEnergy, focus on greenfield power opportunities drawing upon the strengths of its shareholders;
- consider selective strategic acquisitions in target markets;
- enhance existing local partner relationships for established markets, and build new relationships for new markets;
- maintain a balanced portfolio in terms of country risk and fuel mix; and
- contribute to the CLP Group objective of reducing carbon intensity, while recognising each target market's characteristics.

How did we do in

Throughout the year, OneEnergy remained focused on the effective management of existing assets, a disciplined approach to business development and maximising earnings to shareholders.

Management of Existing Assets

Operational performance of the major power stations under OneEnergy's portfolio is summarised as follows

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Ho-Ping	1,297	**8,632**	9,111	**76**	80	**81***	80*	**6,655**	7,025
EGCO / Rayong (REGCO)	1,232	**2,342**	4,031	**22**	37	**91**	92	**1,901**	3,272
EGCO / Khanom (KEGCO)	824	**5,694**	6,174	**79**	86	**90**	94	**6,911**	7,492
EGCO / BLCP	1,434	**10,701**	10,658	**85**	85	**93**	91	**7,462**	7,433

* Guaranteed hours

All of our operating assets in the region benefit from power purchase agreements (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 / 18 years
EGCO / REGCO	EGAT	PPA	20 years / 5 years
EGCO / KEGCO	EGAT	PPA	15 and 20 years / 2 to 7 years
EGCO / BLCP	EGAT	PPA	25 years / 22 to 23 years
EGCO / Kaeng Khoi 2	EGAT	PPA	25 years / 23 to 24 years
EGCO / small power projects	EGAT and industrial customers	PPAs with EGAT and commercial contracts with industrial customers	21 and 25 years for EGAT PPAs / 10 to 21 years
EGCO / Quezon Power	Manila Electric Company, Philippines	PPA	25 years / 17 years
EGCO / Mindanao small power projects	National Power Corporation, Philippines	PPAs	18 years / 6 to 7 years

The availability of the Ho-Ping power plant during 2008 was affected by an extended outage to replace the low pressure turbine blades of Unit 2, as well as damage to the transmission lines during a strong typhoon in September. The replacement of turbine blades for both units, together with the completion of the rebuilding of two coal storage domes which had previously suffered typhoon damage, will improve the integrity of the plant and enhance availability and performance.

Ho-Ping managed to secure enough coal supplies to ensure continuous operation of the plant, but the high fuel prices impacted annual profits. Under the PPA with Taipower, Ho-Ping will be compensated for the surge in coal prices through adjustments in the energy tariff. However, these adjustments are based on coal prices paid by Taipower itself and have a time lag of one year. The tariff adjustment and the recent softening of the coal market will provide a much better environment for Ho-Ping's financial performance in 2009.

The second and last block of the Kaeng Khoi 2 combined-cycle gas turbine power plant in Thailand, in which EGCO owns 50% through its investment in Gulf Electric, achieved commercial operation on schedule in March 2008. The Kaeng Khoi 2 plant, the BLCP plant in which CLP sold its 50% ownership to EGCO in 2006, and the other plants in EGCO's portfolio all operated at high levels of availability and safety. All of these projects have fuel cost pass-through mechanisms in their PPAs. They were, therefore, not affected by the substantial increase in natural gas and coal prices. Construction work continues on the Nam Theun 2 hydro power plant in Laos, of which EGCO owns 25%, with commercial operation expected to start in the fourth quarter of 2009.

Business Development

The IPP solicitation in Taiwan, in which Ho-Ping Power bid for an expansion of the Ho-Ping Power Station, was concluded with no capacity awarded. The authorities recently announced that, following a review of the supply and demand situation, no new solicitation will be required in the near future. OneEnergy will continue to work with its local partner, Taiwan Cement, to maintain the preparedness of the expansion project for participation in a possible future solicitation.

The global financial crisis and the ensuing economic downturn have affected electricity demand growth in Thailand. The country's Power Development Plan is currently being revised and it is likely that a new IPP solicitation will not be needed for a number of years. EGCO's growth strategy rests on overseas opportunities, including cross-border projects selling their output to Thailand, renewable projects and preparation for possible repowering of the combined cycle gas turbine power plants at Rayong and Khanom, for which the PPAs will expire in the medium term future. In November, EGCO completed the acquisition of a 23.4% interest in the 503MW Quezon Power coal-fired power plant in The Philippines. This acquisition, together with EGCO's existing investment in a couple of small power projects in Mindanao, provides a platform for EGCO to seek further growth in The Philippines electricity market.

Coal jetty at Ho-Ping

OneEnergy has been developing the Vung Ang 2 coal-fired project in Vietnam since 2007, in conjunction with local partners Lilama Corp. and REE Corp. Development work for the project progressed in 2008 with the establishment of the joint stock company with its own management and staff, and completion of the technical feasibility study. In October 2008, OneEnergy signed a MOU with Vietnam Electricity (EVN), the state-owned electricity company, for the development and ownership of Phases 3.1 and 3.2 of the Vinh Tan Complex in Binh Thuan Province, Vietnam. OneEnergy will have a majority interest in this project with a planned capacity of over 2,000MW. OneEnergy is also reviewing the opportunity presented by the Vietnam Government's tender for the 1,200MW Nghi Son 2 BOT project.

In Indonesia, development work on the 700MW Asahimas project slowed down due to difficulties in getting approval from PLN, the state-owned electricity company. In the meantime, the Government started the process for the 2,000MW Jawa Tengah project tender, with International Finance Corporation as its advisor to ensure a transparent and competitive process. OneEnergy is reviewing the opportunity together with a local partner, Astratel.

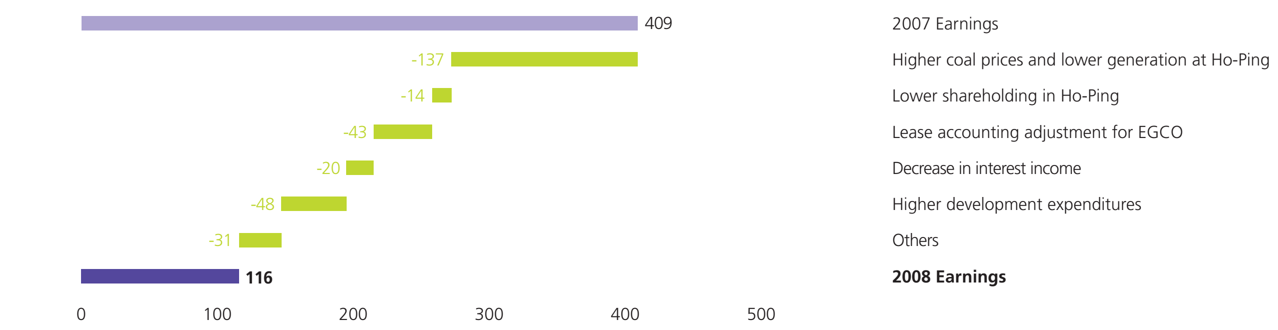
The Singapore Government has successfully sold its three generation companies, Tuas Power, Senoko Power and PowerSeraya, to overseas private investors. OneEnergy participated, without success, in the bidding process for two of these companies. There will be limited business opportunities in Singapore in the near future. A number of previously government-owned or private power plants in The Philippines were sold during 2006-2007, a process which slowed in 2008. There have yet to be any significant new private generation projects under construction. Any such projects would have to compete in the merchant electricity market, rather than enjoying PPAs with the government or other private distribution companies. OneEnergy continues to explore its entry strategy into the Philippine market.

Despite the slowdown in electricity demand growth in the region, the renewable energy sector still presents a lot of potential. Thailand is expected to raise its target of alternative energy to 20% by 2020, and has implemented one of the most favourable renewable energy tariffs among regional countries. Indonesia has the largest unexploited geothermal energy potential. Its government has liberalised private participation in new geothermal projects, and aims to add substantial renewable energy IPPs, principally in geothermal plant. OneEnergy is stepping up its development efforts in this sector, drawing upon CLP's expertise and experience, especially in wind and solar energy projects.

Earnings

Earnings from Southeast Asia in 2008 were HK$116 million, down by HK$293 million. This was mainly due to higher coal prices and fewer units generated as a result of outages at Ho-Ping, lease accounting adjustment for EGCO recorded in 2007, and higher operating and development expenditures, primarily at OneEnergy.

Southeast Asia and Taiwan Earnings (HK$M)



What are we going to deliver in

In 2009, we shall aim at achieving the following in the region:

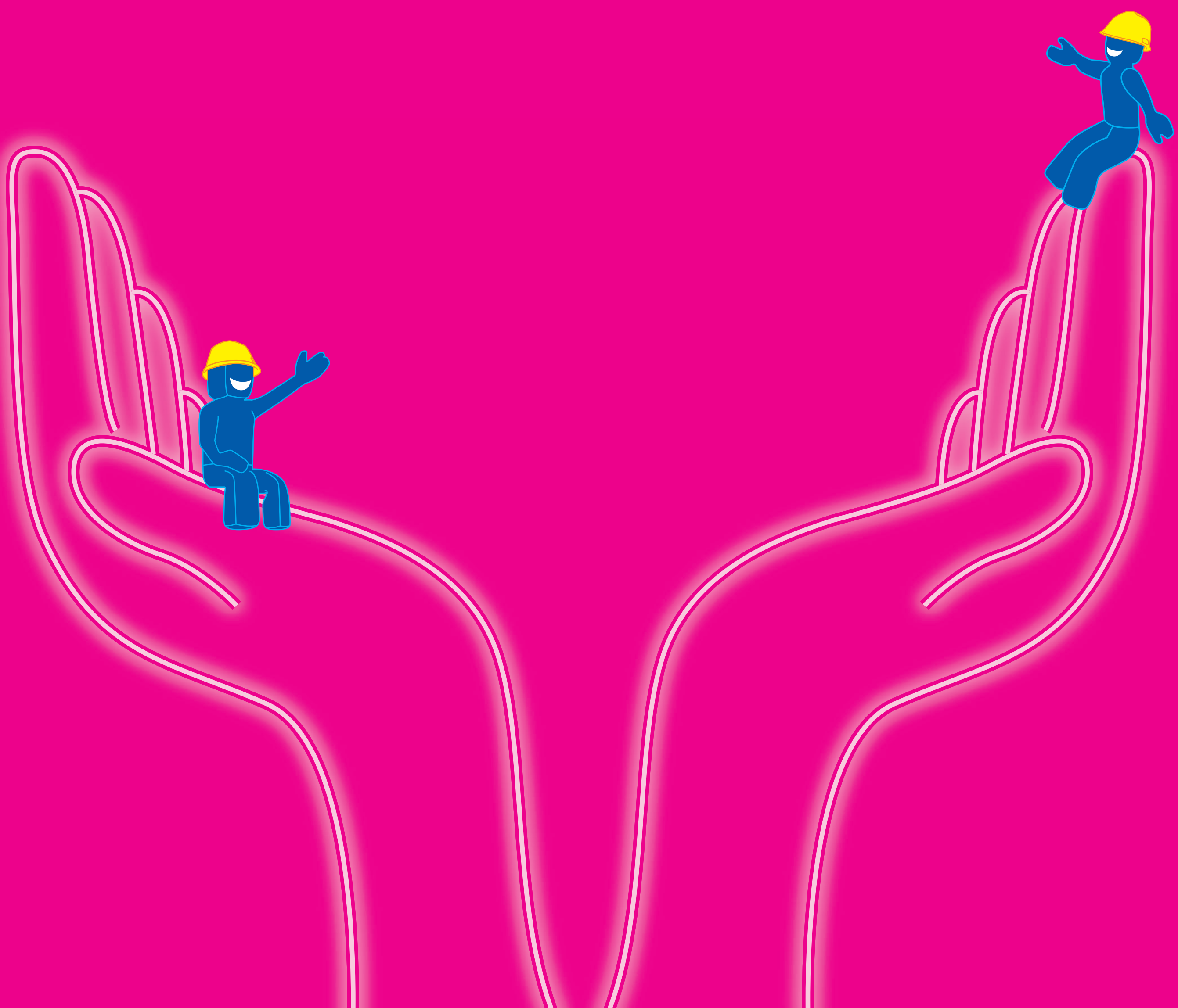
- Advance development and PPA negotiations for the Vung Ang 2 and Vinh Tan coal-fired projects in Vietnam;
- Prepare for IPP tenders in Indonesia and Vietnam;
- Effectively manage the Ho-Ping power plant and fuel supply to achieve higher availability and profitability;
- Position for Ho-Ping 2 re-bidding in Taiwan;
- Accelerate development activities for renewable projects, particularly in Thailand and possibly in Indonesia and Taiwan; and
- Continue to support EGCO in its growth strategy.

Our longer term objective of building a balanced portfolio remains unchanged. However, due to the market situation, more focus will be placed on greenfield development than acquisitions. This will entail:

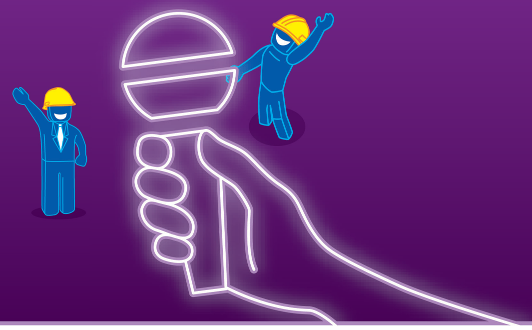
- growing our business in the region, mainly through OneEnergy;
- utilisation of the engineering and project management expertise of CLP, and the Japanese financing capability of Mitsubishi to win and build new power projects;
- investment in both stable and emerging markets; and
- a balanced fuel mix with fossil-fuel generation and also renewable energy.

BLCP Power Station

How do we engage our Stakeholders?



CLP and our Shareholders



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.

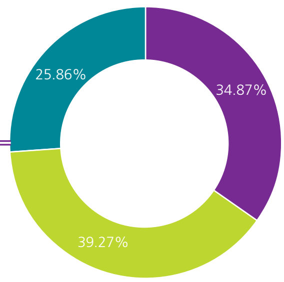
Our Shareholders

We had 19,467 registered shareholders as at 31 December 2008. 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 2008

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
500 or below	1,944	9.99	535,249	0.02
501 – 1,000	3,410	17.51	2,545,984	0.11
1,001 – 10,000	9,186	47.19	38,701,108	1.61
10,001 – 100,000	4,378	22.49	127,025,702	5.28
100,001 – 500,000	441	2.27	86,965,615	3.61
Above 500,000	108[1]	0.55	2,150,369,742	89.37
Total	**19,467**	**100.00**	**2,406,143,400[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. 48.7% of all our issued shares were held through CCASS.

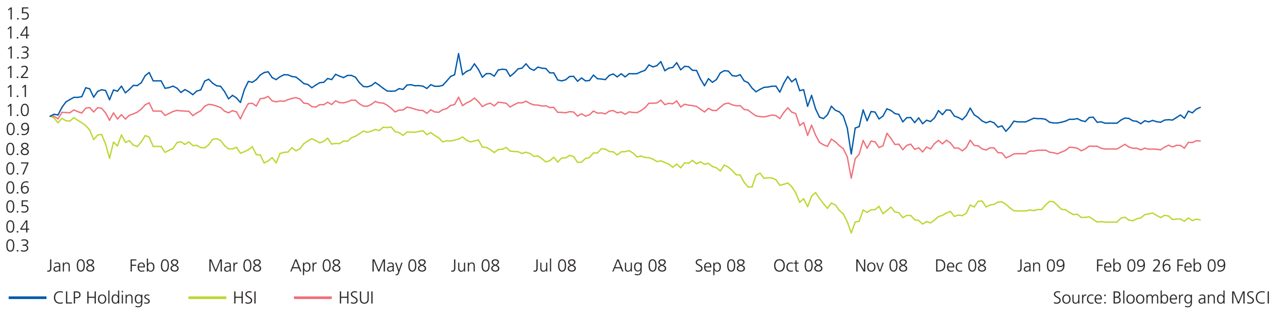
As at 31 December 2008, the market capitalisation of CLP Holdings was HK$127 billion, ranking us as the 16th largest company out of the 1,087 issuers listed on the Main Board of the Hong Kong Stock Exchange. The Company's shares are a constituent of the Hang Seng Index (HSI) – the index of Hong Kong's leading listed companies, representing 2.87% 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 46.98% 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 its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2008 and has continued to maintain such a float as at 26 February 2009.

Creation of Shareholder Value – Share Price Performance

CLP shares sharply outperformed the HSI while the Hong Kong equities market experienced a bear run in the first half of 2008. The global credit crisis had a huge impact on the HSI in the second half of 2008. CLP shares dropped along with all other stocks on the HSI, but CLP shares were one of the least-hit stocks in this financial turmoil, making CLP the best-performing stock on the HSI in 2008. CLP shares closed at a historic high (also intra-day high) of HK$70.50 on 30 May 2008, but ended down 1.22% for the whole year. The HSI fell 48.27% during 2008. Our average closing share price was HK$60.59, with a lowest closing price of HK$42.85 recorded on 27 October 2008.

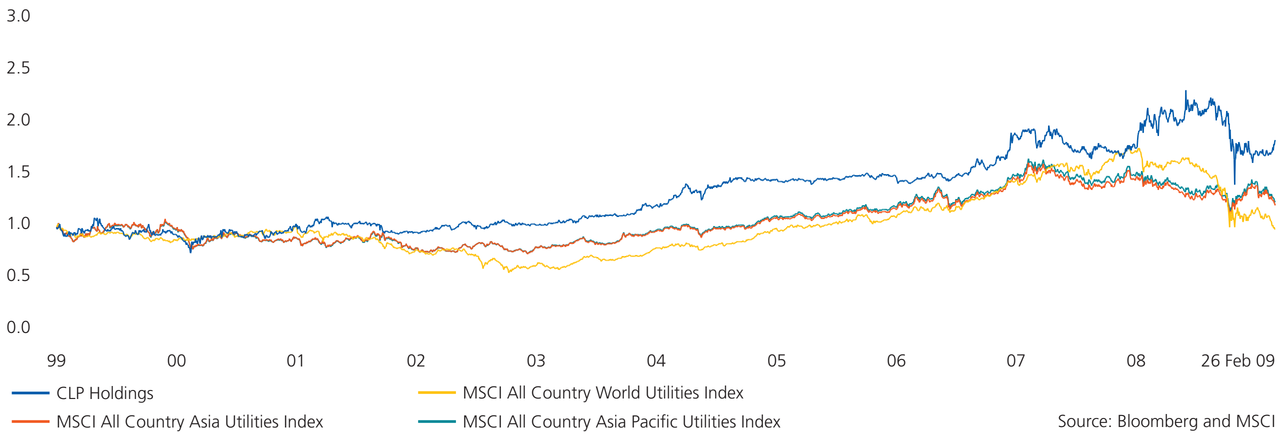
Relative Performance – CLP vs Local Benchmark Indices (1 Jan 2008 - 26 Feb 2009) (Base: 31 December 2007 = 1.0)



Source: Bloomberg and MSCI

Whilst some investors predominantly measure CLP's share price performance against other Hong Kong stocks, other shareholders will review CLP's performance against that of other utility companies, both in Asia and worldwide. CLP has delivered a strong share price performance over the past 10 years relative to benchmark utilities indices. Since 2002, when investor confidence in utilities weakened, CLP has consistently outperformed these indices, perhaps reflecting our policy on steady dividend payments. Generally speaking, and especially during the past year, CLP's share performance has been strong in economic downturns, reflecting the defensive nature of CLP stock.

Relative Performance – CLP vs Benchmark Indices (1 Jan 1999 - 26 Feb 2009) (Base: 31 December 1998 = 1.0)

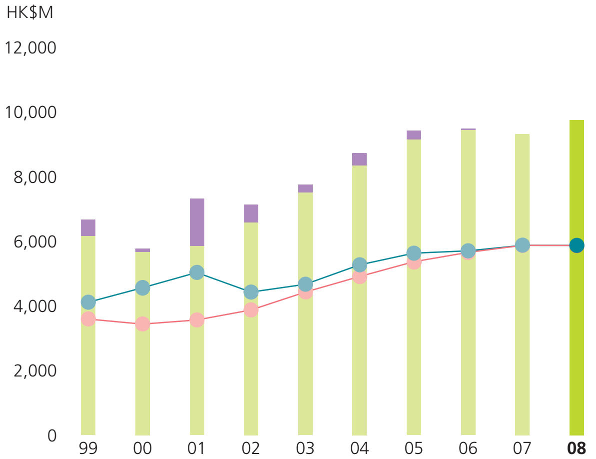


Source: Bloomberg and MSCI

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 (1999-2008)



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

Earnings and Dividends Per Share (1999-2008)

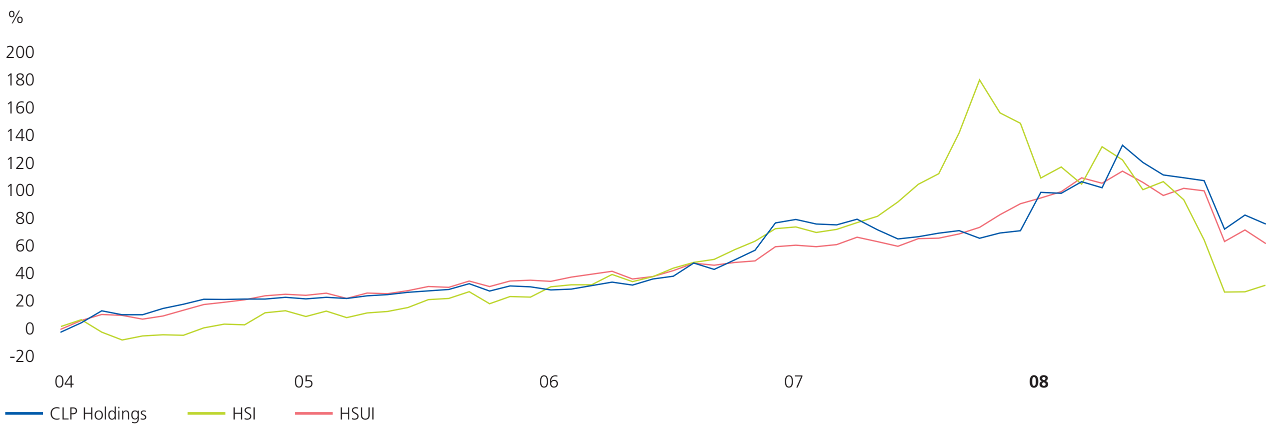
Note: Earnings for 2002 to 2005 have been restated for the effect of the adoption of HKFRS-Int 4.

Since 1998, 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 29 April 2009 of HK$0.92 per share. Together with three interim dividends per share of HK$0.52 each paid during 2008, the total ordinary dividend will be HK$2.48 per share. The Board expects that three interim dividends will be payable during 2009.

Creation of Shareholder Value – Total Returns

Over the past five years, CLP provided stable growth in total returns when compared with both the HSI and the HSUI. During the period from 2004 to 2008, CLP provided an annualised rate of return of 12.47%, versus 6.27% and 10.66% for the HSI and the HSUI respectively. CLP's total return exceeded both indices during 2008. Among the HSI Constituents CLP provided the highest total return in 2008 and is one of the only two stocks which offered a positive total return.

Total Returns – CLP vs HSI and HSUI (2004-2008) (Base: 31 December 2003 = 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 many investment choices. The following table gives a practical explanation of the returns from a regular investment in CLP shares as compared to 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 (97.58% 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 2008, 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 2008		
Type of Investment	1-Year Period HK$	5-Year Period HK$	10-Year Period HK$
CLP Shares	1,028	6,583	19,467
Hongkong Electric Shares	1,012	6,908	19,396
Hong Kong and China Gas Shares	549	4,578	15,002
HSI-Based Fund	542	4,903	*
HK$ 1-Year Fixed Deposits	1,034	5,499	11,877

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

Adapted from Bloomberg/Reuters

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 considered providing a scrip dividend option to our shareholders. A scrip dividend option is uncommon in Hong Kong and 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 a commitment to use the mandate sparingly (it was last exercised in 1997) and in the interest of all our shareholders; and
- with effect from the 2005 Annual General Meeting (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.

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.

During the year, CLP has effected on-market share repurchases of 2,102,500 shares. A total of HK$102 million was applied to share repurchases. All the repurchased shares were delisted and cancelled pursuant to the Companies Ordinance and the Listing Rules. Details of the share repurchases made by the Company, including date, price and total consideration are set out on our website.

We have previously advised shareholders that, should the Company repurchase about a further 11 million shares (this limit has been reduced to about 8 million shares after the repurchases made in 2008), the shareholdings in CLP of the parties associated with the Kadoorie Family would 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 other jurisdictions, such as Australia, the U.K. and Singapore).

We will consider other means which will enable share repurchases to be effected, whilst recognising that share repurchases are but one route by which shareholders' value can be enhanced.

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 became 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 2008 only 0.79% 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 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. We initiated the deregistration procedures in October 2007, with the result that deregistration became effective on 30 January 2008. CLP's action to deregister 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 Sarbanes-Oxley requirements without being bound by the form.

Q: **How does CLP's 2050 climate vision fit into the group's investment in non-generation businesses? Amongst Asia-Pacific power companies, CLP is one of the most proactive in establishing a renewable energy expansion plan and long-term target on reducing emission and also carbon intensity targets. Against this, it is fair to expect that the capex requirement on power generation business on a per unit sold basis might be higher compared to power transmission and distribution businesses. If so, should CLP consider actually capping or even reducing its overall exposure to generation, relative to transmission and distribution? When CLP invests into a new renewable energy project, how would CLP consider the fact that the potential IRR from this project might be lower than, say, a conventional power plant with much higher carbon intensity and / or transmission and distribution projects?**

Mr. Edmond Lee
Executive Director, Head of Utilities and Infrastructure, Asia Pacific Equity Research, J.P. Morgan Securities (Asia Pacific) Limited

A: That's quite a few questions for one answer, but I'll try and tackle them together.

Our 2050 Climate Vision is not changing the fundamental objective of our business – to make investments that create value for CLP shareholders. Our investments in renewable energy and other low carbon ventures are made with the intention of yielding a good return on the capital invested. They are certainly not philanthropic in nature. If we think about it, the business proposition is not as strange as it may first sound. Doing the "right thing" can also make good business sense. Over the last couple of years and looking to the future (at least the next few years) the growth rate in renewable energy has been and will probably be faster than any other segment in power generation in Asia. Also, compared to investments in traditional thermal power generation projects – which are generally very, very big – investments in renewable energy projects tend to be smaller in size but come in larger numbers. So the growth from renewable energy helps give CLP a more even paced, and perhaps even a more sustainable, growth.

Our targeted returns for generation investments are risk-adjusted. In the case of renewable energy, the risks related to carbon emission, such as future carbon taxation and tightening emission caps, are lower. We take account of this in our risk / reward analysis, as well as the potential for earning credits under the clean development mechanism of the Kyoto Protocol, in determining the return we need.

CLP already has a large presence in transmission and distribution in Hong Kong. This makes up about 64% of our total assets. We'd welcome the chance to invest in transmission and distribution elsewhere, but typically in our region, the opportunities have been more in generation than in transmission and distribution – often because these businesses are closed to foreign outside investors (such as in mainland China) and / or held by strong incumbents. One possible exception is India. We did bid for an opportunity in the high voltage transmission sector. We were not successful (the CLP led consortium was the runner-up) because at the winning bid price we could not get the return we felt CLP and its shareholders required.

Stefan Robertsson
Group Director – Corporate Finance and Development

Communication with Shareholders

Important dates for shareholders in 2009 are set out below. Any changes will be published on our website.

2009	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2008 Annual Results and Final Dividend announced		26										
2008 Annual Report uploaded on website			12									
2008 Final Dividend Book Close Days				20–28								
2009 Annual General Meeting				28								
2008 Final Dividend payable				29								
2009 First Interim Dividend announced					12							
2009 First Interim Dividend Book Close Day						4						
2009 First Interim Dividend payable						15						
2009 Interim Results and Second Interim Dividend announced								18				
2009 Second Interim Dividend Book Close Day									7			
2009 Second Interim Dividend payable									15			
2009 Third Interim Dividend announced										20		
2009 Third Interim Dividend Book Close Day												4
2009 Third Interim Dividend payable												15

Hosting one of our shareholders' visits

We must report properly to our shareholders on the performance of their Company and ensure they have a full opportunity to offer their views on that performance. Communication with our Shareholders is a two-way street. In 2008, 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 573 (857 in 2008). 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, Japan, U.S. and Canada. 2 power plant visits were arranged to help analysts become familiar with our generation facilities.
- 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 seven 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 2008 and April 2009 we expect to welcome over 3,000 shareholders and their guests, during more than 60 tours to our facilities at Castle Peak Power Station / Black Point Power Station. On these occasions, we seek views on the performance of CLP. More than 60 CLP colleagues, including Directors, have volunteered to participate as hosts of the programme.

We are grateful to all those shareholders who during 2008 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 212). In the case of questions, we will provide an answer (and post it on our website if we think this 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.

CLP and our Lenders

Financing at times of market turbulence

In this section, our lenders also include bondholders, credit rating agencies and all those associated with the provision of debt financing to the CLP Group.

We solicit 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 support our business objectives. These long-term strategies will not change just because of cyclical movements in the financial market. As at December 2008, the Group had business relationships with 45 financial institutions in Hong Kong, Mainland China, Australia, India and Southeast Asia. In the midst of tough market conditions, the Group has successfully engaged new financial institutions to further diversify its funding sources and increase the choice of counterparties for risk management of its companies.

Traditionally, the Hong Kong based operation has sourced its debt from the bank and debt capital markets. We shall further diversify our mix of short and long tenured bank facilities from a group of creditworthy international and local banks on a competitive basis and spread out the maturities to reduce the refinancing risk. In addition, CLP Power Hong Kong will tap 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 to match the tenor of long-term capital investment. Under the MTN Programme, bonds 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 Hong Kong. We plan to increase the aggregate amount of the MTN programme to cater for more potential bond issues at a time when most of the banks will need to repair their balance sheet. In light of market changes, CLP Hong Kong entities issued more Hong Kong dollar bonds under the MTN programme of CLP Power Hong Kong and swapped part of the short term bank facilities to longer tenured term loans in the first half of 2008 to better position ourselves when market liquidity reduces sharply. As at 31 December 2008, bonds with a nominal value of about HK$8,080 million were issued under the Programme.

Our subsidiaries and affiliates in overseas countries capitalise on the strong credit of CLP Holdings, risk-balanced project structures 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, and funding capability at commercially acceptable terms to support CLP's regional business development. This year some of them have further leveraged on CLP Holdings' financial expertise and business relationship with regional financial institutions to help arrange incremental debt facilities and reduce financing costs. The purpose is to help mitigate the adverse impact of financial market developments as the drain-off of liquidity, especially after the Lehman failure, has made the financing of some of the overseas projects more difficult. For instance, we have modified the financing plan of the Jhajjar project in India from a traditionally USD driven, export credit agencies led financing to a more balanced, Rupee and USD denominated project financing supported by domestic and international institutions. This can provide the Jhajjar project a better time line to financial close with the appropriate level of debt financing at the prevailing market price level. In TRUenergy, management kicked off early the refinancing discussion of a working capital facility with prospective lenders and reviewed a larger number of options including reduction of working capital requirement, identification of new lenders and access to alternative markets to optimise the final outcome.

The Group's policy is to apply a certain percentage of retained profits to partially fund business expansion and arrange adequate debt financing facilities to meet the remaining operational and business development. During 2008, CLP Power Hong Kong issued 7 and 15-year fixed rate bonds totalling HK$740 million with coupon rates at 4.20% and 4.75% respectively under the MTN Programme. In addition, new bank loan facilities of HK$3 billion were arranged. This incremental debt funding was arranged ahead of severe market instability in the third quarter, at attractive interest rate margins. In January 2009, CLP Power Hong Kong issued 3-year fixed rate bonds totalling HK$900 million with coupon rates ranging from 2.25% to 2.34%.

The Group's total debt to capital ratio was 29.7% as at 31 December 2008 (2007: 30.7%), and was 29.1% (2007: 28.6%) after netting off bank balances, cash and other liquid funds at 31 December 2008.

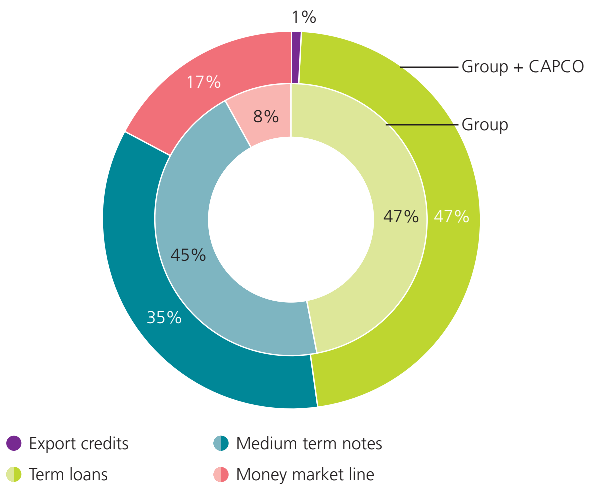
Debt Profile as at 31 December 2008

	CLP Holdings HK$M	CLP Power Hong Kong HK$M	Other Subsidiaries[1] HK$M	Group HK$M	Group + CAPCO HK$M
Available Facility [2]	7,900	17,692	15,642	**41,234**	**49,970**
Loan Balance	666	14,848	11,182	**26,696**	**34,463**
Undrawn Facility	7,234	2,844	4,460	**14,538**	**15,507**

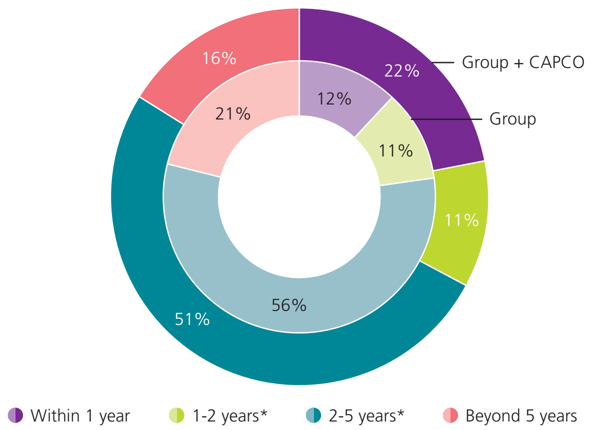
Notes:

1. Mainly relates to TRUenergy and GPEC.
2. For the MTN Programme, only the amount of the Bonds issued as at 31 December 2008 was included in the total amount of Available Facility. The Available Facility in TRUenergy excludes facility set aside for guarantees.

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 2008 are shown on pages 36 and 37.

Interest Cover

Interest cover equals profit before income tax and interest divided by the sum of interest charges and capitalised interest. In 2008, interest cover was 9 times (2007: 8 times).

Credit Rating

As the financial turmoil worsened in later 2008 there were no credit rating downgrades or other adverse credit rating impact to CLP entities. All ratings of the Group's major entities remain at investment grade, which can enhance our position in local and overseas business activities, including fund raising, investment and new business opportunities. CLP's approach to borrowings and risk management has enabled us 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.

CLP Holdings

In April 2008, Moody's lowered the long-term rating of CLP Holdings from A1 to A2 with stable outlook. Moody's considered that the lower permitted rate of return under the new SoC might marginally pressure the post 2008 earnings and cash flow of CLP Power Hong Kong. The downgrade in rating reflected Moody's view of the projected weakening in the financial profile of CLP Holdings and CLP Power Hong Kong, as a result of what Moody's described as CLP Group's capital management initiatives to leverage up CLP Power

Hong Kong via debt-funded dividend upstream to CLP Holdings after 2008. Moody's expected that the ratings of CLP Holdings and CLP Power Hong Kong would continue to be underpinned by the latter's stable cash flow.

In June 2008, S&P lowered the long-term rating of CLP Holdings from A to A- and short-term rating from A-1 to A-2. The outlook on long-term rating is stable. S&P advised that the new rating reflected the weakening credit profile of CLP Power Hong Kong arising from the new SoC returns and increase in debt gearing, weak performance of CLP Holdings' overseas investment and the resultant increase in return volatility. On the other hand, S&P recognised that CLP Holdings would continue to benefit from the strong cash flow of CLP Power Hong Kong, an increase in geographic and operation diversity, investment discipline as well as risk management practices. Fitch re-affirmed CLP Holdings' A+ rating and revised its outlook from negative to stable in January 2008 following the signing of the new SoC, which lifted the regulatory uncertainty surrounding CLP Holdings and CLP Power Hong Kong.

CLP Power Hong Kong

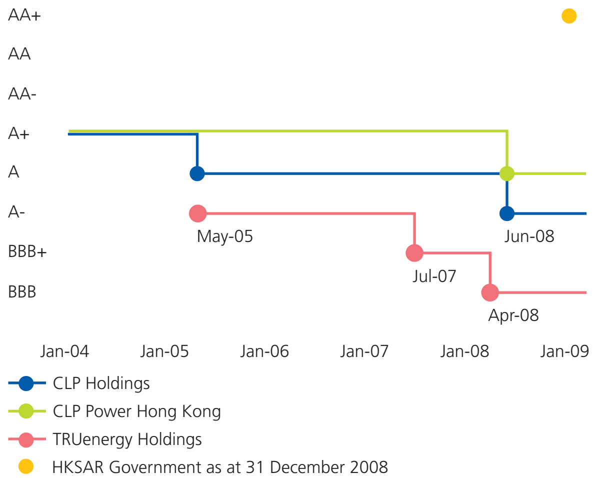
In April 2008, Moody's lowered the long-term rating of CLP Power Hong Kong from Aa3 to A1 with stable outlook for the reasons described earlier. Moody's considered the ratings of CLP Power Hong Kong and CLP Holdings to be closely linked and that a material deterioration in one could mean rating pressure for the other.

In June 2008, S&P lowered the long-term rating of CLP Power Hong Kong from A+ to A and affirmed the A-1 short-term rating. The outlook on long-term rating is stable. S&P cited that the rating downgrade reflected the weakening financial profile of CLP Power Hong Kong from 2009, as a result of the reduction in regulatory returns and increase in debt gearing to optimise returns on regulated assets. However, S&P recognised that the still favourable regulative framework, de facto monopoly and solid operating performance of CLP Power Hong Kong would support a strong business profile. Fitch re-affirmed A+ rating for CLP Power Hong Kong and revised its outlook from negative to stable in January 2008 on the same grounds as its treatment of CLP Holdings.

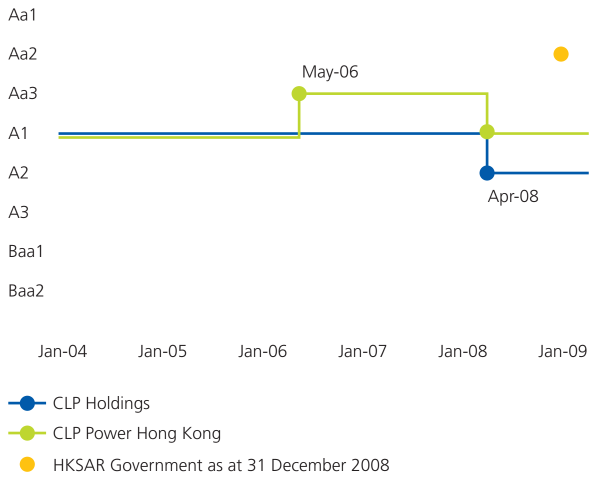
TRUenergy Holdings

In April 2008, S&P lowered the long-term rating of TRUenergy Holdings from BBB+ to BBB with negative outlook. S&P cited in its report that this lower rating reflected TRUenergy Holdings' weaker than expected operational performance. The rating outlook was negative, reflecting concerns on its ability to deliver its operational plan over the medium term. Should TRUenergy Holdings not deliver improved operational performance and stronger credit metrics over the next year, the rating would be lowered. The outlook could return to stable, pending enhancement of operational stability and improvement of credit metrics over the next 12-18 months. Fitch affirmed its self-initiated long-term issuer default rating of BBB+ with the outlook revised from negative to stable in January 2008, in response to the same action taken on CLP Holdings.

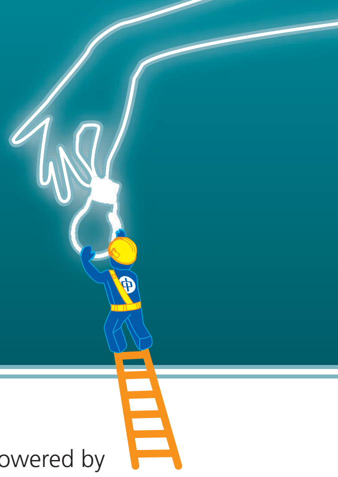
Standard & Poor's Long-term Credit Ratings – Foreign Currency and Local Currency



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



CLP and our Customers



CLP directly serves customers in Hong Kong and Australia. Elsewhere, our activities are only within the power generation element of the electricity business.

In Hong Kong, we have over two million customer accounts, serving the entire population of Kowloon, the New Territories and most of the outlying islands, where we are the only electricity supplier. Through TRUenergy in Australia, we service approximately 1.29 million gas and electricity customer accounts, primarily in Victoria and South Australia.

Hong Kong

Hong Kong's people rightly demand the highest levels of service from their electricity provider. Most of our population live and work in high-rise buildings – simply put, they could not get to their homes or places of work without uninterrupted service from lifts and escalators. This, together with Hong Kong's hot and humid climate, heavy reliance on air-conditioning, and high population density, means that individual power failures can quickly cause inconvenience and distress to many thousands of people. Moreover, Hong Kong's role as a financial and services hub and tourist centre depends on the high quality of its infrastructure, including the electricity system.

Against this background, CLP must deliver an electricity supply characterised by reliability, power quality, reasonable tariffs and excellence in customer service. Our customers expect nothing less. We owe them nothing less. In 2008, CLP continued to meet its obligations in all these respects.

Reliability

Hong Kong has one of the most reliable electricity services in the world – and we make continuous attempts to not just maintain, but improve our performance. Since 2000, Unplanned Customer Minutes Lost (CML) per year, a standard measure of supply reliability, have been lowered by 81%. A typical customer in CLP's supply area would have experienced an average of only 2.7 minutes of unplanned power interruptions per year during the period from 2006 to 2008. This compares with 12-36 minutes (during 2005 to 2007) of power outages experienced by electricity users in New York, Sydney, Paris and London. It is a fraction of the average interruptions of 120-500 minutes in major Mainland cities such as Guangzhou, Shanghai and Beijing.

Power Quality

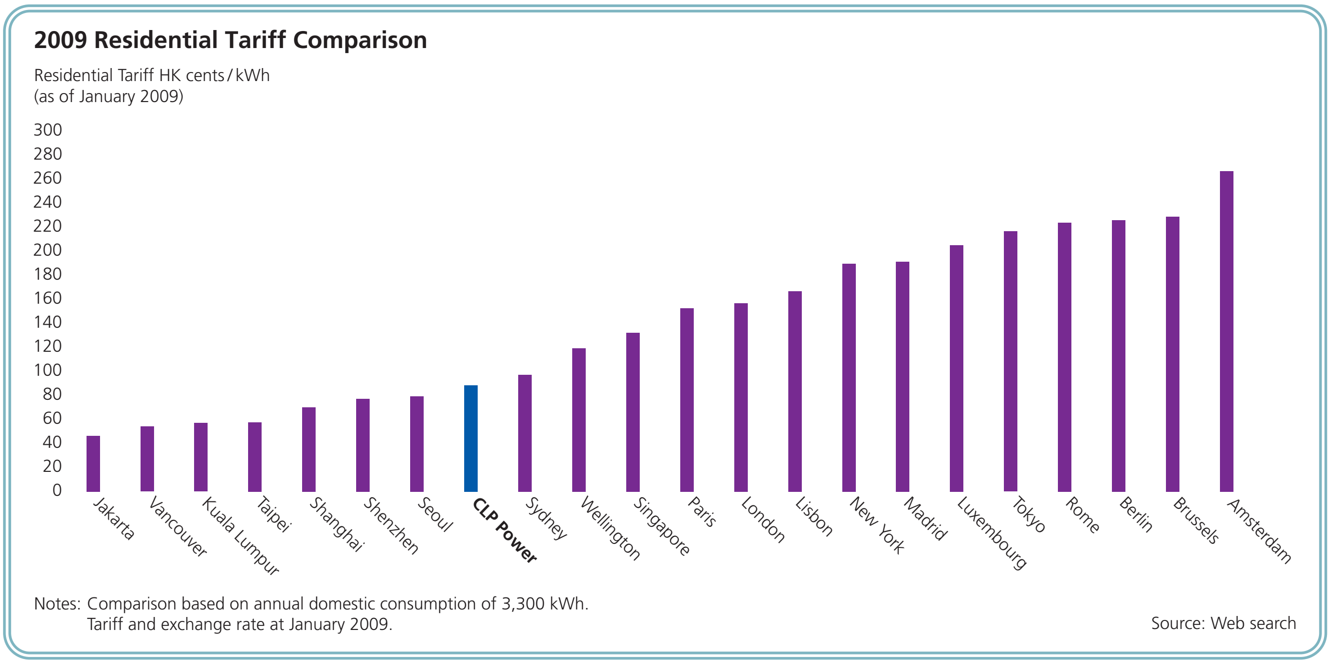
With the increasing popularity of electronic and computer devices used in both household and business activity, the quality of power supply becomes more and more important to customers. We have been assisting our customers in solving power quality issues through offering technical services, providing evaluation of sensitive equipment, assessing and promoting new technology. In 2008, more than 130 technical proposals were implemented by our customers to enhance their power quality performance.

We have made strenuous efforts in power quality education, with our key message being the prevention of power quality problems by forward planning. We are in touch with our customers through outreach communication sessions, demonstrations and seminars. We have also proactively met equipment manufacturers and project consultants to develop practical and cost-effective measures which can be incorporated in new equipment or installations at the design and planning stage.

The ongoing installation of line arresters onto our 400kV transmission and 11kV distribution overhead-line networks, has considerably improved the power quality performance of our network in recent years, especially during thunderstorms.

Tariff

Our customers take for granted the delivery of reliable electricity, power quality and excellent customer service. However, they never take for granted the reasonableness of CLP's tariffs. Neither do we. We work constantly to control costs and maintain affordable and reasonable tariffs.



CLP's tariff is made up of two major components. Basic tariff is a cost of service to customers for the investments and operating costs necessary to supply power to meet their demand. The second component, the fuel clause charge, reflects the cost of fuel used for generating electricity and is directly passed through to customers – CLP makes no profit on fuel.

In September, CLP announced a 3% average reduction in total tariff for all our Hong Kong customers. This was the result of a reduction of 10% in basic tariff, partly offset by the effect of fuel clause charge increases. Despite fuel price increases of around 200% in recent years, the increase in fuel charges passed onto our customers was more than offset by the cut in basic tariff. In fact, prior to this cut, basic tariff had already been frozen for 10 years and, during that period, CLP had offered over HK$4 billion in rebates to its customers.

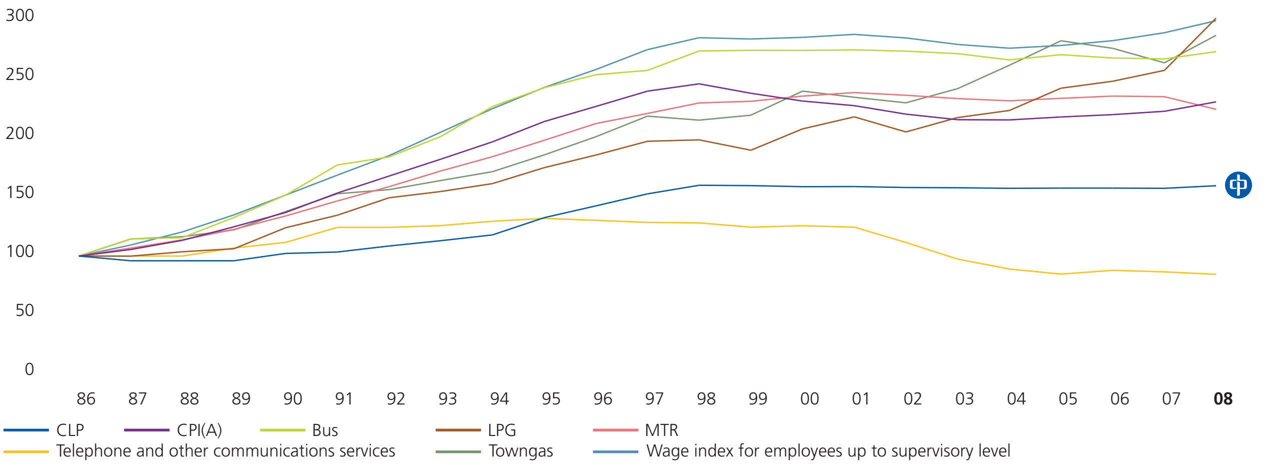
Tsuen Wan Customer Service Centre

The result of the tariff cut was that CLP's tariff remained at the level similar to that in force 10 years ago, in sharp contrast with the 30% to 60% increases experienced by other major cities, such as London, New York and Singapore, all of which have been hit by fuel cost increases in line with global trends. CLP's electricity tariff is a third lower than that of Singapore. CLP will continue to do all it can to minimise the effects of fuel cost increases even though, without a sustained downward price correction in fuel markets, it may become necessary to adjust the fuel clause charge at some stage during 2009.

CLP's tariffs not only compare favourably to those offered to customers in other world cities, our performance on tariff compares extremely well with that of other Hong Kong utilities.

Price Comparison of Public Utilities and Consumer Price Index

Price in nominal terms (1986 = 100)



Note: Data for "wage" index are up to September 2008.

Source: Census and Statistics Department of the Hong Kong Government

Q: CLP's account management service is good for us, would you maintain the current service in the existing cost-cutting environment (your profit margin has dropped from 13.5% to 9.99%)?

Mr. Kelvin Fong
Executive Director
Asia Tone Limited

A: Customer service is always a top priority at CLP. Since 1988, we have been providing professional account management to our important business customers. Over the years, our service has extended from Large Power Tariff customers to Bulk Tariff accounts, and now to Small and Medium Enterprises. Our service scope has also broadened from general commercial and technical advice to customised energy efficiency and power quality solutions. This demonstrates our long term commitment to service excellence and value creation for our customers' businesses. I can assure you that this improvement trend will continue.

Betty Yuen
Group Director – Managing Director Hong Kong

Customer Service

Excellence in customer service starts with clear, close and regular dialogue between CLP and our customers. We consult our Customer Consultative Group and our 14 Local Customer Advisory Committees on a broad range of subjects, including tariff changes and customer services initiatives. In 2008, over 50 meetings and activities were held within this consultative and advisory framework.

We recognise the importance of successful relationships with our major customers so that we can better understand what they expect from us and how we perform against their expectations. We conduct customer value analyses, assign dedicated account managers to handle their needs and employ external monitors to measure how satisfied our customers are with our services. Apart from regular meetings, CLP carries out energy audits to identify energy efficiency improvement opportunities and recommend solutions. We keep our customers updated on trade news, technology developments and case studies on power quality and energy conservation through e-newsletters and public seminars.

The interface with our customers helped promote and guide CLP through a series of customer service initiatives during the past year including:

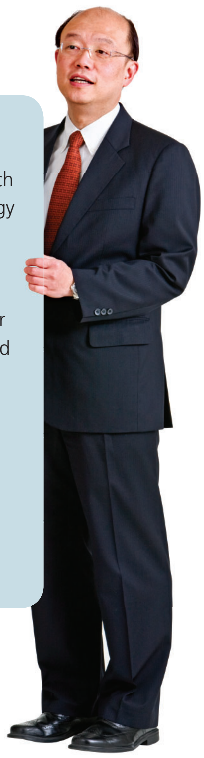
- Relocation of customer service centres to MTR stations, improvement in first call resolution and enhancement of on-line services.
- The opening of Eco Home, our first energy efficient electrical home appliance specialty store, to promote the concept of green living and the wider adoption of energy efficient appliances.
- The expansion of our one-stop service for SME customers and electrical contractors with the opening of a second dedicated Business Centre.
- The launch of a new business in Guangdong to help businesses in the Pearl River Delta improve their energy efficiency. We are offering energy audits, energy savings solutions and project management to support manufacturers in the Region to increase energy efficiency. This initiative will strengthen CLP's relationship with its manufacturing customers (more than 70,000 Hong Kong owned companies operate in the Pearl River Delta). Moreover, the reductions in energy consumption can reduce emissions from power generation in the Pearl River Delta, contributing to the region-wide approach needed to tackle Hong Kong's air quality problem.

Q: We are interested in CLP's newly launched loan scheme for energy efficiency enhancement, may we know more details about it?

Mr. Gilbert Ho
Engineering Manager
St. Teresa's Hospital

A: Launched in January 2009, interest-free loans will be arranged for commercial and industrial customers, which also includes hospitals, who are eligible under the Energy Efficiency Loan Scheme. Following a free audit by our energy service professionals to identify energy saving potentials, a customer may apply to borrow up to 80% of the project cost to realise the saving, with the cap for each loan set at HK$3 million. The loan should be repaid within a maximum of five years in monthly instalments. To apply for the loan, you may either download a form from www.clponline.com.hk or contact our account managers.

Chow Tang Fai
Director, Marketing and Customer Services
CLP Power



Australia

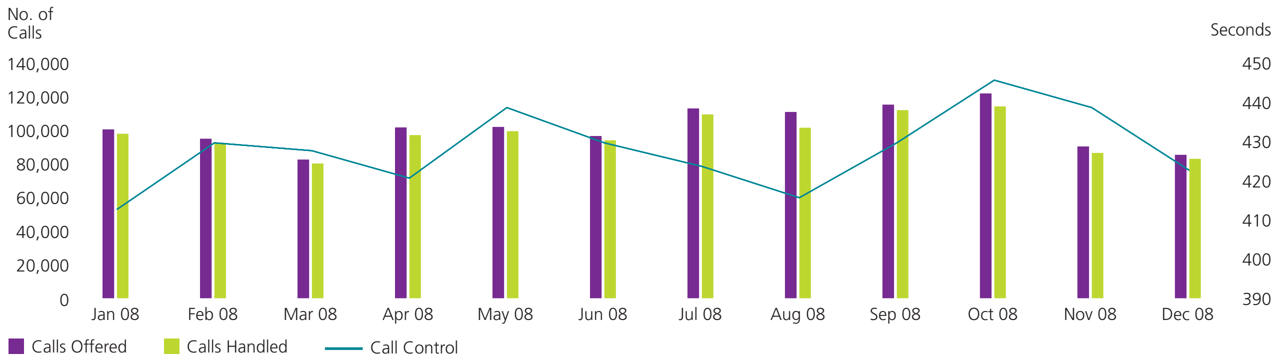
TRUenergy is licensed to sell gas and electricity to contestable customers in New South Wales, Victoria, South Australia, the Australian Capital Territory and electricity in Queensland. TRUenergy operates in an increasingly competitive environment. In Victoria, the most competitive market in Australia and the first state to introduce contestability, the number of customers switching retailers (customer churn), remains high. Overall customer churn levels in 2008 were similar to those of 2007.

Victoria Market Churn	2008		2007	
	Number	% of gross	Number	% of gross
Electricity	589,000	23	612,000	25
Gas	416,000	24	380,000	23

TRUenergy strengthened its customer retention efforts during the year and continued to focus on Victoria for mass market organic growth. Through its "customer save" program, which involves contacting customers that are in the process of churning, and improved service training for customer consultants, TRUenergy was effective at increasing its customer retention levels. This resulted in lower TRUenergy customer churn than the market average. The growth in consumer interest in green energy (energy produced from renewable resources) continued during 2008. TRUenergy increased the number of its green accounts by 67% year-on-year. At the end of 2008 green energy customers had reached 19% of our total electricity customer base.

In 2008 TRUenergy handled 2,035,949 customer enquiries. Of these, 1,187,266 calls were handled by consultants and 848,683 callers resolved their enquiries through a self-service interactive voice response system. Customer service standards are overseen by the Essential Services Commission, energy ombudsman schemes and consumer protection agencies. TRUenergy has again achieved a lower than industry average complaint rate. The Victorian Energy and Water Ombudsman reported that the TRUenergy complaint rate for gas and electricity combined for the year ended June 2008 was 58% below the industry average. These charts illustrate TRUenergy's performance and use an overall indicator of average speed of answering, call control and abandonment rates.

Customer Interaction Centre – Calls Offered, Handled and Call Control



Regulatory Service Level

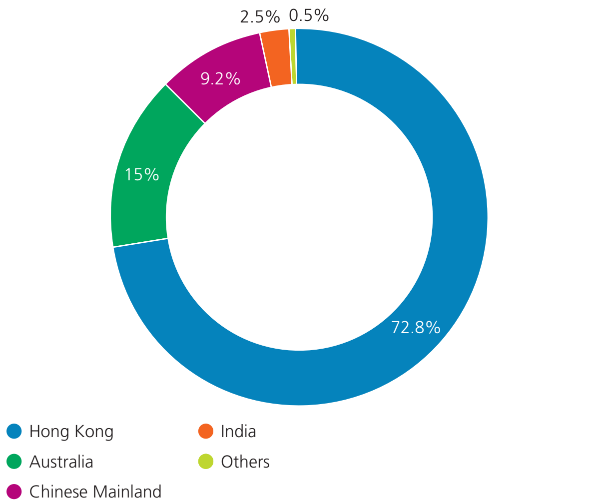
CLP and our Employees

A key characteristic of our business outside Hong Kong is that we need to be flexible and opportunistic in order to take advantage of business development opportunities as they arise. This requirement is reflected in our Human Resources initiatives, such as encouraging more staff mobility to meet the needs of new projects outside Hong Kong.

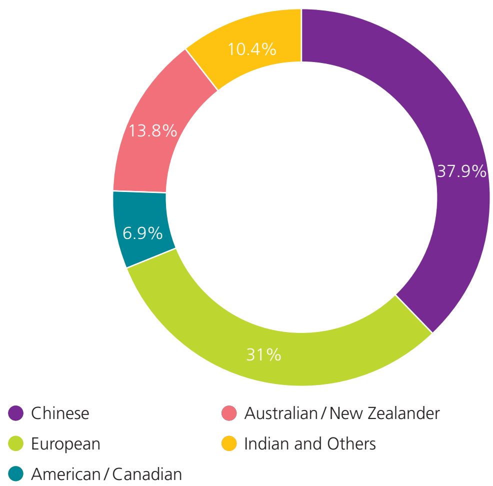
This year we have continued with our Regional Graduate Engineer Programme. This has an enormous developmental impact on participants as they learn about our business operations in very different markets to their own, and take this knowledge back to their home businesses. Our staff have also participated in exchange programmes with EnergyAustralia, and we have seconded staff from Hong Kong to Daya Bay in order to strengthen our nuclear energy related skills.

As the proportion of our generation portfolio made up by renewable energy sources continues to increase, this has required us to build new skills internally and also hire relevant skills, such as wind and hydro power, externally. Out of the total workforce of 5,717 (2007: 5,695), we now have around 8% or 470 staff working on various aspects of renewable energy including business development, construction, and operations.

Staff Distribution by Geographical Location



Breakdown of Senior Executives by Nationality or Ethnic Group



Employee Profile

The average age and length of service of our staff confirms that we have a stable, loyal and experienced workforce.

Key Characteristics	2008	2007
Average age	42.5	42.3
Average years of service	16.2	15.9
% of staff holding a university degree or above (Note)	34.3%	34.5%

Note: Information on TRUenergy employees is not available.

However, we must anticipate the possible consequences for the Company of a considerable number of retirements within a relatively short time-span. To do this, we monitor the retirement projections of our workforce. Currently, this indicates that the percentage of staff due to retire within the next five years is:

	2008	2007
Hong Kong	9.9%	8.1%
TRUenergy	8.6%	9.5%
Huaiji	2.1%	0%
CLP India	1.4%	1.7%

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

Attraction and Retention of staff

In common with most large organisations, in the last few months we have experienced some stability returning to the employment market with the overall economic downturn. This followed a period of volatility in the first half of the year, characterised by inflationary pressures on wages and high demand for labour resulting in skill shortages.

Voluntary Staff Turnover Rate

Source:
1. Hong Kong Institute of Human Resource Management
2. Mercer Australia
3. Hewitt Associates China
4. Hewitt Associates India

The challenges we face in attracting and retaining high quality individuals vary by business, depending on factors such as the size and maturity of that business and also its location.

- Hong Kong – Turnover remained low at 3.4% compared to the market, although competition to attract and retain professionals in Finance, HR and other functional areas remains greater than that for core engineering skills.
- Australia – TRUenergy faced consistent recruitment and retention challenges due to high wage pressures and a highly mobile workforce.
- Chinese Mainland – our attraction and retention challenges tend to be project specific, and often relate to the remote locations of some of our projects.
- India – this remains a highly competitive recruitment market, although the local initiatives taken in the past two years have begun to have a positive impact, resulting in voluntary turnover being significantly lower in 2008 than in 2007. A key aim in India will be to recruit the number and quality of staff needed for the construction of the Jhajjar project in 2009.

Human Resources Development

The Management Development and Succession Planning (MDSP) process 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 or business. As they become more senior, oversight of their career development is the responsibility of the Group Management Development Committee. Through the MDSP process internal successors have been identified for all senior management positions retiring within the next five years (2007: 89%). In 2008, every existing senior position which became vacant was filled internally in accordance with planned succession arrangements (2007: 94%).

In conjunction with the IMD Business School of Switzerland, this year we delivered our first CLP Group Executive Development Programme. In addition to strengthening participants' grasp of the global issues facing the energy industry, the programme also gave them an excellent opportunity to strengthen their understanding of the different business and regulatory environments we operate in across the region, and also build their personal networks with other senior individuals.

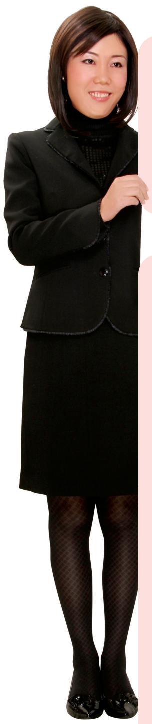
We also continued our support to the Richard Ivey Business School Consortium Management Development Programme in Hong Kong (of which CLP is a founding member), with 15 of our high potential staff attending in 2008. Our apprenticeship and graduate traineeship programmes in Hong Kong have now been in operation 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 2008 with 33 students participating.

Initiatives of a similar nature extend throughout the CLP Group. For example, in TRUenergy a three-tiered management and leadership programme "Focused Energy" was launched across all parts of the business, with over 180 employees (including all managers and team leaders) participating. Programmes are designed from a business transformation perspective with content focused on issues identified by business units and participant groups selected with a mix of different roles and functions. Active learning is enhanced by participants undertaking business improvement projects on top of their personal learning challenges. In GPEC, an in-house training programme on Personal Effectiveness was designed to cover all junior level staff.

In addition to all these programmes, CLP continued to invest in the ongoing development of all our employees through both internal and external courses. In 2008, total training man days amounted to an average of 5.9 man days per employee across the Group (2007: 6.5).

Knowledge Management

We value knowledge and innovation and have made tremendous efforts on Knowledge Management in order to share knowledge and experience among our staff. In addition, we also strive to foster a learning and sharing environment for the development of our intellectual capital. For instance,



Q: Many world-famous enterprises have created a career development plan for each of their employees. What kind of career development plan will CLP make for Mainland based employees?

Ms. Julia Zhang
Finance Manager of Renewable Energy – China

A: Our policy towards career development for Mainland based employees is the same as that for all of our staff, regardless of whether they are based in Hong Kong, Australia, India or elsewhere in the region. This policy is to provide good opportunities for learning and professional and career development. Within this overall policy, the path of individual career development depends on three factors:

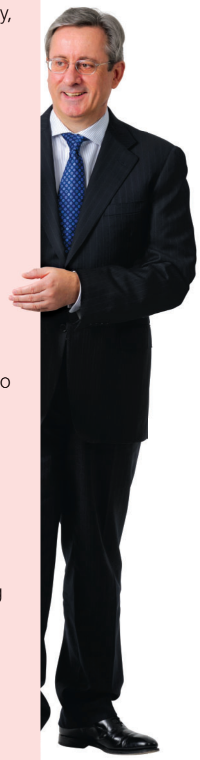
- availability of promotion or movement opportunities. These result from both our continued business growth, and from vacancies arising from staff leaving or retiring. When vacancies arise, our internal promotion rate is very high. For example, in 2008, 21% of the local staff hired by CLP Holdings on the Mainland were promoted or received development moves.
- whether the individual has the required skills and capabilities to take on a more challenging role.
- the willingness and geographical mobility of the individual to take advantage of opportunities.

The annual MDSP process plays a central part in career development. As part of this process, line managers are required to identify high potential staff, and identify how planned movement can contribute to their development by exposing them to challenging new roles. The MDSP process has been introduced to our major subsidiaries in China, and line management of our China assets are encouraged to make full use of it to support staff career development. This year we are pleased that 3 Mainland based employees were amongst the participants in our first Group-wide Executive Development Program that brought together 27 high potential staff from across the Group.

The best evidence of the success of our career development is the many employees who joined us at an early stage of their career and have been promoted to senior management positions. These include Ko Yu Ming who was one of our first batches of trainees in the early 1970s and has now progressed to be Managing Director – China, and Chow Tang Fai who first joined as an engineer in 1980 and is now Director - Marketing & Customer Services in CLP Power.

These examples also demonstrate that those staff who have shown a long-term commitment to CLP are best placed to benefit from career development opportunities.

Roy Massey
Director – Group Human Resources



our network business has installed a Knowledge Management repository to store core business knowledge themes and tacit knowledge, which was captured from highly experienced staff and integrated into training programmes in order to quickly build up the technical competencies of the operational staff. On the retail front, a Customer Relationship Management platform has been built for the management and sharing of customer contacts experience, which in turn raises service quality.

In the context of our retirement projections, we have also emphasised the need for Knowledge Management initiatives to be targeted closely on priority areas where we are at risk of losing expertise.

Employee Communication and Engagement

We are reinforcing our commitment to strong communication with our staff. In addition to the established local communication channels such as regular Team Briefings, this year the Hong Kong business initiated a special programme of communications designed to explain to staff the impact of the new Scheme of Control on our business.

TRUenergy organised a number of engagement initiatives such as Leadership breakfasts with the Managing Director, and in India the practice of Chhoti Chhoti Batan, or sharing a "thought for the day" with all staff, was launched.

In 2007 we designed a common Group-wide Employee Opinion Survey. This was piloted in TRUenergy in late 2007, and rolled out in our Hong Kong business in 2008. One attribute this survey was designed to measure is the level of Employee Engagement, an attribute which has been demonstrated by research to correlate strongly with long term business success. The Employee Engagement Index can then be compared to the local market norm to assess the relative level of engagement of the workforce. The results for our Hong Kong business showed a 71% positive response, 8% higher than the corresponding Hong Kong norm, and reflecting a highly committed workforce.

Safety

Safety is an utmost priority at CLP. Our obligations in this respect extend not only to employees, but to contractors and all those who legitimately come into our facilities – in fact, to everyone touched by our operations. Our business requires the greatest attention to safety performance. We discuss this in fuller detail in our Sustainability Report.

Employee Well being

We encourage all of our staff to maintain a healthy work-life balance, although our approach to this is culturally sensitive and varies from one business location to another. For example, in China and India, management takes advantage of established and important local festivals to engage more closely with their staff and families, and with their local communities.

By the end of 2008 more than 100 colleagues had participated in six rounds of our Fitness / Health Challenge, which forms part of our Quality Work Life initiative in Hong Kong. These colleagues succeeded in losing an average of 14.4 pounds each – setting an example which, observation suggests, more colleagues could usefully follow, including the author of this Annual Report.

CLP Cheering Team at MTR Hong Kong Race Walking

CLP and our Environment

The long-term success and durability of our business demands that we responsibly manage the impact of our business on the environment and conserve the use of fuel and other resources in all our business operations and projects. We are committed to the principles of sustainable development and to taking a leading position in the standard of environment management in our industry. By sustainable development we mean development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development requires balance among the economic, social and environmental needs of the community.

The importance of this commitment is such that we report separately and extensively upon our environmental performance in our Sustainability Report, which is issued alongside this Annual Report. We supplement this Sustainability Report by even more detailed information available on our website, including our submissions to the Carbon Disclosure Project, to which CLP is one of the first contributors from amongst the Asia Pacific energy sector. In this Annual Report, we touch briefly upon two issues which we believe may be of particular interest – local air quality, which affects our shareholders and stakeholders in Hong Kong and global climate change, which affects all of us.

Air Quality

Poor air quality is a major concern in Hong Kong. To achieve the air quality that we all desire, all emitters in the Pearl River Delta must reduce their emissions – including CLP. We have been working hard in three main areas to reduce our emissions.

Firstly, we are retrofitting new emissions controls at our Castle Peak "B" Power Station, with the aim of phasing in the first unit by 2009. This challenging project requires over 100 permits and approvals, as well as over 1,500 staff and contractors working to retrofit and commission large equipment, reaching over five storeys high, all the while meeting the daily electricity demand of all our Hong Kong customers.

Secondly, we have been using coal with ultra low sulphur content, resulting in an average sulphur content of our coal mix of approximately 0.17%. We will continue using this low sulphur coal as it plays a significant role in reducing sulphur dioxide emissions, particularly before the additional emissions control equipment comes online. There has been recent controversy on whether the Indonesian ultra low sulphur coal CLP has been using is related to deforestation. CLP can assure its stakeholders that our robust fuel procurement process, standards and requirements aim to screen out this possibility.

Working around the clock on the Emissions Control Project at Castle Peak "B"

Thirdly, we are striving to raise the natural gas portion of our fuel mix in Hong Kong. This is a very critical challenge that we must urgently resolve in order to both meet the 2010 air pollutant caps and ensure a supply of natural gas beyond 2013, which is when the gas field that currently supplies us will run out. In 2008, the Hong Kong SAR Government signed a Memorandum of Understanding with the Central People's Government to secure natural gas and nuclear energy for Hong Kong. With the vital support of the authorities in Beijing and Hong Kong, CLP is working urgently with Mainland enterprises to develop the infrastructure and secure commercial agreements necessary to supply gas to our Black Point Power Station by 2013.

Climate Change

Today, climate change is perhaps the single most important challenge for our industry. To meet this challenge, we issued our climate change manifesto "CLP's Climate Vision 2050" at the end of 2007. This spells out our carbon intensity reduction targets up to 2050. These targets mean deep cuts in carbon emissions from our entire generation portfolio. These can only be achieved through bold changes in our business direction, including increasing no or low carbon generation such as renewable and nuclear energy, using more natural gas in our power generation portfolio, using cleaner coal-fired generation technology as well as preparing for carbon capture and storage (CCS) technology to become viable and available. In 2008, we established "CLP Carbon Ventures" to help us along this low carbon pathway, with a focus on pursuing opportunities ranging from technology innovations to end use energy efficiency. At the end of the year, through CLP Carbon Ventures, we started work with Atlantis Resources Corporation on exploring the development of tidal energy within the Asia-Pacific Region.

Our CEO kicking off CLP's Climate Care Staff Engagement Campaign

Working Together For a Cleaner Environment

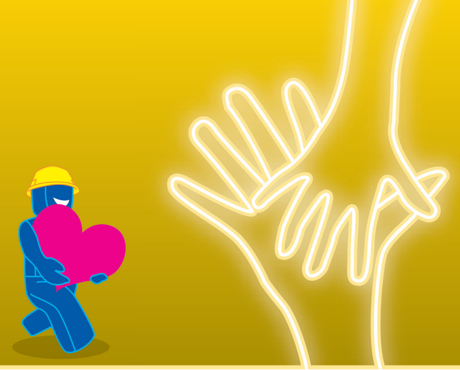
In terms of climate change, the business community to date has focused on mitigation measures that can be considered as "low hanging fruits", ones that are easily aligned with the business, such as increasing operational efficiency, which can reduce production costs. However, for other solutions that also need to be advanced simultaneously if we are to meet the climate change challenge, such as clean coal technology and the development of CCS, appropriate government regulations and incentives are necessary to bring the world up to the next level playing field in the energy arena.

Power sector investments are tied up in assets that operate for decades and so the certainty of energy-related policies and regulations in the relevant locations are critical for a more sustainable society.

CLP welcomes clear policy directions to support carbon reduction actions such as shifting our fuel mix, increasing low carbon emitting generation, and use of mitigation technologies. As a member of the business community, we advocate climate policies with policymakers both nationally and internationally. In Australia in 2008, our subsidiary TRUenergy contributed to the policy debate on a national emission trading scheme by conveying our views through formal responses to discussion papers. On the international front, we made our case through collaboration with the World Business Council for Sustainable Development's (WBCSD) Electricity Utilities Sector Project and presented policy positions in United Nations Framework Convention on Climate Change (UNFCCC) side events in Poznan, Poland in December 2008.

In the words of Bjorn Stigson, President of the WBCSD, *"No part of society can create a sustainable energy future on their own."* To overcome climate change and other global sustainability challenges, CLP's efforts alone will not be enough. Every sector and every individual has an important role to play. We need a tripartite partnership between governments, businesses and communities, as well as a paradigm shift in how we as individuals and as a society value and use energy in our daily lives.

CLP and our Community



CLP is engaged in the provision of an essential public service. Our investments tend to be held over many years and our plants and staff are widely spread across the Asia-Pacific region, often in remote and underdeveloped areas. These factors mean that CLP is typically a significant presence, and deeply embedded, in the communities in which we operate. This provides the responsibility and the opportunity for CLP to act as a good corporate citizen and to contribute to the development of the well-being of the community. Moreover, the acceptance of CLP within those communities, their people and their leaders, is essential to the success of our business over time.

Our commitment to good corporate citizenship forms part of a sustainable business model. For that reason, we report more fully on these activities in our Sustainability Report. Here, we wish to explain briefly our approach to community work and the particular areas on which we focus.

CLP's Approach

The community programmes we support should reflect the needs and expectations of local communities and be sensitive to prevailing cultures, traditions and values. This requires a spirit of partnership to such projects, whether this be in the initial planning, implementation or longer term monitoring. This process requires dialogue with local people and organisations, with all those involved making their best contribution according to their resources, community networks, capabilities and technical expertise. Through shared commitment, we bring about effective implementation of the projects to serve the people in need and, in the long run, enable local people to share knowledge and build their own capacity to improve the results.

For example, when CLP India supports the provision of better wells for villages in Gujarat, CLP and the village authorities share the cost of digging the well, the villagers take responsibility for its maintenance but there are periodic visits from CLP staff, on a volunteer basis, to check that the installations are in order.

CLP's approach to the provision of primary schools in rural areas of China follows a similar principle. We work in partnership with local authorities in different localities in China to build and improve school facilities. To date, CLP supports 11 Hope Schools across five provinces, providing improved education facilities to more than 4,000 rural children. CLP not only provide financial support for the construction of the schools or improvement of facilities, our staff also offer assistance in the form of supplies of books and donations to the building of libraries, sports equipment or student canteens. CLP staff, again on a volunteer basis, visit the schools in order to confirm that all is running smoothly and to identify further assistance, while allowing local education authorities to continue providing teaching and running the school operation effectively.

The partnering approach has been particularly effective at times of critical events. In collaboration with non-governmental organisations in Hong Kong and China and local schools and education authorities, CLP directed immediate assistance to 6,600 students in Hunan, whose

Visiting Hunan after the 2008 snowstorms

School rebuilding after Sichuan earthquake

TRUenergy Yallourn Fun Run

families had lost basic subsistence by the severe snowstorms in early 2008, with the provision of rice stocks to support their daily meals for three months. Likewise, a donation of over HK$6.7 million was raised with our staff and the company to support the relief efforts of the Sichuan earthquake. The donation was earmarked for the re-building of two primary schools and one nursery to restore the opportunity of education for those who lost it during the earthquake. About 600 school children are expected to benefit from this initiative.

Audit trips have been made by management staff, volunteers and retirees to both Hunan and Sichuan to ensure CLP's donations are properly used and that progress is reported regularly.

These examples draw out one of the characteristics of CLP's community work – the active involvement and support from CLP volunteers. This caring and volunteering culture was initiated in Hong Kong some 10 years ago by our staff who created the "CLP Volunteer Team". This year CLP's Hong Kong staff contributed more than 6,200 hours, in addition to resources and commitment from management, to support many activities in Hong Kong and the Mainland, extending from disaster relief efforts to mentoring students and services for the elderly, disabled and new immigrants.

Focus

CLP focuses its community initiatives on three main areas – environment, youth education and health for the elderly. These areas have been chosen in light of community needs and CLP's ability to provide resources and support in ways that can make a difference.

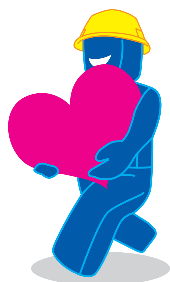
More details of these activities are included in the Sustainability Report. The following paragraphs give just an idea of the types of activities we undertake.

- In 2008, CLP announced its "Five-Year Regional Tree Planting Programme" in Asia-Pacific with a target of growing one million trees in the region where we have operations. The programme supports our Climate Vision 2050 and provides opportunities to engage the community with a hands-on experience that emphasises the connection between human societies and their natural environment and contributes to the social, economic and ecological well-being of the local community.
- Dementia is a growing health concern for the ageing population in Hong Kong. The "Care for the Elderly – Active Mind" programme, directed by a Steering Committee of representatives from 14 health and social service groups led by the Hong Kong Council of Social Service, was rolled out to promote the awareness of early intervention and treatment of the disease. Over 5,300 deprived elderly people received cognitive assessment and memory training from the programme. 60 CLP staff participated as volunteers and ambassadors. The programme will extend into 2009.
- Young Power Programme (YPP), entering its 10th year in 2008, continued to receive strong support from schools and community leaders. 20 CLP engineering staff volunteered as mentors to guide the participating students in a six-week training programme. YPP aims to provide a platform for leadership training and instill a sense of social responsibility in the younger generation. The programme will extend its presence to other regions where we operate in the coming years.

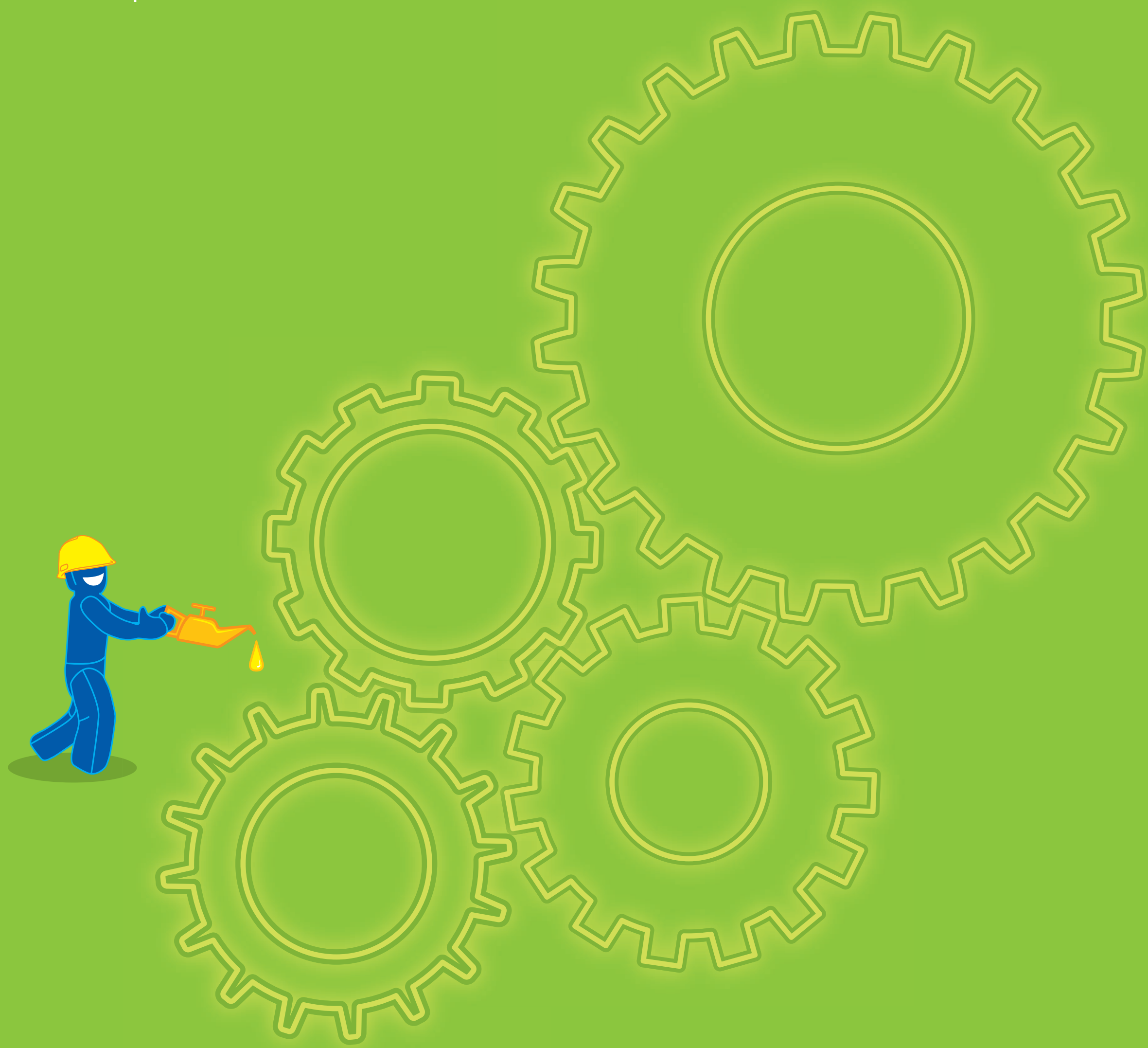
Finally, we recognise that none of the community work which CLP does would be possible without the engagement of the local communities themselves and the continuing support of our shareholders, staff and other stakeholders. We thank all those who make these programmes possible.

"Mother and Child Health" Community Programme, Gujarat

Young Power Programme, Hong Kong



How do we govern our company?



Values

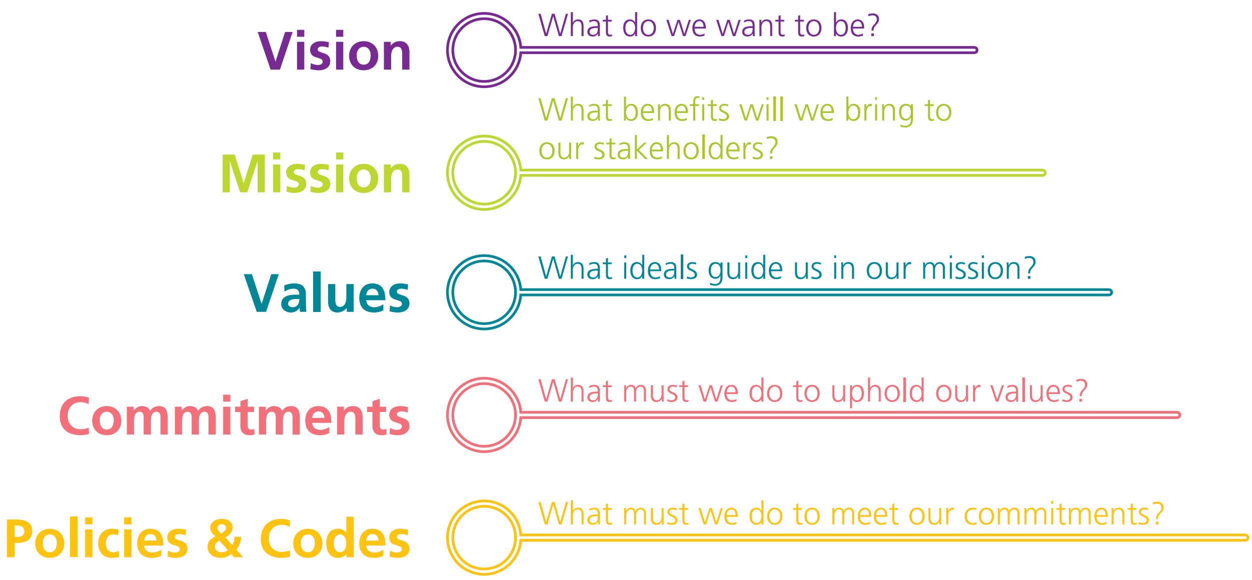
Central to CLP's success over the past century has been a firm commitment to a set of business principles and ethics that help drive the Company forward. These principles extend to all aspects of our operations. They cover how we treat our own people and our relationships with investors, business partners and governments, the wider communities in which we operate and the natural environment. In 2003 we issued "From Vision to Reality", CLP's Value Framework, in order to present our corporate values in a comprehensive and structured way.

Five years on, we have revisited the Value Framework to see whether it has stood the test of time and whether it still reflects the standards we expect of ourselves and which others would expect of us. To ensure that this review was critical and objective, we consulted internal and external stakeholders, such as staff, academics and non-governmental organisations. The feedback we received was positive, encouraging and valuable – including new ideas and advice on how better to express some of our existing values. It was clear, however, that the Value Framework continued to represent and express the right commitments to business principles and ethics, as well as the right vision of what we wanted to be as a business and as people.

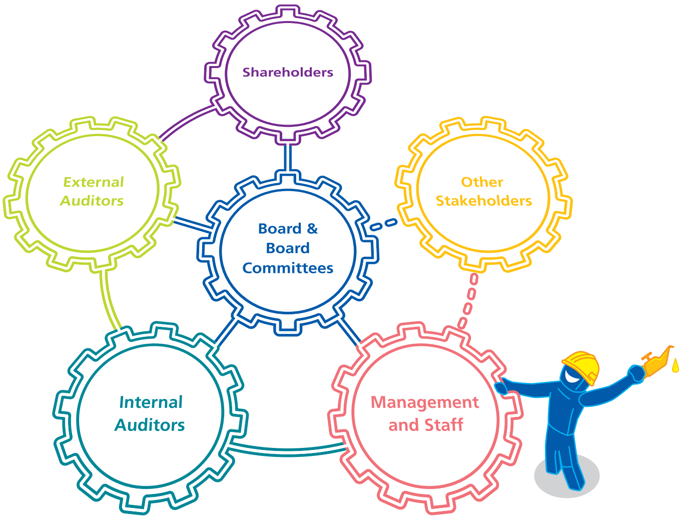
Of course, here and there, events had moved on and our business environment had evolved – as it always has and always will. We recognised this and made a few changes to the Value Framework to reflect this and the input from our stakeholders, such as the increasing emphasis on managing the long-term environmental implications of our activities, especially with regard to climate change, and the growing awareness of helping our employees maintain a proper work-life balance. Other elements of the Value Framework, notably our Code of Conduct, remained right on target and required almost no change.

The result was a renewal, not a replacement, of the values we expressed in 2003. The Value Framework is a continuing statement of what CLP wants to be and the values, policies, commitments and Code of Conduct which all of us must respect – no matter where we work or whatever our individual roles may be.

This section of the Annual Report describes how we govern our Company, in line with our Value Framework.



Corporate Governance Report



CLP's Corporate Governance Framework

Maintaining a good, solid and sensible framework of corporate governance has been and remains one of CLP's top priorities.

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. We recognise the need to move promptly in response to regulatory change to maintain and develop strong and effective corporate governance practices.

We use the 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:

- 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 further updated in February 2009. Shareholders may download a printable copy of the CLP Code from our website, 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 or meets the Code Provisions and Recommended Best Practices of the Stock Exchange Code.

Exceeds	Meets	
✓✓		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 published a formal Value Framework in 2003, updated in January 2009, which sets out the business principles and ethics underpinning CLP's activities.
✓✓		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.
✓✓		We issue an Audit Committee Report which sets out the primary responsibilities of the Audit Committee and the work performed by it during the period under review.
✓✓		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 on an individual and named basis.
✓✓		We implement an Anti-Fraud Policy which states the Company's commitment to preventing, detecting and reporting fraud.
✓✓		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.

CLP deviates from only one Recommended Best Practice in the Stock Exchange Code – that an issuer should announce and publish quarterly financial results. Instead 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 far 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 2008, 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 2008

- Published a "Shareholders' Guide" which collects and answers the most frequently asked questions by CLP shareholders on their rights and how best to exercise them
- Carried out shareholders' identification exercise pursuant to Section 329 of the Securities and Futures Ordinance on a quarterly basis with summary results published on the CLP website
- Continued to roll-out the development programme for Directors, including a visit to CLP's business in the Chinese mainland and participation in the Shareholders' Visit Programme in Hong Kong
- Updated the CLP Code on Corporate Governance
- Included a separate Risk Management Report in this Annual Report
- Updated the CLP Value Framework
- Shared our expertise and views on corporate governance issues by responding to Consultation Papers issued by various authorities and publishing these responses on our website

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 29 April 2008 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 Mr. Paul A. Theys and re-election of 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 as Directors of the Company (99.094% to 99.984% in respect of each individual resolution);
- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (80.384%); and
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (99.994%).

All resolutions put to shareholders were passed at the 2008 AGM. The results of the voting by poll have been published on CLP's website and the website of the Hong Kong Stock Exchange. 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 2008.

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 26 February 2009, being the latest practicable date prior to the issue of this Annual Report; and
- a calendar of important shareholders' dates for 2009.

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.

Over 850 shareholders supported our 2008 AGM – possibly the highest attendance at the AGM of any Hong Kong company

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 2008, 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 19 Directors. All Directors (with the exception of the CEO, CFO and the Group Executive Director – Strategy) are non-executive and independent of management, thereby promoting critical review and control of the management process. The Board includes seven 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 6 and 7 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 6) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (34.87%) 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 2008, there were three 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 2008, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of at least three Independent Non-executive Directors (CLP had seven), 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.

Board and Committee Attendance

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 2008 are set out in the following table. The overall attendance rate of Directors at Board Meetings was 86.8% (2007 : 89.3%).

Directors	Meetings Attended / Held									
	Board[a]	Audit Committee	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Regulatory Affairs Committee[b]	Sustainability Committee[c]	China Committee	AGM
Non-executive Directors										
The Hon. Sir Michael Kadoorie	**6**/7				(d)				**2**/2	**1**
Mr. W. E. Mocatta	**6**/7		**10**/10	**1**/1		**1**/1	**0**/0		**2**/2	**1**
Mr. J. S. Dickson Leach[e]	**1**/1									**N/A**
Mr. R. J. McAulay	**5**/7									**1**
Mr. J. A. H. Leigh	**7**/7									**1**
Mr. R. Bischof	**7**/7					**1**/1				**1**
Mr. I. D. Boyce	**7**/7									**1**
Mr. Jason Whittle[f]	**6**/7		**5**/9				**0**/0	**1**/1		**1**
Dr. Y. B. Lee	**7**/7								**1**/2	**1**
Mr. Paul A. Theys	**7**/7						**0**/0		**1**/2	**1**
Independent Non-executive Directors										
The Hon. Sir S. Y. Chung[g]	**6**/7			**1**/1	(d)		**0**/0			**1**
Dr. William K. Fung[h]	**0**/1				(d)			**1**/1		**N/A**
Mr. V. F. Moore	**5**/7	**4**/4	**9**/10	**1**/1			**0**/0			**1**
Mr. Hansen C. H. Loh[i]	**7**/7	**4**/4			(d)		**0**/0			**1**
Mr. Paul M. L. Kan	**7**/7									**1**
Professor Judy Tsui	**2**/7	**4**/4						**2**/2	**1**/2	**1**
Sir Rod Eddington	**6**/7		**2**/10	**1**/1						**0**
Mr. Peter T. C. Lee[g]	**6**/7							**2**/2		**1**
Ms. Marjorie M. T. Yang[j]	**2**/4								**1**/2	**N/A**
Executive Directors										
Mr. Andrew Brandler	**6**/6		**8**/10				**0**/0	**1**/2	**1**/2	**1**
Mr. Peter P. W. Tse	**6**/6		**9**/10			**1**/1	**0**/0		**0**/2	**1**
Mr. Peter W. Greenwood	**6**/6		**9**/10					**2**/2		**1**

(a) Included a Board Meeting where the Chairman met with Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors and management present.

(b) The Regulatory Affairs Committee was abolished with effect from 1 March 2008, and all significant matters relating to the regulatory regime for the Hong Kong electricity business are considered by the full Board.

(c) The name of the Social, Environmental & Ethics Committee was changed to Sustainability Committee effective from 1 April 2008.

(d) 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 two separate occasions in 2008.

(e) Mr. J. S. Dickson Leach retired as a Non-executive Director effective from 29 April 2008.

(f) Mr. Jason Whittle resigned as a Member of the Finance & General Committee and the Sustainability Committee with effect from 31 October 2008.

(g) The Hon. Sir S. Y. Chung resigned and Mr. Peter T. C. Lee was appointed a member of the Human Resources & Remuneration Committee with effect from 1 January 2009.

(h) Dr. William K. Fung resigned as a member of the Nomination Committee and the Sustainability Committee, following his retirement as an Independent Non-executive Director on 1 April 2008.

(i) Mr. Hansen C. H. Loh was appointed a member of the Nomination Committee with effect from 1 April 2008.

(j) Ms. Marjorie M. T. Yang was appointed an Independent Non-executive Director with effect from 1 June 2008 and resigned on 20 January 2009 due to her time commitment to her new appointment to the Executive Council of the HKSAR Government.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2008 and in 2009 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 Mr. Hansen Loh.

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 Ms. Marjorie M. T. Yang as Independent Non-executive Director with effect from 1 June 2008; and
- nomination of The Hon. Sir S. Y. Chung, Mr. Paul M. L. Kan, Professor Judy Tsui and Sir Rod Eddington for re-election as Independent Non-executive Directors at the 2008 AGM.

At the 2009 AGM, seven 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 Sustainability Committee

Mr. Andrew Brandler (Chairman), Professor Judy Tsui, Mr. Peter Lee, Mr. Peter Greenwood, Mr. Giuseppe Jacobelli and Dr. Jeanne Ng.

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 Carbon Strategy;
- the progress of our Climate Vision 2050 towards its 2010 milestone;
- climate campaign and regional community initiatives;
- the 2007 and 2008 CLP Group Sustainability Reports;
- the status of CLP Group social and environmental goals;
- the status of the waste-to-energy sector; and
- the stakeholder engagement plan to support business sustainability.

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.

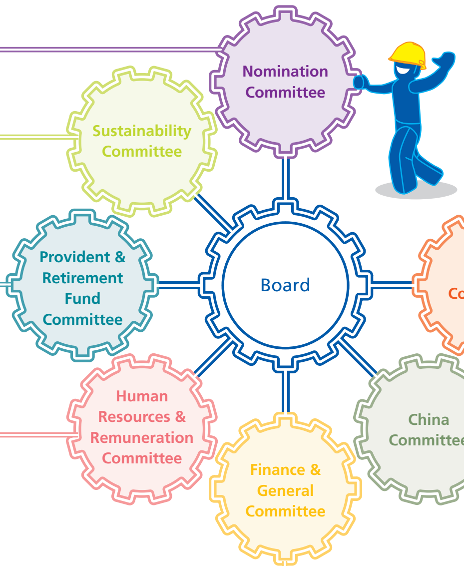
Membership of Human Resources & Remuneration Committee

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), Mr. V. F. Moore, Sir Rod Eddington and Mr. Peter Lee.

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 2007 and 2008 Remuneration Reports, and reviewed

- the Group performance for 2007 and 2008 and Group targets for 2008 and 2009;
- base pay review for 2008 and 2009 for Hong Kong payroll staff;
- annual pay review for TRUenergy and CLP India;
- CEO's remuneration; and
- the Senior Executive Remuneration, including annual incentive payments for 2007 and 2008 and annual pay review for 2008 and 2009.



Membership of Finance & General Committee

Mr. W. E. Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington, Mr. Andrew Brandler, Mr. Peter P. W. Tse, Mr. Peter 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 2007 and 2008;
- the strategic partnership with China Guangdong Nuclear Power Corporation on wind power projects;
- long term Indonesian coal supply;
- the Group's investments in renewable projects in India, China and Australia;
- the funding to CLP Hong Kong entities after recent financial market turmoil;
- CLP's foreign exchange translation risk exposure;
- bids for assets or projects in India and Australia;
- OneEnergy's investment opportunities in Thailand, Singapore and The Philippines;
- the CLP Group business plan and budget 2009-2013;
- the Company Management Authority Manual;
- the Company's undertakings, guarantees and indemnities; and
- the cost of capital study.

Membership of China Committee

The Hon. Sir. Michael Kadoorie (Chairman), Mr. Andrew Brandler (Vice Chairman), Professor Judy Tsui, 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, Dr. Ko Yu Ming 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
- renewable energy business in the Mainland.

Audit Committee

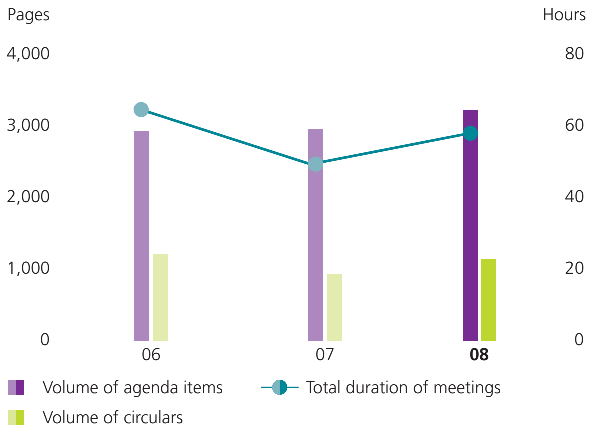
Details of the Audit Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Audit Committee Report at page 120 of this Annual Report.

Directors' Commitments

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 Hong Kong or overseas listed 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 2008, no current Director held directorships in more than five 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 2009 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 the "Board of Directors" at page 6 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. 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 2008.

Workload of Board and Board Committees



Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2008 are disclosed in the Directors' Report of this Annual Report at page 130. 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 2008 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 2008 are set out in the Remuneration Report at page 122 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.

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 2008, there were eight breaches of the Code. Sanctions applied in 2008 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 11 managers, whose biographies are set out on page 8 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 130 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 2008. Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2008, 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 122 of this Annual Report.

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 21 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,

Directors and Senior Management teaching at Fangchenggang School...

... and learning

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 2008, 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 (even though CLP is no longer subject to that Act). 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:

	2008 HK$M	2007 HK$M
Audit	25*	28*
Permissible non-audit services		
Due diligence and accounting / tax advisory services relating to business developments	9	18
Other advisory services	4	3
Total	38	49

* Includes compliance review fees for internal control in 2008 and Sarbanes-Oxley Act Section 404 in 2007.

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.

Our Non-executive Director, Ian Boyce, taking questions during one of our shareholders' visits

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

- independence from operational management;
- fully empowered auditors with access to all data and every operation of the Group;
- adequate resources 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 with the U.S. Sarbanes-Oxley Act were suspended. As a foreign private issuer, CLP Holdings remained subject to the Sarbanes-Oxley Act until 29 January 2008, whereupon CLP's deregistration from the U.S. Securities and Exchange Act reporting system took effect.

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 longstanding 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, have evaluated our control environment and 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 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.

In order to tackle the changing risk profile of the CLP Group activities as we move through the current period of global economic, financial and market difficulty and uncertainty, we have adopted various measures to mitigate the risks affecting our businesses. The way we manage such risks is set out in the Risk Management Report at page 109.

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 2008, 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 2008 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 2008. 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 make an active, constructive and informed contribution to the ongoing debate on the future shape of corporate governance in Hong Kong. 2008 was a busy year for proposed governance and regulatory reforms. During the year we responded to Consultation Papers issued by the Financial Services and the Treasury Bureau, Securities and Futures Commission and Hong Kong Exchanges and Clearing Limited on matters as varied, complex and, occasionally, controversial as electronic submissions, "black out" periods for directors' share dealings, codification of directors' duties, capital maintenance regime and many others. Our responses are on our website, so that our shareholders can judge whether we are properly reflecting their views and respecting their interests.

By Order of the Board

April Chan
Company Secretary
Hong Kong, 26 February 2009

Risk Management Report

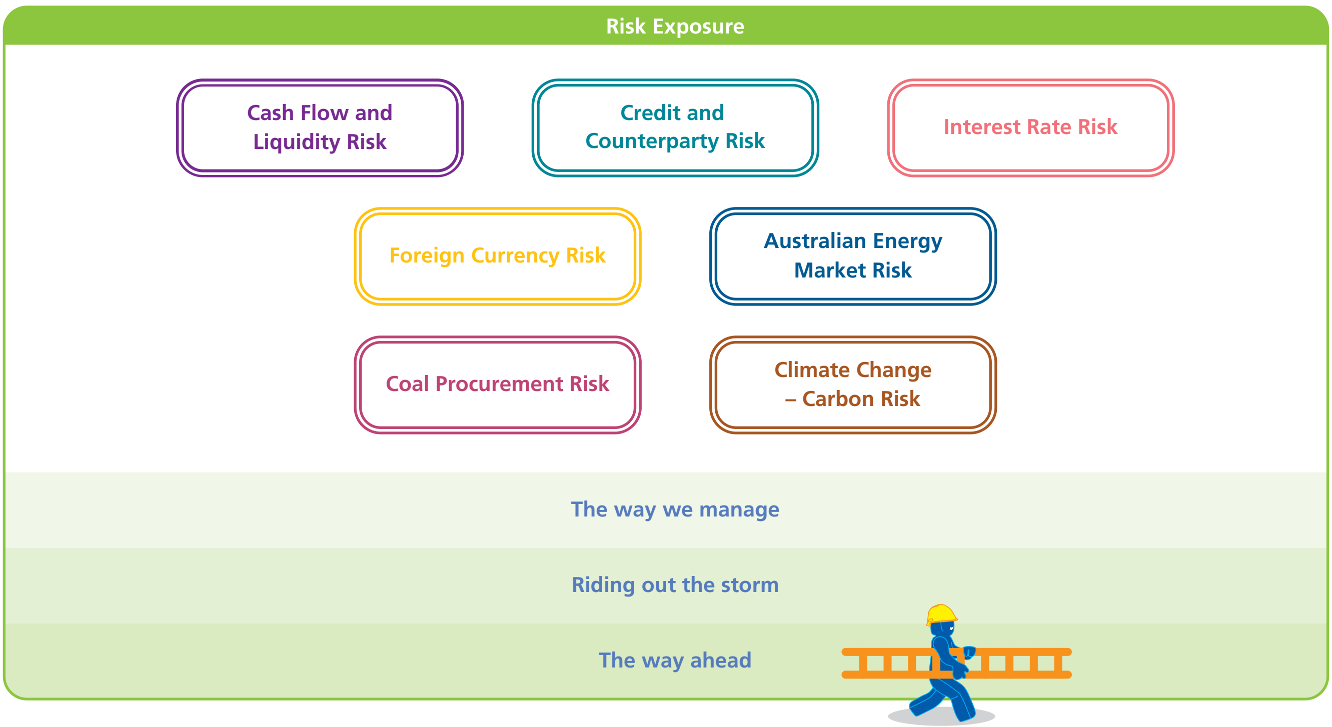
This year, we have changed our Risk Management Report to address the changing risk profile of the CLP Group's activities as we move through a period of global economic, financial and market difficulty and uncertainty.

Our overall strategy is simple and straightforward. The electricity business is highly capital intensive and returns are generated over the long term. We closely monitor CLP's cash management and resources, including contingent liabilities that might call on those resources. We maintain a conservative capital reserve, emphasise that capital is expensive and prioritise competing claims on capital. These prudent policies have, in the past, led to comments that CLP is over cautious, under-geared and adopts a sub-optimal capital structure. However, recent global corporate experience shows how businesses fail when they run out of cash, even if the underlying business model may be sound and their assets have value. Such experience, and the importance of maintaining CLP's status as a sound utility stock in a depressed and difficult share market environment, has indicated the benefits of prudence.

This approach represents the longstanding and consistent approach followed by CLP – the previous paragraph is not new; it is taken, word-for-word, from Andrew Brandler's CEO's Review in our 2002 Annual Report.

The maintenance of appropriate levels of liquidity involves a disciplined approach to making new investments which draw on our capital resources. In recent years, and as we have advised shareholders in past annual reports, we have been concerned that the combination of emerging players and cheap capital has led to intense competition to buy existing power assets or the development rights for new projects. This created an environment where revenue projections were unduly optimistic, sub-optimal rates of return were accepted and the risk associated with investments was inadequately priced. We have held a discipline of not investing in opportunities where we do not think projected returns will meet risk-adjusted hurdle rates which we have set for different investments in different markets. We have chosen to be patient and wait for times and places when and where phases of "irrational exuberance" have passed. We may have missed immediate opportunities in some markets but, in the long run, we were, and remain, convinced that this creates the most value for our shareholders.

In the following paragraphs, as Chief Financial Officer, I describe a number of the major risks to which our business is exposed and the steps we put in place to mitigate or avoid the potential consequences of such risks. I have not attempted to list each and every risk that is faced by a business such as CLP's. Rather, I have concentrated on the major risks and those which, in the present economic climate, might seem most threatening in the eyes of our shareholders and other stakeholders. In each case, I describe the risk exposure, the management of that risk, CLP's position to ride out the current financial storm and the way ahead.



Cash Flow and Liquidity Risk

The electricity business requires the huge commitment of long-term funding, in the form of equity and debt facilities, to finance construction and operation. In a normal business environment, this requires an optimal balance between equity and debt to deliver an acceptable risk and return profile to investors and lenders. At times of financial market turmoil, a strong financial position and a good business relationship with lenders is essential in retaining liquidity and arranging debt facilities at reasonable costs.

The way we manage

Let me start by saying what we do not do. The CLP Group does not enter into, and has never entered into, structured and derivative-driven transactions, including those commonly described as "accumulators" or "snowballs". Aside from the inherent risks and speculation that these involve, such instruments are often highly complex. This contravenes one of the principles of prudent financial management – by and large, if you don't understand something, don't do it. As far as practicable, we adopt hedging instruments which not only provide effective economic hedges against the relevant risks, but will also be treated as effective accounting hedges in CLP's financial statements.

What we do is that, as the ultimate parent company, CLP Holdings ensures that the Group has adequate cash flows and access to funding from established and new sources to fund working capital requirements, debt service payments, dividends to shareholders and potential new investments. We leverage on the professional expertise and relationships enjoyed by CLP Holdings to help arrange non-recourse credit facilities for our subsidiaries and joint ventures. We manage risks to our cash flow and liquidity through prudent treasury policies and practices.

- We forecast, plan and monitor our cash and resources, including liquidity movements and contingent liabilities (see chart on pages 36 and 37) that might call on those resources. As well as maintaining a conservative capital structure, we hold an appropriate buffer of available debt facilities to cater for contingencies in our funding requirements. We perform regular reviews of the market and of our own cash position to ensure that diversified, cost-efficient funding is available for operating expenses, capital expenditure and business expansion across the Group.
- We maintain an appropriate mix of committed credit facilities with staggered maturities to reduce our liquidity and refinancing risk in any year. We raise long-term funding from debt capital markets through established medium term note programmes put in place with the wholly-owned subsidiaries of CLP Power and TRUenergy. These programmes diversify our funding sources from the banking sector, lengthen our average debt maturity and enhance the matching of long tenured capital investment. Our diversified funding sources and maturity profile are illustrated in the charts included in the "CLP and Our Lenders" section of this Annual Report on page 77.
- We aim to minimise our cash balances. Group companies use surplus cash to pay down revolving loans to reduce financing costs. When surplus fund exists, they are only kept with creditworthy financial institutions in the form of deposits or invested in safe, liquid, interest-bearing instruments with good investment credit ratings pursuant to our internal treasury policies and business requirements.
- Dividends are repatriated back to CLP Holdings as soon as practicable, unless underlying business needs dictate otherwise. If our subsidiaries and affiliates have significant cash reserves, CLP Holdings helps them develop and apply appropriate cash management strategies and policies based on CLP's prudent philosophy towards financial management. We then monitor the position regularly.
- We strive to maintain the credit ratings of CLP Holdings, CLP Power and TRUenergy at appropriate high investment grade levels (see page 78) through careful control of our total debt to total capital ratios. Our objective is to support funding and investment through strong financial profile and to provide financing flexibility for future growth and acquisitions.

Riding out the storm

Diversified and committed funding sources, and spreading out of the maturity profile of our borrowings, has helped to reduce financing and refinancing risks during the current credit crunch. Group companies, generally speaking, had completed their financing and refinancing requirements before the major financial market upheavals in 2008, when market liquidity was further reduced. From the beginning of the year, CLP entities in Hong Kong had increased their use of the Hong Kong dollar bond market under the MTN programme and swapped part of the short-term bank facilities into longer tenure term loans. These tactics, together with sourcing of funding from major depository taking banks in our region, helped reduce our funding cost over the year.

As at 31 December 2008, the Group had liquid funds of HK$782 million. Total facilities and outstanding loan amounts are shown on page 77. Further analysis on these and the other financial risks discussed in this Risk Management Report, including their quantitative effects, is set out under "Financial Risk Management" in the Financial Statements at page 198.

The way ahead

It is premature to judge when liquidity in financial markets will be restored and the pricing of debt facilities will return to more typical levels. CLP entities which require refinancing in 2009 will test the position when they start their dialogue with lenders in the coming months. Based on our most recent exchanges with financial institutions, funding from debt capital markets and the banking sector has not dried up, even after the most recent market chaos. However, against the backdrop of economic contraction and de-leveraging in the financial sector, we will continue with our conventional, prudent strategy to plan ahead for our funding requirements and seek financing in a diversified and cost effective way. Our high credit rating, strong financial position, disciplined investment decision-making and good relationship with financial institutions will help us meet the Group's funding requirements.

Credit and Counterparty Risk

CLP Holdings, its subsidiaries, jointly controlled entities and associated companies enter into various forms of transactions from time to time for risk mitigation and portfolio management. These transactions include interest rate and foreign currency hedging, depository arrangements, energy hedging and trading. The possibility of credit default, credit rating downgrade or non-performance of counterparties creates the risk of non-recovery of financial instrument gains and the possibility of apparently hedged positions turning into uncovered ones.

The way we manage

We apply a number of credit risk management policies to ensure our potential and selected counterparties will perform their obligations under the respective transactions.

- We confine the transactions of all finance-related hedging transactions and deposits of the Company and its direct principal subsidiaries to counterparties with acceptable credit quality in conformance with Group Treasury policies. Management reviews this list of approved financial institutions and closely monitors the credit quality of such institutions over the life of the relevant transactions, at intervals not longer than one year.
- We assign mark-to-market limits on our exposure to any given counterparty in order to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movements, the Group also monitors potential exposures to each financial institution counterparty, using value-at-risk methodologies.

- Our subsidiaries and affiliates enter into derivative transactions on the strength of their own credit. The counterparties have no recourse (cash collateral, guarantee or other forms of security) to CLP Holdings for potential changes in the market value of derivatives or the financial standing of the respective CLP entities.
- TRUenergy's energy-related hedging and trading are carried out with approved institutions or counterparties that either have acceptable credit standing at defined limits or a guarantee from acceptable financial institutions in accordance with its risk management policies.

Riding out the storm

This year saw unprecedented insolvencies in the financial market, including of once renowned institutions. As the Group's criteria for approving counterparties for financial and treasury transactions exclude investment banks, CLP entities have had no exposure to financial institutions which have either failed or have otherwise become incapable of fulfilling their obligations to us.

Under our criteria, CLP entities transact only with financial institutions having good credit rating ("A" rating or above) and with an exposure limit in line with their financial strength. These financial institutions are typically leading commercial or integrated bank groups, having a strong financial position and a diversified business profile in their respective countries or cities. The list of approved institutions is reviewed to mitigate counterparty risk. This review is conducted at year end to verify that the counterparty risk to CLP entities is acceptable, and more often when this is required by market developments or changes in the financial position of the counterparties. For instance, management performed a series of counterparty exposure reviews in the third quarter of 2008 to check the position of CLP and ensure that we were not affected by potential credit deterioration among our existing counterparties.

Our requirement that the counterparties to financial transactions concluded by CLP entities should have no recourse to CLP Holdings, in terms of debt repayment or changes in the market value of hedging instruments, has limited the potentially adverse impact to CLP Holdings, should unexpected events occur.

The way ahead

Numerous financial institutions are still looking for ways to restore their balance sheet. It is clear that market participants need more time to return to a healthier position. Whilst CLP has no "crystal ball" to foresee the success or failure of any given financial institution, our established policy on counterparty exposure management and associated governance, which looks beyond credit ratings alone, helps us to protect the financial integrity of the CLP Group. Looking ahead, we must closely monitor market developments, review the list of approved financial institutions and their respective mark-to-market limits, in order to continue the effective implementation of our procedures to manage credit risk.

Interest Rate Risk

Interest rate movements create risks and opportunities. A high portion of floating rate borrowings in the debt portfolio can reduce financing costs when interest rates fall, but will expose us to higher funding costs when interest rates pick up. The Group's interest rate risk exposures originate from borrowings to finance capital investment and operating needs. Interest rate movements, especially at times of financial volatility, can result in significant fluctuations of earnings and cash flow if not properly monitored and managed.

The way we manage

We pursue an interest rate mixed strategy which aims at balancing the cost paid for certainty against the risk of interest rate volatility. We mitigate interest rate risk through the use of appropriate interest rate hedging instruments and fixed rate borrowings in order to 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. Theoretically, a "neutral interest rate mix" of 50% fixed and 50% floating would be the optimal balance. However, it is possible to further enhance the outcome achieved by a neutral interest rate mix scenario by taking account of the nature of our industry and maintaining a higher fixed rate mix under a favourable interest rate environment (or a higher floating rate mix under an unfavourable interest rate environment). Our strategy is to maintain the fixed interest rate portion of our debt at above 50% to optimise interest expense and enhance the certainty of earnings in the long run.

We use a bottom-up approach to identify and manage interest rate risks for the overseas investments of the Group. Each project company develops its own hedging programme, taking into consideration project debt service sensitivities to interest rate movements, lender requirements, power purchase agreement structures, tax and accounting implications. The purpose of each programme is to produce a risk profile which is appropriate to the specific business and consistent with the Group's strategic objectives.

Riding out the storm

CLP has been following a conservative approach to safeguard its earnings and cash flow position from the effects of interest rate movements. The major companies within the CLP Group have emphasised the fixed rate portion in their debt portfolio, in order to reduce interest rate exposure and enable management to focus their attention on achieving better operating performance. In terms of implementation, we prefer easy to understand, cost-and-hedge-effective instruments, such as fixed rate borrowings and interest rate swaps to reduce floating rate exposure.

The way ahead

With the co-ordination of interest rate cuts by major central banks, monetary authorities have chosen to use a close to zero interest rate policy to rescue the global economy from possible depression. Sooner or later, the extremely low interest rate environment may spark inflation concerns, once people are less concerned about receding economic growth. Whether interest rates rise or fall, our treasury policy will continue to require CLP entities to protect CLP from interest rate fluctuation through the review of fixed / floating interest rate mixes at least annually, and the corresponding implementation of interest rate hedging. The recent drop in long-term fixed swap rates to lower than recent historical levels may offer an opportunity to the Group to increase its fixed rate borrowings and further reduce the impact of interest rate fluctuations on our business portfolio.

As at 31 December 2008, the Group's fixed rate debt as a proportion of total debt was approximately 61% (55% for the Group and CAPCO combined). The sensitivity analysis of our interest rate exposure in accordance with the Hong Kong Financing Reporting Standard (HKFRS 7) requirements is set out in the Financial Statements on pages 200 and 201.

Foreign Currency Risk

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

The way we manage

We strive to reduce transactional foreign currency risks by matching assets with borrowings to assets in the same currency to the fullest extent possible. We recognise that the Group operates regionally and is exposed to translational foreign currency risk. We closely monitor this and conduct periodic reviews using the value-at-risk approach. The Group identifies, evaluates and addresses foreign currency risks using a bottom-up approach.

- Where appropriate and available on a cost-efficient basis, we finance our overseas project investments through the use of domestic currency. In addition, certain projects utilise direct and indirect indexing provisions in their project agreements to match those of the projects' costs which are incurred in foreign currencies. The objective of each project company is to be resilient to adverse movements in key currency exchange rates, so that it can meet its debt service requirements and achieve an acceptable investment return. To achieve that, each project company develops its own hedging programme into local currency 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 arising from the conversion of the equity in our overseas investments into the Group's reporting currency of Hong Kong dollars. Such translation gains or losses do not affect the project company's cash flow or the Group's annual profit until the 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.
- The Group's Hong Kong business operates under a regulatory regime which 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 movements on electricity tariffs in Hong Kong.

Riding out the storm

In recent months, non-USD currency movements against the U.S. dollar have been up to 35%. The interest rate cuts made in most countries have prompted investors to ask whether the U.S. dollar will rise or fall significantly from current levels. At CLP, we limit our unhedged foreign exchange exposure. First, CLP entities follow the Group treasury policy to cover the majority of their committed, and an appropriate portion of the anticipated, foreign currency exposure. Secondly, the borrowings of CLP Group entities are denominated in their respective functional currencies. This means that they use the same currency from revenues to make debt repayment, interest payments and operational payments. Translational foreign currency exposures are monitored and periodically reported to Directors. This allows Management to understand the exposures and to consider a timely response to any movements in foreign currencies where the Group has significant exposures through project investments.

The way ahead

The global foreign currency market experienced extraordinary volatility in the final three months of 2008. Even the Hong Kong dollar, which is pegged against the U.S. dollar under the Linked Exchange Rate System, appreciated to the strong side of its allowed range, despite the injection of huge amounts of Hong Kong dollars into the market by the Hong Kong Monetary Authority. We must guard against the likelihood of continued volatile movements of foreign currencies in the uncertain financial markets. This demands the continued application of our risk management policies on foreign exchange transactions and exposures, including through the disciplined execution of hedging transactions and effective ongoing monitoring of any exposure.

The sensitivity analysis explaining foreign currency risk exposure, in accordance with HKFRS 7 is set out under the heading "Financial Risk Management" in the Financial Statement on pages 198 and 199.

Australian Energy Market Risk

TRUenergy is a major participant in Australia's rapidly evolving electricity and gas industry. This necessarily involves us in wholesale energy market trading activities.

The way we manage

TRUenergy holds an integrated and diversified portfolio, largely based in Victoria. The integrated portfolio as a whole has less risk than its individual components, and provides flexibility to respond to shifting conditions across the value chain.

While wholesale energy market activities do involve an element of risk, significant risk taking is not consistent with TRUenergy's general business philosophy. We have comprehensive risk management policies and procedures in place to ensure our Australian energy market risk is managed within an acceptable level and that there are appropriate and effective internal controls. The amount of information we can publicly disclose about our risk management framework (and how specific that information can be) is constrained by the highly competitive market in which we operate. The basis of this framework is explained below.

- We have a number of limits and controls governing energy market transactions. TRUenergy groups its contracts into a number of books, based on the purpose of the contracts. This book structure forms the basis of energy risk measurement and reporting. Hedging activities must be consistent with a documented hedging plan that is approved on an annual basis by TRUenergy's Risk Management Committee. The primary purpose of the hedging plan is to minimise earnings volatility associated with mismatch between generation and customer load. Transactions for other purposes form only a minimal part of TRUenergy's portfolio and these are subject to approved limits and controls.
- We have a number of risk metrics, including Value-at-Risk measures, wholesale energy market Earnings-at-Risk measures and a number of stress tests that measure potential losses under extreme market conditions. Limits for these measures are approved by the TRUenergy Board and the Risk Management Committee and represent the risk tolerance for that particular activity. These are implemented for the purpose of avoiding excessive or unwanted risk.
- We ensure appropriate segregation of duties over energy market activities by having separate Front, Middle, and Back Office sections. Front Office executes the company's energy market strategies; Middle Office is responsible for maintaining the overall control environment and Back Office performs settlement, invoicing and accounting functions. Responsibilities for independent monitoring and reporting only come together with commercial decision making responsibilities at the highest level of the organisation.

- We enhance our risk governance through oversight by the Board and Risk Management Committee. The Board is ultimately responsible for all aspects of the risk management framework and approves TRUenergy's Risk Management Policy. TRUenergy's Risk Management Committee ensures that the risk management framework is adequate and effective and reviews risk-related issues and reports. TRUenergy also has a Risk Consultative Committee, which meets monthly, providing a forum for discussion of material risks within TRUenergy. Day-to-day activities such as monitoring, review and reporting sit within TRUenergy's Risk and Compliance team, which is directly accountable to the Risk Management Committee on such matters, supporting the independent nature of these specific responsibilities.

Riding out the storm

As noted in other sections of this Report, 2008 saw unprecedented volatility in financial markets. While the Australian energy market has not been significantly impacted, there have been some flow-on effects, with some trading participants leaving the market and the credit risk of certain customers and participants increasing, through their own exposures to financial market activities and as the slow-down in economic growth impacts on demand for customers' own products and services.

TRUenergy's wholesale energy-related hedging and trading activities (including gas and electricity sales to large customers) are carried out with approved institutions or counterparties that either have acceptable credit standing at defined limits or a guarantee from acceptable financial institutions. All counterparties are continually monitored and limits are adjusted for any change in the credit quality of the counterparties. In the third and fourth quarter of 2008, the limits for a number of counterparties were reduced to ensure that TRUenergy's exposure remained consistent with our risk tolerance. Consideration is made of the total exposure to the counterparty, where they transact with TRUenergy in more than one market (for example, financial institutions who are both treasury and energy market participants).

The way ahead

Looking ahead, TRUenergy must continue to closely monitor energy market counterparties, as well as to enhance and refine its risk management framework as the market changes and develops. TRUenergy has an Enterprise Risk Management framework that provides a basis for risk management across all aspects of the business. This involves identifying particular events or circumstances relevant to the organisation's objectives, assessing them in terms of likelihood and consequence, determining a response strategy, and monitoring progress. In 2009, TRUenergy plans to enhance the processes around Enterprise Risk Management, to ensure that risk management is embedded into all aspects of the business – including our philosophy, practices and business processes, not just as they relate to the energy market, but in all parts of our business.

Coal Procurement Risk

On an equity megawatt basis about two-thirds of the generating capacity in which the CLP Group holds an interest, directly or indirectly, is coal-fired. The costs of coal procurement are substantial. For example, in 2008 alone, we spent over HK$3 billion on the purchase of coal for Castle Peak Power Station in Hong Kong. Ineffective management of coal procurement could, therefore, have significant consequences for the CLP Group's financial position.

The way we manage

The financial exposure associated with coal costs is addressed in two ways – the efficient procurement of coal and the pursuit of off-take arrangements which provide our power generation facilities with the ability to pass on coal costs, in whole or in part.

A number of options are used by CLP to control its coal costs. For example, Yallourn Power Station benefits from its ownership of dedicated onsite coal reserves. BLCP is supplied by a single 25-year contract, which offers long-term security over the volume and pricing of coal deliveries. Other investments, such as our joint venture in the Chinese mainland with Guohua benefit from established relationships with coal suppliers, in this case Shenhua, the parent company of Guohua. Elsewhere, such as at Ho-Ping, we procure coal from a range of suppliers. This gives flexibility to seek out the optimum terms available but exposes us to the volatility of the international market.

Off-take arrangements vary in the method and degree to which our coal-fired generating facilities are able to pass through coal costs to customers or off-takers. There is a direct pass through in Hong Kong under the SoC. In Taiwan, the PPA with Taipower allows the tariff charged by Ho-Ping to be adjusted according to the price that Taipower itself pays for its coal, but with a time lag of 12 months. At Fangchenggang in China we depend on tariff adjustments intended to reflect actual coal prices but made at the discretion of the relevant PRC authorities.

When we consider investing in greenfield projects or making acquisitions of coal-fired generating capacity, the potential exposure to fuel costs is one of the key factors in our decision making process. For example, our successful bid for the Jhajjar project took into account the fact that coal is to be supplied by an Indian Government owned coal-company, with coal prices declared by the Government itself. The coal cost is then passed through to the off-taker under the PPA arrangements. We had previously bid for other greenfield coal-fired power station projects in India which had greater exposure to coal price risk. Our bids for those projects were unsuccessful because, compared to other bidders, we took a more cautious approach to the assessment of coal price risk. Coal prices have subsequently risen well beyond any projections at that time which, in our view, justifies this cautious approach.

Riding out the storm

Coal prices reached unprecedented levels and showed unprecedented volatility during 2008. For example, at one stage the price for coal sourced from Newcastle, Australia, peaked at US$180/tonne. By December, this had fallen to around US$80/tonne. This volatility was, in part, tied to the wider shift from optimism to gloom about the global economy. There were, however, a number of specific factors which affected the coal market, including reduced coal exports from the Mainland, infrastructure constraints on coal exports (such as rail and port problems in Australia), continuing growth in coal-fired generation and oil prices (oil costs account for a significant part of coal production costs). One of the responses of coal suppliers in this market environment has been a refusal to give long-term pricing, although certainty can still be achieved for volume. The combination of the procurement approaches and off-take arrangements described earlier has helped to mitigate the effects on CLP of coal price increases and volatility, but the coal price risk is currently higher than experienced historically in the power industry.

The way ahead

We must be realistic about our limited ability to accurately foresee price movements in the coal market. The events of the past year have reinforced that stance, so we will continue to develop and apply the risk management measures explained earlier. For example, our coal supply plan for Ho-Ping will involve consideration of a much wider field of suppliers than would previously have been the case. Fangchenggang is our asset that has the highest exposure to coal price changes and in these circumstances there is the most to be gained or lost through good coal procurement decisions. We are therefore developing closer relationships with selected Indonesian suppliers that may enable us to secure long-term supplies on favourable terms. Looking further forward to new coal fired projects, we are exploring the possibility of financing the development of a mine in Indonesia with associated preferential rights for coal supply.

Climate Change – Carbon Risk

Climate change can have a direct physical impact on our business facilities, through phenomena such as drought, severe storms, flooding and rising sea levels. It can also have an essentially financial impact through actions taken by government to regulate greenhouse gas emissions, including by the introduction of carbon taxation or emission trading schemes which affect fossil-fuelled power generation.

The way we manage

We manage our exposure to carbon cost and liabilities on two levels.

First, at a strategic level, by the implementation of our "Climate Vision 2050" that was initiated in December 2007. This commits us to reduce the carbon emissions intensity of our generation portfolio by 75% by 2050. We have set a number of intermediate targets to measure our progress on the trajectory towards this ultimate goal. We have also bound ourselves to a wide range of other actions and initiatives to reduce the carbon footprint of our business and to help our stakeholders reduce their own footprint.

Secondly, we review carbon emissions at the level of individual projects and investments. At the pre-investment stage we carefully assess and take into account emissions performance in determining whether we will proceed with any given greenfield project or acquisition. Poor emissions performance can, in itself, be a reason not to proceed with an investment – irrespective of other positive aspects, such as attractive financial returns. We have already exercised this discipline and stepped away from prospective investments. For our existing assets, we examine and implement engineering and process improvements to increase generation efficiency and to lower carbon emissions.

Riding out the storm

In recent months, a liquidity crisis combined with a broader loss of confidence has made lenders cautious in evaluating the risks associated with the long-term, substantial funding required by greenfield generation projects. In the case of coal-fired projects, carbon risk and liabilities do weigh on lenders' decision-making processes, as we have found in discussions with multilateral financial institutions in the course of the project financing for Jhajjar, India. On an individual project basis, we manage this risk by opting for the cleanest practical technology available, such as super-critical plant in the case of Jhajjar. We also explain to lenders how each individual project or investment falls within the long-term creation by the CLP Group of a balanced generating portfolio – one which respects the trajectory towards lower emission levels required by our Climate Vision 2050.

The way ahead

Some commentators have suggested that the present financial turmoil and economic slowdown may reduce the pace and scale at which governments seek to drive reductions in greenhouse gas emissions. CLP believes that it would be unwise and shortsighted to assume that this will be the case. Firstly, the general consensus amongst governments worldwide has been that the need to combat the risk of climate change rises above the impact of short-term economic troubles. In this respect, the announcement by the Australian Federal Government of its Carbon Pollution Reduction Scheme (more fully discussed on page 44 of this Annual Report) illustrates how governments can be determined to put through legislation on greenhouse gas emissions, even in the midst of economic uncertainty. Secondly, investment in the power industry is on such a long-term basis that CLP must look beyond current market conditions and take a prudent view of the trend of environmental regulation over the decades ahead. Our view is that, while such regulations may vary significantly from country to country, and between the developed and developing economies, the general trend towards compelling, or at least incentivising, the reduction of carbon emissions remains clear.

Corporate Governance

The management of all of the risks which affect CLP is supported and enhanced by our pursuit of a high standard of corporate governance. To me, corporate governance is a means of enabling a company to take all necessary business decisions at the right time, by the right people, possessing the right information and acting free of any improper influence or consideration. Whether good corporate governance adds shareholder value is perhaps an unproven proposition. However, I believe that it is a means to reduce the downside risk associated with improper decisions and actions.

CLP's corporate governance policies and practices are set out in the Corporate Governance Report at page 94. I wish to mention two aspects of corporate governance which seem particularly important in the current economic climate. The first of these is the maintenance of a strong, comprehensive and effective system of internal controls. Whilst no company, including CLP, can ever be free of the shadow of individual misdeed, we work extremely hard to promote, monitor and enforce integrity in all aspects of our operations. Secondly, at a time of fragile investor, lender and stakeholder confidence, the prompt delivery of accurate, relevant and up-to-date information can offer considerable reassurance. In the present troubled climate, this may require moving beyond past practices. This new form of Risk Management Report is an example of our awareness of the need to enhance our reporting, as was our decision in November to issue an updated statement of CLP's funding position to ease potential investor concern at a time of considerable turmoil.

Notwithstanding its considerable length, this Risk Management Report cannot by itself describe the entire range of the risk exposures of the CLP Group, nor the full extent of the measures we have in hand to manage these risks (more information on this is on our website). Nonetheless, I hope that in this Report I have been able to convey to shareholders and all stakeholders CLP's determination to assess business risks in a structured and alert manner and to manage these risks effectively.

Peter P. W. Tse
Group Executive Director and Chief Financial Officer
Hong Kong, 26 February 2009

Officiating at one of our environmental events

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 CLP Holdings Board has given the Audit Committee written terms of reference prepared by reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants, and updated by reference to the Stock Exchange "Code on Corporate Governance Practices". 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;
- assure that appropriate accounting principles and reporting practices are followed;
- satisfy itself as to the adequacy of the scope and direction of external and internal auditing; and
- 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 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 2008 to 26 February 2009, 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 2008, 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 2008.

Individual attendance of members at the four meetings held in 2008 is set out on a named basis in the Corporate Governance Report at page 94. The work performed by the Committee in 2008 included reviews of

- the 2007 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, resulting in a recommendation to the Board for approval;
- the 2008 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2008 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 2007 and throughout the six months ended 30 June 2008. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 96 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 2007. 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 these cases 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 2007*;
- 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 2007, 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 2007 for approval by the Board, with a recommendation to the Board for their reappointment for the financial year 2008, subject to final approval by shareholders* (which was given on 29 April 2008);
- the audit strategy submitted by external auditors, PricewaterhouseCoopers (PwC) for the year ended 31 December 2008;
- the proposed engagement of external auditors in respect of audit-related and permissible non-audit services*;
- 24 reports on the CLP Group's affairs submitted by Group Internal Audit during 2007. Of these, one carried an unsatisfactory audit opinion. The issues arising from these audits have been addressed;
- the staffing and resources of the Group's Internal Audit department;
- the Group internal audit plan for 2008 with areas of emphasis identified;
- internal control review approach for 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 CLP's deregistration from the U.S. Securities and Exchange Commission reporting requirements;
- Code of Conduct issues identified in 2008. None of the 8 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, accounting and internal audit positions within the CLP Group.

At its meeting on 17 February 2009, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2008 and the annual results announcement with a recommendation to the Board for approval. The Committee was advised that 3 out of 27 reports on the Group's affairs submitted by Group Internal Audit during 2008 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, the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget, and the internal audit plan for 2009. 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 2008.

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 2008 continue to be effective and adequate. Significant issues which have been raised by external or internal auditors during 2008 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 94. 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 2008 Annual General Meeting. PwC audit all companies in the CLP Group which require statutory audit opinions. Having reviewed PwC's performance during 2008 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 Moore
Chairman, Audit Committee
Hong Kong, 26 February 2009

Remuneration Report

1. Introduction

On behalf of the Board, the Human Resources & Remuneration Committee closely scrutinises 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.

The contents of sections 4, 5, 6 and 8, highlighted below in green, 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 most recently reviewed at the beginning of 2007 (the 2007 Review). The methodology adopted in the 2007 Review is 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;
- 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.); 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 levels of fees set out in the table on page 124 of this Report 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.

4. Total Directors' Remuneration in 2008

The total remuneration of Non-executive and Executive Directors in 2008 was:

	2008 HK$M	2007 HK$M
Fees	7	7
Base compensation, allowances and benefits in kind	16	15
Performance bonus*		
– Annual incentive	15	14
– Long-term incentive	3	7
Provident fund contributions	2	2
	43	45

* Refer to Note A on performance bonus on page 125.

Of the total remuneration paid to Directors, HK$3 million (2007: HK$2 million) has been charged to the SoC operation.

5. Non-executive Directors – Remuneration in 2008

The fees paid to each of our Non-executive Directors in 2008 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below. The increase in total Directors' fees, compared to 2007, was primarily due to the full year effect in 2008 of an increase in the levels of Non-executive Directors' fees which took effect on 25 April 2007.

Higher levels of fees were paid to Chairman and Vice Chairman of the Board and Board Committees as indicated by "C" and "VC" respectively. Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

In HK$	Board	Audit Committee	Nomination Committee	Finance & General Committee	Regulatory Affairs Committee[1]	Human Resources & Remuneration Committee	Provident & Retirement Fund Committee	Sustainability Committee	China Committee	**Total 2008**	Total 2007
Non-executive Directors											
The Hon. Sir Michael Kadoorie	430,000 [C]	–	14,000 [C]	–	–	–	–	–	60,000 [C]	**504,000**	454,243
Mr. W. E. Mocatta	340,000 [VC]	–	–	215,000 [C]	2,473	40,000 [C]	14,000 [C]	–	45,000	**656,473**	585,547
Mr. J. S. Dickson Leach[2]	101,346	–	–	–	–	–	–	–	–	**101,346**	275,359
Mr. R. J. McAulay	310,000	–	–	–	–	–	–	–	–	**310,000**	275,359
Mr. J. A. H. Leigh	310,000	–	–	–	–	–	–	–	–	**310,000**	275,359
Mr. R. Bischof	310,000	–	–	–	–	–	10,000	–	–	**320,000**	282,210
Mr. I. D. Boyce	310,000	–	–	–	–	–	–	–	–	**310,000**	275,359
Mr. Jason Whittle[3]	310,000	–	–	128,886	2,473	–	–	29,103	–	**470,462**	453,591
Dr. Y. B. Lee	310,000	–	–	–	–	–	–	–	45,000	**355,000**	298,232
Mr. Paul A. Theys	310,000	–	–	–	2,473	–	–	–	45,000	**357,473**	–
Mr. P. C. Tan[4]	–	–	–	–	–	–	–	–	–	**–**	318,267
Independent Non-executive Directors											
The Hon. Sir S. Y. Chung	310,000	–	10,000	–	2,473	30,000	–	–	–	**352,473**	325,636
Dr. William K. Fung[5]	77,500	–	2,500	–	–	–	–	8,750	–	**88,750**	315,635
Mr. V. F. Moore	310,000	220,000 [C]	–	155,000	2,473	30,000	–	–	–	**717,473**	641,824
Mr. Hansen C. H. Loh	310,000	160,000	7,500	–	2,473	–	–	–	–	**479,973**	433,039
Mr. Paul M. L. Kan	310,000	–	–	–	–	–	–	–	–	**310,000**	275,359
Professor Judy Tsui	310,000	160,000	–	–	–	–	–	35,000	45,000	**550,000**	490,165
Sir Rod Eddington	310,000	–	–	155,000	–	30,000	–	–	–	**495,000**	433,867
Mr. Peter T. C. Lee	310,000	–	–	–	–	–	–	35,000	–	**345,000**	264,806
Ms. Marjorie M. T. Yang[6]	180,549	–	–	–	–	–	–	–	26,209	**206,758**	–
									Total	**7,240,181**	6,673,857

Notes:

(1) The Regulatory Affairs Committee was abolished on 1 March 2008.

(2) Mr. J. S. Dickson Leach resigned as a Director on 29 April 2008.

(3) Mr. Jason Whittle resigned as a Member of the Finance & General Committee and Sustainability Committee on 31 October 2008.

(4) Mr. P. C. Tan resigned as a Director on 15 December 2007.

(5) Dr. William K. Fung resigned as a Director and a Member of the Nomination Committee and Sustainability Committee on 1 April 2008.

(6) Ms. Marjorie M. T. Yang was appointed as a Director on 1 June 2008 and resigned on 20 January 2009.

Mr. W. E. Mocatta also received HK$226,304 (2007: HK$227,000) 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 2008

The remuneration paid to the Executive Directors of the Company in 2008 was as follows:

	Base Compensation, Allowances & Benefits HK$M	Performance Bonus (Note A) Annual Incentive HK$M	Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total HK$M
2008					
CEO (Mr. Andrew Brandler)	6.8	6.6	1.6	0.8	15.8
Group Executive Director & CFO (Mr. Peter P. W. Tse)	4.5	3.8	1.3	0.5	10.1
Group Executive Director – Strategy (Mr. Peter W. Greenwood)	5.0	4.7	–	0.6	10.3
	16.3	15.1	2.9	1.9	36.2
2007					
CEO	6.4	6.2	2.0	0.8	15.4
Group Executive Director & CFO	4.4	3.8	1.6	0.5	10.3
Group Executive Director – Strategy	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

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 2008 was reviewed and approved by the Human Resources & Remuneration Committee after 31 December 2008. 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 2008 for the last year in excess of the previous accruals made.

(b) The long-term incentive (LTI) is the incentive for 2005, paid in 2008 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2004 paid in 2007). About 29% of the amount of 2005 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2005 and 2007, with dividends reinvested.

(c) Payment of the annual incentive and granting of the LTI awards relating to 2008 performance will be made in March 2009. These payments and awards are subject to the prior approval of the Human Resources and Remuneration Committee. Details of these will be published on the CLP Group website at the time that the 2008 Annual Report is published.

Note B:

The concerned Executive Director retired 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 him upon retirement.

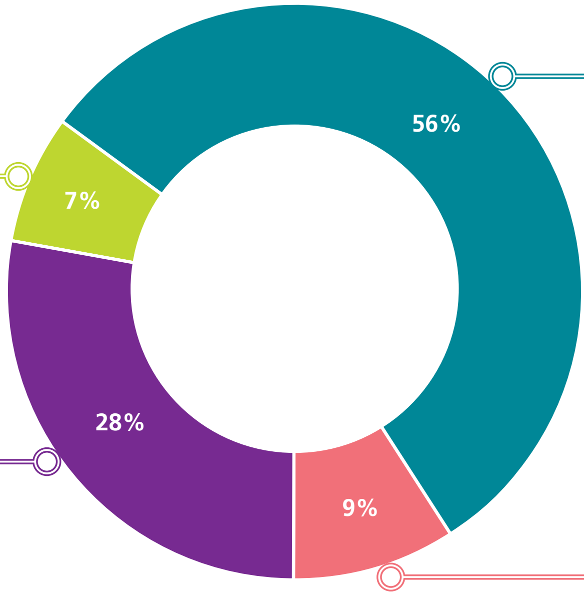
The Group does not have, and has never had, a share option scheme.

No Executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of six months or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind.

7. Senior Management – Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 8.

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 remuneration policies applied to Senior Management, including the levels of performance bonus, are subject to the approval of the Human Resources & Remuneration Committee. No members of Senior Management serve on the Committee. The four components of remuneration of members of Senior Management are explained below, including the proportion of total remuneration which each component represented in both 2007 and 2008.



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.

A payout was made in 2008, based on an assessment of the 2007 performance of the Group and the individuals concerned. The average payout to this group in 2008 was 94% above the target level based on the above target achievement of financial goals, operational performance targets and individual objectives for 2007.

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.

Base Compensation

Base Compensation is reviewed annually taking into consideration the competitive market position, market practice and the individual performance of members of Senior Management.

Long-term Incentive

The Long-term Incentive (LTI) Plan 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 LTI Plan was introduced in 2001 with the first award being paid to the eligible individuals in 2004. The final award under this scheme was paid in March 2008.

In order to strengthen the linkage to organisational and individual performance and enhance its effectiveness as a retention plan, the LTI Plan was modified in 2006. The following diagram illustrates the composition of the revised LTI award:

Target LTI award set at the beginning of 2006

×

Performance multiplier (weighted combination of individual and organisational performance for the year preceding that in which the award is made)

=

Actual LTI award:

a) A minimum of 50% of the award and up to a maximum of 100% allocated to CLP Holdings phantom shares

b) The remainder of the award up to a maximum of 50% is allocated to a notional cash deposit

First payment of LTI award will be made in 2009

Consequently, the final value of the award, at the vesting date, is based on the initial choices made and the subsequent impact of changes in share price, dividend reinvestment, exchange rate movements, and interest earned during the three years.

8. Senior Management – Remuneration in 2008

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, the Group Director – Corporate Finance and Development and the Group Director – Carbon Ventures.

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
2008						
Group Director – Managing Director Hong Kong (Mrs. Betty Yuen)	**4.7**	**4.6**	**1.3**	**0.6**	**–**	**11.2#**
Group Director – Managing Director Australia (Mr. Richard McIndoe)	**4.7**	**4.6**	**1.2**	**0.6**	**8.2(a)**	**19.3**
Managing Director – China (Mr. Shen Zhongmin) (resigned on 31 August 2008)	**2.0**	**1.1**	**–**	**0.2**	**2.8(b)**	**6.1**
Managing Director – China (Dr. Ko Yu Ming)(c)	**0.8**	**0.4**	**–**	**0.1**	**–**	**1.3**
Managing Director – India (Mr. Rajiv Mishra)	**2.8**	**2.2**	**–**	**0.3**	**–**	**5.3**
Chief Executive Officer – OneEnergy Limited (Mr. Mark Takahashi)	**3.3**	**3.0**	**0.7**	**0.4**	**–**	**7.4**
Group Director – Operations (Mr. Peter Littlewood)	**3.4**	**3.2**	**0.7**	**0.4**	**–**	**7.7**
Group Director – Corporate Finance and Development (Mr. Stefan Robertsson)	**2.6**	**2.2**	**0.6**	**0.3**	**–**	**5.7**
Group Director – Carbon Ventures (Mr. Giuseppe Jacobelli)	**1.4**	**0.7**	**–**	**0.2**	**0.8(d)**	**3.1**
	25.7	**22.0**	**4.5**	**3.1**	**11.8**	**67.1**
2007						
Group Director – Managing Director Hong Kong	4.4	4.3	1.6	0.6	–	10.9#
Group Director – Managing Director Australia	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(b)	6.3
Managing Director – India	2.0	2.0	0.2	0.2	–	4.4
Chief Executive Officer – OneEnergy Limited	2.9	2.9	0.9	0.4	–	7.1
Group Director – Operations	3.1	3.1	0.9	0.4	–	7.5
Group Director – Corporate Finance and Development	2.5	2.2	0.7	0.3	–	5.7
	22.0	20.4	5.8	2.8	6.8	57.8

Notes:

(a) Payment for tax equalisation, housing allowance and children's education allowances, if any, for secondment to offices outside Hong Kong. Out of this payment, HK$7.3 million (89%) (2007: HK$3.9 million (76%)) was the tax payment to the tax authority of the country where the executive was based during secondment.

(b) Payment for tax equalisation, housing allowance and children's education allowances, if any, for secondment to offices outside Hong Kong. Out of this payment, HK$2.5 million (89%) (2007: HK$1.2 million (71%)) was the tax payment to the tax authority of the country where the executive was based during secondment.

(c) Dr. Ko Yu Ming became Managing Director – China on 31 August 2008, and the remuneration covered the period from that date to 31 December 2008.

(d) A lump sum payment to Mr. Giuseppe Jacobelli upon his joining the Group as Group Director – Carbon Ventures effective from 16 June 2008.

* Refer to Note A on performance bonus on page 125.

\# The total of this remuneration has been charged to the SoC operation.

The five highest paid individuals in the Group included two Directors (2007: two Directors), two members of Senior Management (2007: three members) and a former senior executive of the CLP Group. The total remuneration of the five highest paid individuals in the Group is shown below:

	2008 HK$M	2007 HK$M
Base compensation, allowances and benefits in kind	25	23
Performance bonus *		
– Annual incentive	24	22
– Long-term incentive	4	7
Provident fund contributions	3	3
Final payment #	5	–
Other payments **	8	5
	69	60

* Refer to Note A on performance bonus on page 125.

** Refer to Note (a) on other payments on page 128.

\# Included payment in lieu of notice, ex-gratia payment and compensation for loss of office paid to a former senior executive upon leaving. Such payments are not part of the remuneration arrangement of the Group, but may be payable, where appropriate, upon approval by the Chairman of the Human Resources & Remuneration Committee.

The remuneration paid to these five individuals is within the following bands:

	Number of Individuals 2008	2007
HK$ 7,500,001 – HK$ 8,000,000	–	1
HK$10,000,001 – HK$10,500,000	1	1
HK$10,500,001 – HK$11,000,000	–	1
HK$11,000,001 – HK$11,500,000	1	–
HK$12,000,001 – HK$12,500,000	1	–
HK$15,000,001 – HK$15,500,000	–	1
HK$15,500,001 – HK$16,000,000	1	1
HK$19,000,001 – HK$19,500,000	1	–

9. Continued Scrutiny and Disclosure

The Human Resources & Remuneration Committee remains committed to the careful oversight of remuneration policies and levels in the interests of the Company and its shareholders, and to honest and open disclosure on these matters.

W. E. Mocatta
Chairman
Human Resources & Remuneration Committee
Hong Kong, 26 February 2009

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2008.

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 14 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 15 and 16 to the Financial Statements respectively.

Earnings and Final Dividend

	2008 HK$M	2007 HK$M
Total earnings for the year	10,423	10,608
Less: Interim dividends of HK$1.56 (2007: HK$1.56) per share paid	(3,757)	(3,757)
Balance after interim dividends	6,666	6,851
The Directors recommend that this balance be dealt with as follows:		
Final dividend of HK$0.92 (2007: HK$0.92) per share	2,214	2,216
Retained profits for the year	4,452	4,635
	6,666	6,851

Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting to be held on 28 April 2009 (AGM), the final dividend will be paid on 29 April 2009.

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 18 to 67 of this Annual Report. In view of the general financial and market turmoil of recent months the Directors have reinforced their review of matters relating to the Group's overall financial position, including cash flow and funding requirements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in Note 27 to the Financial Statements.

Purchase, Sale or Redemption of the Company's Listed Shares

During the year, the Company repurchased a total of 2,102,500 shares of HK$5.00 each of the Company on The Stock Exchange of Hong Kong Limited at an aggregate price of HK$102 million. Details of the repurchases are set out in Note 27 to the Financial Statements. All the shares repurchased up to 31 December 2008 have been cancelled. The repurchases were effected by the Directors for the enhancement of long-term shareholder value.

Save as disclosed above, 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$21,421 million as at 31 December 2008 (2007: HK$20,854 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 143 and 144 of this Annual Report.

Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK$7,644 million, comprising HK$6,526 million in owned assets (on transmission and distribution equipment, land and buildings) and HK$1,118 million in leased assets. In 2007, a total addition of HK$8,256 million was recorded, made up of HK$7,651 million for owned assets and HK$605 million for leased assets.

Additions to the fixed assets of CAPCO totalled HK$2,174 million for the year.

Details of movements in the fixed assets of the Group are shown under Note 12 to the Financial Statements.

Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2008 amounted to HK$26,696 million (2007: HK$28,360 million). Particulars of borrowings are set out in Note 22 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 6.1% of the Group's total assets as at 31 December 2008.

Finance Costs Capitalised

Finance costs amounting to HK$380 million (2007: HK$302 million) were capitalised by the Group during the year as set out in Note 7 to the Financial Statements.

Donations

Donations by the Group for charitable and other purposes amounted to HK$7,507,000 (2007: HK$3,902,000).

Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2008 and for the previous four financial years are set out on pages 208 and 209 of this Annual Report. A ten-year summary of the results, assets and liabilities of the Group is on the CLP Website.

Directors

The Directors of the Company, whose names appear on pages 6 and 7 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 122 of this Annual Report.

Mr. Paul A. Theys was appointed a Non-executive Director effective from 1 January 2008. Dr. William K. Fung retired as an Independent Non-executive Director with effect from 1 April 2008 and Mr. J. S. Dickson Leach retired as a Non-executive Director effective from 29 April 2008. Ms. Marjorie M. T. Yang was appointed an Independent Non-executive Director with effect from 1 June 2008 and resigned on 20 January 2009.

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, Mr. I. D. Boyce, Dr. Y. B. Lee and Messrs. Jason Whittle, Peter T. C. Lee, Peter W. Greenwood, R. Bischof and W. E. Mocatta retire by rotation and, being eligible, offer themselves for re-election.

None of the Directors offering themselves for 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 2008 were as follows:

Mr. J. A. H. Leigh, alternate to Mr. R. Bischof	}	
Mr. I. D. Boyce, alternate to Mr. R. J. McAulay and Mr. W. E. Mocatta	}	(for the year)
Mr. Jason Whittle, alternate to Mr. R. J. McAulay	}	
Mr. Neo Kim Teck, alternate to Mr. Paul A. Theys	}	

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.

Mr. W. E. Mocatta ceased to be alternate to Mr. J. S. Dickson Leach upon the resignation of Mr. Dickson Leach on 29 April 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 2008, 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 2008 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	19.75697
Mr. W. E. Mocatta	Founder of a discretionary trust	250,000	0.01039
Mr. R. J. McAulay	Note (b)	439,800,565	18.27824
The Hon. Sir S. Y. Chung	Beneficial owner	393,789	0.01637
Mr. J. A. H. Leigh	Note (c)	402,050,991	16.70935
Mr. R. Bischof	Beneficial owner	50,000	0.00208
Mr. Andrew Brandler (Chief Executive Officer)	Note (d)	10,600	0.00044
Mr. Peter P. W. Tse	Note (e)	20,600	0.00086
Dr. Y. B. Lee	Note (f)	15,806	0.00066
Mr. Jason Whittle	Note (g)	238,409,771	9.90838
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 19.76% 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) 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.

(c) 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 (b) above. In addition, 57,000 shares were held by Mr. J. A. H. Leigh in a beneficial owner capacity.

(d) 600 shares were held in a personal capacity and 10,000 shares were held in a beneficial owner capacity.

(e) 600 shares were held in a personal capacity and 20,000 shares were held in a beneficial owner capacity.

(f) 600 shares were held in a personal capacity and 15,206 shares were held jointly with spouse.

(g) 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, Peter T. C. Lee and Paul A. Theys, Professor Judy Tsui and Sir Rod Eddington who are Directors of the Company, Ms. Marjorie M. T. Yang who resigned on 20 January 2009, and Mr. Neo Kim Teck who is an Alternate Director have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2008.

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 2008.

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 2008.

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 2008, 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 2008.

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)	9.82
Bermuda Trust Company Limited	Trustee / Interests of controlled corporations	678,831,636	Note (a)	28.21
Bermuda Trust (Cayman) Limited	Trustee / Interests of controlled corporations	399,920,391	Note (b)	16.62
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)	8.17
Merlin Investments Limited	Beneficiary	196,468,538	Note (a)	8.17
Mikado Holding Inc. (now known as New Mikado Holding Inc.)	Trustee	239,044,212	Note (a)	9.93
Mikado Investments Limited (now known as Mikado Investments (PTC) 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)	8.46
New Boron Holding Corporation	Trustee	200,615,738	Note (a)	8.34
Oak CLP Limited	Beneficiary	196,554,172	Note (b)	8.17
Oak (Unit Trust) Holdings Limited	Trustee	196,554,172	Notes (a) & (b)	8.17
Mr. R. Parsons	Trustee	401,993,991	Note (c)	16.71
The Hon. Sir Michael Kadoorie	Note (d)	475,381,026	Note (d)	19.76
Mr. R. J. McAulay	Note (e)	439,800,565	Note (e)	18.28
Mr. Jason Whittle	Note (f)	238,409,771	Note (f)	9.91
Guardian Limited	Beneficiary / Interests in controlled corporations	401,993,991	Note (c)	16.71
The Mikado Private Trust Company Limited	Trustee / Interests in controlled corporations	475,379,783	Note (a)	19.76
Mr. J. A. H. Leigh	Note (c)	402,050,991	Note (c)	16.71
Goshawk Investments Limited (now known as Merlin Investments No. 2 Limited)	Beneficiary	198,542,138	Note (a)	8.25
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)	9.82

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. (now known as New Mikado Holding Inc.), Mikado Investments Limited (now known as Mikado Investments (PTC) 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. (now known as New Mikado Holding Inc.), Mikado Investments Limited (now known as Mikado Investments (PTC) Limited), Oak (Unit Trust) Holdings Limited and Goshawk Investments Limited (now known as Merlin Investments No. 2 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.

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 (now known as Harneys 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 (now known as Harneys 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 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, Mr. J. A. H. Leigh 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 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 57,000 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 and / 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 19.76% 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 (b) under "Interests of Directors and Chief Executive Officer".

(f) See Note (g) 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 2008, 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 2008, 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 8 of this Annual Report. Details of the remuneration of the Senior Management are set out in the Remuneration Report at page 122 of this Annual Report.

Major Customers and Suppliers

Sales to the Group's five largest customers together represented less than 30% of the Group's total turnover during the year. Purchases from the Group's five largest suppliers together accounted for 74.82% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 39.10% 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 was an alternate director until 19 June 2008. 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. 14.15% 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. 9.36% from Guangdong Nuclear Investment Company, Limited (GNIC) in which the Group has no interest.

4. 7.01% from Gujarat State Petroleum Corporation Ltd. (GSPC) in which the Group has no interest. GSPC is India's State Government-owned company in the oil and gas exploration and production business.

5. 5.20% from Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) of which Mr. Peter P. W. Tse is a director and Mr. Andrew Brandler was a director until 30 August 2008. GNPJVC is 25% and 75% owned by the Group and GNIC respectively and supplies electricity to the Group.

As at 31 December 2008, 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. (now known as New Mikado Holding Inc.), Mikado Investments Limited (now known as Mikado Investments (PTC) 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.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 31 to the Financial Statements. None 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 94 of this Annual Report, whilst our Sustainability Report describes the Company's actions and initiatives in line with our commitment to the principle of sustainable development.

Auditors

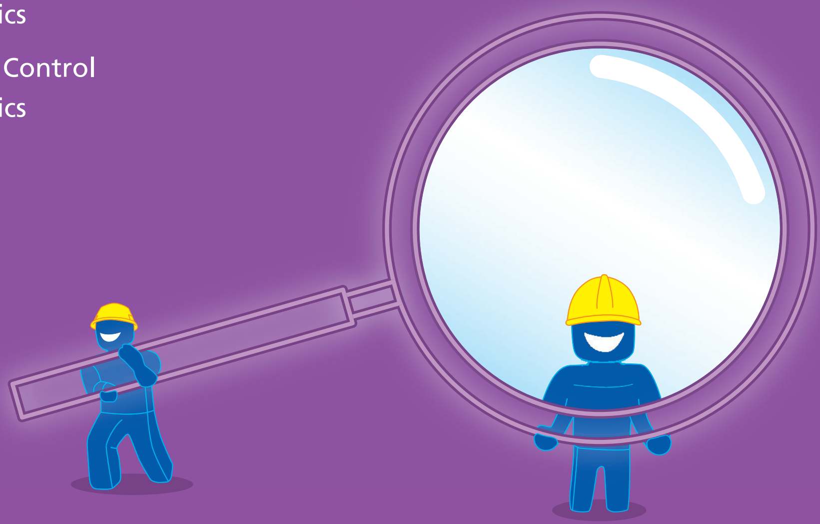
The Financial Statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the AGM of the Company.

By Order of the Board

W. E. Mocatta

W. E. Mocatta
Vice Chairman
Hong Kong, 26 February 2009

WHAT IS IN OUR ACCOUNTS?



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 139 to 204, which comprise the consolidated and company balance sheets as at 31 December 2008, and 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 judgment, 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 2008 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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 26 February 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 HK$M	2007 HK$M
Revenue	3	54,297	50,789
Expenses			
Purchases of electricity, gas and distribution services		(18,235)	(17,973)
Operating lease and lease service payments	4	(9,102)	(7,372)
Staff expenses		(1,755)	(1,900)
Fuel and other operating expenses		(8,570)	(7,712)
Depreciation and amortisation		(4,055)	(4,650)
		(41,717)	(39,607)
Other income	5	727	2,122
Operating profit	6	13,307	13,304
Finance costs	7	(4,245)	(5,041)
Finance income	7	124	160
Share of results, net of income tax			
jointly controlled entities	15	2,624	3,024
associated companies	16	(27)	1
Profit before income tax		11,783	11,448
Income tax expense	8	(1,349)	(837)
Profit for the year		10,434	10,611
Profit attributable to minority interests		(11)	(3)
Earnings attributable to shareholders	9	10,423	10,608
Dividends	10		
Interim dividends paid		3,757	3,757
Final dividend proposed		2,214	2,216
		5,971	5,973
Earnings per share, basic and diluted	11	HK$4.33	HK$4.40

The notes and disclosures on pages 146 to 204 are an integral part of these consolidated financial statements.

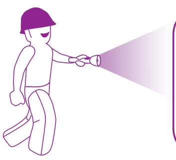
Consolidated Balance Sheet
as at 31 December 2008

	Note	2008 HK$M	2007 HK$M
Non-current assets			
Fixed assets	12(A)	86,873	86,413
Leasehold land and land use rights	12(B)	2,250	2,196
Goodwill and other intangible assets	13	6,324	8,135
Interests in jointly controlled entities	15	17,791	17,684
Interests in associated companies	16	242	299
Finance lease receivables	17	2,387	3,130
Deferred tax assets	24	2,992	3,915
Fuel clause account	25	800	–
Derivative financial instruments [1, 2]	18	1,421	675
Other non-current assets		482	552
		121,562	122,999
Current assets			
Inventory – stores and fuel		662	667
Trade and other receivables [1]	19	8,239	7,121
Finance lease receivables	17	128	152
Fuel clause account	25	–	132
Derivative financial instruments [1, 2]	18	1,458	2,427
Bank balances, cash and other liquid funds	20	782	2,779
		11,269	13,278
Current liabilities			
Customers' deposits	19(a)	(3,722)	(3,589)
Trade and other payables [1]	21	(5,919)	(6,023)
Income tax payable		(366)	(237)
Bank loans and other borrowings [1]	22	(3,313)	(2,868)
Obligations under finance leases	23	(1,403)	(1,431)
Derivative financial instruments [1, 2]	18	(1,221)	(1,689)
Scheme of Control (SoC) reserve accounts	26	–	(2,300)
		(15,944)	(18,137)
Net current liabilities		(4,675)	(4,859)
Total assets less current liabilities		116,887	118,140

Consolidated Balance Sheet (continued)

as at 31 December 2008

	Note	2008 HK$M	2007 HK$M
Financed by:			
Equity			
Share capital	27	12,031	12,041
Share premium		1,164	1,164
Reserves	28		
Proposed dividends		2,214	2,216
Others		47,608	48,480
Shareholders' funds		63,017	63,901
Minority interests		105	95
		63,122	63,996
Non-current liabilities			
Bank loans and other borrowings [1]	22	23,383	25,492
Obligations under finance leases	23	20,362	20,785
Deferred tax liabilities	24	6,435	6,344
Derivative financial instruments [1, 2]	18	814	559
SoC reserve accounts	26	1,826	–
Other non-current liabilities		945	964
		53,765	54,144
Equity and non-current liabilities		116,887	118,140



[1] The risk exposures of these financial instruments are detailed in "Financial Risk Management" on pages 198 to 204.

[2] This year we have an expanded discussion on derivatives on pages 20 to 22.

W. E. Mocatta
Vice Chairman

Andrew Brandler
Chief Executive Officer

Peter P. W. Tse
Chief Financial Officer

Hong Kong, 26 February 2009

The notes and disclosures on pages 146 to 204 are an integral part of these consolidated financial statements.

Balance Sheet
as at 31 December 2008

	Note	2008 HK$M	2007 HK$M
Non-current assets			
Fixed assets	*12(A)*	42	22
Investments in subsidiaries	*14*	37,933	36,650
Advance to a subsidiary	*14*	39	41
Other non-current assets		2	5
		38,016	36,718
Current assets			
Trade and other receivables	*19*	55	9
Bank balances and cash		1	4
		56	13
Current liabilities			
Trade and other payables	*21*	(192)	(103)
Advances from subsidiaries	*31(C)*	(106)	(87)
Bank loans and other borrowings	*22*	(166)	–
		(464)	(190)
Net current liabilities		(408)	(177)
Total assets less current liabilities		37,608	36,541
Financed by:			
Equity			
Share capital	*27*	12,031	12,041
Share premium		1,164	1,164
Reserves			
Proposed dividends		2,214	2,216
Others		21,699	21,120
Shareholders' funds		37,108	36,541
Non-current liabilities			
Bank loans and other borrowings	*22*	500	–
Equity and non-current liabilities		37,608	36,541

W. E. Mocatta
Vice Chairman

Andrew Brandler
Chief Executive Officer

Peter P. W. Tse
Chief Financial Officer

Hong Kong, 26 February 2009

The notes and disclosures on pages 146 to 204 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Note	Attributable to shareholders: Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Minority Interests HK$M	Total HK$M
Balance as at 1 January 2007		12,041	1,164	42,633	78	55,916
Net exchange gains	*28*	–	–	2,621	10	2,631
Cash flow hedges, net of tax	*28*	–	–	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 final		–	–	(2,192)	–	(2,192)
2007 interim		–	–	(3,757)	–	(3,757)
Dividends paid to minority interests		–	–	–	(5)	(5)
Capital contribution from minority interests		–	–	–	9	9
Share of movements in reserves of jointly controlled entities	*28*	–	–	225	–	225
		–	–	(5,724)	4	(5,720)
Balance as at 31 December 2007		12,041	1,164	50,696	95	63,996
Balance as at 1 January 2008		12,041	1,164	50,696	95	63,996
Net exchange losses	*28*	–	–	(4,533)	(1)	(4,534)
Cash flow hedges, net of tax	*28*	–	–	114	–	114
Net losses recognised directly in equity		–	–	(4,419)	(1)	(4,420)
Profit for the year		–	–	10,423	11	10,434
Total recognised income for the year		–	–	6,004	10	6,014
Dividends paid						
2007 final		–	–	(2,216)	–	(2,216)
2008 interim		–	–	(3,757)	–	(3,757)
Repurchase of shares		(10)	–	(91)	–	(101)
Disposal of jointly controlled entities		–	–	(319)	–	(319)
Share of movements in reserves of jointly controlled entities	*28*	–	–	(495)	–	(495)
		(10)	–	(6,878)	–	(6,888)
Balance as at 31 December 2008		**12,031**	**1,164**	**49,822**	**105**	**63,122**

The notes and disclosures on pages 146 to 204 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

for the year ended 31 December 2008

	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 2007	12,041	1,164	2,482	19,913	35,600
Profit for the year	–	–	–	6,890	6,890
Dividends					
2006 final	–	–	–	(2,192)	(2,192)
2007 interim	–	–	–	(3,757)	(3,757)
Balance as at 31 December 2007	12,041	1,164	2,482	20,854[(a)]	36,541
Balance as at 1 January 2008	12,041	1,164	2,482	20,854	36,541
Profit for the year	–	–	–	6,641	6,641
Dividends					
2007 final	–	–	–	(2,216)	(2,216)
2008 interim	–	–	–	(3,757)	(3,757)
Repurchase of shares	(10)	–	10	(101)	(101)
Balance as at 31 December 2008	**12,031**	**1,164**	**2,492**	**21,421**[(a)]	**37,108**

Note (a): The proposed final dividend as at 31 December 2008 was HK$2,214 million (2007: HK$2,216 million) and the balance of retained profits after the proposed final dividend was HK$19,207 million (2007: HK$18,638 million).

As at 31 December 2008, distributable reserves of the Company amounted to HK$21,421 million (2007: HK$20,854 million).

The notes and disclosures on pages 146 to 204 are an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 HK$M	2008 HK$M	2007 HK$M	2007 HK$M
Operating activities					
Net cash inflow from operations	*29*	15,916		15,687	
Interest received		132		162	
Income tax paid		(810)		(1,026)	
Net cash inflow from operating activities			15,238		14,823
Investing activities					
Capital expenditure		(6,569)		(6,632)	
Capitalised interest paid		(388)		(295)	
Proceeds from disposal of fixed assets		175		93	
Additions of intangible assets		(168)		(86)	
Additions of other non-current assets		(106)		(106)	
Acquisition of subsidiaries		(321)		–	
Proceeds from sale of SEAGas		895		–	
Proceeds from asset swap with AGL		–		1,913	
Proceeds from transfer of Ho-Ping to OneEnergy		–		3,203	
Investments in and advances to jointly controlled entities		(1,347)		(300)	
Dividends received from jointly controlled entities		2,676		3,759	
Net cash (outflow) / inflow from investing activities			(5,153)		1,549
Net cash inflow before financing activities			10,085		16,372
Financing activities					
Proceeds from long-term borrowings		9,591		14,076	
Repayment of long-term borrowings		(11,083)		(16,342)	
Repayment of obligations under finance leases		(1,558)		(1,270)	
Increase / (decrease) in short-term borrowings		1,872		(1,126)	
Interest and other finance costs paid		(4,074)		(4,778)	
Repurchase of shares		(101)		–	
Dividends paid		(5,973)		(5,954)	
Net cash outflow from financing activities			(11,326)		(15,394)
Net (decrease) / increase in cash and cash equivalents			(1,241)		978
Cash and cash equivalents at beginning of year			2,160		1,094
Effect of exchange rate changes			(139)		88
Cash and cash equivalents at end of year			780		2,160
Analysis of balances of cash and cash equivalents					
Short-term investments			90		519
Deposits with banks			228		1,932
Cash at banks and on hand			464		328
Bank balances, cash and other liquid funds	*20*		782		2,779
Excluding cash restricted for specific purposes			(2)		(619)
			780		2,160

The notes and disclosures on pages 146 to 204 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgments on pages 156 to 158.

2. Effect of New / Revised HKFRS

(A) Adoption of new / revised HKFRS effective 1 January 2008

The Group has adopted the following new / revised HKFRS standards and interpretations:

- HK(IFRIC)-Int 11 "HKFRS 2 – Group and Treasury Share Transactions",
- HK(IFRIC)-Int 12 "Service Concession Arrangements",
- HK(IFRIC)-Int 14 "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"; and
- Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement" and HKFRS 7 "Financial Instruments: Disclosures" – Reclassification of Financial Assets.

The above new / revised HKFRS standards and interpretations either are irrelevant or have no material effect on the Group's financial statements.

(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 2009, but have not been early adopted by the Group:

- HKAS 1 (Revised) "Presentation of Financial Statements"
- HKAS 23 (Revised) "Borrowing Costs"
- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HKFRS 3 (Revised) "Business Combinations"
- HKFRS 8 "Operating Segments"
- HK(IFRIC)-Int 16 "Hedges of a Net Investment in a Foreign Operation"
- HK(IFRIC)-Int 17 "Distribution of Non-cash Assets to Owners"
- HKICPA's improvements to HKFRS published in October 2008

While the adoption of HKAS 27 (Revised) "Consolidated and Separate Financial Statements" and HKFRS 3 (Revised) "Business Combinations" may have effect on future business combinations, if any, and apart from 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 Policies No. 11 and 12, 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 dollar, 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 or valuation where items are remeasured. 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[1] 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 dollar), 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 rate 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.

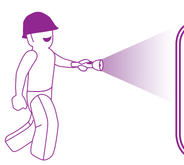
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing rate.

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.



[1] Monetary assets and liabilities are assets to be received and liabilities to be paid in fixed money amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is not sure how much you will receive if the fixed asset is to be sold.

6. Leases [1]

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 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 [2]

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.

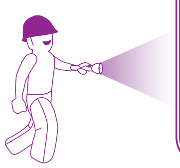
8. Revenue

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.



[1] Readers who would like to revisit the explanation of lease accounting included in last year's Annual Report can find this on our website.

[2] Related Parties ≠ Connected Parties

They sometimes overlap but should not be confused. Accounting standards define related parties, while the Listing Rules of the Hong Kong Stock Exchange define connected parties.

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 legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

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

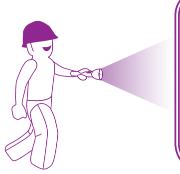
Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the balance sheet date, where there is a contractual obligation or past practice has created a constructive obligation.

10. Subsidiaries [1]

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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 consolidated 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.



[1] A quick guide to the classification of different entities:

Control → Subsidiary
Joint Control → Jointly Controlled Entity
Significant Influence → Associated Company

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 and gain or loss arising from dilution of interest in jointly controlled entities are 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, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

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, unless it has incurred obligations or made payments on behalf of the associated companies.

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. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

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 fixed assets and amortisation of leasehold land is based on the rates which reflect the pattern in which the assets' economic benefits are consumed. During the year, CLP Power Hong Kong reviewed the useful lives of certain fixed assets and considered conditions justified to extend the depreciation period of the following fixed assets categories with effect from 1 January 2008:

	Original useful lives	Revised useful lives
Buildings and civil structures other than at power stations	35 years	50 years
Overhead lines (132 kV and above)	35 years	–
Overhead lines (below 132 kV)	30 years	–
Overhead lines (33 kV and above)	–	50 years
Overhead lines (below 33 kV)	–	45 years
Cables (132 kV and above)	30 years	55 years
Cables (below 132 kV)	30 years	60 years
Switchgear and transformers	35 years	50 years

(i) In respect of the fixed assets and leasehold land commissioned before 1 January 2008, the net book values as at 31 December 2007 are being written off uniformly over the remainder of their useful lives as set out in (iii) below.

(ii) Fixed assets and leasehold land acquired on or after 1 January 2008 are depreciated / amortised on a straight-line basis over the useful lives as set out in (iii) below commencing from the date of commissioning.

(iii) Useful lives of fixed assets and leasehold land

Leasehold land	unexpired term of the lease
Cable tunnels	100 years
Buildings and civil structures at power stations	35 years
Other buildings and civil structures	50 years
Overhead lines (33 kV and above)	50 years
Overhead lines (below 33 kV)	45 years
Cables (132 kV and above)	55 years
Cables (below 132 kV)	60 years
Switchgear and transformers	50 years
Generating plant	25 years
Substation miscellaneous	25 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 and marine craft	5 years
Refurbished or improved assets	Remaining original life plus any life extension

The change in the estimates of the assets' useful lives has resulted in an estimated decrease in depreciation charges of HK$820 million for each of 2008 and 2009.

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
Computers, furniture and fittings and office equipment	3 – 10 years
Motor vehicles	3 – 10 years
Leasehold land	unexpired term of the lease
Land use rights	unexpired term of the lease
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.

15. Impairment of Non-Financial Assets

Assets that have an indefinite useful life [1] 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 [2]

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. dollar).

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

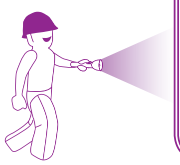
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, which will offset any changes in the fair value recorded in the income statement of the corresponding hedged asset or liability that are attributable to the hedged risk 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 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.



[1] Indefinite useful life ≠ Infinite useful life

An indefinite useful life only means that there is no foreseeable limit to the period over which an asset is expected to generate cash flows to the Group. It does not necessarily mean that it will generate such cash flows forever.

[2] You can read more on derivatives and hedging on pages 20 to 22.

(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

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 tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 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.

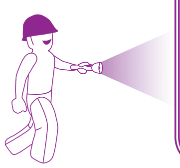
Deferred tax is also provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not 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. [1]

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. [2]



[1] 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 arises from an established pattern of past practices or published policies which create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

[2] Here is a quick guide on how to account for contingencies:

Probable to happen → Recognise a provision
Possible → Disclose only
Remote → Do nothing

Critical Accounting Estimates and Judgments

In preparing the consolidated financial statements, management is required to exercise significant judgments 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 judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

1. Australia Carbon Pollution Reduction Scheme

Recent developments in climate change policy in Australia pose potentially significant financial risks to the Group's business in Australia.

The Garnaut Climate Change Review was commissioned by the Australian Federal Government to examine the impact of climate change on the Australian economy and to recommend medium to long-term policies and policy frameworks. The Garnaut Climate Change Review presented its Final Report (the "Garnaut Report" [1]) to the Prime Minister of Australia and the eight states and territories on 30 September 2008. The terms of reference for the Garnaut Report are publicly available.[1] However, the Garnaut Report does not represent policy decisions of the Government although it did advocate an emissions trading scheme ("ETS") as a mechanism to address the approach to carbon reduction.

In July 2008 the Australian Government initiated its consultation on its proposed climate change policy with the release of a Green Paper on the Carbon Pollution Reduction Scheme ("CPRS"). The aim of this Green Paper was to allow people both inside and outside Parliament to debate the subject and give feedback on its suggestions.

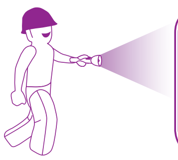
Following a review of the public submissions on the Green Paper, the Government released its White Paper (the "White Paper" [2]) on the CPRS on 15 December 2008. This White Paper forms the basis for a Bill to be put before Parliament and allows the Government an opportunity to gather feedback on its final proposed policies before it formally presents them as a Bill.

The White Paper advocates the introduction of a CPRS with an effective start date of 1 July 2010. The CPRS is proposed to be a cap and trade scheme, where aggregate emissions are capped at a level that is consistent with the environmental objective. The level of the Scheme cap determines the environmental contribution of the Scheme: the lower the cap, the more abatement (reduction in emissions) required. The number of tradable carbon pollution permits ("permits") is the Scheme cap – if the cap were to limit emissions to 100 million tonnes of carbon dioxide equivalent (CO2-e) in a particular year, 100 million emissions permits would be issued for that year. Entities responsible for emissions sources covered by the CPRS will be obliged to surrender a permit for each tonne of CO2-e that they have emitted during the compliance period.

The White Paper recognises that some coal-fired electricity generators are unlikely to be able to pass on their full carbon costs, because they are constrained by competing generators with lower emissions intensity. As a result, the introduction of a CPRS may have a significant impact on TRUenergy's business, in particular on the Yallourn brown coal-fired generation business. It may result in a significant impairment of the business, due to either a reduction in the useful life of the asset or a reduction in the earnings due to a combination of reduced output and increased costs not fully offset by higher electricity prices.

In recognition of this impact on the most emissions intensive electricity generators, the White Paper proposes to provide a once-and-for-all allocation of permits to such generators under the Electricity Sector Adjustment Scheme ("ESAS"). Assistance is to be targeted at the most emissions intensive generators as they are unlikely to be able to pass on the full costs of the permits they must buy.

In the White Paper, the Government estimated the total value of the permits allocated in the ESAS as A$3.5 billion [3] (HK$19 billion). This was based on an assumed carbon price starting at A$25 per tonne, consistent with its modelled scenario of a 5% cut on 2000 emission levels by 2020. However there remains significant uncertainty over the expected carbon price path with the first CPRS emissions caps not being finalised until 2010 and ongoing international negotiations, the outcome of which are likely to dictate Australian carbon prices. Assuming legislation is passed in line with the terms and conditions



[1] Refer to web site: http://www.garnautreview.org.au/domino/Web_Notes/Garnaut/garnautweb.nsf
[2] Refer to Australian Government web site: http://www.climatechange.gov.au/whitepaper/
[3] In 2008/09 Australian dollars

of the White Paper, these permits will be distributed to eligible companies over the first five years of the scheme (mid 2010 through mid 2015). The amount of assistance applicable to companies and assets will be determined prior to the start date of the CPRS. The Australian Government will allocate assistance through ESAS to coal-fired electricity generators according to a methodology that weighs assistance by the historical energy output of each generator and the extent by which the ESAS regulator's estimate of the emissions intensity of each generator exceeds the Government's threshold level of emissions intensity. However, to ensure that assistance does not lead to windfall gains, a review will be held in 2013 to determine whether generators in receipt of ESAS assistance are likely to earn windfall profits, taking into account actual and forecast net revenues, compared to those predicted when assistance was originally estimated.

As at 31 December 2008, the CPRS remained in White Paper form (legislation had not been passed). Draft legislation is expected to be released in March 2009 and legislation is expected to be passed into law in the latter part of 2009. The final legislation may be significantly different to the guidance included in the White Paper. When legislation is passed, the final terms and conditions of the CPRS will become binding law.

There remains significant uncertainty regarding the timing and structure of the CPRS. As such, the introduction of the CPRS presents an unquantifiable but potentially material market risk to the Group. At 31 December 2008, no impact of the CPRS has been reflected in the Group's financial statements (including impairment model cash flows, and assumptions on discount rate, asset useful lives, outage rates and capital expenditure) on the basis that there is currently significant uncertainty in relation to the likely structure, timing and impact of the CPRS.

The carrying amount of the Yallourn power station assets, which comprise a single cash generating unit, was A$1,682 million or HK$9,036 million (2007: A$1,734 million or HK$11,906 million). Other parts of the Group may also be impacted adversely or favourably.

2. 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 2008, after reviewing the business environment as well as the Group's objectives and past performance of the investments (including the three months of operations under the current SoC), management concluded that there was no material impairment loss for Yallourn (please also refer to item 1 above), SoC fixed assets of HK$71,899 million (2007: HK$69,711 million), goodwill of HK$5,205 million (2007: HK$6,648 million) and other long-lived assets. As the latest annual impairment models indicated that headrooms existed for the relevant assets, management believed that any reasonable changes in the assumptions used in the models would not affect management's view on impairment at 2008 year end.

3. Deferred Tax

As at 31 December 2008, a deferred tax asset of HK$3,979 million (2007: HK$5,600 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. The current financial models indicate that the tax losses can be utilised in the future, and with the existence of headrooms in the models, management believed that any reasonable changes in the model assumptions would not affect management's view as at the close of 2008. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

4. SoC-related Accounts [1]

As stipulated in the current SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities 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. 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 SoC Agreement to customers such that the SoC reserve account balances of HK$1,826 million (2007: HK$2,300 million) meet the definition of a liability.

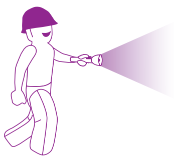
The new SoC provides a cost charging mechanism for CLP Power Hong Kong to charge an amount for the decommissioning liabilities account for the settlement of future asset decommissioning costs. The Group considers that such charging mechanism for decommissioning costs under the SoC does not result in additional legal and constructive liability for asset decommissioning for CLP Power Hong Kong. The balance of the asset decommissioning liabilities of HK$34 million (2007: nil) through this charging mechanism under the SoC represents a liability to the Group.

5. 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 plants 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.

6. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 3 Fair Value Estimation on page 204.



[1] Features of the current SoC are summarised on pages 205 and 206.

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 with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The SoC Agreement which took effect from 1 October 1993 expired on 30 September 2008 (1993 SoC). A new SoC Agreement immediately became effective 1 October 2008 (2008 SoC). The main features of these SoC agreements are summarised on pages 205 and 206.

These financial statements have been approved for issue by the Board of Directors on 26 February 2009.

2. Segment Information

Accounting Policy No. 5

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

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

2. 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 2008							
Revenue	30,471	19,432	169	4,197	24	4	54,297
Segment results	10,839	2,022	282	528	(13)	(351)	13,307
Share of results, net of income tax							
jointly controlled entities	1,581	21	889[a]	–	133	–	2,624
associated companies	–	(27)	–	–	–	–	(27)
Profit / (loss) before net finance costs and income tax	12,420	2,016	1,171	528	120	(351)	15,904
Finance costs							(4,245)
Finance income							124
Profit before income tax							11,783
Income tax expense							(1,349)
Profit for the year							10,434
Profit attributable to minority interests							(11)
Earnings attributable to shareholders							10,423
Capital additions	5,465	1,757	258	424	–	24	7,928
Depreciation and amortisation	2,944	1,047	51	9	–	4	4,055
Impairment charge / (reversal)	2	122	(55)	62	–	–	131
As at 31 December 2008							
Segment assets							
Owned and leased fixed assets	71,869	13,001	1,588	373	–	42	86,873
Other segment assets	6,892	11,476	652	5,746	121	46	24,933
Interests in							
jointly controlled entities	7,014	864	7,540	–	2,373	–	17,791
associated companies	–	242	–	–	–	–	242
Deferred tax assets	–	2,925	67	–	–	–	2,992
Consolidated total assets	85,775	28,508	9,847	6,119	2,494	88	132,831
Segment liabilities							
Obligations under finance leases	21,752	13	–	–	–	–	21,765
Other segment liabilities	9,594	3,917	62	678	14	182	14,447
Bank loans and other borrowings	14,848	9,087	824	1,271	–	666	26,696
Current and deferred tax liabilities	6,210	10	57	524	–	–	6,801
Consolidated total liabilities	52,404	13,027	943	2,473	14	848	69,709

2. 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	11,444	811	(87)	352	1,062	(278)	13,304
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	12,936	839	1,025	352	1,455	(278)	16,329
Finance costs							(5,041)
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

Note (a): Out of the HK$889 million (2007: HK$1,112 million), a major portion 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.

3. Revenue

Accounting Policy No. 8

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

	2008 HK$M	2007 HK$M
Sales of electricity	44,249	42,860
Lease service income [(a)]	3,754	2,212
Finance lease income	428	475
Sales of gas	5,093	4,288
Other revenue	966	601
	54,490	50,436
Transfer for SoC [(b)]	(193)	353
	54,297	50,789

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) Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the 2008 SoC – previously the Development Fund under the 1993 SoC (Note 26). In any period, the amount of deduction from or addition to these funds is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in the income statement.

4. Operating Lease and Lease Service Payments

Accounting Policy No. 6

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.

5. Other Income

	2008 HK$M	2007 HK$M
Gain on sale of SEAGas [(a)]	502	–
Gain on deemed disposal from CSEC Guohua restructuring [(b)]	225	–
Gain on transfer of Ho-Ping to OneEnergy	–	1,030
Gain on asset swap with AGL	–	1,092
	727	2,122

Notes:

(a) In June 2008, TRUenergy sold its entire 33 1/3% interest in SEAGas, a jointly controlled entity in Australia, which owns and operates a gas pipeline between Victoria and South Australia, for a total consideration of A$119 million (HK$895 million), thereby realising a gain of HK$502 million (after tax gain of HK$432 million).

(b) During 2008, CSEC Guohua International Power Company Limited (formerly known as "CLP Guohua Power Company Limited") (CSEC Guohua) underwent a restructuring with CLP's effective interest in CSEC Guohua reduced from 49% to 24.7%, and a gain on deemed disposal amounting to HK$225 million was recognised. A subsequent capital injection by CLP raised CLP's interest in CSEC Guohua to 27% at the balance sheet date.

6. Operating Profit

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

	2008 HK$M	2007 HK$M
Charging		
Staff costs		
Salaries and other costs	1,619	1,752
Retirement benefits costs [(a)]	136	148
Auditors' remuneration		
Audit	25	28
Permissible non-audit services [(b)]	13	21
Operating lease expenditure on the agreement with Ecogen	254	246
Net loss on disposal of fixed assets	140	211
Initial outsourcing costs of TRUenergy	–	653
Coal mine subsidence of TRUenergy	84	180
Net fair value loss / (gain) on derivative financial instruments		
Cash flow hedges, transfer from equity to fuel and other operating expenses	213	(4)
Transactions not qualifying as hedges	(6)	(391)
Net exchange loss	146	54
Crediting		
Net rental income from properties	(13)	(12)
Insurance recovery relating to coal mine subsidence of TRUenergy	(266)	–

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$198 million (2007: HK$181 million), of which HK$103 million (2007: HK$63 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$37 million (2007: HK$68 million). The Group's financial obligations to these arrangements are not material.

(b) Permissible non-audit services comprise primarily accounting / tax advisory services for business development.

7. Finance Costs and Income

Accounting Policy No. 21

	2008 HK$M	2007 HK$M
Finance costs:		
Interest expenses on		
bank loans and overdrafts	831	919
other borrowings		
– wholly repayable within five years	120	121
– not wholly repayable within five years	527	539
finance charges under finance leases [(a)]	2,930	3,422
Tariff Stabilisation Fund / Development Fund [(b)]	132	202
customers' deposits, fuel clause over-recovery and others	10	89
Other finance charges	100	46
Fair value loss / (gain) on derivative financial instruments		
cash flow hedges, transfer from equity	5	(11)
fair value hedges	(151)	(70)
Loss on hedged items in fair value hedges	121	87
Other net exchange gain	–	(1)
	4,625	5,343
Less: amount capitalised [(c)]	(380)	(302)
	4,245	5,041
Finance income:		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	124	160

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) CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge at one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the current SoC effective 1 October 2008, and a charge at 8% per annum on the average balance of the Development Fund under the previous SoC up to 30 September 2008 (Note 26).

(c) Finance costs have been capitalised at an average interest rate of 3.86% (2007: 4.69%) per annum for CLP Power Hong Kong and 6.74% (2007: 6.5%) per annum for TRUenergy.

8. Income Tax Expense

Accounting Policy No. 22

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

	2008 HK$M	2007 HK$M
Current income tax		
Hong Kong	817	790
Outside Hong Kong	127	64
	944	854
Deferred tax		
Hong Kong (note)	68	304
Outside Hong Kong	337	(321)
	405	(17)
	1,349	837

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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:

	2008 HK$M	2007 HK$M
Profit before income tax	11,783	11,448
Less: Share of results in jointly controlled entities and associated companies, net of income tax	(2,597)	(3,025)
	9,186	8,423
Calculated at an income tax rate of 16.5% (2007: 17.5%)	1,516	1,474
Effect of different income tax rates in other countries	185	33
Change in Hong Kong profits tax rate (note)	(327)	–
Income not subject to tax	(43)	(190)
Expenses not deductible for tax purposes	72	91
Transfers to / (from) SoC reserve accounts not subject to tax (Note 26)	54	(26)
Tariff rebates deductible for tax purposes	(122)	(157)
Under / (over)-provision in prior years	27	(13)
Utilisation of previously unrecognised tax losses	(19)	(1)
Tax losses not recognised	6	5
Reversal of temporary differences owing to sale of TIPS	–	(379)
Income tax expense	1,349	837

Note: Including a write-back of deferred tax liabilities of HK$327 million (2007: nil) as the Hong Kong profits tax rate has been reduced from 17.5% to 16.5% for the fiscal year 2008 / 09.

9. Earnings Attributable to Shareholders

Earnings attributable to shareholders amounted to HK$10,423 million (2007: HK$10,608 million). Of this amount, HK$6,641 million (2007: HK$6,890 million) has been dealt with in the financial statements of the Company.

10. Dividends

	2008		2007	
	HK$ per share	HK$M	HK$ per share	HK$M
Interim dividends paid	1.56	3,757	1.56	3,757
Final dividend proposed	0.92	2,214	0.92	2,216
	2.48	5,971	2.48	5,973

At the Board meeting held on 26 February 2009, the Directors recommended a final dividend of HK$0.92 per share (2007: HK$0.92 per share). Such dividends are to be proposed at the Annual General Meeting on 28 April 2009 and are not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2008.

11. Earnings per Share

The earnings per share are computed as follows:

	2008	2007
Earnings attributable to shareholders (HK$M)	10,423	10,608
Weighted average number of shares in issue (thousand shares)	2,407,873	2,408,246
Earnings per share (HK$)	4.33	4.40

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2008 (2007: nil).

12. Fixed Assets, Leasehold Land and Land Use Rights

Accounting Policy No. 13

Fixed assets, leasehold land and land use rights totalled HK$89,123 million (2007: HK$88,609 million). Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Freehold Land and Buildings Owned HK$M	Freehold Land and Buildings Leased[(a)] HK$M	Plant, Machinery and Equipment Owned HK$M	Plant, Machinery and Equipment Leased[(a)] HK$M	Total HK$M
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 1 January 2007	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
Net book value, as at 1 January 2008	7,442	4,823	56,827	17,321	86,413
Acquisition of subsidiaries	453	–	94	–	547
Additions	656	73	5,870	1,045	7,644
Transfers and disposals	(60)	(16)	(172)	(126)	(374)
Depreciation	(160)	(265)	(2,288)	(1,066)	(3,779)
Exchange differences	(39)	–	(3,531)	(8)	(3,578)
Net book value, as at 31 December 2008	**8,292**	**4,615**	**56,800**	**17,166**	**86,873**
Cost	10,891	9,692	86,989	36,692	144,264
Accumulated depreciation and impairment	(2,599)	(5,077)	(30,189)	(19,526)	(57,391)
Net book value, as at 31 December 2008	**8,292**	**4,615**	**56,800**	**17,166**	**86,873**

12. Fixed Assets, Leasehold Land and Land Use Rights (continued)

(A) Fixed Assets (continued)

Included in fixed assets is plant under construction of the book value of HK$7,503 million (2007: HK$8,324 million).

Note (a): The 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$21,752 million as at 31 December 2008 (2007: HK$22,116 million); and

(ii) Leased generating plants 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 2008 was HK$29 million (2007: HK$28 million).

Company

The net book value of fixed assets of the Company was HK$42 million (2007: HK$22 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$24 million (2007: HK$15 million) and HK$4 million (2007: HK$3 million) respectively.

(B) Leasehold Land and Land Use Rights

	2008 HK$M	2007 HK$M
Net book value, as at 1 January	2,196	2,235
Acquisition of a subsidiary	6	–
Additions	116	15
Transfers and disposals	(19)	–
Amortisation	(54)	(57)
Exchange differences	5	3
Net book value, as at 31 December	2,250	2,196
Cost	2,521	2,412
Accumulated amortisation	(271)	(216)
Net book value, as at 31 December	2,250	2,196

The tenure of the leasehold land and land use rights of the Group is as follows:

	2008 HK$M	2007 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	135	156
On medium-term leases (10–50 years)	2,009	1,984
	2,144	2,140
Held outside Hong Kong:		
On medium-term leases (10–50 years)	106	56
	2,250	2,196

13. Goodwill and Other Intangible Assets

Accounting Policy No. 14

	Goodwill HK$M	Other Intangible Assets HK$M	Total HK$M
Cost	5,954	1,615	7,569
Accumulated amortisation	–	(243)	(243)
Net carrying value, as at 1 January 2007	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
Net carrying value, as at 1 January 2008	6,648	1,487	8,135
Acquisition of subsidiaries	3	–	3
Additions	–	168	168
Amortisation	–	(222)	(222)
Exchange differences	(1,446)	(314)	(1,760)
Net carrying value, as at 31 December 2008	**5,205**	**1,119**	**6,324**
Cost	5,205	1,674	6,879
Accumulated amortisation	–	(555)	(555)
Net carrying value, as at 31 December 2008	**5,205**	**1,119**	**6,324**

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. This discount rate of 10.52% (2007: 11.56%) used reflects specific risks relating to the MEB business. The cash flow projections have taken into account the information derived from statistical data on population growth, energy usage rates and also Consumer Price Index (CPI) in Australia. These assumptions used are based on management's past experience of the specific market, and references to external sources of information. Cash flows beyond the five-year period are extrapolated using estimated growth rates that do not exceed the long-term average growth rate for the industry in Australia.

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.

14. Investments in and Advances to Subsidiaries

Accounting Policy No. 10

	2008 HK$M	2007 HK$M
Unlisted shares, at cost	23,612	23,607
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	14,421	13,143
	37,933	36,650

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 31(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$39 million (2007: HK$41 million), which is interest-free and due on or after 30 June 2010 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 2008:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2008	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	2,720 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

14. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2008	Place of Incorporation / Operation	Principal Activity
TRUenergy 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	726,254,742 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

15. Interests in Jointly Controlled Entities

Accounting Policy No. 11

	2008 HK$M	2007 HK$M
Share of net assets other than goodwill	10,601	10,292
Goodwill	273	768
Advances	6,917	6,546
Special loan	–	78
	17,791	17,684

Advances to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms except for an advance of HK$76 million (2007: nil) to Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) which is repayable on certain conditions. These advances are considered equity in nature.

The Group's interests in jointly controlled entities are analysed as follows:

		2008				2007			
		Share of Net Assets Other Than Goodwill HK$M	Goodwill HK$M	Advances 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
CAPCO	(A)	220	–	6,520	6,740	187	–	6,287[a]	6,474
GNPJVC	(B)	1,877	–	–	1,877	2,297	–	–	2,297
OneEnergy Limited	(C)	2,365	–	–	2,365	2,454	–	–	2,454
CSEC Guohua	(D)	2,029	80	–	2,109	1,298	134	–	1,432
Shandong Zhonghua Power Company, Limited	(E)	1,039	–	–	1,039	1,122	–	–	1,122
CLP Guangxi Fangchenggang Power Company Limited	(F)	976	–	–	976	947	–	–	947
Roaring 40s	(G)	613	175	76	864	676	224	–	900
Guizhou CLP Power Company Limited	(F)	522	–	–	522	524	–	–	524
PSDC	(H)	12	–	319	331	5	–	333	338
Others	(I)	948	18	2	968	782	410	4	1,196
		10,601	273	6,917	17,791	10,292	768	6,624	17,684

Note (a): Included a special loan of HK$78 million in 2007.

15. 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:

	2008 HK$M	2007 HK$M
Non-current assets	34,771	31,729
Current assets	6,401	6,538
Current liabilities	(8,032)	(6,642)
Non-current liabilities	(21,238)	(19,919)
Minority interests	(1,028)	(646)
Net assets	10,874	11,060
Income	13,268	11,529
Expenses	(10,215)	(7,885)
Profit before income tax	3,053	3,644
Income tax expense	(382)	(530)
Minority interests	(47)	(90)
Share of profit for the year	2,624	3,024
Capital commitments	5,214	9,498
Contingent liabilities	57	55

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 30. There are no contingent liabilities relating to the Group's interest in these entities (2007: nil).

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 12).

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 in 2007 included a special loan of HK$78 million and such loan was fully repaid on 30 September 2008.

15. 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:

	2008 HK$M	2007 HK$M
Results for the year		
Income	12,122	10,910
Profit after income tax	3,681	3,596
Group's share of profit after income tax	1,476	1,472
Net assets (note)		
Non-current assets	25,912	24,207
Current assets	3,637	2,747
Current liabilities	(6,378)	(5,565)
Deferred tax	(2,875)	(2,735)
Non-current liabilities	(3,452)	(2,596)
	16,844	16,058

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:

	2008 HK$M	2007 HK$M
Results for the year		
Income	7,116	6,920
Profit after income tax	3,320	2,891
Group's share of profit after income tax	830	723
Net assets		
Non-current assets	8,158	9,633
Current assets	7,192	6,417
Current liabilities	(1,917)	(1,338)
Non-current liabilities	(5,928)	(5,525)
	7,505	9,187

15. Interests in Jointly Controlled Entities (continued)

(C) OneEnergy Limited, a company incorporated in Cayman Islands, is a 50:50 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 Limited for the year ended 31 December is set out as follows:

	2008 HK$M	2007 HK$M
Results for the year		
Income	–	–
Profit after income tax	235	575
Group's share of profit after income tax	117	287
Net assets		
Non-current assets	4,156	4,416
Current assets	604	510
Current liabilities	(29)	(17)
	4,731	4,909

(D) CSEC Guohua, the joint stock company with 73% (2007: 51%) owned by China Shenhua Energy Company Limited and 27% (2007: 49%) by the Group, is incorporated in the Chinese mainland. It holds interests in five coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin, Sanhe Power Station in Hebei, Zhungeer Power Station in Inner-Mongolia and Suizhong Power Station in Liaoning, with a combined capacity of 7,620MW. All generators are in operation except for unit 3 and unit 4 generators of Suizhong Power Station, totalling 2,000MW, which are still under construction.

(E) 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 3,060MW. All power generated is for supply to the Shandong power grid.

(F) 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 1,260MW coal-fired power station in Guangxi. All power generated is for supply to the Guangxi power grid.

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 agreements, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and Guizhou CLP Power and hence, the Group's interests are accounted for as jointly controlled entities.

(G) Roaring 40s is 50% owned by the Group and is incorporated in Australia. This company develops renewable energy business in Australia and elsewhere in the Asia-Pacific region, and owns a number of wind farms.

(H) PSDC 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.

15. Interests in Jointly Controlled Entities (continued)

(I) The Group's other investments include the following key projects:

- 50% interest in two joint ventures 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 the sale of all residential units; and
- 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.

16. Interests in Associated Companies

Accounting Policy No. 12

The Group's interests in associated companies are analysed as follows:

	2008 HK$M	2007 HK$M
Solar Systems Pty Ltd	221	275
Others	21	24
	242	299

The Group indirectly holds 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.

Summarised financial information in respect of the Group's associated companies is set out below:

	2008 HK$M	2007 HK$M
Total assets	1,349	1,699
Total liabilities	(360)	(269)
Net assets	989	1,430
Group's share of associated company's net assets	242	299
Income	2,985	3,356
(Loss) / profit after income tax	(144)	2
Group's share of (loss) / profit after income tax	(27)	1

As at 31 December 2008, the Group's share of capital commitment of its associated companies was HK$13 million (2007: nil). There are no contingent liabilities relating to the Group's interests in the associated companies (2007: nil).

17. Finance Lease Receivables [1] Accounting Policy No. 6

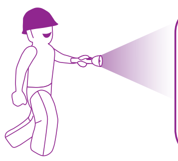
	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Amounts receivable under finance leases:				
Within one year	464	590	128	152
After one year but within five years	1,747	2,213	578	669
Over five years	2,987	4,256	1,809	2,461
	5,198	7,059	2,515	3,282
Less: unearned finance income	(2,683)	(3,777)		
Present value of minimum lease payments receivable	2,515	3,282		
Analysed as:				
Current (recoverable within 12 months)			128	152
Non-current (recoverable after 12 months)			2,387	3,130
			2,515	3,282

The carrying amounts of the finance lease receivables are denominated in the following currencies:

	2008 HK$M	2007 HK$M
Indian rupees	1,957	2,548
Sterling pound	337	490
Euro	221	244
	2,515	3,282

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 2007 and 2008.

The carrying amounts of the finance lease receivables approximate their fair values.



[1] An overview of lease accounting is on our website.

18. Derivative Financial Instruments [1]

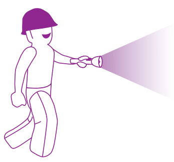
Accounting Policy No. 16

	2008 Assets [2] HK$M	2008 Liabilities [2] HK$M	2007 Assets HK$M	2007 Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	677	34	145	170
Cross currency & interest rate swap	–	49	–	–
Interest rate swaps	–	485	400	64
Energy contracts	696	427	750	789
Fair value hedge				
Cross currency & interest rate swap	252	5	132	36
Held for trading or not qualifying as hedges				
Forward foreign exchange contracts	356	303	12	11
Energy contracts	898	732	1,663	1,178
	2,879	2,035	3,102	2,248
Analysed as:				
Current	1,458	1,221	2,427	1,689
Non-current	1,421	814	675	559
	2,879	2,035	3,102	2,248

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	2008 HK$M	2007 HK$M
Forward foreign exchange contracts	62,127	41,425
Interest rate swaps / cross currency & interest rate swaps	15,175	16,531
Energy contracts	18,236	32,080

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.



[1] Have a look at how derivatives and hedging work on pages 20 to 22.

[2] Derivative assets – the amounts we would receive if the positions were closed out at year end.
Derivative liabilities – the amounts we would pay if the positions were closed out at year end.

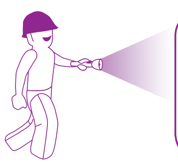
18. Derivative Financial Instruments (continued)

The net fair value and remaining terms of the derivative financial instruments are set out below: [1]

	2008 HK$M	2007 HK$M
Forward foreign exchange contracts		
Within one year	131	(36)
Between one and two years	211	31
Between two to five years	354	(19)
	696	(24)
Interest rate swaps / cross currency & interest rate swaps		
Within one year	(197)	(57)
Between one and two years	(98)	22
Between two to five years	8	467
	(287)	432
Energy contracts		
Within one year	214	657
Between one and two years	78	(148)
Between two to five years	143	(63)
	435	446
	844	854

Derivative financial instruments qualifying as cash flow hedges at 31 December 2008 have a maturity of up to five years (2007: five 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 to the income statement, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.



[1] See page 31 for more information on the movements of derivatives during the year.

19. Trade and Other Receivables

Accounting Policy No. 18

	Group 2008 HK$M	Group 2007 HK$M	Company 2008 HK$M	Company 2007 HK$M
Trade receivables [a]	5,655	5,473	–	–
Deposits and prepayments	2,085	1,598	10	8
Dividend receivables from jointly controlled entities [b]	452	5	–	–
Current accounts with jointly controlled entities [b]	47	45	–	–
Current accounts with subsidiaries [b]	–	–	45	1
	8,239	7,121	55	9

Trade and other receivables attributed to overseas subsidiaries amounted to HK$5,263 million (2007: HK$4,450 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 22).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Notes:

(a) Trade receivables

39% (2007: 40%) and 37% (2007: 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 trade receivables in currencies other than Hong Kong dollars are denominated in the functional currencies of the respective overseas entities.

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 2008, such cash deposits amounted to HK$3,722 million (2007: HK$3,584 million) and the bank guarantees stood at HK$932 million (2007: HK$954 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:

	2008 Not impaired HK$M	2008 Impaired HK$M	2008 Provision for impairment HK$M	2008 Total HK$M	2007 Not impaired HK$M	2007 Impaired HK$M	2007 Provision for impairment HK$M	2007 Total HK$M
Not yet due	5,173	28	(3)	5,198	4,876	36	(17)	4,895
Overdue								
1 – 30 days	285	23	(23)	285	278	25	(14)	289
31 – 90 days	58	75	(36)	97	118	44	(28)	134
Over 90 days	2	268	(195)	75	20	355	(220)	155
	5,518	394	(257)	5,655	5,292	460	(279)	5,473

As at 31 December 2008, trade receivables of HK$345 million (2007: HK$416 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default.

19. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment of trade receivables are as follows:

	2008 HK$M	2007 HK$M
Balance at 1 January	279	214
Provision for impairment of receivables	189	186
Receivables written off during the year as uncollectible	(99)	(145)
Unused amounts reversed	(58)	–
Exchange differences	(54)	24
Balance at 31 December	257	279

(b) The amounts receivable from jointly controlled entities and subsidiaries are unsecured, interest-free and have no fixed repayment terms.

20. Bank Balances, Cash and Other Liquid Funds

Accounting Policy No. 19

	2008 HK$M	2007 HK$M
Trust fund for unclaimed dividends [a]	–	4
Trust accounts under TRAA [b]	2	615
Cash restricted for specific purposes	2	619
Short-term investments and bank deposits	318	1,841
Bank balances and cash	462	319
	782	2,779

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. At the end of December 2008, there was a shortfall of HK$282 million in the required restricted cash balances. The shortfall was a result of slower cash payments from GUVNL, and the unexpected requirement to purchase naphtha as fuel by GPEC as instructed by GUVNL. GPEC has communicated the shortfall as required under TRAA to the lenders, and has not received any notice of default from the lenders. Funding from the Company and working capital facilities with local banks were arranged, and the shortfall was rectified on 3 February 2009. The relevant long-term bank loans of HK$203 million have been reclassified as current liabilities in the financial statements.

The average effective interest rate on the Group's bank balances, cash and other liquid funds is 3.0% (2007: 4.8%).

The Group's bank balances, cash and other liquid funds denominated in the functional currencies of the respective overseas entities amounted to HK$477 million (2007: HK$1,800 million). Of these, HK$338 million (2007: HK$866 million) was denominated in Australian dollars and HK$55 million (2007: HK$900 million) in Indian rupees.

21. Trade and Other Payables

Accounting Policy No. 20

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Trade payables [(a)]	2,113	2,772	–	–
Other payables and accruals	2,376	2,503	172	93
Current accounts with jointly controlled entities [(b)]	1,430	748	1	–
Current accounts with subsidiaries [(b)]	–	–	19	10
	5,919	6,023	192	103

Notes:

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

	2008 HK$M	2007 HK$M
Below 30 days (including amount not yet due)	2,099	2,762
31 – 90 days	9	3
Over 90 days	5	7
	2,113	2,772

As of 31 December 2008, HK$180 million (2007: HK$260 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$1,212 million (2007: HK$507 million) is due to CAPCO.

22. Bank Loans and Other Borrowings

Accounting Policy No. 21

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Current				
Short-term bank loans	2,600	606	166	–
Long-term bank loans	713	2,262	–	–
	3,313	2,868	166	–
Non-current				
Long-term bank loans	11,323	13,260	500	–
Other long-term borrowings				
MTN programme (USD) due 2012	2,578	2,455	–	–
MTN programme (HKD) due 2013 to 2015 (note)	3,340	3,000	–	–
MTN programme (HKD) due 2016	1,000	1,000	–	–
MTN programme (HKD) due 2017	1,000	1,000	–	–
MTN programme (HKD) due 2023 (note)	400	–	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012	3,474	4,435	–	–
EPN and MTN programme (AUD) due 2015	268	342	–	–
	23,383	25,492	500	–
Total borrowings	26,696	28,360	666	–

Note: CLP Power Hong Kong issued fixed-rate bonds during the year, with HK$340 million due 2015 and HK$400 million due 2023, 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$1,373 million (2007: HK$879 million). Of these, HK$891 million (2007: HK$475 million) were related to GPEC, HK$402 million (2007: HK$340 million) related to subsidiaries in Huaiji and HK$80 million (2007: HK$64 million) related to CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing).

Bank loans for GPEC are secured by fixed and floating charges over its immoveable and moveable properties with carrying amounts of HK$1,642 million (2007: HK$1,848 million). Bank loans for Huaiji and Boxing are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights at HK$815 million (2007: HK$802 million) for Huaiji and HK$113 million (2007: HK$61 million) for Boxing. Collateralised borrowings for GPEC are secured by trade receivables, the carrying amounts of which were HK$422 million (2007: HK$248 million).

Bank loans and other borrowings totalling HK$11,182 million (2007: HK$14,747 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

22. Bank Loans and Other Borrowings (continued)

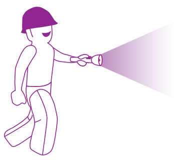
As at 31 December 2008, the Group's bank loans and other borrowings were repayable as follows: [1]

	Bank Loans		Other Borrowings		Total	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Within one year	3,313	2,868	–	–	3,313	2,868
Between one and two years	3,043	3,885	–	–	3,043	3,885
Between two to five years	7,859	9,128	7,052	6,890	14,911	16,018
Over five years	421	247	5,008	5,342	5,429	5,589
	14,636	16,128	12,060	12,232	26,696	28,360

Of the Company's borrowings, HK$166 million is repayable within one year and HK$500 million is between one and two years (2007: nil).

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Hong Kong dollar and foreign currency hedged into Hong Kong dollar	15,514	13,613	666	–
Australian dollar	9,087	13,375	–	–
Indian rupees and foreign currency hedged into Indian rupees	1,271	968	–	–
Other currencies	824	404	–	–
	26,696	28,360	666	–



[1] Another presentation of the Group's liquidity risk is set out on pages 202 and 203.

22. 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$M	Fixed Interest Rate Maturing in 1 year or less HK$M	1 to 2 years HK$M	2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
As at 31 December 2008						
Total borrowings	16,579	39	29	5,309	4,740	26,696
Effect of interest rate swaps	(6,210)	–	3,159	3,051	–	–
	10,369	39	3,188	8,360	4,740	26,696
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 2008, all of the Company's borrowings bear floating interest rate (2007: nil).

As disclosed above, the loans and borrowings of the Group are predominantly in Hong Kong dollar or Australian dollar. The effective interest rates at the balance sheet date were as follows:

	2008 HK$	2008 A$	2007 HK$	2007 A$
Fixed rate loans and loans swapped to fixed rates	3.9% – 5.0%	6.3% – 6.6%	4.2% – 5.0%	6.2% – 6.6%
Variable rate loans and loans swapped from fixed rates	0.3% – 4.6%	4.9% – 5.3%	3.3% – 5.7%	7.7% – 7.8%

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 2008, the Group had undrawn bank loan and overdraft facilities of HK$14,538 million (2007: HK$15,248 million).

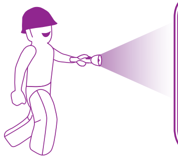
23. Obligations under Finance Leases [1]

Accounting Policy No. 6

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	
	2008 HK$M	2007 HK$M
Amounts payable under finance leases:		
Within one year	1,403	1,431
After one year but within two years	1,399	1,342
After two years but within five years	4,183	4,003
Over five years	14,780	15,440
	21,765	22,216
Analysed as:		
Amount due for settlement within 12 months	1,403	1,431
Amount due for settlement after 12 months	20,362	20,785
	21,765	22,216

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 2008, the interest rate was 9.99% to 15% (2007: 13.5% to 15%). 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.



[1] Recall our accounting "mini-series" on lease accounting from last year's Annual Report? Please visit our website.

24. Deferred Tax

Accounting Policy No. 22

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.

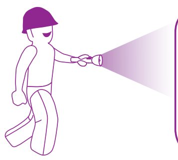
Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately in the consolidated balance sheet:

	2008 HK$M	2007 HK$M
Deferred tax assets [1]	2,992	3,915
Deferred tax liabilities [1]	(6,435)	(6,344)
	(3,443)	(2,429)

Most of the deferred tax balances are to be recovered or settled after more than 12 months.

The gross movement on the deferred tax account is as follows:

	2008 HK$M	2007 HK$M
As at 1 January	(2,429)	(2,749)
Disposal of subsidiaries	49	(59)
(Charged) / credited to income statement	(405)	17
Credited / (charged) directly to equity	52	(193)
Withholding tax	–	224
Exchange differences	(710)	331
As at 31 December	(3,443)	(2,429)



[1] Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

24. Deferred Tax (continued)

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	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
As at 1 January	5,600	4,790	280	297	640	468	6,520	5,555
Disposal of subsidiaries	–	–	–	(59)	–	–	–	(59)
(Charged) / credited to income statement	(501)	240	19	30	5	113	(477)	383
Credited / (charged) directly to equity	–	–	103	(19)	–	–	103	(19)
Exchange differences	(1,120)	570	(65)	31	(139)	59	(1,324)	660
As at 31 December (note)	3,979	5,600	337	280	506	640	4,822	6,520

Note: The deferred tax asset arising from tax losses is mainly 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.

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others		Total	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
As at 1 January	(6,445)	(6,436)	(280)	(394)	(410)	(279)	(372)	(331)	(1,442)	(864)	(8,949)	(8,304)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	49	–	49	–
(Charged) / credited to income statement	(98)	94	(14)	(80)	(34)	(94)	34	(7)	184	(279)	72	(366)
Charged directly to equity	–	–	–	–	–	–	–	–	(51)	(174)	(51)	(174)
Withholding tax	–	–	–	219	–	–	–	–	–	5	–	224
Exchange differences	161	(103)	44	(25)	96	(37)	74	(34)	239	(130)	614	(329)
As at 31 December	(6,382)	(6,445)	(250)	(280)	(348)	(410)	(264)	(372)	(1,021)	(1,442)	(8,265)	(8,949)

25. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is 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) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, whilst interest is credited to customers at prime rate on the amount over-recovered. The carrying amount of fuel clause account approximates its fair value.

26. SoC Reserve Accounts

The Tariff Stabilisation Fund under the 2008 SoC, Development Fund under the 1993 SoC and Rate Reduction Reserve of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2008 HK$M	2007 HK$M
Development Fund (A)	–	2,117
Tariff Stabilisation Fund (A)	1,756	–
Rate Reduction Reserve (B)	70	183
	1,826	2,300

The Tariff Stabilisation Fund is to replace the Development Fund and operates in the same manner as the Development Fund. Their combined movements during the year are shown as follows:

	2008 HK$M	2007 HK$M
(A) Tariff Stabilisation Fund / Development Fund		
As at 1 January	2,117	2,932
Transfer under SoC:		
– transfer from / (to) income statement (Note 3)	193	(353)
– charge for asset decommissioning [(a)]	(60)	–
Special rebate to customers [(b)]	(494)	(462)
As at 31 December	1,756	2,117

26. SoC Reserve Accounts (continued)

	2008 HK$M	2007 HK$M
(B) Rate Reduction Reserve		
As at 1 January	183	414
Interest expense charged to income statement (Note 7)	132	202
Special rebate to customers [(b)]	1	(94)
Rebate to customers [(c)]	(246)	(339)
As at 31 December	70	183

The carrying amounts of the SoC reserve accounts approximate their fair values.

Notes:

(a) Under the 2008 SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the balance sheets of the SoC Companies.

(b) A special rebate of HK¢2.1 per unit was made to customers during the period from 1 January 2008 to 30 September 2008 from Development Fund (2007: HK¢1.8 per unit, of which HK¢1.5 per unit was funded from Development Fund and HK¢0.3 per unit from Rate Reduction Reserve).

(c) A rebate of HK¢0.8 per unit (2007: HK¢1.1 per unit) was made to customers during the year.

27. Share Capital

	Number of Shares of HK$5 Each	Amount HK$M
Authorised:		
At 31 December 2008 and 2007	3,000,000,000	15,000
Issued and fully-paid:		
At 1 January 2008	2,408,245,900	12,041
Repurchase of shares (note)	(2,102,500)	(10)
At 31 December 2008	2,406,143,400	12,031

Note: The Company acquired 2,102,500 of its own shares through purchases on the Hong Kong Stock Exchange in October 2008. The total amount paid to acquire the shares was HK$101,974,750. All the shares repurchased were subsequently cancelled. An amount equal to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve (Note 28).

There was no movement in the share capital of the Company during 2007.

28. 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 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	–	681	–	–	681
Transfer to income statement	–	(36)	–	–	(36)
Transfer to assets	–	78	–	–	78
Tax on above movements	–	(173)	–	–	(173)
Translation difference	–	8	–	–	8
	–	558	–	–	558
Capital redemption by a subsidiary	–	(62)	62	–	–
Revaluation reserve 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 final	–	–	–	(2,192)	(2,192)
2007 interim	–	–	–	(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

28. 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 2008	2,482	3,807	1,122	43,285	50,696
Exchange differences on translation of:					
subsidiaries	–	(4,740)	–	–	(4,740)
jointly controlled entities	–	267	–	–	267
associated companies	–	(60)	–	–	(60)
Net exchange losses not recognised in income statement	–	(4,533)	–	–	(4,533)
Cash flow hedges, net of tax					
Net fair value losses	–	(79)	–	–	(79)
Transfer to income statement	–	220	–	–	220
Transfer to assets	–	14	–	–	14
Tax on above movements	–	(16)	–	–	(16)
Translation difference	–	(25)	–	–	(25)
	–	114	–	–	114
Revaluation reserve realised upon depreciation	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	12	(12)	–
Earnings attributable to shareholders	–	–	–	10,423	10,423
Dividends paid					
2007 final	–	–	–	(2,216)	(2,216)
2008 interim	–	–	–	(3,757)	(3,757)
Repurchase of shares	10	–	–	(101)	(91)
Disposal of jointly controlled entities	–	(319)	(74)	74	(319)
Share of movements in reserves of jointly controlled entities	–	–	(495)	–	(495)
Balance as at 31 December 2008	**2,492**	**(931)**	**562**	**47,699**[b]	**49,822**

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) After the proposed final dividends of HK$2,214 million (2007: HK$2,216 million), the balance of retained profits at 31 December 2008 was HK$45,485 million (2007: HK$41,069 million).

29. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before income tax to net cash inflow from operations:

	2008 HK$M	2007 HK$M
Profit before income tax	11,783	11,448
Adjustments for:		
Finance costs	4,245	5,041
Finance income	(124)	(160)
Share of results in jointly controlled entities and associated companies, net of income tax	(2,597)	(3,025)
Depreciation and amortisation	4,055	4,650
Impairment charge	131	353
Net loss on disposal of fixed assets	140	211
Gain on sale of SEAGas	(502)	–
Gain on deemed disposal from CSEC Guohua restructuring	(225)	–
Gain on transfer of Ho-Ping to OneEnergy	–	(1,030)
Gain on asset swap with AGL	–	(1,092)
Fair value loss on borrowings under fair value hedges and net exchange difference	168	49
SoC items		
increase in customers' deposits	138	172
decrease in fuel clause account	(653)	(436)
rebate to customers under SoC	(246)	(339)
special rebate	(493)	(556)
transfer for SoC	193	(353)
	(1,061)	(1,512)
(Increase)/decrease in trade and other receivables and others	(1,836)	4
Decrease/(increase) in cash restricted for specific purposes	617	(100)
Decrease/(increase) in finance lease receivables	145	(52)
Decrease in derivative financial instruments	199	40
Increase in trade and other payables	124	260
Increase in current accounts due to jointly controlled entities	654	602
Net cash inflow from operations	15,916	15,687

30. 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	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Contracted but not provided for	4,008	5,361	4	1
Authorised but not contracted for	17,952	6,917	47	6
	21,960	12,278	51	7

30. 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 2008	Remaining Balance to be Contributed	Expected Year for Last Contribution
Fangchenggang power project	RMB966 million	RMB900 million (HK$894 million)	RMB66 million (HK$75 million)	2009
Jiangbian hydro power project	RMB335 million	RMB139 million (HK$142 million)	RMB196 million (HK$222 million)	2009
CSEC Guohua's power project	RMB729 million	RMB437 million (HK$496 million)	RMB292 million (HK$332 million)	2009

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008 HK$M	2007 HK$M
Within one year	563	700
Later than one year but not later than five years	2,014	2,309
Over five years	6,826	7,660
	9,403	10,669

Of the above amount, HK$7,113 million (2007: HK$7,488 million) was related to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,125 million (2007: HK$2,953 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 all the necessary shareholder's advances 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 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. The maximum shareholder's advances, if requested, are estimated to be HK$5,530 million (2007: HK$5,364 million) and expected to occur in 2011.

(E) The Group has entered into a Share Transfer Agreement with the China Guangdong Nuclear Power Corporation and Guangdong Nuclear Investment Corporation to purchase 32% of CGNPC Wind Power Company, Limited. The consideration is RMB1,047 million (HK$1,189 million) and is payable following PRC Government approval which is expected in 2009.

31. Related Party Transactions Accounting Policy No. 7

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:

	2008 HK$M	2007 HK$M
Lease and lease service payment to CAPCO (a)	**13,506**	12,025
Purchases of nuclear electricity from GNPS (b)	**5,031**	4,971
Pumped storage service fee to PSDC (c)	**363**	353
	18,900	17,349

(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 under the SoC, 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 arrangement was assessed to contain 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, 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), an associated company, 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 2008 was HK$889 million (2007: HK$1,008 million).

Amounts due to the related parties as at 31 December 2008 are disclosed in Note 21.

31. 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$1,100 million (2007: HK$1,023 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 2008 are disclosed in Note 19. 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$14,421 million (2007: HK$13,143 million) made to its subsidiaries (Note 14), HK$13,921 million (2007: HK$11,856 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:

	2008 HK$M	2007 HK$M
Balance as at 1 January	**11,856**	16,616
Amounts advanced	**2,382**	766
Amounts repaid	**(317)**	(5,526)
Balance as at 31 December	**13,921**	11,856

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$106 million (2007: HK$87 million), of which HK$95 million (2007: HK$86 million) was from CLP Properties Group.

(D) The loan and advances made to jointly controlled entities totalled HK$6,917 million (2007: HK$6,624 million) (Note 15). Of these, HK$6,520 million (2007: HK$6,209 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO. Details are as follows:

	2008 HK$M	2007 HK$M
Balance as at 1 January	**6,209**	6,755
Amounts advanced	**2,638**	1,985
Amounts repaid	**(2,283)**	(2,554)
Exchange differences	**(44)**	23
Balance as at 31 December	**6,520**	6,209

As at 31 December 2008, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2007: nil).

31. Related Party Transactions (continued)

(E) 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 eight (2007: seven) senior management personnel. The total remuneration of the key management personnel is shown below:

	2008 HK$M	2007 HK$M
Fees	7	7
Base compensation, allowances and benefits in kind	42	37
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	12	7
Performance bonus		
Annual incentive	37	34
Long-term incentive	8	13
Provident fund contributions	5	5
	111	103

As at 31 December 2008, the CLP Holdings' Board was composed of 17 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year 2008 totalled HK$43 million (2007: HK$45 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 (2007: two Directors), two (2007: three) senior management personnel and a former senior staff. The total remuneration of these five highest paid individuals amounted to HK$69 million (2007: HK$60 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 4, 5, 6 and 8 (as highlighted in green) of the Remuneration Report on pages 123 to 125, 128 and 129 respectively. These sections form the "auditable" part of the Remuneration Report and are part of the financial statements.

32. Contingent Liabilities

Accounting Policy No. 23

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 (GERC) claiming that the "deemed generation incentive" payment should not be paid for the period when the plant was declared with its availability on "naphtha" as fuel rather than on "gas". GUVNL's contention is based on a 1995 Government of India notification which disallowed "deemed generation incentive" for naphtha-based power plants. The total amount of the claim plus interest amounts to about HK$1,157 million.

On 18 February 2009, the GERC made an adjudication on GUVNL's claim. On the substantive issue, the GERC decided that the "deemed generation incentive" was not payable when GPEC's plant was declared with its availability on naphtha. However, the GERC also decided that GUVNL's claim in respect of deemed generation payments up to 14 September 2002 was time barred under the Limitations Act of India. Hence, the total amount of the claim allowed by the GERC was reduced to HK$414 million.

GPEC intends to appeal the decision of the GERC and to seek a stay order against enforcement of the decision pending the outcome of that appeal. On the basis of legal advice obtained, the Directors are of the opinion that GPEC has a strong case. In consequence, no provision has been made in the financial statements at this stage in respect of this matter.

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 the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

Under the SoC, CLP Power Hong Kong is allowed to pass-through foreign exchange gains and losses arising from future commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollars, thus retaining no significant foreign exchange risk. As a measure of additional prudence, CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its U.S. dollar debt repayment obligations for the full tenor and a significant portion of its U.S. dollar obligations on fuel and nuclear power 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.

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% (2007: 0.6%) against the U.S. dollar, with all other variables held constant, the impact would have been an increase / decrease of HK$252 million (2007: HK$181 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.

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 2008, the Group's net investment subject to translation exposure was approximately HK$28 billion (2007: HK$30 billion), arising mainly from our investments in Australia, India and the Chinese mainland. This means that, for each 1%

1. Financial Risk Factors (continued)

(A) Market risk (continued)

(i) Foreign exchange risk (continued)

(2007: 1%) average foreign currency movement, our translation exposure will vary by about HK$280 million (2007: 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 foreign exchange exposures of the Company and other Group entities are hedged and / or their transactions are predominantly conducted through the functional currency of the respective entity. Therefore, the sensitivity to foreign exchange rate for these entities 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. Although TRUenergy has a vertically integrated business structure, generation loads and retail customer demands do not exactly offset each other and therefore, hedging contracts (forward contracts and energy price swaps) are entered into to cover the differences between forecast generation loads and retail customer demands. 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 uses probability analyses to calculate 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 2008 was HK$149 million (2007: HK$629 million). The change reflects a decrease in the size of TRUenergy's net positions as well as a reduction in market volatility estimates. During 2008, the VaR ranged between a low of HK$123 million (2007: HK$384 million) and a high of HK$528 million (2007: HK$782 million).

Analyses below show the effect on profit after tax and equity if market prices were 15% (2007: 15%) 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% (2007: 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.

1. Financial Risk Factors (continued)

(A) Market risk (continued)

(ii) Energy price risk (continued)

	2008 HK$M	2007 HK$M
If market prices were 15% (2007: 15%) higher with all other variables held constant		
Post-tax profit for the year	40	111
Equity – hedging reserve	(335)	(102)
If market prices were 15% (2007: 15%) lower with all other variables held constant		
Post-tax profit for the year	(40)	(109)
Equity – hedging reserve	335	102

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 2008, 61% (2007: 58%) 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)

	2008 HK$M	2007 HK$M
Hong Kong dollar		
If interest rates were 0.5% (2007: 0.5%) higher		
Post-tax profit for the year	(25)	(25)
Equity – hedging reserve	40	37
If interest rates were 0.5% (2007: 0.5%) lower		
Post-tax profit for the year	25	25
Equity – hedging reserve	(40)	(37)
Australian dollar		
If interest rates were 1% (2007: 0.5%) higher		
Post-tax profit for the year	(15)	(15)
Equity – hedging reserve	120	78
If interest rates were 1% (2007: 0.5%) lower		
Post-tax profit for the year	15	15
Equity – hedging reserve	(120)	(78)

The Company's sensitivity to interest rate is not significant and therefore is not presented.

(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 a 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

1. Financial Risk Factors (continued)

(B) Credit risk (continued)

be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using 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.

(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 to meet future funding requirements.

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 2008					
Non-derivative financial liabilities					
Bank loans	3,516	3,624	7,865	590	15,595
Other borrowings	588	586	7,860	5,496	14,530
Obligations under finance leases	1,404	1,399	4,184	14,782	21,769
Customers' deposits	3,722	–	–	–	3,722
Trade and other payables	5,919	–	–	–	5,919
SoC reserve accounts	–	–	–	1,826	1,826
	15,149	5,609	19,909	22,694	63,361
Derivative financial instruments liabilities					
Net settled:					
Interest rate swaps	188	189	121	–	498
Energy contracts	674	352	128	–	1,154
Gross settled:					
Forward foreign exchange contracts	12,874	12,778	31,384	–	57,036
Cross currency & interest rate swaps	90	71	3,102	–	3,263
	13,826	13,390	34,735	–	61,951

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 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

As at 31 December 2008, the maturity profile of the Company's bank loans, included in the Group amounts shown above, was HK$176 million repayable within one year and HK$503 million within one to two years (2007: nil).

2. Accounting for Derivative Financial Instruments and Hedging Activities

These are covered under the Significant Accounting Policy No.16 on pages 153 and 154.

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 2007 and 2008.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios at 31 December 2008 and 2007 were as follows:

	2008 HK$M	2007 HK$M
Total debt [a]	**26,696**	28,360
Net debt [b]	**25,914**	25,581
Total equity	**63,122**	63,996
Total capital (based on total debt) [c]	**89,818**	92,356
Total capital (based on net debt) [d]	**89,036**	89,577
Total debt to total capital ratio (%)	**29.7**	30.7
Net debt to total capital ratio (%)	**29.1**	28.6

The decrease in total debt to total capital ratio in 2008 is primarily the result of the translation of Australian dollar denominated loan balances at a lower exchange rate prevailing at 2008 year end. The increase in net debt to total capital ratio is mainly due to the reduction in bank balances, cash and other liquid funds.

Certain entities of the Group are subject to certain loan covenants. For both 2008 and 2007, these entities have fully complied with those imposed loan covenants, apart from the obligation under TRAA as described in Note 20 to the financial statements.

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.

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

The SoC which had taken effect from 1 October 1993 (1993 SoC) expired on 30 September 2008. The new agreement signed on 7 January 2008 between the SoC Companies and the Hong Kong Government immediately became effective 1 October 2008 (2008 SoC). The 2008 SoC covers a period of 10 years to 30 September 2018, with the Hong Kong Government having the right to extend by 5 years on the same terms to 30 September 2023, by giving notice before 1 January 2016. In the event that the 5 years extension option is not exercised by the Hong Kong Government under the 2008 SoC, the SoC Companies will continue to earn the permitted return until 2023 on all approved investments.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the 1993 SoC and the new 2008 SoC are calculated as follows:

1993 SoC (effective from 1 October 1993 to 30 September 2008)	2008 SoC (effective from 1 October 2008 to 30 September 2018)
• 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.	• The annual permitted return is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and the annual permitted return for renewable energy investments is 11%.
• 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 a liability carried in CLP Power Hong Kong's books.	• Any difference between the permitted return and the profit for SoC operations is transferred to or from the tariff stabilisation fund. The tariff stabilisation fund does not form part of distributable shareholders' funds and is a liability carried in CLP Power Hong Kong's books.

1993 SoC (effective from 1 October 1993 to 30 September 2008)	2008 SoC (effective from 1 October 2008 to 30 September 2018)
• The net return is the permitted return less (i) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets; (ii) a charge of 8% per annum on the average balance of the development fund. This charge is credited to a rate reduction reserve in CLP Power Hong Kong's books and is applied as rebates to customers; (iii) 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; (iv) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998.	• The net return is the permitted return after the deduction or adjustment of (i) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets; (ii) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the tariff stabilisation fund. This charge is credited to the rate reduction reserve in CLP Power Hong Kong's books and is applied as rebates to customers; (iii) an excess capacity adjustment of 9.99% on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure; (iv) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; (v) incentives / penalties adjustments linked with emission performance, customer performance, energy efficiency and renewables performance. These performance related adjustments are in the range of -0.43% to +0.2% on the average net fixed assets.
• The annualised rate of net return on average net fixed assets of the SoC Companies for the 9 months ended 30 September 2008 was 13.48%.	• The annualised rate of net return on average net fixed assets of the SoC Companies for the 3 months ended 31 December 2008 was 9.09%.

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies and ExxonMobil International Holdings Inc. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2008, 65% (2007: 64%) of the net return was allocated to CLP Power Hong Kong and 35% (2007: 36%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the development fund / tariff stabilisation fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown on page 207 are in accordance with the SoC and the agreements between the SoC Companies.

	Period from 1 October to 31 December 2008 HK$M	9 months ended 30 September 2008 HK$M	12 months ended 31 December 2007 HK$M
SoC revenue	6,631	23,755	29,331
Expenses			
Operating costs	811	2,389	3,342
Fuel	1,744	5,024	4,905
Purchases of nuclear electricity	1,088	3,943	4,971
Provision for asset decommissioning	60	–	–
Depreciation	771	2,234	3,699
Operating interest	142	395	739
Taxation	338	1,514	1,909
	4,954	15,499	19,565
Profit after taxation	1,677	8,256	9,766
Interest on increase in customers' deposits	–	2	33
Interest on borrowed capital	165	443	728
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(33)	(92)	(160)
Profit for SoC	1,809	8,609	10,367
Transfer (to) / from Development Fund	–	(292)	353
Transfer from Tariff Stabilisation Fund	159	–	–
Permitted return	1,968	8,317	10,720
Deduct interest			
On increase in customers' deposits	–	2	33
On borrowed capital as above	165	443	728
On Development Fund transferred to Rate Reduction Reserve	–	121	202
On Tariff Stabilisation Fund transferred to Rate Reduction Reserve	11	–	–
	176	566	963
Net return	1,792	7,751	9,757
Divisible as follows:			
CLP Power Hong Kong	1,174	5,041	6,242
CAPCO	618	2,710	3,515
	1,792	7,751	9,757
CLP Power Hong Kong's share of net return			
CLP Power Hong Kong	1,174	5,041	6,242
Interest in CAPCO	247	1,087	1,410
	1,421	6,128	7,652

Five-year Summary: CLP Group Financial & Operating Statistics

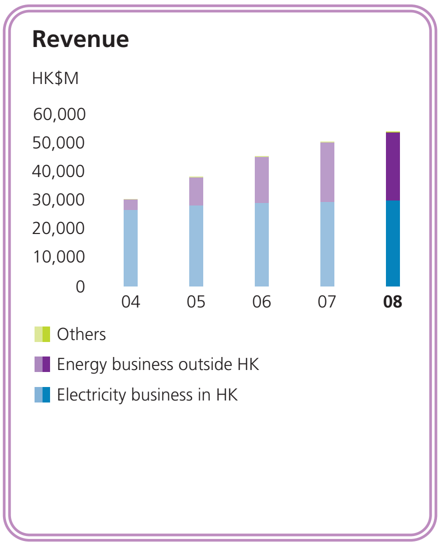
	2008	2007	2006	2005	2004
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong (HK)	**30,191**	29,684	29,293	28,303	26,733
Energy business outside HK	**23,822**	20,879	16,143	9,973	3,722
Others	**284**	226	266	215	194
Total	**54,297**	50,789	45,702	38,491	30,649
Operating profit	**13,307**	13,304	12,167	11,586	10,931
Earnings					
Electricity business in HK	**7,549**	7,589	7,290	7,047	6,788
Other investments / operations	**2,564**	2,120	2,778	2,789	2,271
Other income, net	**657**	1,797	408	–	–
Other one-off items of TRUenergy	**19**	(503)	–	–	–
Tax consolidation benefit from Australia	**–**	–	–	2,004	–
Unallocated net finance costs	**(21)**	(90)	(283)	(151)	(61)
Unallocated Group expenses	**(345)**	(305)	(293)	(269)	(269)
Total	**10,423**	10,608	9,900	11,420	8,729
Ordinary dividends	**5,971**	5,973	5,756	5,467	5,009
Special dividends	**–**	–	48	265	361
Total dividends	**5,971**	5,973	5,804	5,732	5,370
Capital expenditure, owned and leased assets	**7,760**	8,271	9,213	8,784	6,451
Depreciation & amortisation, owned and leased assets	**4,055**	4,650	4,968	4,359	3,806
Consolidated Cash Flow Statement, HK$M					
Net cash inflow from operations	**15,916**	15,687	16,794	16,578	11,502
Consolidated Balance Sheet, HK$M					
SoC fixed assets	**52,132**	49,684	47,516	45,099	42,415
Other fixed assets	**36,991**	38,925	38,137	36,643	32,334
Goodwill and other intangible assets	**6,324**	8,135	7,326	6,930	(1,022)
Interests in jointly controlled entities	**17,791**	17,684	19,163	16,719	15,115
Interests in associated companies	**242**	299	18	1,798	1,820
Other non-current assets	**8,082**	8,272	6,615	6,109	4,101
Current assets	**11,269**	13,278	12,316	10,825	6,768
Total assets	**132,831**	136,277	131,091	124,123	101,531
Shareholders' funds	**63,017**	63,901	55,838	50,629	44,643
Minority interests	**105**	95	78	111	–
Equity	**63,122**	63,996	55,916	50,740	44,643
Bank loans and other borrowings	**26,696**	28,360	30,278	29,391	18,774
Obligations under finance leases	**21,765**	22,216	22,810	21,497	20,069
SoC reserve accounts	**1,826**	2,300	3,346	4,174	3,720
Other current liabilities	**11,228**	11,538	10,781	10,912	7,738
Other non-current liabilities	**8,194**	7,867	7,960	7,409	6,587
Total liabilities	**69,709**	72,281	75,175	73,383	56,888
Equity and total liabilities	**132,831**	136,277	131,091	124,123	101,531
Per Share Data, HK$					
Shareholders' funds per share	**26.19**	26.53	23.19	21.02	18.54
Earnings per share	**4.33**	4.40	4.11	4.74	3.62
Dividends per share					
Ordinary	**2.48**	2.48	2.39	2.27	2.08
Special	**–**	–	0.02	0.11	0.15
Total	**2.48**	2.48	2.41	2.38	2.23
Closing share price					
Highest	**70.50**	59.95	57.90	46.25	45.30
Lowest	**42.85**	50.25	43.15	42.80	36.50
As at year-end	**52.60**	53.25	57.50	45.00	44.70

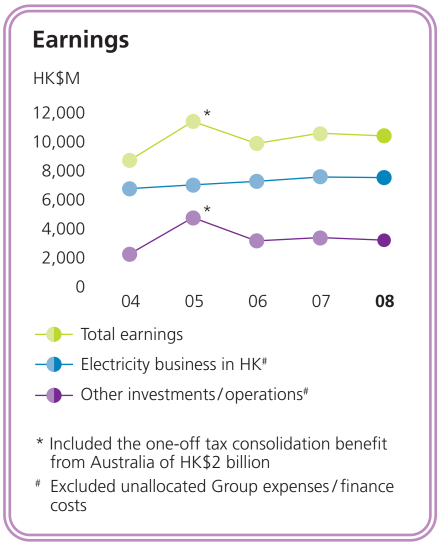
	2008	2007	2006	2005	2004
Ratios					
Return on equity, %	16.4	17.7	18.6	24.0	20.5
Total debt to total capital, %	29.7	30.7	35.1	36.7	29.6
Net debt to total capital, %	29.1	28.6	33.9	35.0	26.7
Interest cover, times	9	8	7	8	11
Price / Earnings, times	12	12	14	9	12
Price / Book value, times	2	2	2	2	2
Dividend yield, %	4.7	4.7	4.2	5.3	5.0
Dividend payout, %	57.3	56.3	58.6	50.2	61.5
Other Information					
Shareholders	19,467	20,113	20,351	22,140	21,989
Shares in issue (million)	2,406.14	2,408.25	2,408.25	2,408.25	2,408.25
Employees					
SoC	3,758	3,861	3,866	3,862	3,873
Non-SoC	1,959	1,834	2,221	2,197	760
	5,717	5,695	6,087	6,059	4,633
Group generating capacity (owned / operated / under construction)*, MW					
– by region					
Hong Kong	6,908	6,908	6,908	6,908	6,908
Australia	3,132	3,112	4,213	3,775	1,480
Chinese mainland**	5,206	4,477	4,124	4,080	3,163
India**	2,183	680	655	655	655
Southeast Asia & Taiwan	796	728	992	2,015	1,953
	18,225	15,905	16,892	17,433	14,159
– by status					
Operational	15,636	14,693	15,381	15,279	12,643
Construction	2,589	1,212	1,511	2,154	1,516
	18,225	15,905	16,892	17,433	14,159

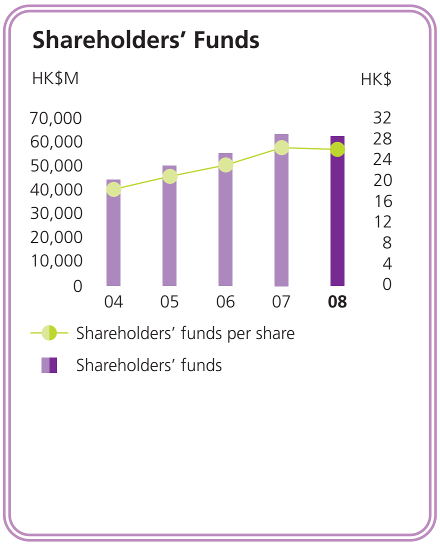
* Group generating capacity (in MW) is incorporated on the following basis: a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; b) PSDC and Ecogen on 100% as having right to use; and c) other stations on the proportion of the Group's equity interests.

** 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.







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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

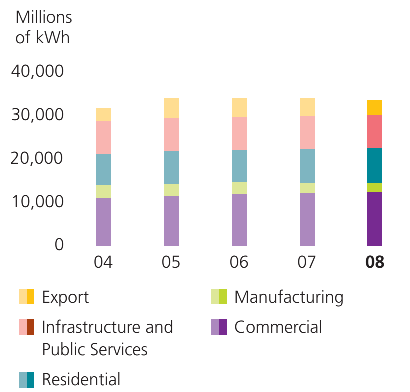
	2008	2007	2006	2005	2004
SoC Financial Statistics, HK$M					
Combined Profit & Loss Statement					
Profit for SoC	**10,418**	10,367	10,250	10,750	10,066
Transfer (to) / from					
Tariff Stabilisation Fund / Development Fund[1]	**(133)**	353	202	(527)	(219)
Permitted return	**10,285**	10,720	10,452	10,223	9,847
Less: Interest on					
Increase in customers' deposits	**2**	33	35	12	–
Borrowed capital	**608**	728	754	769	679
Tariff Stabilisation Fund / Development Fund[1] and Special provision account	**132**	202	265	274	253
Net return	**9,543**	9,757	9,398	9,168	8,915
Combined Balance Sheet					
Net assets employed					
Fixed assets	**79,445**	75,239	73,156	71,890	69,882
Non-current assets	**1,552**	533	934	808	298
Current assets	**3,612**	3,504	3,402	3,040	2,382
	84,609	79,276	77,492	75,738	72,562
Less: current liabilities	**14,394**	14,429	10,257	12,723	9,740
Net assets	**70,215**	64,847	67,235	63,015	62,822
Exchange fluctuation account	**(165)**	51	5	(63)	(34)
	70,050	64,898	67,240	62,952	62,788
Represented by					
Shareholders' funds	**42,366**	40,404	38,842	36,569	35,689
Long-term loans and other borrowings	**16,616**	13,828	16,161	13,720	15,084
Deferred liabilities	**9,312**	8,549	9,305	8,978	8,844
Tariff Stabilisation Fund / Development Fund[1]	**1,756**	2,117	2,932	3,685	3,171
	70,050	64,898	67,240	62,952	62,788
Other SoC Information					
Total electricity sales	**30,288**	29,236	29,004	28,750	26,661
Capital expenditure	**7,665**	6,123	5,673	6,005	6,961
Depreciation	**3,005**	3,699	4,117	3,746	3,452
SoC Operating Statistics					
Customers and Sales					
Number of Customers (thousand)	**2,291**	2,261	2,236	2,205	2,160
Sales analysis, millions of kWh					
Commercial	**12,312**	12,144	11,957	11,428	11,086
Manufacturing	**2,202**	2,418	2,653	2,734	2,833
Residential	**7,890**	7,724	7,469	7,525	7,149
Infrastructure and Public Services	**7,661**	7,676	7,482	7,695	7,564
Local	**30,065**	29,962	29,561	29,382	28,632
Export	**3,552**	4,035	4,528	4,497	3,087
Total Electricity Sales	**33,617**	33,997	34,089	33,879	31,719
Annual change, %	**(1.1)**	(0.3)	0.6	6.8	2.2
Local consumption, kWh per person	**5,260**	5,301	5,162	5,161	5,140
Local sales, HK¢ per kWh (average)					
Basic tariff	**85.6**	88.1	88.0	88.2	88.1
Fuel clause charge / (rebate)	**7.3**	2.0	2.0	0.2	(0.3)
SoC rebate	**(0.8)**	(1.1)	(1.1)	(1.1)	(0.6)
Special rebate	**(1.6)**	(1.8)	(1.8)	–	–
Total	**90.5**	87.2	87.1	87.3	87.2[2]
Annual basic tariff change, %	**(2.8)**	0.1	(0.2)	0.1	(0.3)
Annual total tariff change, %	**3.8**	0.1	(0.2)	0.1	(0.3)

	2008	2007	2006	2005	2004
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	8,888	8,888	8,888	8,576	8,263
System maximum demand					
Local, MW	6,749	6,284	6,435	6,475	6,329
Annual change, %	7.4	(2.3)	(0.6)	2.3	7.7
Local and the Chinese mainland, MW	8,199	7,730	8,318	7,817	7,862
Annual change, %	6.1	(7.1)	6.4	(0.6)	2.8
System load factor, %	51.1	55.0	50.9	53.8	50.2
Generation by CAPCO stations, millions of kWh	25,722	26,698	26,408	26,247	25,109
Sent out, millions of kWh –					
From own generation	24,324	25,200	25,024	24,887	23,809
Net transfer from / (to)					
Hongkong Electric	–	–	–	(1)	–
Landfill gas generation	5	6	5	4	1
GNPS / GPSPS	10,653	10,164	10,256	10,212	9,165
Total	34,982	35,370	35,285	35,102	32,975
Fuel consumed, terajoules –					
Oil	1,048	868	1,116	1,202	2,024
Coal	153,565	179,599	148,830	144,938	133,403[3]
Gas	77,487	63,552	85,462	85,733	85,777
Total	232,100	244,019	235,408	231,873	221,204
Cost of fuel, HK$ per gigajoule – Overall	29.06	20.14	18.42	17.87	15.73
Thermal efficiency, % based on units sent out	37.7	37.2	38.3	38.6	38.8[3]
Plant availability, %	85.8	90.0	89.9	89.5	88.4
Transmission and Distribution					
Network, circuit kilometres					
400kV	554	554	554	554	554
132kV	1,386	1,346	1,255	1,167	1,137
66kV & 33kV	62	88	171	274	301
11kV	11,240	11,076	10,978	10,328	9,963
Transformers, MVA	57,187	56,423	55,769	55,953	54,611
Substations –					
Primary	214	202	208	210	202
Secondary	12,914	12,784	12,623	12,434	12,215
Employees and Productivity					
No. of SoC employees	3,758	3,861	3,866	3,862	3,873
Productivity, thousands of kWh per employee	7,892	7,755	7,650	7,597	7,353

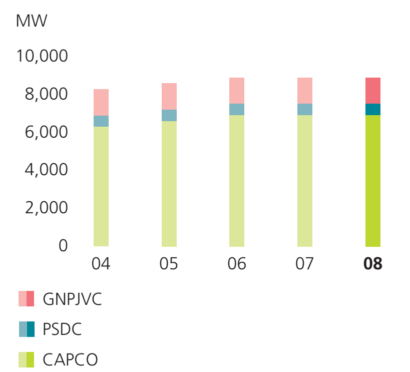
Notes:
1 The Tariff Stabilisation Fund has replaced the Development Fund under the new SoC effective from 1 October 2008.
2 The effective total tariff, including the one-off rebate in 2004, is HK¢85.5 per unit.
3 Figures restated to exclude coal stock adjustments.

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

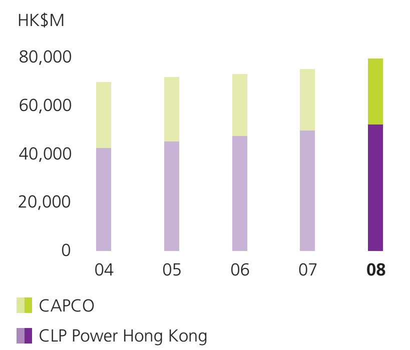
Electricity Sales by Sector



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 12 March 2009 and posted to Shareholders on 26 March 2009.

Those Shareholders who (a) received our 2008 Annual Report electronically and would like to receive a printed copy or vice versa; or (b) received our 2008 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 20 to 28 April 2009, both days inclusive.

Annual General Meeting (AGM)

To be held on 28 April 2009. 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 26 March 2009.

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

Contact Us

Address: **147 Argyle Street, Kowloon, Hong Kong**

Telephone:	**(852) 2678 8228** (Shareholders' hotline)	**(852) 2678 8322** (Investor Relations' hotline)
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)

April Chan
Company Secretary

Gloria Kwan
Investor Relations Manager

Together, how can we help the community ?

Last year – Hong Kong Association for Specific Learning Disabilities

Since 2004 CLP, together with its shareholders and other stakeholders has used the Annual Report and the Sustainability Report as an opportunity to support community activities.

Each year, CLP makes a donation to charity for each shareholder who elects to receive corporate communications electronically. In 2008, 253 shareholders responded to this offer, which aims to encourage the increased use of this environmentally friendly method.

As a result, CLP donated HK$191,000 to the Hong Kong Association for Specific Learning Disabilities (HKASLD) which provides assistance to children with dyslexia through mutual support and experience sharing amongst parents. This donation included HK$170,000 as expression of appreciation to those shareholders who had already chosen electronic communication. In addition, to thank stakeholders who provided feedback on our Sustainability Report, CLP also donated HK$60 for every feedback received, amounting to HK$5,820, making a total donation of HK$191,000.

This donation was applied to the HKASLD's "Play Classroom" project which is designed to develop an enjoyable environment for dyslexic children to learn and improve their visual, auditory, motor coordination and memorising skills. The project helped 120 children and their parents.

This year – Hong Kong Breast Cancer Foundation

This year, we will donate HK$60 to the Hong Kong Breast Cancer Foundation (HKBCF) for each shareholder who elects for electronic communication, instead of their previous choice of printed form (or new shareholders who choose electronic communication). This will be in addition to a donation of HK$190,000 we will make on behalf of existing shareholders who have already opted for electronic communication.

HKBCF (www.hkbcf.org) is the first charity in Hong Kong dedicated to education, support service and advocacy on breast cancer. Early detection of breast cancer saves lives. However, local data indicates that only 9% of Hong Kong women aged between 40 and 59 undertake screening, through mammography, with the recommended frequency of once every two years. Over 70% of women in this age bracket have never taken a mammography. The HKBCF's Free Mammography Screening Financial Assistance Program is aimed at providing low income women in the 40 to 59 age category with access to timely, high quality mammogram screening and diagnostic services, in order that breast cancer can be detected at the earliest stage.

CLP's aim, with your support, is to donate sufficient funds to HKBCF to provide a free mammogram screening for at least 400 low income women in Hong Kong. To help us towards this goal, we will add to the donations from our Annual Report and Sustainability Report readers the participation fees which we have received from guests who accompanied shareholders in our Shareholders' Visit Programmes. Shareholders who wish to support this community initiative by electing for electronic communication can return to us the notification form which accompanies this Annual Report, in the provided pre-paid reply envelope on or before 30 June 2009.

In previous years, you have helped CLP contribute to community projects undertaken by Make-A-Wish Foundation of Hong Kong, WWF Hong Kong, Médecins Sans Frontières, the Society for the Welfare of the Autistic Persons, the Hong Kong Association for Cleft Lip and Palate and the Hong Kong Association for Specific Learning Disabilities. We hope that you will be as generous this year in supporting HKBCF. We thank you in advance for all your support.

CLP welcomes your views...

CLP 中電

Section A – Feedback on 2008 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?								
10 CEO's Review	1	2	3	4	1	2	3	4
18 Financial Review	1	2	3	4	1	2	3	4
38 Business Performance and Outlook	1	2	3	4	1	2	3	4
How do we engage our Stakeholders?								
69 Shareholders	1	2	3	4	1	2	3	4
76 Lenders	1	2	3	4	1	2	3	4
79 Customers	1	2	3	4	1	2	3	4
84 Employees	1	2	3	4	1	2	3	4
88 Environment	1	2	3	4	1	2	3	4
90 Community	1	2	3	4	1	2	3	4
How do we govern our Company?								
94 Corporate Governance Report	1	2	3	4	1	2	3	4
109 Risk Management Report	1	2	3	4	1	2	3	4
120 Audit Committee Report	1	2	3	4	1	2	3	4
122 Remuneration Report	1	2	3	4	1	2	3	4
What is in our Accounts?								
138 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 ☐

3. Was there any additional information you expected to receive in the Annual Report? Please specify.

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.../cont'd

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) ____________________________

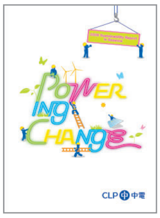
Address ____________________________

____

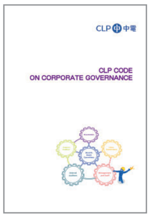
(Please " ✔ " appropriate box)

☐ Web Information Required
(Please specify which) ____________________________

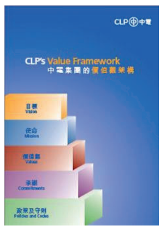
☐ 2008 Sustainability Report – In Essence



☐ CLP Code on Corporate Governance (2009 update)



☐ CLP's Value Framework



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