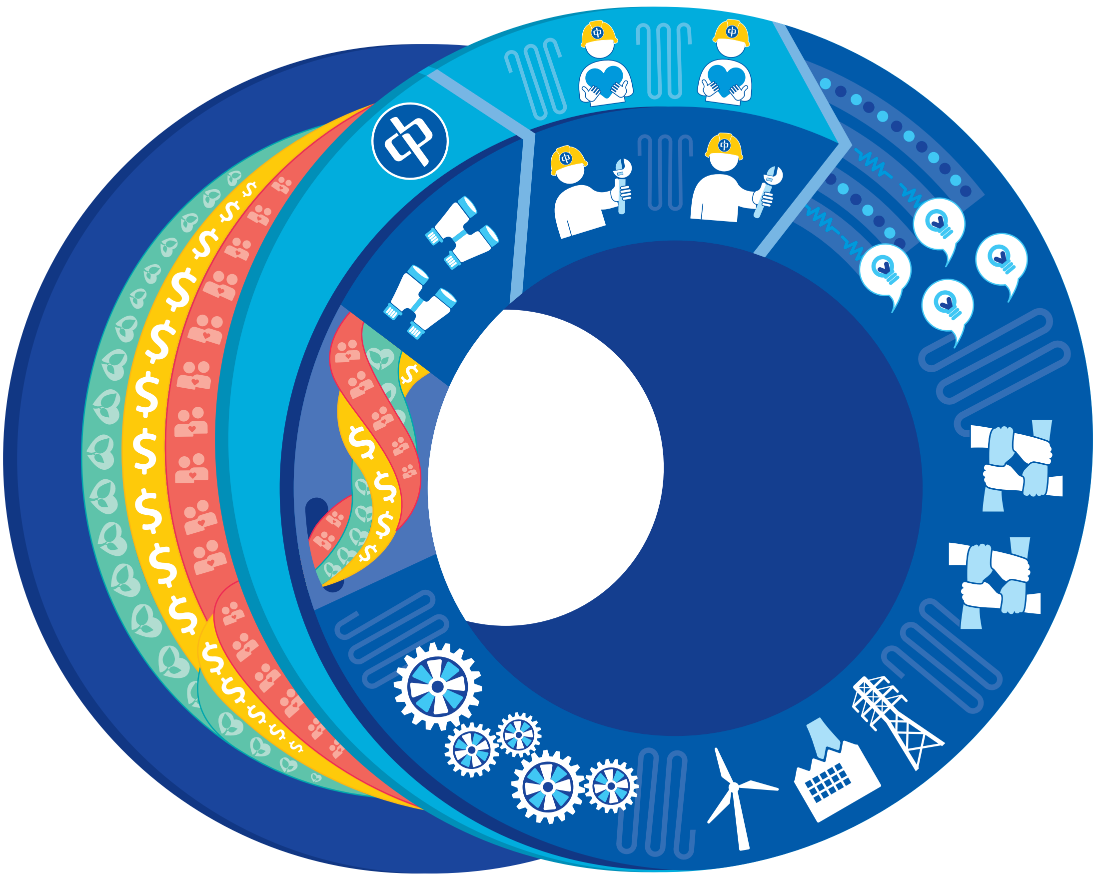
CLP 中電



2009 ANNUAL REPORT

Contents

An Annual Report should explain what a company does and will do. It is an interesting challenge, difficult too. Especially for CLP, since we have a complex business, covering all the elements of the electricity industry: generation, transmission and customer services. From our base in Hong Kong we are present in markets which include almost half of the world's population – and we are one of the largest external investors in the power sector in each of those markets.

In this year's Annual Report we have described our business a little differently from previous years – using a "corporate cycle" (which ended up looking like a cable drum) to describe how we create economic value for our shareholders, as well as social and environmental value for all stakeholders (which you will find more about in our Sustainability Report). And there is always a lot more information about CLP on our website www.clpgroup.com.

Let us know if the Annual Report helped you understand what CLP does. We are always looking to improve our performance – including how we explain it.

Powering Asia Responsibly — CLP is a leading investor

Who are we?

How are we doing?

Hong Kong

- Electricity supplier since 1903
- We own and operate an electricity supply business,
  - Generation: 6,908 megawatts (MW)*
  - Energy Delivery: over 13,000 kilometers (km) of transmission and high voltage distribution lines
  - Customer Service: 2.3 million customer accounts (representing over 80% of Hong Kong's population)
- We're 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 Limited

- World-class reliability and customer service
- Total tariff increase of 2.6% for 2010 – the first basic tariff increase in 10 years, and still good value
- Our emissions levels are low (even lower than in 1990) and we're reducing them even further
- The SoC gives us a stable basis for investment until at least 2018
- We've secured clean electricity supply from Daya Bay Nuclear Power Station for a further 20 years from 2014

Australia

- We're a developer, investor, project manager, retailer and operator in the power business since 1999
- We're present in energy markets throughout Australia (except Western Australia and the Northern Territory)
- As TRUenergy, we operate a vertically integrated energy business,
  - Generation: 2,080MW from wholly-owned large thermal and gas-fired power stations and a 966MW long-term hedge contract
  - 1.28 million customer accounts (gas and electricity)
  - Gas storage and processing
  - Renewable energy purchases and investments

- TRUenergy is performing better, with a strengthened organisation, people and processes – and the youngest management team in the Group
- CO_2 emissions from our Yallourn brown-coal station in Victoria are a big risk, with new legislation threatening
- Our power stations have performed well, including our new gas-fired Tallawarra Power Station in New South Wales
- The failure of our investment in solar energy through Solar Systems was painful, but we're still moving on with wind power

Chinese Mainland

- We're a developer, project manager and operator in the power business since 1985
- We're the largest external investor in the Chinese mainland electricity industry with 5,578 equity MW
- We've interests in different types of power generating assets including nuclear, pumped storage, coal-fired, hydro, wind and biomass in Guangdong, Beijing, Hebei, Tianjin, Shandong, Shaanxi, Liaoning, Inner Mongolia, Guangxi, Guizhou, Sichuan, Jilin and Yunnan

- Tough first six months, but a big turnaround in the second half of the year, thanks to the economic recovery and a lot of hard work
- Our largest investment, Fangchenggang Power Station, did really well after low despatch at the beginning of the year
- We've put more discipline into our wind business, achieving growth through a mix of minority stakes, our investment in CGN Wind and, from this year, wholly-owned projects
- Construction at our Jiangbian hydro project is going well, but safety is always a challenge

India

- We're a developer, project manager and operator in the power business since 2001
- We're one of the largest foreign power investors in the Indian power sector with 2,420MW equity interest in power projects in the country
- We're the largest private sector investor in wind energy in India with 446MW of wind projects
- We're building a 1,320MW coal-based power plant based on supercritical technology at Jhajjar, Haryana

- GPEC, our first investment, is still doing well
- Jhajjar took a while to finance, but the project is coming along now
- We've a good position in wind energy and we're looking for new projects
- We're bidding for transmission projects. We'll do one or two smallish ones first to see how they go

Southeast Asia and Taiwan

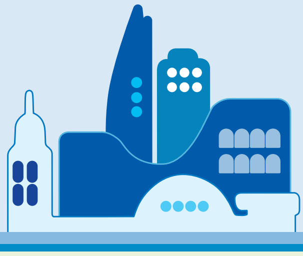
- We're a developer, investor, project manager and operator in the power business since 1994
- Through OneEnergy, our joint venture with Mitsubishi Corporation, and CLP's subsidiaries, we've 832 equity MW of interests in generating assets in Taiwan, Thailand, The Philippines and Laos
- We're co-developing coal-fired projects in Vietnam

- It was a good year for Ho-Ping and we recovered more of our coal costs
- We increased our stake in EGCO and we have contributed to its business by the transfer of our shares in the BLCP project
- We restructured our OneEnergy joint venture with Mitsubishi to reduce overheads and make better use of our complementary, but different, skills
- The two coal-fired projects in Vietnam we're exploring started to look like genuine possibilities, even if there's a long way to go

-operator in the Asia-Pacific electric power sector

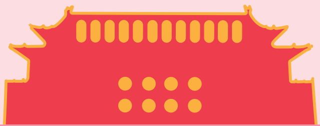
What's ahead?

- We've got to keep up our record of reliability, reasonable tariffs and first-rate customer service
- Working with the Beijing and Hong Kong governments and Chinese mainland parties, we're bringing in new supplies of gas
- The emissions control project at Castle Peak Power Station needs to be completed
- Then, we're going to have to look for more ways to bring emissions down even further, like burning less coal, more gas and taking more nuclear energy



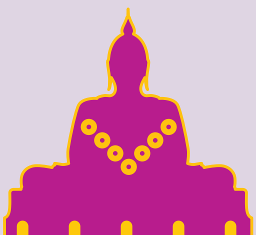
- Uncertain times still to come if the Federal Government sticks with its proposed Carbon Pollution Reduction Scheme in its current form
- We're working on our customer service IT platform – it's a big job
- If we get fair treatment on emissions legislation we're interested in new gas-fired generation, the privatisation of New South Wales retail electricity businesses and more renewable energy
- The business needs to grow – but we need to manage its capital requirements

- Some of our investments in coal-fired projects don't give us too much control or room to grow – we'll look at our strategic options, including possible sell-downs
- If we could expand at Fangchenggang we probably would
- We'll grow our wind portfolio and prove we can do projects by ourselves
- We'll build on our relationship with China Guangdong Nuclear Power Holding Company, Limited and see how we can work together in the expansion of China's nuclear power industry



- There are opportunities across the power sector – coal and gas-fired generation, renewable energy (mostly wind) and transmission
- We'll stick to reforming states – we don't want or need to be everywhere
- We'll be reinforcing our people, organisation and systems to meet the demands of a growing business

- We need to consolidate our portfolio – maybe around EGCO if we can increase our influence and management input
- Although there aren't too many renewable energy opportunities, our solar project in Thailand looks like it should go ahead
- Vietnam is an interesting market. To make our coal-fired projects happen we'll need to source plant at a good price and raise international project financing on reasonable terms



Financial Highlights

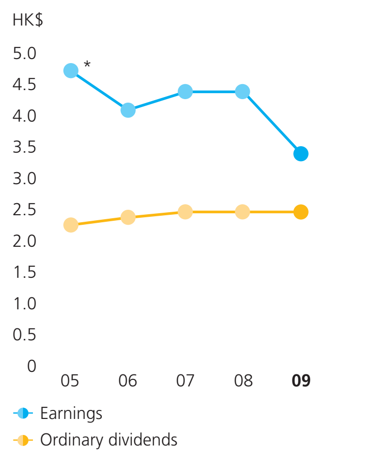
2009 operating earnings down by 12.4% to HK$8.5 billion. Upturn in earnings from non-Hong Kong businesses reduced the impact of expected reduction in Hong Kong earnings.

	2009	2008	Increase / (Decrease) %
For the year *(in HK$ million)*			
Revenue			
Electricity business in Hong Kong (HK)	28,297	30,191	(6.3)
Energy business outside HK	22,175	23,822	(6.9)
Others	196	284	
Total	50,668	54,297	(6.7)
Earnings			
Electricity business in HK	5,964	7,549	(21.0)
Other investments / operations	3,007	2,564	17.3
Unallocated net finance costs	(21)	(21)	
Unallocated Group expenses	(413)	(345)	
Operating earnings	8,537	9,747	(12.4)
Other income	153	657	
Provisions for Solar Systems and OneEnergy	(477)	–	
Other one-off items of TRUenergy	(17)	19	
Total earnings	8,196	10,423	(21.4)
Net cash inflow from operating activities	14,529	15,238	(4.7)
At 31 December *(in HK$ million)*			
Total assets	156,531	132,831	17.8
Total borrowings	39,431	26,696	47.7
Shareholders' funds	70,761	63,017	12.3
Per share *(in HK$)*			
Earnings per share	3.41	4.33	(21.3)
Dividends per share			
Interim	1.56	1.56	
Final	0.92	0.92	
Total	2.48	2.48	–
Shareholders' funds per share	29.41	26.19	12.3
Ratios			
Return on equity (%)	12.3	16.4	
Total debt to total capital[1] (%)	35.7	29.7	
Net debt to total capital[2] (%)	30.7	29.1	
Interest cover[3] (times)	8	9	
Price / Earnings[4] (times)	15	12	
Dividend yield[5] (%)	4.7	4.7	

Notes:
1 Total debt to total capital = Debt / (Equity + debt). Debt = Bank loans and other borrowings.
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 Dividend yield = Dividends per share / Closing share price on the last trading day of the year

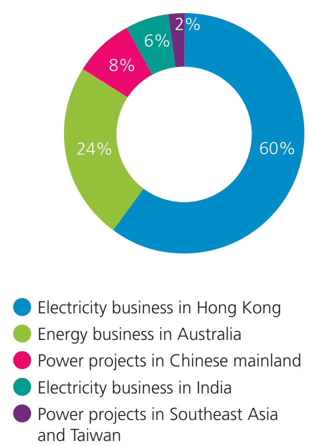
Total Earnings

Earnings and Dividends per Share



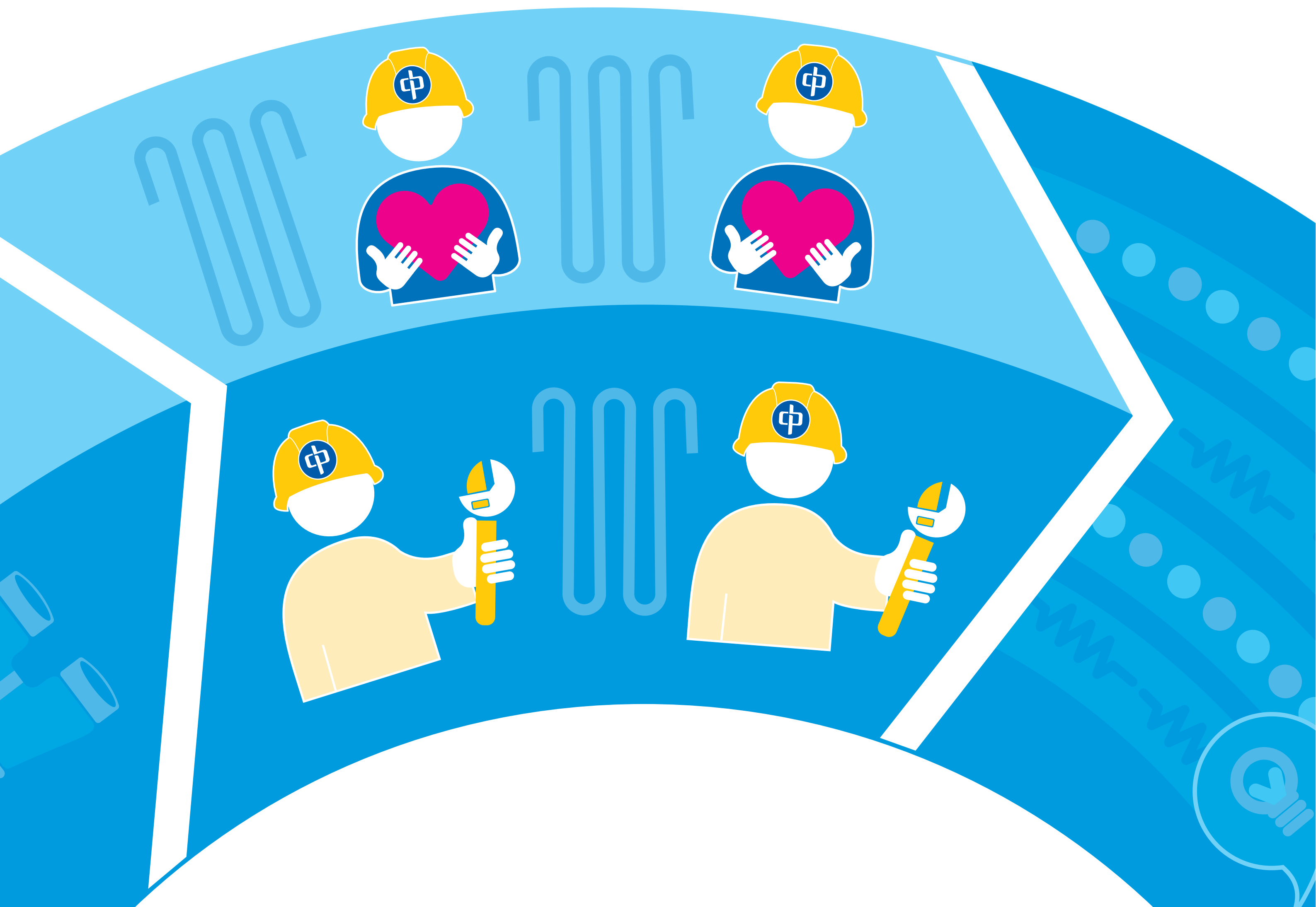
* Included the one-off tax consolidation benefit from Australia of HK$2 billion

Total Assets in 2009



Values and Abilities

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



Chairman's Statement

Dear Shareholders,

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

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

The Hon. Sir Michael Kadoorie, Chairman

Values

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

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

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

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

Abilities

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

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

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

We demonstrate responsibility in managing the environmental implications of our business. In doing so, we respect one of our core values, namely care for the environment. The growth of our renewable energy portfolio is one example of this. Another example is the massive reductions we have achieved in emissions from power generation in our Hong Kong electricity business. Since 1990, our emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_x) and particulates have fallen by 64%, 78% and 73% respectively, despite an 83% increase in local electricity consumption over that period. Our Climate Vision 2050, which expresses our goal of making massive cuts in the carbon emissions intensity of our generating portfolio, also shows our determination to be amongst leading companies in the effective management of the environmental aspects of our business.

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

Sir Michael with students at CLP's Engineering Studies Award

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

Economic Performance

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

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

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

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

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

The Hon. Sir Michael Kadoorie
Hong Kong, 25 February 2010

Strategy

Once we are clear about CLP's values and abilities we can develop a strategy which respects our values and exploits our abilities.

CEO's Review

Andrew Brandler, Chief Executive Officer

Historically, CLP's focus on our core Hong Kong electricity business has been consistent and effective. At present, with a new SoC in place since 2008, the regulatory risks to our business seem manageable, with a relatively low near-term competitive threat. With the discussions on the new SoC behind us, and ongoing excellence in the reliability, tariff levels and customer service which we offer, our public positioning is broadly favourable, even though as the sole supplier of an essential public service to 80% of Hong Kong's population, we will always remain the object of close, continuing and critical scrutiny. We can have no objection to that. In present circumstances, our Hong Kong electricity business provides a continuing platform for investment, albeit at a substantially reduced rate of return.

On the other hand, the model for our non-Hong Kong businesses has varied widely and, on occasions, has been unsettled by changing events and mixed experience. This experience has taught us a number of things. First, that geographic proximity may be an unproven business proposition – electricity markets are essentially local or national, rather than regional. Secondly, investment opportunities are usually "event driven" and "lumpy" (in the sense that we have not seen a smooth and predictable pipeline of realised investments, given our financial discipline). Thirdly, our previous strategic vision of building "meaningful" businesses in selected markets has not always been helpful – it assumed that we could always make the correct choices about the right markets to be in and that the Company and its shareholders should then allocate to these markets the potentially large-scale amounts of capital needed to build a "meaningful" business.

We cannot be sure that the SoC for our Hong Kong electricity business will necessarily be renewed in the same or similar form. Moreover, there are potentially paradigm-shifting environmental issues and concerns bearing on our industry – the potential impact of which has been illustrated by the significant risk to our balance sheet from threatened carbon pollution reductions legislation in Australia. We have, therefore, carefully reviewed our strategy with the Board. In doing so, we have recognised the differences between our Hong Kong electricity business and our activities in other markets.

Within the Hong Kong business, a priority is the ongoing management of the interface with our regulator, the HKSAR Government. This is both to defend shareholders' interests under the current SoC and to position the business for a post-2018 regulatory structure. This will include explanation and emphasis to Government of the importance of a stable, fair and long-term regulatory structure to enable the large-scale and long-term capital investment which is required to maintain the outstanding quality of Hong Kong's electricity supply. The continued quality of our operations will be critical to the relationship with Government, the shape of any revised regulatory structure and the willingness of Hong Kong people to extend our "social franchise" as the trusted provider of an essential public service. Quality in operations will include a strengthened focus on cost control and efficiency, as well as levels of customer service. Even though our environmental performance is first-rate, we know that we will be expected to lower our emissions even further, including carbon emissions. We should expect to make further investments in lower carbon emissions generation and, over time, to continue to move away from coal-fired generation – provided that Government and our customers understand the implications of doing so on tariff levels, reliability and energy security. We see environmental excellence, along with supply reliability, quality, tariff levels and customer service as major competitive advantages that we have, and can enhance, against potential entrants to the Hong Kong electricity market.

Outside Hong Kong, our strategy is to adopt a flexible, market-by-market approach with a focus on a balanced portfolio which reflects our trajectory towards a low-carbon business. This flexibility will manifest itself in different ways. We will no longer maintain a fixed intention to build "meaningful" businesses in pre-selected markets. We will be cautious when contemplating wide-scope corporate joint ventures. Although our partnerships in OneEnergy, Roaring 40s and elsewhere have served shareholders' interests, we are not satisfied that they proved to be the most effective manner to exploit our expertise, capital and management time and resources. CLP, traditionally, has not been a "seller" of projects and assets. Whilst we will not become a "trader" (this suits neither our philosophy nor reflects the long-term character of our business), we will be more flexible in the timing and manner of the maximisation of portfolio values.

In practice, this will involve harvesting legacy assets without obvious growth opportunities, and the exploitation of the growth potential of other assets and market positions, on a case by case basis, with a view to long-term expansion through a partial sale, merger, separate listing and the like. This is most likely to occur once overseas businesses have reached self-standing scale and maturity, the credibility of the Hong Kong business is no longer needed to support those activities and their capital needs exceed the prudent funding capability of CLP Holdings.

The performance and outlook for each of our major business streams outside Hong Kong is discussed later in this Annual Report. However, it is probably helpful if I summarise here the Board's strategic direction for each of these businesses, with which their activities will be aligned.

In Australia, TRUenergy is a platform either for organic growth or positioning within future industry consolidation. There are growth opportunities in the Australian energy sector, such as in gas-fired generation or New South Wales retail privatisation. Over time, TRUenergy will need external capital in some shape or form, if it is to fully participate in growing within the Australian market. In the meantime and in any event, TRUenergy needs to maintain its improving operating performance, as well as strengthening its position in upstream gas, renewables and clean energy. TRUenergy also has the challenging task of managing and mitigating the operational and financial impact of any carbon pollution reduction scheme on our brown coal-fired power station at Yallourn.

Within the Chinese mainland, we do not believe that we have a competitive advantage in conventional coal-fired generation. The electricity reforms of past years created five massive generating companies with significant state ownership. These serve in effect, as "national champions". This being so, our strategy will be to scale back investment in coal-fired generation, although our Fangchenggang Power Station is a valuable asset in itself, with potential for expansion at the site. Our growth opportunities are in renewable energy, hydro and, especially wind where we have increasing expertise and experience. The relationship with China Guangdong Nuclear Power Holding Company, Limited originally established through our work together at Daya Bay, offers an avenue for further participation in the expansion of China's nuclear power industry – principally in Southern China and, possibly, overseas in those markets where CLP already has an established business presence, reputation and relationships.

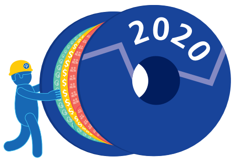
India presents significant long-term development opportunities. There may be occasionally troubled times and setbacks ahead, but the broad upward trajectory of social and economic development in India seems firmly established. This benefits the electricity sector. In recent years, and again this might change from time to time, India has been "open for business" in terms of accepting foreign investment in the power sector. This was demonstrated by our success in winning a competitive bidding process for the greenfield coal-fired power station project at Jhajjar. The opportunities we see, which will only be pursued in reforming states, exist across the industry, including gas-fired generation, renewable energy and transmission projects. It may be that the growth of this business will also make demands on CLP Holdings' capital on a scale beyond which we are prepared to fund ourselves. At that stage, we would need to look at alternative funding options, which could include a local listing.

In Southeast Asia, we will be critically reviewing the status of our investment in EGCO in Thailand. Ideally, we would like to increase our influence and input into the management and direction of EGCO, so that we can play a full part in developing EGCO as an investment platform for a Southeast Asia energy business. If that does not prove possible, then we will have to pursue other routes to exploit regional opportunities. These opportunities exist. Vietnam, for example, where we have been exploring, with our joint venture partners Mitsubishi Corporation, participation in two greenfield coal-fired power station projects, appears to be an interesting market with strong underlying demand for new generation. The challenge is to procure generating plant at a good price and international project finance on reasonable terms – our past experience at Ho-Ping, Fangchenggang, BLCP and Jhajjar suggests that this is an area in which CLP has relevant and valuable skills.

All of our market strategies, in Hong Kong and elsewhere, are consistent with CLP's Climate Vision 2050 – our commitment to make massive reductions over time in the carbon intensity of our generating portfolio. In doing so, we match environmental responsibility with economic motivation – capturing the rewards of lower carbon emissions generation, whilst mitigating the risks and penalties which will increasingly be associated with high carbon emissions. We will continue to invest in renewable energy, provided that government support, especially in the form of subsidies or similar incentives makes this form of electricity generation financially, as well as environmentally, sustainable. Where we have a customer base (presently in Hong Kong and Australia) we will look to pursue value-added products, such as energy saving solutions and green energy offerings.

Our investments in clean energy, whether in renewable energy or the abatement of emissions from more conventional generation, will centre upon proven technology. Our experience with our Solar Systems investment in Australia illustrated the dangers associated with investment in early stage technology. This is a field better left to venture capitalists and others with a greater risk appetite and more specialist expertise in the identification and commercialisation of new technology. At the same time, we believe it is important for us to monitor the latest trends with a view to introducing new technologies into our portfolio once these have been de-risked. Carbon Ventures, a group level business unit, will continue evaluating new technologies as well as identifying and introducing suitable and commercially sustainable new technologies to our projects and operations. One example of this may be solar photovoltaic technologies, whose cost curve is declining and efficiency gradually rising.

There would be no sense in having a strategy without the money to make it happen. We will continue to optimise our financial and capital structure and to keep this aligned with the business needs of the foreseeable future. However, we will remain prudent – as our long-serving Chairman, the late Lord Kadoorie used to say, it is not CLP's business to "work for the banks". Our financial position is robust, despite the economic downturn. Over the short to medium term, CLP has the firepower, without raising equity capital at CLP Holdings' level, but with selected non-strategic asset disposals, to pursue the strategy which we have explained above.

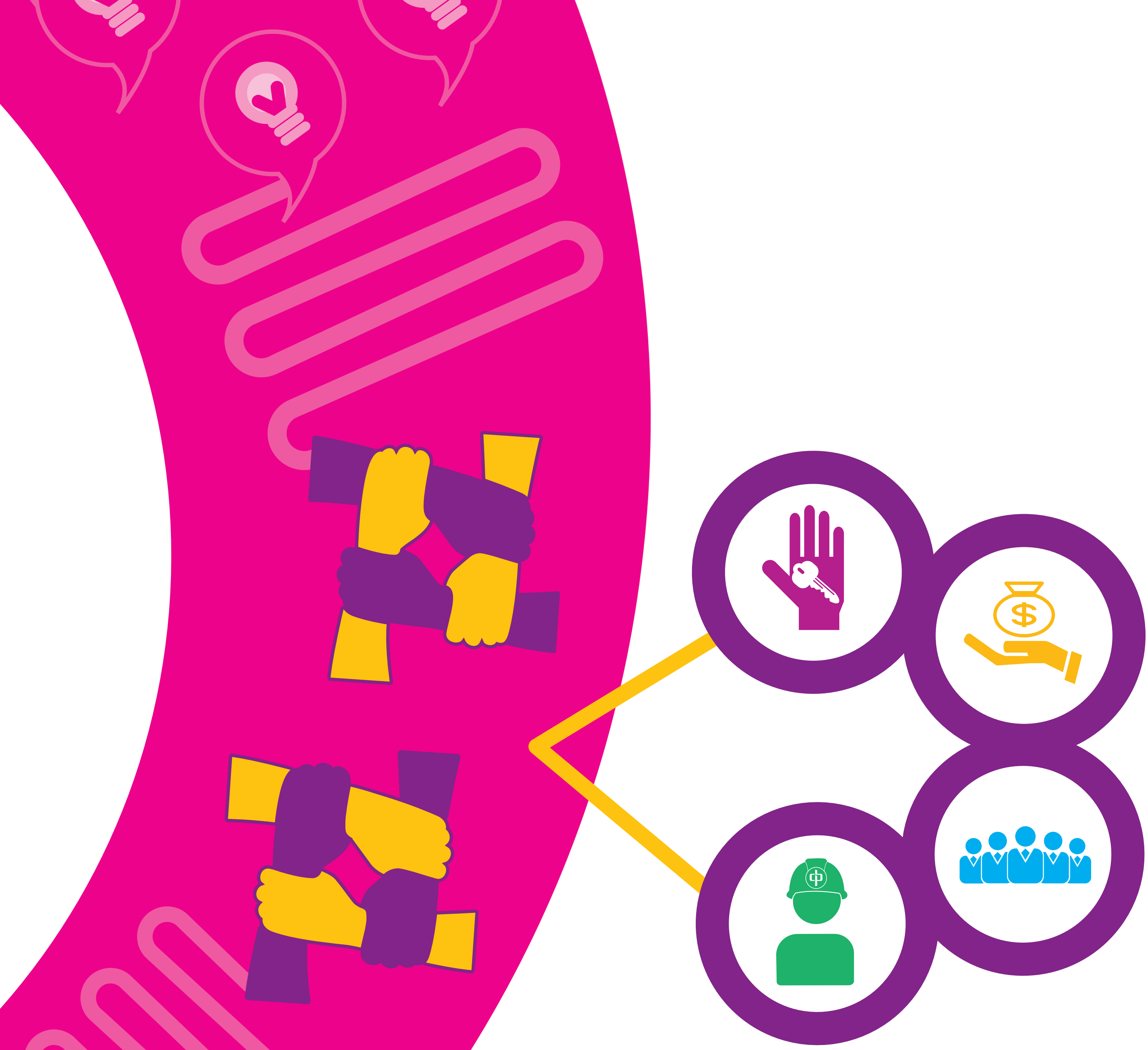
Our  Vision

The Board and I felt that our strategy should be tied to a longer term vision for the Company – the direction in which our strategy should lead us and the type of company we may be or become in the medium to longer term. We believe that our strategy points towards a vision of CLP in 2020 as a diversified electricity company which:

- maintains its base and core operating business in Hong Kong, subject to the opportunities and challenges offered by any changing electricity regulatory framework;
- holds a significant stake in a leading listed Australian energy supplier, following industry consolidation;
- is the controlling shareholder of a listed energy company in India and Southeast Asia;
- has a significant, but minority, stake in nuclear energy in Southern China and is looking to exploit this in other Asian markets;
- invests in and operates, if available, transmission and distribution assets in India and in the Chinese mainland;
- has largely exited conventional coal-fired generation in the Chinese mainland; and
- is one of Asia's largest investors in clean and renewable energy.

We hesitated about setting out this vision in our Annual Report. There were two reasons for this hesitation. The first was potential embarrassment about looking back in future years and comparing what has actually happened with that vision. The second, more substantial, reason is that experience has taught us to be realistic and modest about our capacity to predict the events and circumstances which will shape the future of our business. The implementation of CLP's strategy will be impacted by incoming disruptive change in our industry, including the speed of economic and social development in differing Asian countries, the effect of climate change and societies' responses to this threat, technological advances and regulatory changes. Unlike 20/20 vision in the true, optical, sense of the term, our vision is not perfect – our ability to foresee and influence these changes will vary. However, our experience in our industry and in the region equips us to detect trends and to proactively adapt to or exploit them.

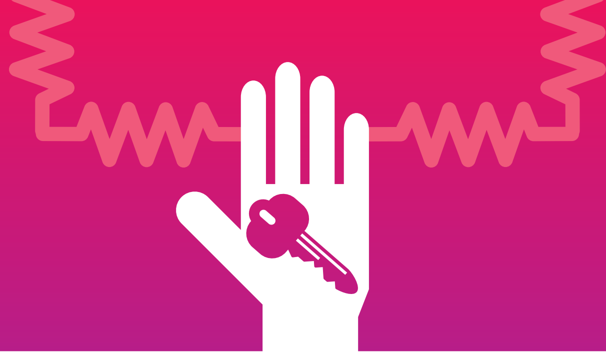
Andrew Brandler
Hong Kong, 25 February 2010



Relationships

CLP's business is not an island. We do not operate in a vacuum. To implement our strategy we need to establish strong relationships with key stakeholders. Our relationships with communities and the physical environment in which we operate are described in our Sustainability Report.

CLP and our Shareholders

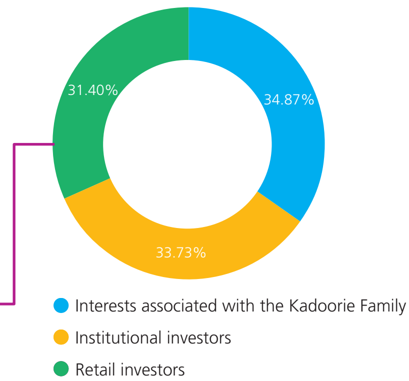


At the end of 2009 we had over 20,000 registered shareholders. The actual number of individual investors in CLP shares, or people and organisations who have an indirect interest in CLP shares through intermediaries such as nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong is considerably greater.

Shareholdings as at 31 December 2009

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
500 or below	2,070	10.01	597,035	0.02
501 – 1,000	3,618	17.49	2,771,042	0.12
1,001 – 10,000	9,845	47.61	42,084,346	1.75
10,001 – 100,000	4,587	22.18	133,356,343	5.54
100,001 – 500,000	449	2.17	89,852,945	3.74
Above 500,000	111[1]	0.54	2,137,481,689	88.83
Total	**20,680**	**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. 48.16% of all our issued shares were held through CCASS.

The Kadoorie Family (and interests associated with the Family) have a combined shareholding of 34.87%. Even so, CLP is not a family-controlled company. The remaining 65.13% of our shares are held by a wide range of institutional investors, including those based in North America, the United Kingdom, Far East and Europe, as well as a considerable number of retail investors, mostly resident in Hong Kong.

The scale of our shareholders' investment in CLP is reflected in a market capitalisation of CLP Holdings of HK$126 billion as at 31 December 2009. This ranks us as the 26th largest company out of the 1,145 issuers listed on the Main Board of the Hong Kong Stock Exchange. The Company's shares are a constituent of the Hang Seng Index (HSI) – the index of Hong Kong's leading listed companies, representing 1.67% 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 36.62% 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 2009 and has continued to maintain such a float as at 25 February 2010.

Our relationship with our shareholders depends on their continued trust and confidence. To earn and maintain this we must do at least three things:

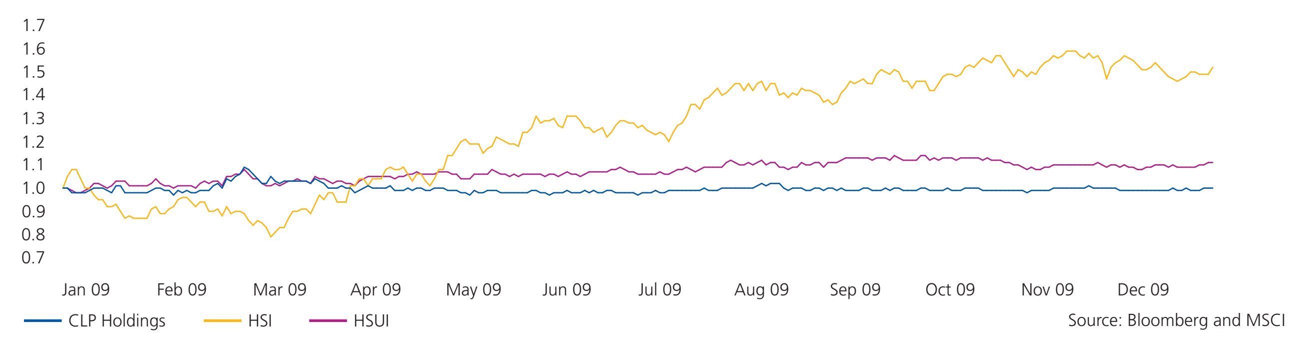
- deliver value to them;
- operate our business (their business) in a way which corresponds to their values and expectations; and
- communicate honestly, effectively and frequently with them about the stewardship of their assets by the Board and Management of CLP.

Delivery of Shareholder Value – Share Price Performance

The delivery of value to our shareholders comes in two forms: capital appreciation (in the form of the performance of our share price over time) and the payment of dividends.

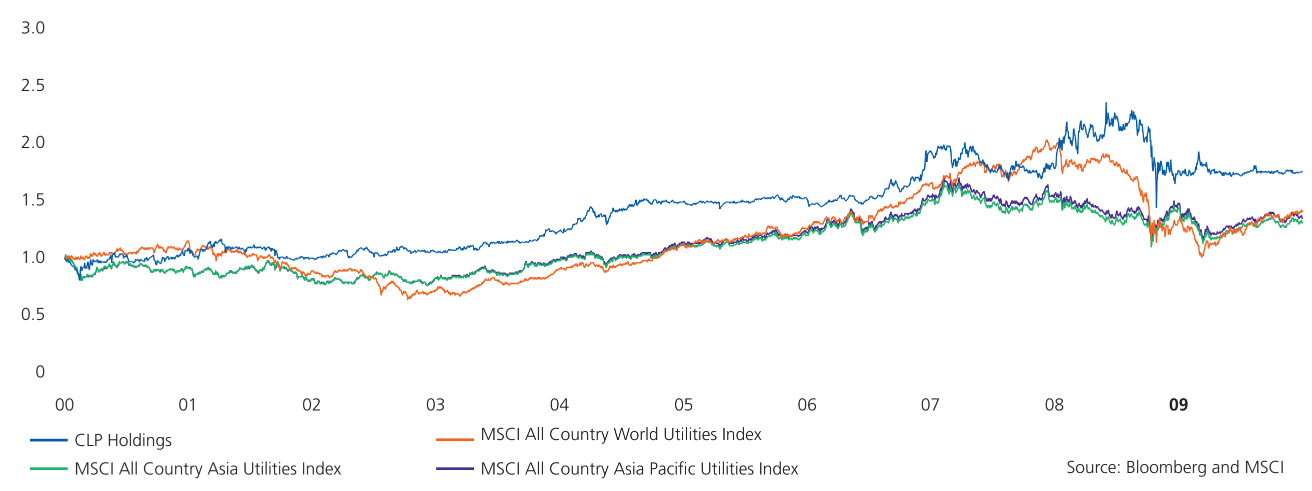
CLP shares slightly outperformed the HSI during the first quarter, but diverged as the Hong Kong equities market rebounded in the latter part of the year. In the past year, CLP shares have been trading in a relatively narrow range. The average closing price was HK$52.41, with the highest closing price of HK$57.55 recorded on 27 February 2009 and the lowest closing price of HK$51.15 recorded on 4 June 2009.

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



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 of steady dividend payments. Generally speaking, and especially during the global credit crisis in 2008, 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 2000 – 31 Dec 2009) (Base: 31 December 1999 = 1.0)

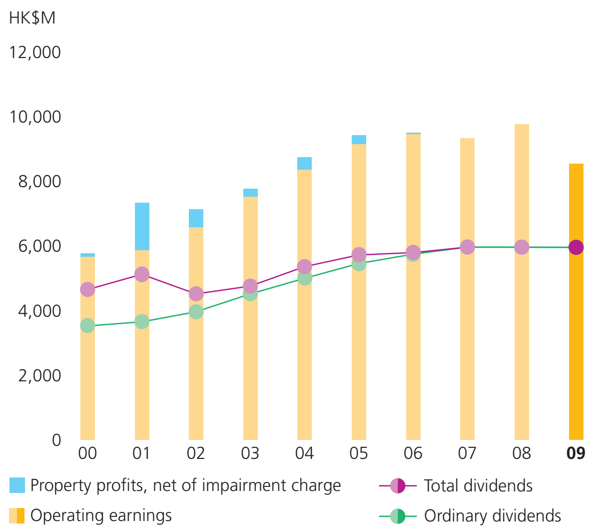


Delivery of Shareholder Value – Dividends

CLP's longstanding policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Our shareholders, both retail and institutional, have repeatedly emphasised to us the importance that they attach to a consistent and substantial dividend stream from their investment in CLP shares. If anything, this emphasis has increased in recent times, against a background of low interest rates on savings accounts in most major currencies.

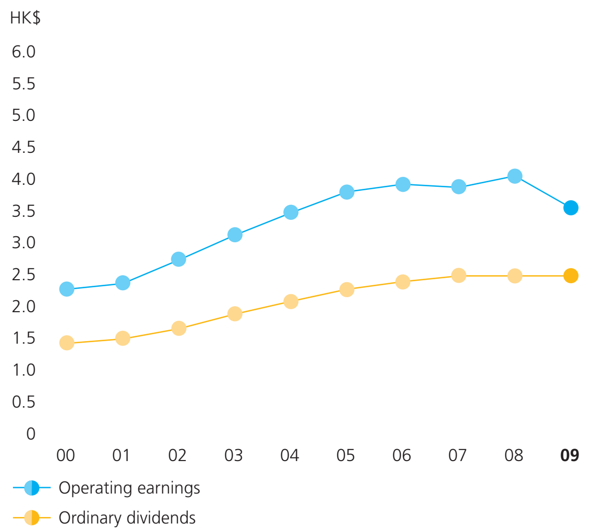
The following charts explain how steady increases in earnings in recent years have been translated into corresponding growth in the ordinary dividends paid to our shareholders.

Earnings and Dividends (2000-2009)



Note: Earnings for 2002 to 2005 have been restated for the effect of the adoption of HK(IFRIC)-Int 4.

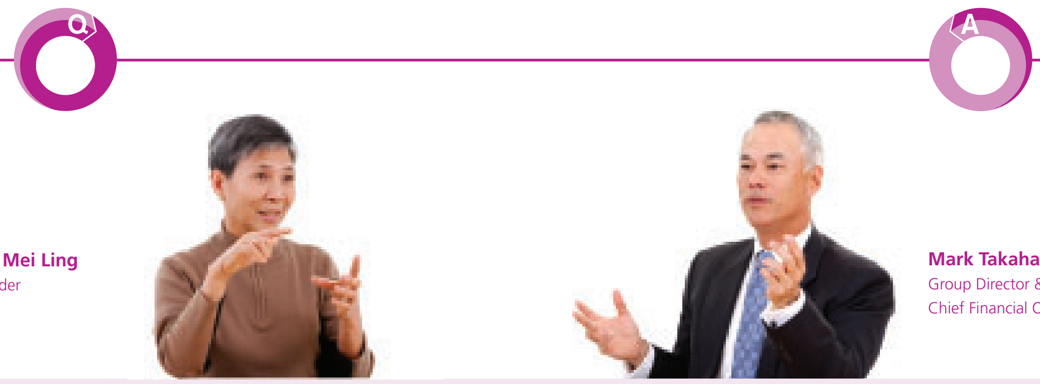
Earnings and Dividends Per Share (2000-2009)



Note: Earnings for 2002 to 2005 have been restated for the effect of the adoption of HK(IFRIC)-Int 4.

Between 1999 and 2008, CLP's ordinary dividend payouts have been between 60% and 64% of operating earnings, with earnings from the property development at Hok Un and other property disposals having generally been paid out as special dividends. This year, with a significant decline in earnings compared to 2008, largely as a result of the substantial reduction in the permitted return under the SoC, our payout ratio has risen to 70% of operating earnings. The Board considers that this significant increase in the payout ratio, as opposed to reducing dividends in line with the year on year reduction in earnings, is the course which our shareholders would wish to take and which our financial strength and future prospects justify.

Accordingly, the Board has recommended a final ordinary dividend payable on 28 April 2010 of HK$0.92 per share. Together with three interim dividends per share of HK$0.52 each paid during 2009, the total ordinary dividend will be HK$2.48 per share. The Board expects that three interim dividends will be payable during 2010.



Ms. So Mei Ling
Shareholder

Mark Takahashi
Group Director &
Chief Financial Officer

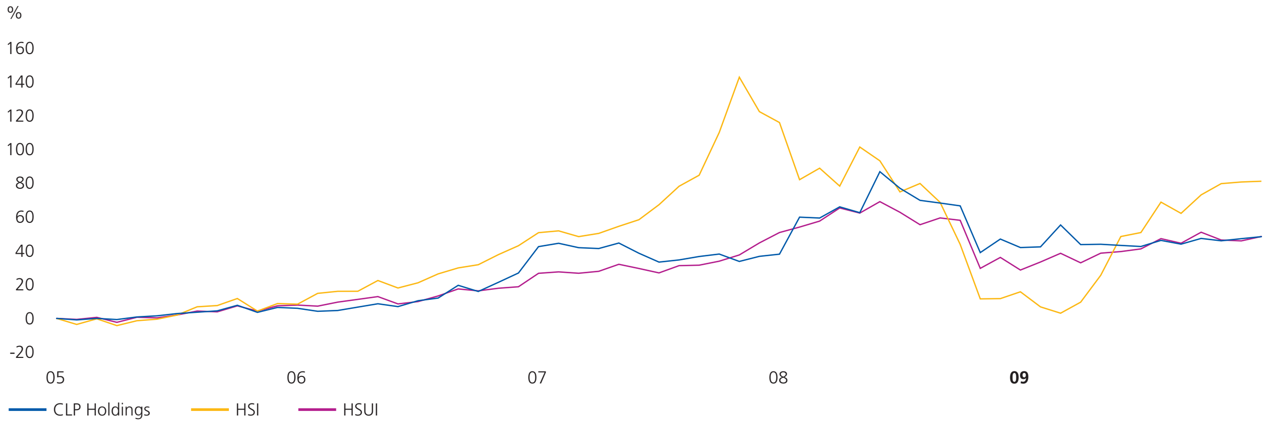
Shareholder earnings from the Hong Kong electricity business have been reduced under the new Scheme of Control Agreement. What is your plan to restore earning power so as to maintain CLP Holdings as an attractive option to our shareholders?

Our Hong Kong electricity business has been and will remain our core business. The earnings from this business were rebased at a lower level in the past year due to the reduction in the permitted return, but there are other enhancements in the business to mitigate the financial impact under the new Scheme of Control regime. The Scheme of Control earnings should show steady growth consistent with the projected capital expenditures in the approved Development Plan. In addition, we continue to see attractive investment opportunities across Asia. Most of these opportunities are primarily related to greenfield projects where we believe that our skill set and experience have demonstrated that we can add significant long-term value.

Delivery 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 2005 to 2009, CLP provided an annualised rate of return of 8.21%, versus 12.62% and 8.22% for the HSI and the HSUI respectively.

Total Returns – CLP vs HSI and HSUI (2005-2009) (Base: 31 December 2004 = 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

We recognise that our shareholders have many investment choices. We cannot offer a comparison of the total returns from holding CLP shares compared to all other investments available to our shareholders. The overwhelming majority of our shareholders have a Hong Kong presence of some sort (97.73% have their registered address in Hong Kong) and will tend to be either conservative investors or have CLP shares as a conservative component of their portfolio. We have, therefore, looked at the performance of some comparable investments which our shareholders might make. To do this, we have assumed, as an illustration, that during the period of 1, 5 and 10 years prior to 31 December 2009, an investor puts HK$1,000 into each of these investments. We have then compared the total worth of these investments (including bonus shares and with dividends or interest reinvested) at the end of each of the three periods.

Total Investment Worth of Different Types of Investment

	Total Investment Worth at 31 December 2009		
Type of Investment	1-Year Period HK$	5-Year Period HK$	10-Year Period HK$
CLP Shares	1,045	6,045	18,476
Hongkong Electric Shares	1,019	6,201	17,573
Hong Kong and China Gas Shares	1,702	7,236	22,521
HSI-Based Fund	1,549	7,055	18,307
HK$ 1-Year Fixed Deposits	1,022	5,482	11,697

Adapted from Bloomberg / Reuters

Respecting our Shareholders' Values and Expectations

This Annual Report as a whole explains CLP's values, our performance, and our prospects for the future. The stability of CLP's share price, the loyalty of our shareholders and our continuing dialogue with them suggests that what we do and how we do it generally corresponds to the way in which our shareholders would wish us to behave. There are, however, three areas which directly touch upon the rights and interests of shareholders and which can bear upon the delivery of shareholder value. We address them here. 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 a 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 also 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.

Bearing in mind these considerations, we made no share repurchases in 2009. The repurchase of 2,102,500 shares for a total consideration of HK$102 million in 2008 was the only time we have done this since 2002.

We have previously advised shareholders that, since parties associated with the Kadoorie Family hold 34.87% of CLP shares, the repurchase of only a further 8 million shares would take those parties above the 35% threshold at which they would be obliged to make a general offer for the remaining shares of the Company. Having previously consulted the Independent Non-executive Directors, Management believe it would not be in the interests of the Company and all its shareholders to create a mandatory general offer obligation or compel the parties associated with the Kadoorie Family to sell down in anticipation of future share repurchases. Accordingly, we applied 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 also made a submission to the SFC in 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 were unsuccessful on both occasions. This means that, should the need arise to pursue share repurchases as a means to create shareholders value, we would need to consider and implement other structures – provided that these were feasible, would comply with all relevant regulations and will respect the interests of all our shareholders.

Our CEO hosting a Shareholders' visit

Shareholders – Communication

We will not enjoy the trust and confidence of our shareholders if they are uncertain about the performance of their company, unclear as to its future direction or uneasy about the stewardship of their assets.

This Annual Report is one of the clearest illustrations of our determination to be honest and open about the way in which we are discharging our responsibilities to our shareholders. There are many others. Some of these are listed below. We should stress that communication is a two-way process. We maintain a dialogue with our shareholders. CLP is their company, they have the right to express their opinions and we have a duty to listen. In 2009, this involved:

Providing information

to our shareholders through means such as

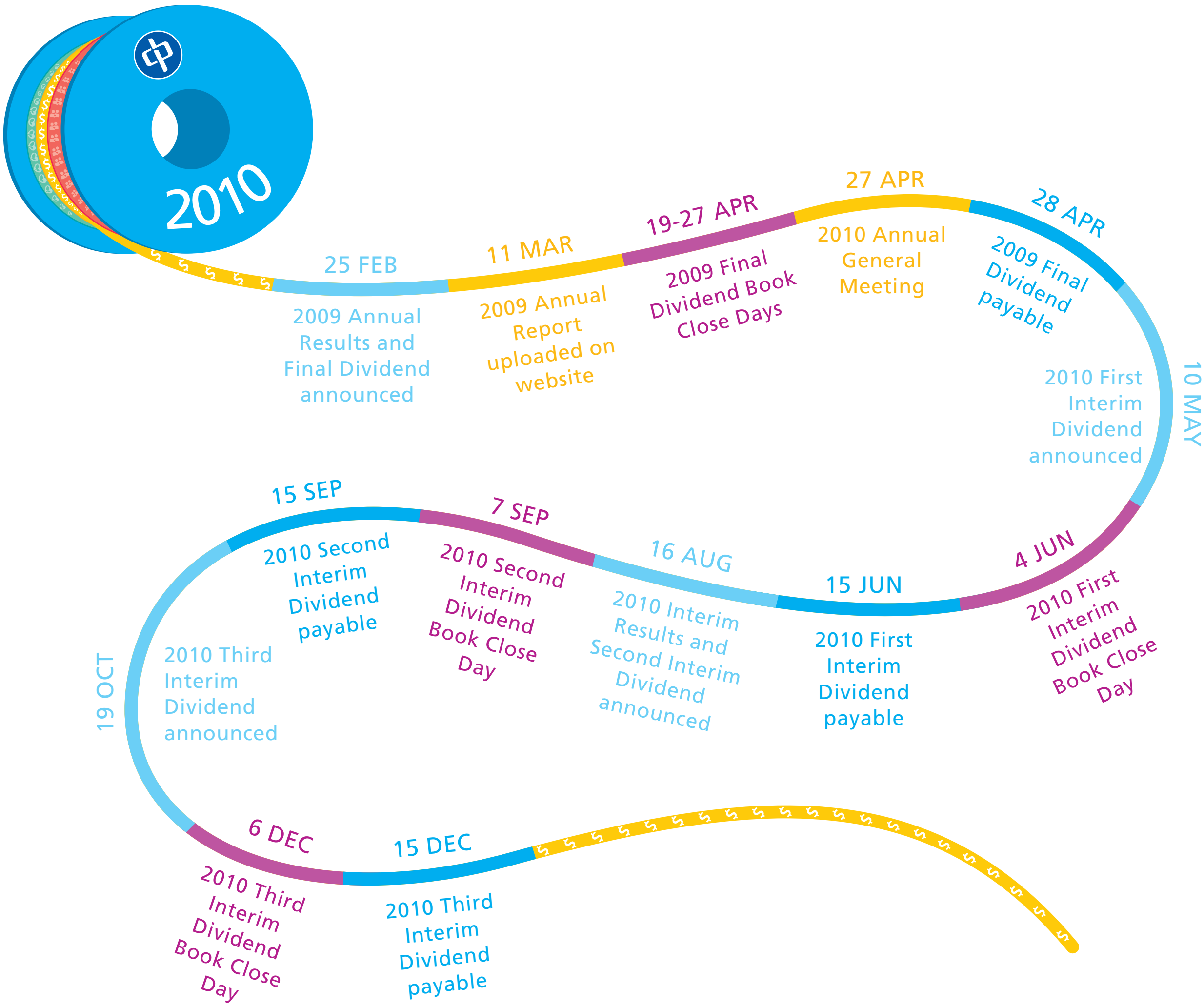
- Our Annual Report, Sustainability Report and Quarterly Statements – all of which provide information far in excess of legal and regulatory requirements.
- Our AGM, attended by Directors and Senior Managers. In the past 5 years, the attendance of shareholders at our AGMs has averaged about 680 (903 in 2009). 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 200 investor meetings, including participation in 9 investor conferences, and 10 non-deal roadshows (including one corporate governance roadshow) to the U.K., Singapore, Japan, U.S. and Canada.
- Briefings to analysts on the Company's interim and annual results, as well as overseas business. 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 28 October 2009 and 23 April 2010 we expect to welcome about 3,800 shareholders and their guests, during 70 tours to our facilities at Black Point Power Station, Eco Home and Energy Efficiency Exhibition Centre. On these occasions, we seek views on the performance of CLP. About 70 CLP colleagues, including Directors, have volunteered to participate as hosts of the programme.

Important dates for shareholders in 2010 are set out below. Any changes will be published on our website.



If, at any time, any shareholders have questions or comments on what we are doing on his, her or their behalf, please contact us (page 208 explains how). As for many years past, in the case of questions, we will provide an answer (and post it on our website if this would be of wider interest to shareholders or other stakeholders). The choice of the "Questions and Answers" in this Report reflects the issues which have been raised most frequently with us in the past year. In the case of comments, we will take your views into account and we will act upon them whenever this will improve our performance.

CLP and our Lenders

Financing

Our relationship with our lenders extends to bondholders, credit rating agencies and all those associated with the provision of debt financing to the CLP Group. To give an idea of the importance of this relationship, at the end of 2009 our lenders had lent HK$39.4 billion to the CLP Group, with a further HK$20.0 billion undrawn facilities. CLP could not function, still less grow, without the supply of large-scale, long-term, cost-efficient capital from our lenders.

Our strategy is to procure financial resources and support from qualified, diversified counterparties with healthy balance sheets 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 long-term relationships in order to obtain the right financial resources to support our business objectives. These strategies and relationships have not changed just because of cyclical financial market movements. As at December 2009, the Group had business relationships with 54 (2008: 45) financial institutions in Hong Kong, Chinese mainland, Australia, India and Southeast Asia. This increase in number of financial counterparties during a time of severe market challenges shows that CLP and its prudent financial management were well respected by the market.

Traditionally, the Hong Kong based operation has sourced its debt from the bank and debt capital markets in Hong Kong and the United States. This year we further diversified our funding sources to include long-term financing from a Japanese investor with a Japanese Yen 15 billion (HK$1.2 billion) 15-year bond placement by CLP Power Hong Kong with the American Family Life Assurance Company of Columbus, a leading life insurance company in Japan. The Yen bond was issued under the enlarged US$2.5 billion (2008: US$1.5 billion) Medium Term Note (MTN) Programme. The Programme allows CLP Power Hong Kong to issue long-dated, fixed rate bonds to match long-term capital investment with its financing. As at 31 December 2009, bonds with a nominal value of about HK$12.1 billion were issued under the Programme. All of the Yen proceeds were swapped back into fixed rate HK dollars at an attractive price which fully mitigates foreign currency and interest rate risks. CLP entities in Hong Kong have also taken the opportunity to develop business relationships with more financial institutions which are unaffected by market conditions and seek to expand their regional businesses. These CLP companies have broadened their list of lenders, further diversified the mix of short and long tenured bank facilities and bond issuances from a group of creditworthy international and local financial institutions on a competitive basis and spread out the maturities to reduce refinancing risk.

Our subsidiaries and affiliates overseas capitalise on the strong credit of CLP Holdings, risk-balanced project structures and healthy project economics. They maintain balanced funding sources from export credit and quasi-government agencies, banks and bond investors. These lenders have good credit ratings, local market knowledge, and funding capability at commercially acceptable terms and on a non-recourse basis to support CLP's regional business development. During this period of challenging financial markets, some called upon CLP Holdings' financial expertise and relationships with regional financial institutions to help arrange incremental debt facilities and close (re)financing arrangements in a timely manner. This helped us to mitigate the adverse impact of the liquidity drain seen recently in the market and to complete financing plans at reasonable costs. For example, TRUenergy in Australia did two refinancings in 2009 – a A$300 million (HK$2.1 billion) working capital loan in June and a A$350 million (HK$2.4 billion) long-term credit facility in August. The refinancing amount of the second debt was reduced from A$650 million after working capital enhancement and received an overwhelming response after a roadshow meeting in Hong Kong with CLP relationship banks. In India, Jhajjar Power completed a Rs.39 billion (HK$6.5 billion) project level loan in September to fund the construction of the 1,320MW coal-fired project. This resulted from a flexible financing plan which moved away from traditional US dollar export credit agency led financing to more pragmatic Indian Rupee project level funding. Rupee financing also allows Jhajjar Power to match loan repayments and financing costs with revenue income upfront.

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 2009, CLP Power Hong Kong arranged a total of HK$8.9 billion of new financing. This comprised HK$4.0 billion bond issuance with tenors of 3 to 15 years at fixed interest rates ranging from 2.25% to 4.62% under the MTN Programme and HK$4.9 billion bank loan facilities.

The Group's total debt to total capital ratio was 35.7% as at 31 December 2009 (2008: 29.7%), and was 30.7% (2008: 29.1%) after netting off bank balances, cash and other liquid funds as at 31 December 2009.

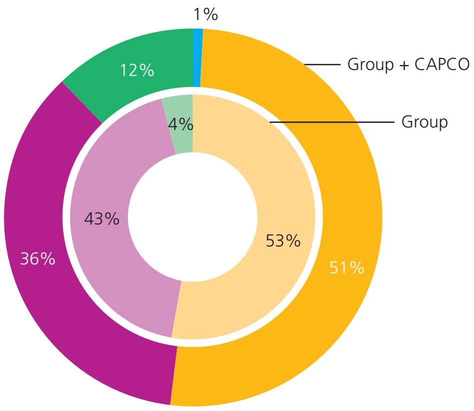
Debt Profile and Interest Cover as at 31 December 2009

	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]	8,200	26,354	24,922	59,476	68,883
Loan Balance	2,000	22,429	15,002	39,431	47,476
Undrawn Facility	6,200	3,925	9,920	20,045	21,407

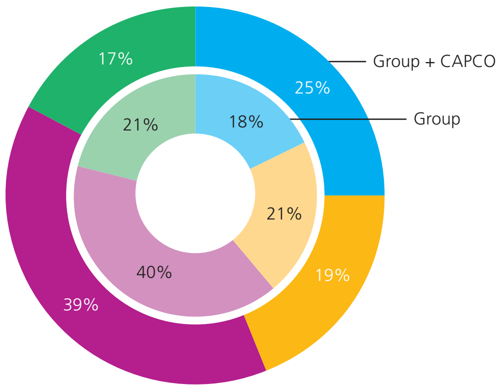
Notes:

1. Mainly relates to TRUenergy and subsidiaries in India.
2. For the MTN Programme, only the amount of the bonds issued as at 31 December 2009 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 2009 are shown on page 73.

In 2009, interest cover (which equals profit before income tax and interest divided by the sum of interest charges and capitalised interest) was 8 times (2008: 9 times).

Credit Ratings

All ratings of the Group's major entities remain at investment grade. CLP's prudent approach to borrowings and risk management has enabled us to maintain good investment grade credit ratings. This helps us secure adequate financing to support our operations and investments and preserves the capacity to access the financial markets to support our future funding needs.

CLP Holdings

In June 2009, Moody's re-affirmed the A2 credit rating of CLP Holdings with stable outlook. This reflects the strong and predictable cash flows generated from CLP Power Hong Kong under a stable regulatory environment in Hong Kong as well as its sound liquidity profile, supported by the Group's good track record in accessing domestic and international bank and capital markets, and its well-managed debt maturity profile. Moody's warned that the lowering of the SoC permitted return and leverage up of the SoC business would weaken CLP Holdings' financial profile from a strong level, and CLP Holdings' further expansion into non-regulated merchant energy and retail business in the region could raise the Group's overall business risk profile.

In June 2009, Standard & Poor's (S&P) re-affirmed the A- credit rating of CLP Holdings with stable outlook. S&P suggested that the strength which CLP Power Hong Kong brings to CLP Holdings, was tempered by the parent's expansion into riskier assets in the Asia-Pacific region but S&P believed that CLP Group's good track record in prudent financial management with a balanced funding strategy should not unduly pressure CLP Holdings' financial profile, relative to the current rating, whilst CLP Holdings aspires to expand overseas.

In December 2009, Fitch re-affirmed its self-initiated A+ long-term issuer default rating to CLP Holdings but revised its outlook from stable to negative to reflect its view of CLP's large capital expenditure pipeline in Hong Kong and overseas and expectation of a moderate increase in debt leverage.

CLP Power Hong Kong

In June 2009, Moody's re-affirmed the A1 credit rating of CLP Power Hong Kong with stable outlook. Moody's commented that the largely unchanged regulatory framework which offers a transparent tariff system, allowing 100% cost pass-through, would continue to provide CLP Power Hong Kong with a strong and highly predictable cash flow, despite the lower permitted rate of return under the new SoC. Moody's suggested that CLP Power Hong Kong's liquidity profile is pressured by its projected high dividend payment to CLP Holdings and its capital expenditure plan, but Moody's drew comfort from CLP Power Hong Kong's good track record in accessing domestic and international bank and capital markets, as well as its well-managed debt maturity profile.

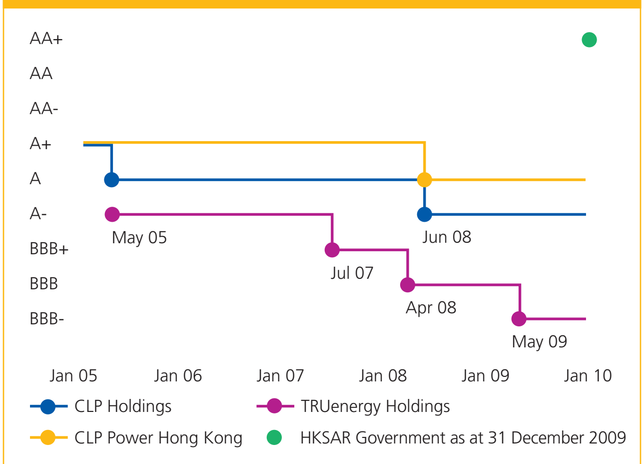
In June 2009, S&P re-affirmed the A credit rating of CLP Power Hong Kong with stable outlook. S&P stated that the credit rating reflected the stable regulatory environment in which CLP Power Hong Kong operates, a strong market position in its service area, a strong operating track record, and its strong financial flexibility despite a tight credit market. S&P expected CLP Power Hong Kong would maintain a modest financial profile at a time when it raises its debt leverage, as it believed CLP Power Hong Kong would do so in a prudent manner which would maintain its strong financial flexibility.

In December 2009, Fitch re-affirmed its self-initiated A+ long-term issuer default rating to CLP Power Hong Kong and revised its outlook from stable to negative to reflect Fitch's expectation of moderate increase in debt leverage.

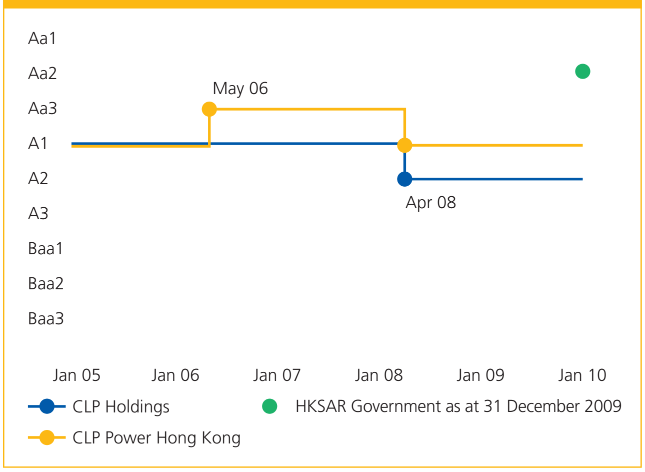
TRUenergy Holdings

In May 2009, S&P downgraded TRUenergy Holdings' rating from BBB to BBB- to reflect TRUenergy's diminishing financial flexibility in the medium term due to significant uncertainty about the implications of any CPRS. Rating outlook was revised from negative to stable in August after TRUenergy had completed a A$350 million 3-year bank facility refinancing.

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

Within the CLP Group, we only have a retail business in Hong Kong and in Australia. In these two markets the way in which we serve our customers differs greatly. In Hong Kong, we use our own transmission and distribution system to deliver electricity generated in Hong Kong or purchased from Daya Bay to serve over two million customer accounts in Kowloon and the New Territories and most of the outlying islands. In Australia, like all generators there, we are required to sell generated electricity to a pool run by government. We then purchase electricity from the pool to service our 740,000 electricity customer accounts, primarily in Victoria and South Australia using the independently owned National Transmission and Distribution system. In Australia we also have 537,000 gas customer accounts. Whilst the means by which we can serve our customers differ, our commitment to excellence in customer service is the same.

Hong Kong

Hong Kong's people demand and expect the highest level of service from their electricity provider. In a society where the majority of the population live in high-rise buildings, with their homes accessible only by lifts; in a hot and humid climate which places heavy reliance on air conditioning; and densely populated areas which means that individual equipment failures can affect many thousands of people, failings in electricity supply would be unacceptable and intolerable. Year in, year out, CLP works hard to provide an electricity service characterised by reliability, power quality, reasonable tariffs and excellent customer service. In 2009, we performed well in all these respects.

Reliability

Hong Kong has one of the most reliable electricity services in the world. Even so, we make continuous efforts not just to maintain, but to improve, our performance. Since 2000, Unplanned Customer Minutes Lost (CML) per year, a standard measure of supply reliability, has been lowered by 83%. 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 2007 to 2009. This compares with 11-39 minutes (during 2006 to 2008) of power outages experienced by electricity users in New York, Sydney, Paris and London.

Power Quality

The combination of economic development and technological progress has led to widespread use of electronic and computer devices at home and at business – and the sophistication of these devices has grown over time. As a result, the quality of power supply has become more and more important to customers – as variations in power quality may impact sensitive equipment.

Addressing power quality problems is a bilateral process. It requires CLP to improve the stability of the power we generate and transmit, and customers to understand and manage the vulnerability of highly sensitive equipment to even minor power variations.

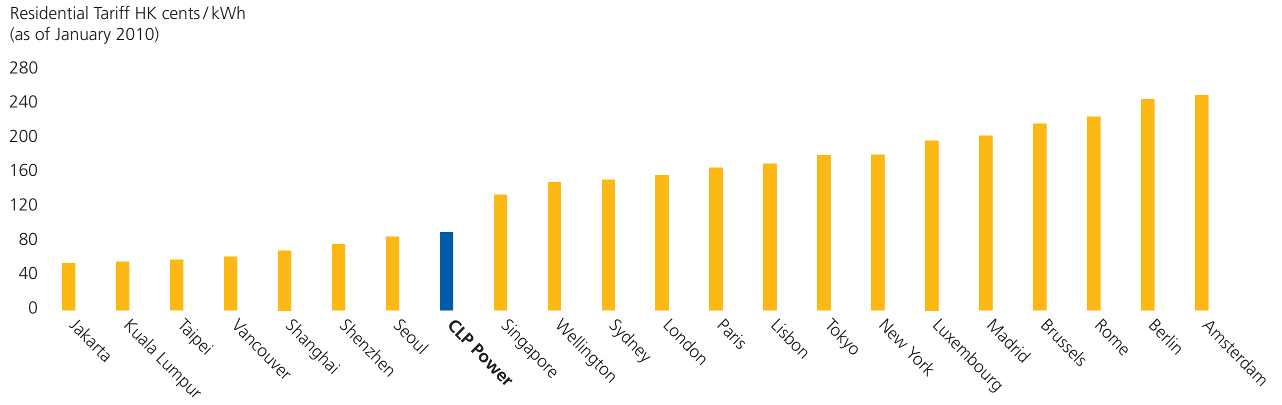
On CLP's side, the ongoing installation of line arresters onto our 400kV transmission and 11kV distribution overhead line networks has considerably improved the power quality performance of the network in recent years, especially during thunderstorms.

On the customer side, we have been providing assistance to solve power quality issues by offering technical services, evaluating sensitive equipment and assessing and promoting new technologies. In 2009 alone, almost 80 technical proposals were recommended to our customers to enhance their power quality performance. Prevention is better than cure and so we meet equipment manufacturers and project consultants to develop practical and cost effective measures which can be incorporated in new equipment at the design stage to make it more resistant and robust to power quality challenges.

Tariff

CLP makes a great effort to maintain reasonable and affordable tariffs. Our success is apparent when compared to the tariffs which residential customers would pay in other major cities across the world.

2010 Residential Tariff Comparison



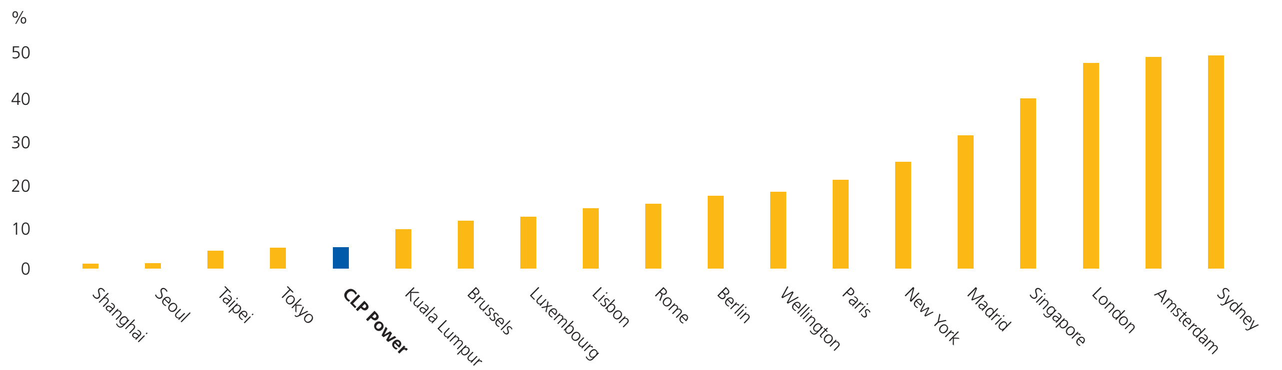
Notes: Comparison based on annual domestic consumption of 3,300 kWh.
Tariff and exchange rate at January 2010.

Source: Web search

CLP's tariff is made up of two major components. Basic tariff is the 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. This is directly passed through to customers – CLP makes no profit on fuel.

In December, CLP announced that, with effect from 1 January 2010, its average net tariff would be raised by 2.6%. This was the result of a 2.6 cents rise in basic tariff, partially offset by a reduction of 0.3 cents under the fuel clause charge, due to the downward movement of coal prices during 2009. This was the first time CLP had increased its basic tariff in more than 10 years – a period during which we had offered over HK$4 billion in rebates to our customers. Even after this increase, basic tariff remains lower than it was in 1999 and considerably lower than that of Hongkong Electric. Although no tariff rise is ever welcome, this increase will help fund important environmental projects, such as emissions control installations for our generating units, as well as improved and strengthened transmission networks to support Hong Kong's infrastructure plans. As most of CLP's equipment and material is imported, we are subject to fluctuations in the cost of imported materials. Rapidly rising prices for these have exerted great pressure on CLP's costs. Even so, although the past five years have seen considerable increases in fuel and material costs, CLP has exercised considerable control over tariff rises when compared to the situation in other major cities.

Electricity Tariff Rises in Major Metropolitan Cities (2005 – January 2010)



Note: Comparison based on annual domestic consumption of 3,300 kWh.

Source: Web search

Customer Service

We follow three main paths to enhance the quality of our service to our customers: measuring and monitoring key performance indicators, close interaction with our customers and targeted investments in processes and infrastructure to improve service quality.

CLP has 12 performance pledges, addressing matters such as reliability of electricity supply, speed of response to our emergency service hotline and other key service measures. In 2009, we reinforced two pledges with more stringent targets regarding the average arrival time for inspection of premises following a loss of supply and the average time we take to restore supply after an outage. Our performance against all of our pledges is set out on our website at www.clponline.com.hk.

Each year, we measure our customer satisfaction levels and compare them with other benchmark utilities and corporations. CLP has performed well in this regard, with our overall brand image remaining alongside MTR Corporation and Hong Kong Post as one of the three leading major utilities or public service providers in Hong Kong.

Successful relationships with our major customers are sustained through measures such as dedicated account managers, energy audits and ongoing interaction on trade news, technology developments and case studies on power quality and energy conservation. In addition to our customer contact channels, we communicate with our wider customer base through our extensive customer consultation network. This includes our Customer Consultative Group (CCG) and 14 Local Customer Advisory Committees (LCACs). Through this network, we solicit valuable opinions, feedback and guidance from community leaders and customer representatives. By way of example, in 2009 the CCG and LCACs provided feedback on our new energy efficiency exhibition centre, shared experience in energy efficiency and customer services initiatives through a visit to Guangzhou, provided feedback on our scheme to develop charging stations for electric vehicles in Hong Kong and offered input into CLP's energy vision for the next decade, with its plan for a fuel mix which makes even greater use of clean energy sources.

The customer services initiatives which we introduced in 2009 included a revamp of CLP online. This integrated various websites into one single portal to provide easier access to our services for the increasing number of customers who connect with us through the internet. We also introduced our Meter Online Service which helps larger customers manage their electricity consumption and load profiles and, for residential customers, our Wiring Inspection Service which promotes the safe use of electricity at home.

Q

Mr. Kevin K. W. Lau
President
The Hong Kong Chamber of Small and Medium Business Ltd.

A

Richard Lancaster
Group Director – Managing Director Hong Kong

CLP is one of the best partners for the Small and Medium Enterprises (SME) in Hong Kong; how does CLP provide customised services to the SME so that we could enhance our competitiveness in the ever-changing business environment and contribute to green initiatives?

CLP greatly values its relationships with our business customers. We recognise that businesses, particularly SMEs, not only face strong competitive pressures but are also keen to responsibly manage their environmental impact.

CLP provides one of the most reliable supplies of electricity in the world to our customers, at value for money prices, and with the minimum environmental impact. Our award winning CLP Business Centres at Sham Shui Po and Yuen Long provide a wide range of services specially tailored to meet the needs of SMEs. In a one-stop shop, we can help with on-the-spot applications for electricity supply, provide helpful advice on electrical installation design and energy saving solutions, and offer dedicated information resources for existing SME customers or those looking to start a new business. Every week we help businesses save energy and stay competitive.

All this means the owners and managers of SME businesses have one less thing to worry about, so they can get on with what really matters to them – growing and developing their businesses and looking after their customers.

Our relationship with our customers changes and expands with new technologies and market opportunities. Our work on energy services and electric vehicles are examples of this.

A new energy service company (CLPEST) was established in Guangdong, aiming to increase the energy efficiency of customers' undertakings in Guangdong, thus contributing to the improvement of the Pearl River Delta environment. In its first full year of operation in 2009, the service company closely cooperated with the Power Supply Bureaux in Shenzhen, Guangzhou, Foshan, Zhongshan and Jiangmen to provide training and energy efficiency consultancy services to their customers.

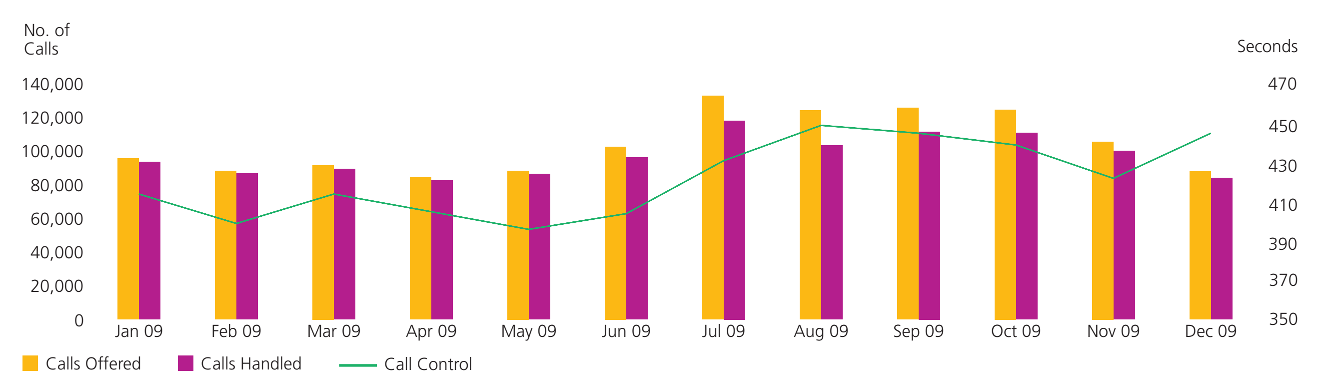
To support the development of electric vehicles (EVs) in Hong Kong to reduce roadside emissions, CLP announced its plan for a trial network of charging stations with major car parks, property developers and corporations. This will provide an easy and convenient means for electric vehicle users to re-charge vehicle batteries at public locations. In phase one, 21 charging stations should be put in place by the end of the first quarter of 2010. Further conversion of CLP's Toyota Prius hybrid vehicles to plug-in type EVs and our quick charger project all made good progress. The quick charger, which is compatible with most EVs manufactured in Japan will be able to charge up an EV from 15% to 80% of capacity within 30 minutes. This compares to the traditional slow-charging time of seven to eight hours. This will significantly extend the EVs' driving range, and increase the appeal and practicality of EVs. CLP Power Hong Kong plans to install more units to expand the EV charging network in Hong Kong and promote emissions reductions, as more drivers switch from conventional vehicles.

Australia

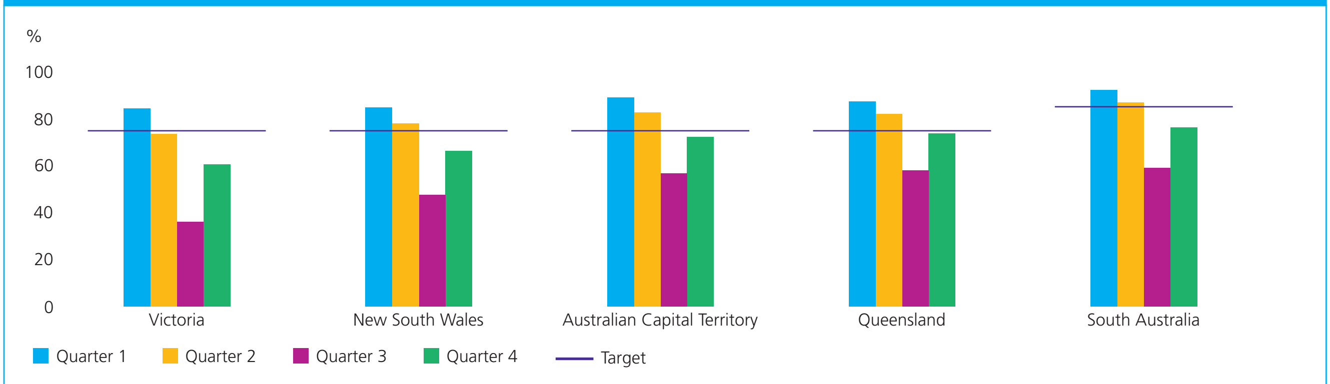
In 2009, TRUenergy handled 2,116,938 customer enquiries. Of these 1,253,498 were handled by consultants, whilst 863,440 callers resolved their enquiries through a self-service interactive voice response system.

Customer service standards are overseen by the state-based energy regulators and energy ombudsman schemes. TRUenergy has continued to achieve a lower than industry average complaint rate. These charts illustrate TRUenergy's performance, using 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



Our responsiveness to customer calls was affected during the year by changes made by the Victorian Government to the process for the Victorian Winter Energy Concession that required customers to contact their retailer to apply / re-apply for the concession. This generated an unprecedented amount of additional customer calls. There was also a 12% increase in the number of customers wanting to speak to a customer service consultant, rather than using one of our automated services and a significant increase in call volumes in the second half of the year compared to previous years. The increase in call volumes was compounded by a severe flu season in Victoria with a corresponding increase in call centre staff sick leave during the winter months. In response we immediately increased our staff recruitment during the second half of the year. We reallocated resources and utilised overtime to maximise the number of employees who could respond to customer calls. We are also assessing the best way to create a pool of casual staff that can help increase our staffing levels at short notice for unexpected events and ensure consistency of customer service levels. To further improve the quality of our call handling and associated customer experience, we introduced the Customer Acquisition, Retention and Excellence (CARE) programme in late 2009. This programme is designed to:

- deliver to our customers TRUenergy's new Customer Value Proposition, centred around "making energy easy";
- promote retention of consultants with specialisation in customer service to help better and consistent service delivery; and
- provide our customer service consultants with greater support through a career structure and programme that develops customer service specialists.

In June 2009, TRUenergy launched its first new product in three years in Victoria, the TRUenergy Value Bundle. Inspiration for this new product came from key trends in the highly competitive U.K. market and was validated by local market consumer research. The combined gas and electricity plan rewards customers with an 11% rebate on usage after every 12 months, when they pay on time by direct debit. A campaign supported by television advertising in the Melbourne metropolitan area contributed to 27,950 accepted customer account quotes for the new product in 2009.

We also launched an energy efficiency offer in Victoria that provided a no-cost service for residents in which we installed energy efficient light globes and water-saving shower heads. This was supported by promotional campaigns in the second half of the year. Demand for the service was extremely high. In South Australia, we offered a similar energy efficiency package to households under the SA Residential Energy Efficiency Scheme. The SA scheme also includes a quota for hardship customers. In our larger, account-managed customer segment, our continued strong focus on customer service enabled us to retain approximately 95% of customers upon contract renewal.

Q

Mr. Sam Verde
Group Engineering Manager
Fonterra Australia

A

Richard McIndoe
Group Director – Managing Director Australia

With the increasing community expectations that companies will improve their energy efficiency to reduce the amount of electricity and gas they consume, can you outline what steps TRUenergy is taking to work with its customers to help them meet this imperative?

TRUenergy, through its Industrial and Commercial group, provides energy audit advice to its major customers. This involves a detailed assessment of processes and would also typically involve us working with equipment suppliers and manufacturers to achieve efficiency improvements.

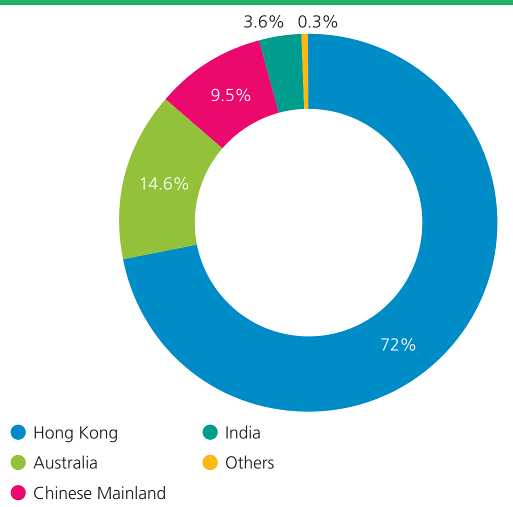
TRUenergy has also taken an equity stake in GridX, which offers distributed generation for businesses to reduce greenhouse gas emissions and ensure reliability. GridX uses gas-fired generators to produce electricity and recover waste heat for heating and cooling – this can reduce the carbon intensity of energy supplied to customers by 50% compared with conventional energy purchased from the grid.

Our natural gas vehicle programme assists businesses to convert truck, bus and forklift fleets from diesel to more efficient natural gas. It offers businesses in manufacturing, large retail, transport and facilities operations the chance to reduce transport-related greenhouse gas emissions by as much as 22%. TRUenergy plans to further expand this programme with additional gas refuelling stations.

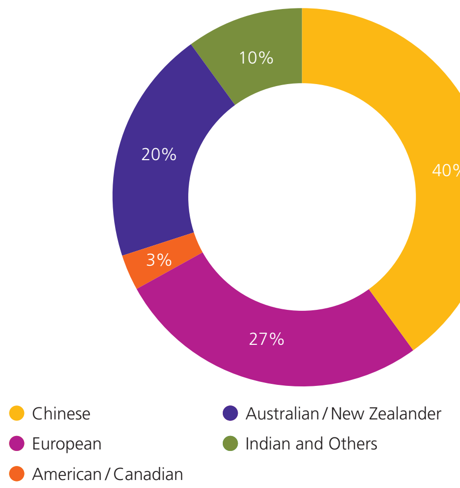
CLP and our Employees

CLP has a widespread and diverse workforce, with over 5,700 employees based in Hong Kong and elsewhere in the Asia-Pacific region. These possess the variety of skills required to operate and support generation, transmission, distribution and retail power businesses involving a range of technologies, differing markets, regulatory regimes and business environments. The following charts illustrate both the distribution of our staff across the region, as well as the diverse nationalities and ethnic backgrounds of our senior executives, which support our ability to function effectively in different markets.

Staff Distribution by Geographical Location as at 31 December 2009



Breakdown of Senior Executives by Nationality or Ethnic Group



Our workforce need to be flexible to adapt to the changing demands of a changing industry. For example, as recently as six years ago, only three of our staff were engaged in renewable energy activities, including business development, construction and operations. We now have around 500 colleagues engaged in these activities – the result of both the development of new skills by existing staff and selective external recruitment.

Safety

The most important thing that we can offer our employees is a safe workplace. Nothing we can do for our staff compares with the importance of our duty to do our utmost to ensure that they go home safely from work every day. This is a responsibility which extends not only to our employees, but to the staff of our contractors and everyone who legitimately comes into our facilities. Our business demands the highest attention to safety – electricity takes no prisoners. Our business would not survive if we disregarded the safety of those who work within it – our performance in this area is described in greater detail in our Sustainability Report.

Employee Well Being

We can make our workplace safe. We cannot make our workers healthy – but we can help. We encourage all of our staff to maintain a good work-life balance and encourage a healthy life style. For example, in Hong Kong we have built on the success of previous campaigns such as fitness / health challenges and workplace stretching exercises with our Quality Work Life (QWL) Programme. In 2009 this focused on "giving up smoking" and "understanding food labels". The first of these programmes achieved a high success rate, whilst the second raised employees' awareness of the importance of understanding food labels to support a healthier diet. In Australia, TRUenergy launched a range of programmes to encourage a healthy life style, weight loss and exercise including a "Fit 4 Work Well Being Programme".

We also improved our health-related benefits. For example, in Australia, India and Hong Kong we have confidential employee assistance and counseling services provided by external specialised counselors for those staff who may suffer from personal or work-related stress. In India, our medical benefit scheme was reviewed to better align the available benefits with local market practices.

Respect

Respect for our staff and mutual respect between our colleagues contributes to business performance, improved morale and a shared sense of responsibility for the Company's performance in delivering value to our stakeholders. This sense of respect is built in a number of ways, of which only a few are mentioned here.

We are determined to provide our colleagues with a work environment free from harassment and discrimination on the basis of gender, physical or mental state, race, nationality, religion, age or family status. In 2009, the Race Discrimination Ordinance came into effect in Hong Kong. The requirements of this Ordinance were already reflected in our core values. Even so, we provided briefing sessions to all Hong Kong staff to ensure that they were fully aware of the requirements of the Ordinance and to remind them of CLP's longstanding values in this regard.

We do not expect our staff to work in a "black box". We are committed to strong, two-way communication. In addition to our established communication channels, such as staff broadcasts and regular team briefings, in 2009 we carried out a special programme to explain to our colleagues our position on climate change in the lead up to the Copenhagen Conference in December, under the theme of "Beyond Copenhagen – Powering Asia Responsibly". We also used our IT capability to distribute short videos to staff across the Group on key topics.

In Australia, TRUenergy organised a number of staff dialogues such as "Leadership Breakfasts" with its Managing Director. In CLP India, we started the practice of having an "open house" at every facility, once every six months, where its Managing Director meets all staff – this being in addition to our existing practice of Chhoti Chhoti Baatein, or sharing a "thought for the day" with all staff.

In TRUenergy, 91% of our staff participated in our 2009 Employee Opinion Survey. With surveys also conducted in 2005 and 2007, the survey results show a steady increase in employee engagement levels over time. In the latest survey, TRUenergy showed better results than the national average in Australia across a majority of survey areas.

One characteristic of CLP's employees is an extraordinary commitment to community, charitable and social initiatives. In Hong Kong, Australia, India, Thailand and the Chinese mainland, our staff contributed to these initiatives through donating their time, skills and money. In so doing, our colleagues earn the respect of their Company, the communities in which we operate and of all our stakeholders. These activities are described in more detail in our Sustainability Report and on our website.

Building on Our Experience

CLP benefits from a stable, loyal and experienced workforce.

Key Characteristics	2009	2008
Average age	42.9	42.5
Average years of service	16.3	16.2
% of staff holding a university degree or above (Note)	36.7%	34.3%

Note: Information on TRUenergy employees is not currently available as it was not collected when employees joined the Company.

One consequence of workforce stability is a relatively high average age. This creates the need to anticipate and plan well ahead for retirements, particularly for those skills which are specific to the power industry and which cannot easily be sourced in the labour market. This is important for CLP, since our retirement projections indicate that, based on normal retirement age, the percentage of existing staff due to retire within the next five years is:

	2009	2008
Hong Kong	11.4%	9.9%
TRUenergy	10.1%	8.6%
Huaiji	7.3%	2.1%
CLP India	1.5%	1.4%
Other China Assets	0.9%	1.0%

This scale of expected departures is not unusual in our industry and is low compared to other large utilities, such as those in the U.S. It is also manageable, since we have been taking steps since 2005 to plan for this through our five-year manpower planning framework. Resting on detailed projections of our future demand for specific skills, our measures include supply side initiatives such as apprentice, technician trainee and graduate recruitment. In 2009, for example, we recruited 14 graduate trainees, 4 technician trainees and 17 craft apprentices in Hong Kong, and 18 graduate trainees in India.

In addition to our retirement planning, we take many steps to attract and retain staff. The challenges we face vary by business, depending on factors such as the size and maturity of each business and its location.

- India – whilst this remains a competitive recruitment market, local initiatives and work culture have had a positive impact, with voluntary turnover being lower in 2009 than in 2008. The recruitment plan for the Jhajjar project is now being implemented in phases, reflecting the planned transition from construction to operations. We have also strengthened most corporate functions in India in line with the needs of our growing business.
- Australia – competition amongst Australian businesses to attract and retain employees continues to be strong. However, the impact of the global financial crisis has eased some of the challenges previously experienced when recruiting for particular specialist or niche roles. Recruitment numbers overall remained high with new skills required across the business to meet project needs and growth as well as turnover.

Q

Mr. Raymond Yuen
Retail Support & Development Manager, Marketing and Customer Services
CLP Power Hong Kong

A

Betty Yuen
Vice Chairman – CLP Power Hong Kong

Increasing demand for cleaner energy and closer integration with the Mainland China together with our preparation for market changes after 2018 give our business in Hong Kong both challenges and opportunities. What is our roadmap for transforming the current workforce so as to help the company better embrace challenges and exploit opportunities?

"Towards a Greener Pearl River Delta (PRD) – A Roadmap for Clean Energy Generation for Hong Kong" outlined our vision for clean energy for the next ten years. To successfully deliver this vision, our workforce needs to have strong commercial expertise; acquire new technical skills to build and operate our generating plant and network in an ever more reliable, cost effective and greener way; be adaptive to PRC business culture and able to establish good relationships with key stakeholders in both Hong Kong and PRC as well as extend the CLP brand from Hong Kong to the PRD.

The roadmap starts with the acquisition of basic knowledge. This includes improving Putonghua skills, understanding PRC legal, tax and financial requirements. The investment in Putonghua training increased five times from 2008 to 2009. This demonstrates that our staff are keen to learn and prepare themselves to meet upcoming challenges.

Through cultural exchange programmes and business plan communications, staff are encouraged to take up secondments or project assignments in PRC and to commit extra efforts in supporting relationship building and CLP brand building initiatives in PRC.

- Hong Kong – turnover remained low compared to the market and stood at 1.5% for the year. Competition to attract and retain professionals in finance, human resources and other functional areas remains greater than that for core engineering skills. This reflects the high degree of concentration of financial and commercial organisations in the city and the competitive labour market which results.
- Chinese mainland – because of the geographic scale of our business in China, our attraction and retention challenges tend to be project specific. The remote locations of some of our projects make attracting and retaining high quality staff a particular challenge.

CLP's commitment to developing our people serves not only to attract and retain valuable staff, but also allows us and them to exploit their maximum potential.

Our Management Development and Succession Planning (MDSP) is a systematic approach to succession planning. Colleagues with high potential are managed within their existing function or business from the earliest stages of their careers. As they become more senior, the oversight of their career development becomes the responsibility of the Group Management Development Committee. Through our MDSP, internal successors have been identified for 100% of senior management positions retiring within the next five years (2008: 100%). In 2009, 96% of existing senior positions which became vacant were filled internally in accordance with planned succession arrangements (2008: 100%).

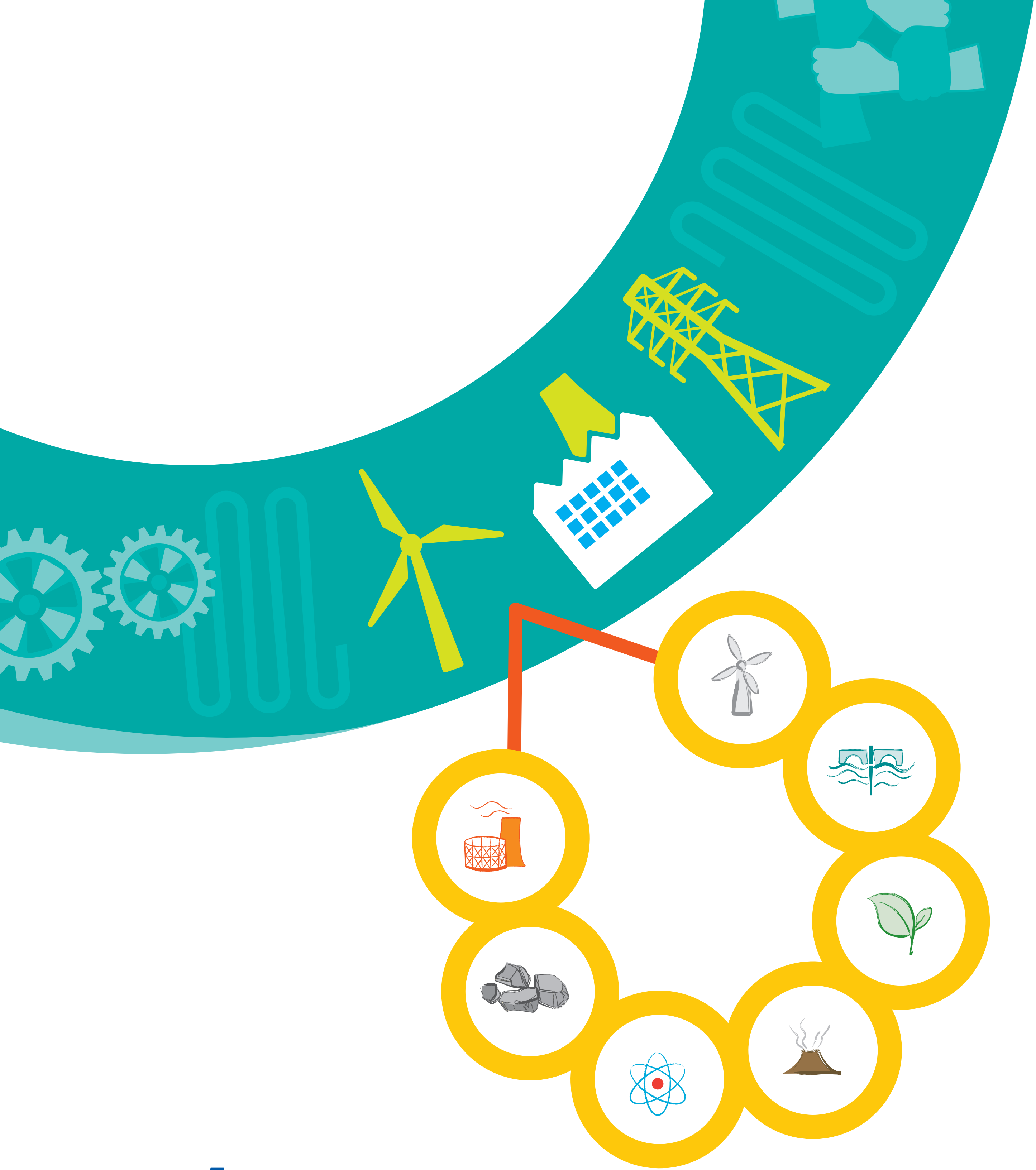
Our development and training programmes span all levels of our workforce and all our different businesses. For example:

- 27 participants from across the Group are following our second Group Executive Development Programme, in conjunction with the IMD Business School of Switzerland;
- 18 high potential staff attended the Richard Ivey Business School Consortium Management Development Programme in Hong Kong;
- staff from Thailand, Hong Kong and India joined the Swire Group's Windsor Leadership Programme and the Future Leaders Team Programme of the World Business Council for Sustainable Development;
- TRUenergy rolled out its three-tiered management and leadership development programme "Focused Energy" for over 180 employees; and
- in India, programmes have focused on preparing staff to meet future business challenges, including through "Better Thinking for Success" and "Personal Effectiveness" training for more 70 employees.

In addition to these programmes, CLP continued to invest in the ongoing development of all our employees through both internal and external courses. In 2009, total training man days amounted to an average 4.9 man days per employee (5.9 in 2008 – when we had a number of major training initiatives in various businesses following the roll-out of various initiatives and new operations).

Our business is nothing without our employees – we are doing our best to keep them safe, to promote their health and well-being, and to attract, retain and develop the people that our business needs.

Colleagues at our Safety, Health and Environment (SHE) Day, 2009



Assets

The implementation of our strategy and the effective management of our relationships with key stakeholders leads to the creation of a portfolio of high-quality electricity assets and businesses.

The CLP Group's Structure and 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%

Chinese Mainland

GNPJVC

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

CSEC Guohua

CLP	30%
China Shenhua Energy	70%

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%

Rongcheng I Wind

CLP	49%
Guohua Energy Investment Co., Ltd.	51%

Rongcheng II & III Wind

CLP	49%
Guohua Energy Investment Co., Ltd.	51%

Dongying Hekou Wind

CLP	49%
Guohua Energy Investment Co., Ltd.	51%

Lijin I & II Wind

CLP	49%
Guohua Energy Investment Co., Ltd.	51%

Zhanhua I & II Wind

CLP	49%
Guohua Energy Investment Co., Ltd.	51%

Changdao Wind

CLP	45%
Huaneng New Energy Industrial Co. Ltd	55%

Weihai I & II Wind

CLP	45%
Huaneng New Energy Industrial Co. Ltd	55%

Nanao II & III Wind

CLP	25%
Huaneng New Energy Industrial Co. Ltd	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%

Hailing Island Wind (in liquidation)

CLP	100%

Datong Wind

CLP	49%
Datang Jilin Power Generation Co., Ltd.	51%

Shuangliao I & II Wind

CLP	49%
Datang Jilin Power Generation Co., Ltd.	51%

CLP-CWP Wind

CLP	50%
China WindPower Group	50%

Qian'an I Wind

CLP	100%

PSDC

CLP	49%
ExxonMobil Energy Ltd.	51%

Huaiji Hydro

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

Yang_er Hydro

CLP	100%

Jiangbian Hydro

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

Boxing Biomass

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

India

GPEC

CLP	100%

Jhajjar Power

CLP	100%

CLP Wind Farms

CLP	100%

Khandke Wind

CLP	100%

Southeast Asia and Taiwan

OneEnergy

CLP	50%
Mitsubishi Corporation	50%

EGCO

CLP	2.15%
OneEnergy	22.42%
Other Shareholders	75.43%

Assets / Investments as at 31 December 2009

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 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 — 30%
CSEC Guohua International Power Company Limited (CSEC Guohua) 7,650 / 1,333MW[(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% / 1,030MW)
- Sanhe I and II in Hebei Province (河北省) (55% / 1,300MW)
- Suizhong I and Suizhong II, under construction, in Liaoning Province (遼寧省) (50% / 3,600MW). Suizhong II is scheduled for commercial operation by second quarter of 2010
- Zhungeer II and III in Inner Mongolia Autonomous Region (內蒙古自治區) (65% / 1,320MW)

3 — 49%
CLP Guohua Shenmu Power Company Limited (Shenmu) 220 / 108MW
Shenmu owns and operates Shenmu Power Station (220MW) in Shaanxi Province (陝西省)

4 — 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

5 — 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)

6 — 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)

7 — 49%
Guohua Resourceful (Rongcheng) Wind Power Generation Co. Ltd. (Rongcheng I Wind) 49 / 24MW
Rongcheng I Wind is located in Shandong Province and has a capacity of 48.8MW. It was commissioned in 2008

8 — 49%
Guohua CLP (Rongcheng) Wind Power Generation Co. Ltd. (Rongcheng II & III Wind) 99 / 49MW
Rongcheng II & III Wind (2 x 49.5MW) are located in Shandong Province. Both projects are scheduled for commissioning by first quarter of 2011

9 — 49%
Guohua Resourceful (Dongying Hekou) Wind Power Generation Co. Ltd. (Dongying Hekou Wind) 49 / 24MW
Dongying Hekou Wind is located in Shandong Province and has a capacity of 49.5MW. It was commissioned in September 2009

10 — 49%
Guohua Resourceful (Lijin) Wind Power Generation Co. Ltd. (Lijin I & II Wind) 99 / 49MW
Lijin I & II Wind (2 x 49.5MW) in Shandong Province. Phase I was commissioned in December 2009. Phase II is scheduled for commissioning in 2011

11 — 49%
Guohua Resourceful (Zhanhua) Wind Power Generation Co. Ltd. (Zhanhua I & II Wind) 99 / 49MW
Zhanhua I & II Wind (2 x 49.5MW) are located in Shandong Province. Phase I was commissioned in October 2009. Phase II is scheduled for commissioning in 2011

12 — 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). It was commissioned in May 2006

13 — 45%
HNNE-CLP Weihai Wind Power Company Limited (Weihai I & II 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. Phase I was commissioned in March 2007 and Phase II was commissioned in December 2008

14 — 25%
Huaneng Shantou Wind Power Company Limited (Nanao II Wind) 45 / 11MW (Nanao III Wind) 15 / 4MW
Nanao II & III Wind are located on Nanao Island (南澳島) off Shantou (汕頭), Guangdong Province, serving Shantou City. Nanao II was commissioned in 2007. Nanao III is scheduled for commissioning by third quarter of 2010

15 — 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 (吉林省). It was commissioned in September 2009

16 — 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

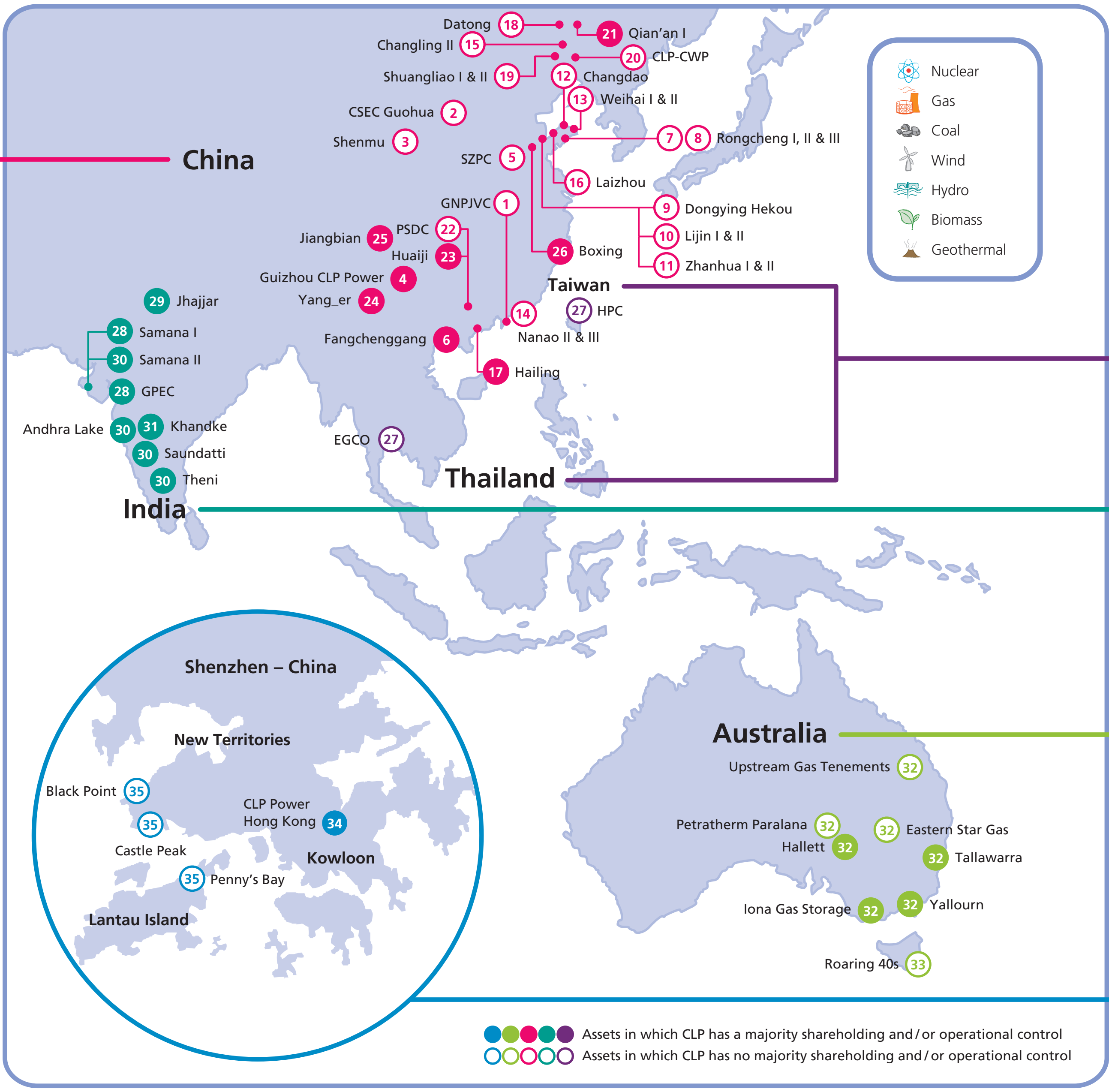
17 — 100%
CLP Yangjiang Hailing Island Wind Power Company Limited (Hailing Island Wind) 22 / 22MW
Located on Hailing Island (海陵島) of Yangjiang City (陽江市), Guangdong Province. The project has been agreed to be sold to a domestic buyer and the sale transaction is expected to be completed by first quarter of 2010. The project company is being liquidated

18 — 49%
Datang Jilin Resourceful Power Generation Co. Ltd. (Datong Wind) 50 / 24MW
Datong Wind is located in Jilin Province and has a capacity of 49.5MW. It was commissioned in August 2008

19 — 49%
Datang Jilin Resourceful New Energy Power Generation Co. Ltd. (Shuangliao I & II Wind) 99 / 48MW
Shuangliao I & II Wind are located in Jilin Province and have a capacity of 49.3MW for Phase I and 49.5MW for Phase II. Phase I was commissioned in April 2007 and Phase II was commissioned in May 2009

Note (1): The 1,333 equity MW attributed to CLP, through its 30% equity interest in CSEC Guohua, takes into account that CSEC Guohua holds varying equity interests in the generating assets included in the 7,650 gross MW.

About 19,000 equity MW, 7 different fuels...



20	50%	**CLP-CWP Wind Power Investment Limited (CLP-CWP Wind) 99 / 24MW[(2)]** A 50:50 joint venture with China WindPower Group, which currently owns: • 49% of 49.5MW Qujiagou wind farm in Fuxin City (阜新市), Liaoning Province. It was commissioned in December 2009 • 49% of 49.5MW Mazongshan wind farm in Fuxin City, Liaoning Province. It commenced operation in January 2010
21	100%	**Qian'an IW Power Co. Ltd. (Qian'an I Wind) 50/ 50MW** Qian'an I Wind (49.5MW) is located in Jilin Province . It is under construction and scheduled for commissioning in October 2010
22	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
23	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
24	100%	**Dali Yang_er Hydropower Development Co., Ltd. (Yang_er Hydro) 50 / 50MW** Yang_er Hydro is located in Yangbi County (漾濞縣) of Dali City (大理市), Yunnan Province (雲南省). It was commissioned in September 2009
25	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
26	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

Note (2): The 24 equity MW attributed to CLP, through its 50% equity interest in CLP-CWP Wind, takes into account that CLP-CWP Wind holds varying equity interests in the generating assets included in the 99 gross MW.

...over 50 assets and investments – One Group

Southeast Asia and Taiwan Investments Gross / Equity MW

Equity Interest

27 | 50%

OneEnergy Limited (OneEnergy) 8,586 / 832MW[3]
A 50:50 joint venture with Mitsubishi Corporation of Japan, which currently owns:

(a) 22.42% interest in **Electricity Generating Public Company Limited (EGCO)** in Thailand (CLP also has a 2.15% direct interest in EGCO). EGCO owns:
- Rayong and KEGCO gas-fired combined-cycle power stations in Thailand (2,056MW) which it also operates
- 50% interest in the 1,434MW BLCP coal-fired power station in Thailand
- 50% interest in the 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
- 26% 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 (3): The 832 equity MW attributed to CLP, through its 50% equity interest in OneEnergy and its 2.15% direct interest in EGCO, takes into account that OneEnergy and CLP indirectly hold varying equity interests in the generating assets included in the 8,586 gross MW.

India Investments Gross / Equity MW

Equity Interest

28 | 100%

Gujarat Paguthan Energy Corporation Private Limited (GPEC) 705 / 705MW
GPEC owns and operates a 655MW gas-fired combined-cycle power station and the 50.4MW wind project (**Samana Phase I**) in Gujarat

29 | 100%

Jhajjar Power Limited (Jhajjar Power) 1,320 / 1,320MW
Jhajjar Power is constructing a 1,320MW (2 x 660MW) coal-fired project, using supercritical technology, in Jhajjar, Haryana. The first unit is scheduled for commissioning in December 2011 and the second unit in May 2012

30 | 100%

CLP Wind Farms 345 / 345MW
Samana Phase II (50.4MW), **Saundatti** project (82.4MW) in Karnataka, **Andhra Lake** project (113.6MW) in Maharashtra and **Theni** project (99MW) in Tamil Nadu

31 | 100%

CLP Wind Farms (Khandke) Private Limited (Khandke Wind) 50 / 50MW
100% of the **Khandke Wind** project (50.4MW) in Maharashtra

Australia Investments Gross / Equity MW

Equity Interest

32 | 100%

TRUenergy 3,046 / 3,046MW
TRUenergy is an integrated generation and retail electricity and gas business in Victoria, South Australia (SA), NSW, Queensland, Tasmania and the Australian Capital Territory, comprising:
- 1,480MW coal-fired **Yallourn Power Station** and brown coal mine in Victoria
- 180MW gas-fired **Hallett Power Station** in SA
- Ecogen long-term hedge agreement that allows TRUenergy to purchase up to 966MW gas-fired capacity
- 420MW gas-fired **Tallawarra Power Station** in NSW
- 22 petajoule **Iona Gas Storage facility** in Victoria
- 1.28 million business and residential electricity and gas customer accounts
- 30% stake in **Petratherm Paralana geothermal project**
- 4.51% equity stake in **Eastern Star Gas**
- Direct investment in **Upstream Gas Tenements** in Queensland

33 | 50%

Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) 317 / 142MW[4]
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 and 111MW Waterloo wind farm, under construction in South Australia
- 50% interest in the 66MW Cathedral Rocks wind farm in SA

Note (4): The 142 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 317 gross MW.

Hong Kong Investments

Equity Interest

34 | 100%

CLP Power Hong Kong Limited (CLP Power Hong Kong)[5]
CLP Power Hong Kong owns and operates the transmission and distribution system which includes:
- 555 km of 400kV lines, 1,488 km of 132kV lines, 60 km of 33kV lines and 11,444 km of 11kV lines
- 57,700 MVA transformers and 214 primary and 13,074 secondary substations in operation

35 | 40%

Castle Peak Power Company Limited (CAPCO)[5], 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 can use gas as backup fuel. All units can use oil as a backup fuel

Penny's Bay Power Station (300MW)
- Three diesel-fired gas turbine units of 100MW each

Note (5): 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 electricity business.

Performance

We must deploy our experience and expertise to maximise the performance of our assets and investments to realise our strategy.

Hong Kong

Business Environment

Hong Kong has a small open economy which is closely tied to the economic conditions prevailing in its major trading partners, especially the Chinese mainland and North America. Hong Kong's growth prospects will follow the pace of recovery of the global economy. In the past decade and more, Hong Kong's economy has matured and the HKSAR has moved from a manufacturing-based economy to one based on services. Electricity demand has tracked these developments – since 1990, electricity demand growth for local customers has averaged 3% per annum, compared to 17%, 10% and 9% in the 1960s, 70s and 80s respectively. In the longer term, we expect Hong Kong's economic growth, and therefore electricity demand growth, to be moderate – perhaps in the region of 2% per annum. We also expect that neighbouring Guangdong Province will reduce its reliance on power supply from CLP as its own electricity supply and demand moves into balance.

Even though underlying electricity demand growth may be moderate, there will still be a need for substantial ongoing investment in Hong Kong's electricity infrastructure. First, to maintain the reliability and quality of supply which Hong Kong has come to expect. Secondly, to comply with increasingly stringent environmental regulations. In that regard, the HKSAR Government has published the final study report on Hong Kong's Air Quality Objectives. This envisages a number of measures on emissions control, including increasing the share of natural gas used in local electricity generation and further tightening of emissions from our coal-fired generating plant. Over time, it may be that Government will seek to phase out entirely the use of coal in electricity generation to serve Hong Kong – although the implications of this on energy security, supply reliability and tariffs have not yet been fully evaluated. The specific proposals emanating from Hong Kong's Air Quality Objectives will be accompanied by growing public awareness of environmental issues. This may lead to more initiatives on demand side management and energy efficiency and conservation. The increasing focus on climate change may also lead to close scrutiny of the carbon footprint of electricity generation and, in turn, support CLP's gradual shift towards more nuclear power and gas-fired generation – building on the transition that started in the 1990s when CLP moved from exclusively coal-fired generation to a balanced mix of coal, gas and nuclear.

The current SoC is scheduled to end in 2018. The development of the Hong Kong electricity market after that time remains uncertain. Government has commissioned a consultancy study to analyse options for regulatory models after 2018. The introduction of competition in wholesale and retail power markets has been a main policy direction in a number of countries in recent years. However, these models are being re-evaluated, especially in the light of concerns about the ability of market forces to support policy objectives on matters such as environmental performance and timely investment in electricity network infrastructure. CLP will engage with Government and its advisors on the shape of Hong Kong's future electricity market. We are also working with both Government and Hongkong Electric on whether and, if so, how, enhanced interconnection between the two companies could benefit Hong Kong – this study is expected to conclude in 2010.

In December 2008, the Central People's Government announced the "Outline of the Plan for the Reform and Development of the Pearl River Delta 2008 – 2020". The continuing economic integration of Hong Kong with the Delta will bring both opportunities and challenges to Hong Kong – and to CLP. However, we look at this process with some confidence. We were an early mover in cross-border links in the electricity sector with our investment in, and interconnection with, Daya Bay Power Station in the early 1990s. The Government-to-Government Memorandum of Understanding (MOU) on energy supply signed in 2008 is also an example of how CLP is playing a full role in the growing integration of Hong Kong with neighbouring Guangdong Province – we are working constructively and productively with the Central People's Government and our Mainland counterparties to secure the continuing supply of nuclear electricity and natural gas to Hong Kong which will be critical both for maintaining power supply reliability and meeting our environmental objectives.

Performance

During 2009, our performance centred on four main objectives:

- meeting Hong Kong's electricity demand in a reliable, cost-efficient and environmentally responsible manner;
- making the capital investment necessary to maintain the quality of Hong Kong's electricity infrastructure;
- making the best and most efficient use of our resources; and
- implementing the MOU between the Central People's Government and the HKSAR Government on the continued supply of nuclear energy and natural gas to Hong Kong.

Meeting the Demand for Electricity

Overall, local sales in 2009 grew by 1.7%, compared to only 0.3% in 2008. This growth, particularly in the residential sector, was primarily attributable to warmer weather which increased the cooling load and an improving economy. The decline in sales continued in the manufacturing sector. Such sales now only represent 6.3% of CLP's local total sales volume, compared to around 45% in 1976. This is a vivid illustration of the scale and speed of Hong Kong's transformation from a manufacturing-based economy towards a service-based economy in the past decades.

Sector	2009 Number of customers ('000)	2009 Electricity sales (GWh)	Sales increase / (decrease) over 2008 (%)	Average annual sales change over 2005-2009 (%)	Notes on 2009 performance
Residential	2,016	8,331	5.6	3.1	Warmer summer and cooler autumn compared to 2008
Commercial	184	12,488	1.4	2.4	Warmer summer and positive sentiment about the economic recovery
Infrastructure and and public services	96	7,813	2.0	0.6	Commissioning of public facilities
Manufacturing	25	1,938	(12.0)	(7.3)	Sales reduction continued, particularly in the textile industry
Total local sales	2,321	30,570	1.7	1.3	
Export sales	–	3,731	5.0	3.9	Notable growth in demand for electricity in Guangdong
Total Sales	2,321	34,301	2.0	1.6	

Sales to the Chinese mainland rose by 5% compared to 2008 levels, mainly driven by the strong demand growth as a result of the economic recovery in Guangdong during the second half of the year.

Overall, total unit sales by CLP in 2009, including sales to Guangdong, increased by 2.0% from 2008, as against a decrease of 1.1% in 2008.

Capital Investment

The largest capital investment currently underway in the Hong Kong electricity business is the emissions control project at Castle Peak "B" Power Station. This HK$9 billion project is being commissioned in phases from 2009 to 2011. The work includes the installation of flue gas desulphurisation equipment, nitrogen oxides reduction plant and other facilities. Upon completion of the emissions control project, over 90% of SO_2 emissions and over 50% of NO_x emissions from Castle Peak "B" Power Station can be removed, while particulates can be further reduced from the existing low level. This resulting emissions performance is expected to be comparable to European Union standards. The timely and successful completion of this work is essential in order for CLP to comply with tightening emissions regulations. Currently, there are about 2,700 staff and contractors working on this project and works are progressing largely to schedule.

During 2009, we invested approximately HK$7.8 billion in generation, transmission and distribution network, customer services and other supporting facilities – all aimed to enhance supply quality, reliability and customer service levels as well as to meet the demand created by ongoing infrastructure development projects.

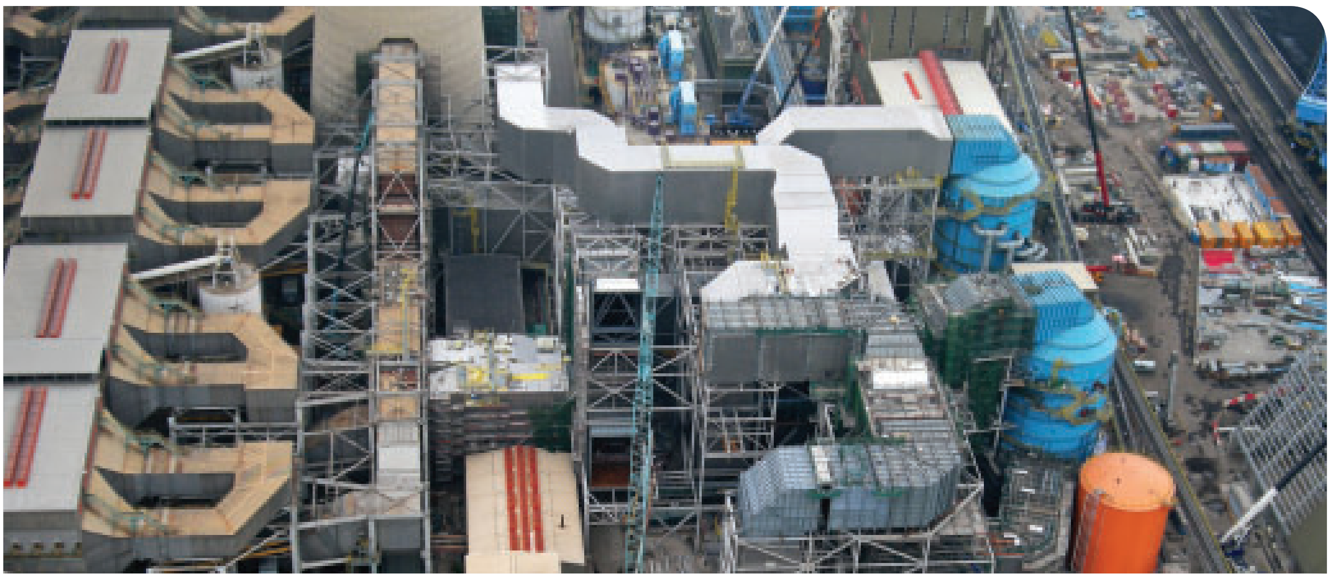
We have also taken forward the feasibility study for an offshore wind farm development in Hong Kong, involving an initial phase of 90MW with further potential expansion up to a total of 180MW. The Environmental Impact Assessment (EIA) study was presented for public consultation in June 2009. The EIA report was approved and the environmental permit was awarded by the Environmental Protection Department in August. The current stage of this project involves the collection of onsite environmental data as well as the review of the underlying business case for the project, including the quality of the wind resources.

Maximising our Resources

We go to considerable lengths to save costs and enhance productivity.

For example, in our network operations, we have adopted the strategy of minimising the total life cycle cost of electrical equipment. This means that we calculate the total cost to customers of equipment over its entire working life, from initial capital investment through to operating and maintenance costs, costs of mid-life refurbishment and, ultimately, retirement or replacement. Our maintenance strategy is moving from basically routine preventive maintenance, which is based on the time between maintenance inspections, to more condition-based preventive maintenance which focuses on the latest performance condition of the equipment. This has been accompanied by the application of online monitoring technology. This allows us to assess the condition of equipment continuously so that maintenance can be carried out at the right time – striking the best balance between using the equipment to its maximum capability and minimising disruption from possible failure. Moreover, through refurbishment projects, such as those on our transmission overhead line systems and gas insulated switchgear, we are able to extend the life of critical assets and reduce their overall life cycle costs. Cost savings have also been achieved through improved procurement practices, such as those applied in our outsourcing contract for meter reading and for IT infrastructure equipment.

Our efforts to make better use of resources are illustrated by our Castle Peak Cable Tunnel Project. This reused underground water for tunnel boring and site washing. In our rebuilding of the Shatin Data Centre, we successfully reused most of the original assets and reduced construction waste by about 15 tonnes.



The emissions control project at Castle Peak Power Station – a massive undertaking

We are in the process of applying smart grid technologies to our supply network in order to deliver clean energy, better services and value to customers. The fundamental concept of a "smart grid" is the integration of digital, telecommunication, information and metering technologies with the power system itself, so as to improve monitoring, analysis control and information collection capabilities. This is a long-term and challenging project. The enhanced capabilities which we seek include enhanced substation and network automation, self-healing and condition monitoring, improved network efficiency, flexible connections with renewable energy sources, electric vehicles and energy storage installation, as well as smart metering and advanced metering infrastructure for better connection with customers.

Implementing the MOU

The inter-governmental MOU (which can be viewed at www.epd.gov.hk) contemplates the delivery of gas for electricity generation in Hong Kong 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
- a Liquefied Natural Gas (LNG) terminal to be located in Shenzhen that will supply Hong Kong.

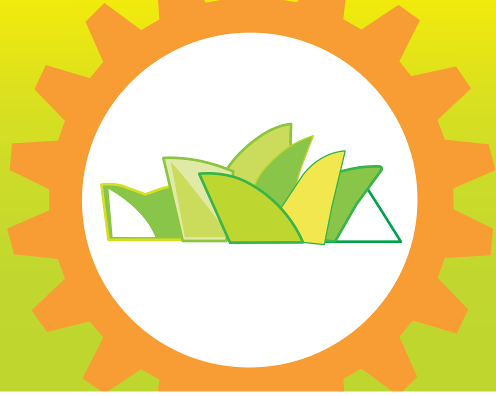
All of these three sources are essential to the continued adequacy and reliability of Hong Kong's electricity supply. Good progress was made on each in 2009. For example, preliminary arrangements are in place with China National Offshore Oil Corporation (CNOOC) and PetroChina International Company for long-term gas supplies starting early this decade. Significant strides were made in the permitting, design, and commercial arrangements for a new pipeline necessary to deliver natural gas from new sources in the Mainland. Work advanced on the preliminary design and PRC approval process for the Shenzhen LNG terminal, the shareholding structure for the terminal joint venture was agreed between PetroChina (51%), Shenzhen Gas (24%) and CLP (25%), and the future terminal use arrangements are taking shape. The formal submission of the EIA was made in December 2009, in cooperation with Environment Bureau. An area of concern remains the speed at which the HKSAR Government will be able to issue the environmental and other necessary permits for the gas pipeline from the Shenzhen LNG terminal to the gas receiving station at Black Point Power Station – timing is becoming tight if security of gas supply is to be ensured.

The MOU also contemplated the ongoing supply of nuclear electricity to Hong Kong. An extension of the Guangdong Daya Bay Nuclear Power Station joint venture and supply contracts was approved by the HKSAR Government in September. The contracts were signed in Beijing in the presence of the Vice President of the PRC, Mr. Xi Jinping and the Chief Executive of the HKSAR, Mr. Donald Tsang. These contracts will enable the continued supply of non-carbon emitting electricity to Hong Kong for a further term of 20 years from 2014.

How this business performance delivered **economic value** is on page 63.

Signing ceremony for the Daya Bay contracts' extension

Australia



Business Environment

The most significant challenge for the energy industry in Australia during the year continued to be the uncertainty around the final form of the Australian Government's CPRS and its potential impact on existing generators, particularly those operating brown coal-fired power stations.

In May 2009 the Government introduced its CPRS legislation to the House of Representatives. This largely reflected the proposals included in the White Paper that was issued in 2008. The legislation was passed by the lower house in June 2009, but was rejected by the Senate in August by the Coalition opposition, Greens and Independent Senators, who each resisted the CPRS for diverse reasons.

In October, following limited consultation with stakeholders, the Government reintroduced its CPRS legislation to the House of Representatives, including government-proposed amendments. This was again passed by the lower house and subsequently sent to the Senate for a vote. Facing certain defeat again in the Senate the Government agreed to further amend its legislation during November, based on widely publicised and difficult negotiations with a divided Opposition. The legislation prompted a leadership challenge within the Opposition, which was divided over whether to support the legislation. Following a change of leadership within the Liberal Party, the legislation was defeated in the Senate in December by the Opposition, Greens and Independents.

The Government has indicated that the amended legislation in the form most recently rejected is now its policy, and re-introduced the legislation into the Parliament for a third time at the beginning of 2010. The CPRS is currently expected to return to the Senate in May 2010. The Opposition continues to oppose the current form of the CPRS legislation, and instead supported a direct action policy on climate change, outside any emissions trading scheme. It is not yet clear the extent to which the outcome of the Copenhagen Summit on climate change, widely regarded in Australia as disappointing, will affect Government policy. Nothing about this situation is predictable. However, the result may be that the Government goes to an election later in the year with its current CPRS as policy. The political impasse means that in the short-term there will be ongoing uncertainty about the final policy framework.

In New South Wales (NSW) the State Government has continued with its electricity reform plan, although with some delay. This plan includes the sales of the State's three retail businesses – EnergyAustralia, Integral Energy and Country Energy – and the sale of generation development sites. The process excludes the sale of state-owned generators and instead opts for a complex trader model whereby the rights to the output of these state-owned generators are sold.

Investors were invited to submit Expressions of Interest in November 2009, with potential bidders expected to be short-listed in early 2010 under the original reform plan. TRUenergy lodged an Expression of Interest. In December, Kristina Keneally replaced Nathan Rees as Premier, the State's third since the last State elections in 2007. Shortly after her appointment, the Premier recommitted the State to the privatisation process. However, the State Government's ability and determination to see through the privatisation process, either in its present form or to the revised timetable, remains unclear.

As regards renewable energy, the Australian Government introduced legislative amendments to the 2% Mandatory Renewable Energy Target (MRET) in August 2009. The amendments, which became effective from 9 September 2009, increased the amount of electricity that retailers are required to source from renewable energy generation by 2020 to 20%, or 45,000GWh. The new Renewable Energy Target (RET) also absorbed existing and proposed State and Territory renewable schemes into one national scheme.

Under the previous MRET and the new RET, retailers are required to purchase increasing amounts of renewable energy using tradeable renewable energy certificates (RECs). The RET came into effect on 1 January 2010. It significantly expands the target for renewable energy usage to 12,500GWh in 2010, up from 8,100GWh in 2009.

Each REC is equivalent to one MWh of electricity generated. RECs can be produced by accredited renewable energy generators or are deemed to offset electricity consumption, as is the case for solar water heaters. RECs must be surrendered to the Office of the Renewable Energy Regulator to show that each retailer is meeting the RET target and therefore contributing to the development of additional renewable energy in Australia. In 2009 TRUenergy surrendered 555,000 renewable certificates, which corresponded to 3.91% of the company's total Australian sales. TRUenergy holds power purchase agreements (PPAs) with major wind farms and bioenergy plants which provide it with additional ongoing RECs. During the year the price for RECs fell substantially and the Council of Australian Governments (COAG) initiated a review of the factors impacting the market. It was widely considered that a large uptake of residential solar hot water systems was a major contributing factor.

Performance

Asset Management

The 420MW combined cycle gas-fired Tallawarra Power Station began commercial operations on 23 January 2009 and officially opened on 31 March. Following unscheduled outages in the early stages of operation, the plant has generally performed well.

Total generation from Yallourn Power Station during 2009 set a new record for a calendar year with gross generation totalling 11,641GWh. This follows the upgrade and overhaul of Unit 2 in March 2008. TRUenergy sought government approval for a re-alignment of the boundaries for the Maryvale field within the Yallourn coal mine. The re-alignment will allow coal that is closer to the surface to be mined. This will mean that less overburden has to be removed from the mine. The realignment will allow significant cost savings and will reduce the overall carbon emissions from mining compared to the original mine alignment. Yallourn was still awaiting a final decision from the State Government at the time of going to print.

The Hallett Power Station operated with a start reliability of 97% against a plan of 96% during 2009 with a high capture of the peak pricing in South Australia to support the TRUenergy portfolio. During the year a project to increase the output of Hallett during hot weather was approved and implemented. The objective was to increase Hallett's output at an ambient temperature of 40°C by 20MW by fogging the air inlet of the gas turbine. On 16 December the new equipment was tested with the results corresponding to more than a 22MW increase at the project's reference conditions.

The Iona Gas Plant performed well during the year, ensuring consistent and reliable supply of gas. A key measure of good performance is safety – Iona reached a significant safety milestone in July when it achieved 10 years without a lost time injury. In September the plant was granted a five-year licence as a major hazardous facility, following submission of a safety case and external assessment of the plant's safety and management systems. The Iona Gas Plant expansion project, which aims to increase daily processing capacity from 320 terajoules to 500 terajoules and gas storage capacity from 12 petajoules to 22 petajoules, is moving to completion. The additional storage capacity was completed by December and Iona is accepting additional gas. Full commissioning and performance testing of compression equipment is scheduled to occur shortly.

TRUenergy's Tallawarra Power Station

Asset / Station	Rating (MW) 2009	Rating (MW) 2008	Generation (GWh) 2009	Generation (GWh) 2008	Utilisation* (%) 2009	Utilisation* (%) 2008	Availability* (%) 2009	Availability* (%) 2008	Operating Hours 2009	Operating Hours 2008
Yallourn Power Station	**1,480**	1,480	**11,641**	11,422	**89.8**	87.9	**90.0**	89.4	**8,070**	8,015
Hallett Power Station	**180**	180	**32.88**	21.5	**2.1**	1.4	**97.8**	96.4	**2,937.5**	1,840.7
Tallawarra Power Station (since 23 January 2009)	**420**	N/A	**1,853**	N/A	**53.6**	N/A	**88.4**	N/A	**6,146**	N/A

	Capacity (Terajoule / Day) 2009	Capacity (Terajoule / Day) 2008	Throughput (Petajoule) 2009	Throughput (Petajoule) 2008	Utilisation (%) 2009	Utilisation (%) 2008	Availability (%) 2009	Availability (%) 2008	Compressor Hours 2009	Compressor Hours 2008
Iona Gas Storage Facility	**320**	320	**44.3**	43.8	**38**	37	**93.5**	92.3	**24,680**	24,134

* In this table and 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.

Retail

Our efforts to enhance our customer service are described in "CLP and our Customers" on pages 24 to 25. Here we focus on the underlying business implications of the work we are doing in our retail business.

TRUenergy launched a Retail Profit Improvement Programme in 2009. The aim of the programme is to coordinate, prioritise and fast-track key initiatives aimed at improving the profitability of the retail business. The programme should deliver meaningful savings and earnings enhancement towards sustained annual profit improvement by 2013. The business has made good progress towards meeting this target. Key improvements delivered through this programme have included:

- initiatives to reduce revenue leakage;
- management of credit risk; and
- process changes to ensure retention of our most profitable customers.

TRUenergy has focused strongly on the way it manages retail credit risk. There have been improvements to our processes at the point of sale, as well as in our collections department. As a result the business expects lower bad debt write-offs in 2010.

In January 2009, Victoria fully deregulated energy pricing. This allowed our prices to better reflect the cost to serve customers. TRUenergy also substantially changed its retail pricing strategy for South Australia, the Australian Capital Territory, Queensland and NSW by creating our own market-based tariff, rather than one reflecting the government tariffs. This improved profitability in these states.

Development of a new retail customer service and back office information technology platform (we call this Project Odyssey) is underway. A comprehensive review of the functionality and processes built to date was undertaken during the year. That review highlighted the need for further work on both the proposed platform design, as well as the quality of data in our existing system, to support a smooth transition. As a result, we agreed with IBM on a new delivery timeline, including formal customer pilot testing. This agreement has led to improved resources being made available by the suppliers to the project. Nonetheless, Project Odyssey remains a challenging exercise, which we are supervising closely. In the event of further slippage beyond an end-2010 delivery of the first phase, we shall need to review the viability of the current system solution.

Renewable Energy

The Paralana geothermal project deep well in South Australia was successfully cased and cemented to a depth of 3,725 metres. The Paralana joint venture is led by Petratherm and includes TRUenergy and Beach Energy. Completion of the drilling programme was slower than anticipated because the rock formations below 600 metres were significantly harder than expected. Following well completion, evaluation of the well was undertaken using techniques which allows us to better determine the long-term well temperature and the viability of the project as a geothermal source. Assessment of data in early December strongly indicated natural fractures below 3,400 metres. Expectations are that the target temperature can be achieved. Well completion and release of the special rig occurred late in December. The joint venture will undertake testing and stimulation of the zones below 3,400 metres during 2010.

In August, Roaring 40s announced that contracts and financing for the 111MW Waterloo wind farm project in South Australia were in place. The turbine manufacturer, Vestas, has begun supplying the 3MW turbines and has entered a long-term operating and maintenance agreement with Roaring 40s. Major civil and construction works are well advanced. The wind farm, involving 37 turbines, is expected to be fully commissioned in late 2010. This will be Roaring 40s' fourth wind farm in Australia.

Wind Farm	Installed Capacity (MW)	Number x Wind Turbine Size	Generation at Farm Gate (GWh)		Availability (%)		Wind Speed (m/s)	
			2009	2008	2009	2008	2009	2008
Bluff Point	65	37 x 1.75MW	231.6	217.7	93.8	96.5	9.2	8.8
Studland Bay	75	25 x 3MW	244.9	215.5	95.0	98.3	8.7	8.5
Cathedral Rocks	66	33 x 2MW	184.9	202.7	93.0	97.0	8.3	8.1

Availability at both Bluff Point and Studland Bay wind farms was lower than the previous year mainly due to a gearbox maintenance programme. Production was assisted by the removal of a transmission constraint in May 2009 and higher average wind speeds. Production from Cathedral Rocks was lower than the previous year due to transmission constraint and lower availability, in part due to a turbine fire in February 2009.

Solar Systems, the solar technology development company in Australia in which CLP holds a 20% equity stake, had difficulty raising further capital to enable the continuous development and eventual commercialisation of its solar technology. Although Solar Systems' technology shows technical promise, its fund-raising efforts took place in a very challenging financial market, particularly for start-up solar companies facing the difficulties of obtaining financing for large scale projects, uncertain valuations and increased competition from established solar companies, who have reduced their margins in response to the recent demand slowdown. We did not believe that it was justifiable for CLP to continue funding a technology business without an additional strategic or financial partner to share the ongoing development risks. Therefore, in accordance with our prudent approach towards our financial accounts, in our Interim Report we made a provision for the investment in Solar Systems resulting in a net loss to the Group of HK$346 million. In September, Solar Systems was placed in voluntary administration. In February 2010 Australian listed company, Silex Systems Ltd, in a statement to the Australian Stock Exchange, advised that it had entered a conditional agreement to acquire the Solar Systems assets from the company's Administrators and that subject to finalisation of various arrangements, completion was expected to take place in mid-March 2010.

The placing of Solar Systems into voluntary administration in 2009 was a setback for our move towards solar energy. We will take a more cautious approach to future technology investment opportunities which involve early-stage technology. However we will continue to look at solar opportunities both as an investor and operator. While we have lodged an interest in the Federal Government's Solar Flagship programme, we will only take forward any investment if we are satisfied that the maturity of the chosen solar technology, and the level of government support, is sufficient to provide the necessary level of confidence in the commercial viability of any project.

Business Development

Permitting for a Tallawarra Stage B gas-fired power station is now in its final stages with a submission completed by TRUenergy following public exhibition, as well as review and comment on the proposed development by the Department of Planning and other statutory bodies, including the Department of Environment and Climate Change, the Civil Aviation Safety Authority and the Wollongong and Shellharbour Councils.

Initial site assessment and concept study work has been undertaken for a gas-fired power station at Yallourn. This allowed us to better understand the development and site challenges associated with developing a co-located integrated gasified combined cycle plant and identifying a separate suitable site at Yallourn for a gas-fired combined cycle plant.

TRUenergy undertook a five-well exploration programme for coal seam methane (CSM) across two permit areas in southern Queensland as part of our joint venture with Rawson Resources and Energetica Resources. The wells found coal seams, with one of the permit areas showing some prospects for CSM. Evaluation of potential next steps is now under consideration.

TRUenergy entered into a MOU with Ignite Energy Resources (IER) enabling IER to develop a commercial demonstration plant of their direct coal-to-oil and upgraded dry coal processes using the brown coal at Yallourn. IER's supercritical water technology transforms brown coal into high-value oil and coal products. A study commissioned by IER predicts that CO_2 emissions could be reduced by more than 40% by using IER's upgraded coal for power generation, compared to brown coal (carbon capture would further reduce greenhouse gas emissions). The first demonstration unit is expected to be operating in 2010.

In January 2010, TRUenergy was offered funding under the Victorian Government's Energy Technology Innovation Strategy (ETIS) for pre-feasibility studies for three Carbon Capture and Storage (CCS) projects. The projects include work in partnership with Southern Company to assess a low emissions integrated gasification combined cycle plant with pre-combustion carbon capture at Yallourn, a multi-user carbon storage and transport system in Gippsland, which is being undertaken with Carbon Store Australia and Mitsubishi Corporation, and a proposal in conjunction with Loy Yang Power and Mitsubishi Heavy Industries and Worley Parsons to demonstrate large scale post-combustion carbon capture at Loy Yang A Power Station.

How this business performance delivered **economic value** is on page 64.

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Mr. Brad Page
Chief Executive Officer
Energy Supply Association of Australia

A

Mark Takahashi
Group Director & Chief Financial Officer

Following the Global Financial Crisis, capital has been more difficult to secure and costs have been higher. We know that electricity supply is a growth industry in the Asia Pacific region and will demand enormous new capital allocation over the next few decades. What are the key settings you will look for in deciding where to allocate your capital?

We look at several factors in allocating capital to potential investments.

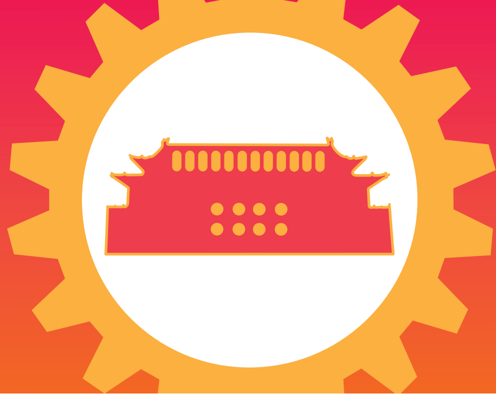
First, we seek to ensure that the investment is consistent with the overall strategic direction of the Group. This takes into account the individual country strategies as well as a perspective on the impact of total investments on the overall carbon intensity of our business.

Secondly, we look for investments where we have a reasonable degree of control and we have the opportunity to utilise our capabilities. We believe our skills, particularly in construction and operations, help differentiate CLP and ultimately result in better underlying performance.

Thirdly, we look at the project financial returns associated with potential investments vis-à-vis the underlying risk profile. We traditionally analyse investments on a discounted cash flow basis relative to our risk-adjusted cost of capital.

Fourthly, we consider the local regulatory risk and policy settings, in particular consistency in policy settings. In this regard, the current uncertainty in Australia is resulting in less international capital flowing into long-term investments in the sector.

Chinese Mainland



Business Environment

In response to the economic downturn, the PRC Government deployed several measures during 2009 such as an RMB4 trillion stimulus package and a relaxed monetary policy. The economy appears to be recovering with GDP growth in 2009 of 8.7%.

In line with underlying economic conditions, electricity demand bottomed-out in August 2009 with a sustained recovery in electricity demand from then until December. By the year end the total power consumption in 2009 was 5.96% higher than the previous year.

On the supply side, installed generating capacity showed a 10.23% year-on-year increase during 2009, reaching 874GW. The combination of over-capacity, slow economic recovery and reduced exports meant that the average utilisation rate of power plant in the Mainland declined in comparison with 2008.

The availability of hydro generation also has a significant impact on the use of thermal plants, such as CLP's Fangchenggang Power Station. Unlike 2008, which was a "wet" year with abundant hydro generation, 2009 was a "dry" year, with a corresponding reduction in hydro generation output. Although such things are by nature highly uncertain, 2010 is forecast to be between "average" and "dry" with corresponding implications for thermal plant output.

In the first half of 2009, production of raw coal in China increased by 8.7% year-on-year. With coal supply and demand achieving reasonable equilibrium in the near term, coal prices (both contract and spot prices) fell during 2009. They are expected to remain relatively stable with a slight increase in 2010 compared to the highly volatile prices of 2008.

In November, the Central authorities announced a nationwide average increase of RMB2.8 fens/kWh in the electricity tariff for non-residential use. The benchmark tariffs for coal-fired plants will increase in 10 provinces and will reduce in seven provinces. The impact of this tariff adjustment to CLP is minimal. The timing and magnitude of the next coal price-linked tariff adjustment remains uncertain.

Also in November, the PRC Government announced a target of a 40-45% cut in China's carbon intensity relative to economic output by 2020, from the 2005 level. Emissions standards are steadily being tightened as Government continues to strengthen environmental protection measures. These measures will increase the costs of conventional coal-fired generating assets in the PRC.

Performance

Asset Management

Our Fangchenggang Power Station (2 x 630MW supercritical coal-fired units) entered its second year of operation with reliable plant performance. During the first half of 2009, the despatch of Guangxi's coal-fired plants was adversely affected by both a slump in electricity demand as a result of the economic downturn and a surplus of hydropower supply due to high rainfall. The situation turned around in July 2009 on the back of the rebound of the domestic economy. Coal-fired generation increased significantly due to the increase in power demand and reduced hydro generation, with both Fangchenggang units operating at almost full load in the fourth quarter of 2009. We believe the upward trend of utilisation is sustainable for 2010, due to the continuing recovery of the Guangxi economy.

The Daya Bay Nuclear Power Station has operated safely and efficiently since commissioning in 1994. In 2009, this contributed about 30% of the electricity supplied to our customers in Hong Kong. Continuous monitoring since Daya Bay started operations has shown no significant effect on the local environment. The excellent operating, safety and environmental performance of Daya Bay has given us the experience, expertise and confidence to seek to develop our involvement in the Chinese nuclear power industry through a strengthened relationship with China Guangdong Nuclear Power Holding Company, Limited, our longstanding partner at Daya Bay.

Our cooperation with Shenhua Group through CSEC Guohua is progressing well. The construction of two 1,000MW coal-fired units at Suizhong II in Liaoning Province is on schedule and commercial operation is planned for the second quarter of 2010. At the joint venture level, CLP completed its final injection of registered capital in June 2009, so that its equity interest in CSEC Guohua now stands at 30%.

Our Anshun II Power Station (2 x 300MW coal-fired units) has operated well since commissioning in 2003. Operating hours and profitability rose towards the end of 2009, in line with the overall economic recovery. Anshun II's operating and financial performance has been good against the background of high utilisation levels and low coal prices in Guizhou Province which has extensive coal resources. However, there is a complicated and sub-optimal operating regime at Anshun II, which shares common facilities and despatch arrangements with adjoining Anshun I (which has different owners). A restructuring of the ownership arrangements for the two projects, either through sale or merger, is actively being explored in order to allow both stations to operate in the most efficient manner and to realise the maximum value for their respective shareholders.

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Mr. Rajesh Panjwani
Head of Asia-Pacific Power Research
CLSA Research Limited

Andrew Brandler
Chief Executive Officer

The proposed CPRS in Australia is likely to have an adverse impact on your earnings. Utilities in Europe are already being impacted by carbon taxes. When do you think developing countries like China, India, Thailand etc. will impose carbon taxes? How is the company preparing to face that scenario?

With the UNFCCC Climate Summit in Copenhagen producing few results, we are seeing more parties advocating carbon based taxes to speed up emissions reduction and to replenish government coffers. Denmark, Finland, Norway and Sweden introduced taxes back in the early 1990s. Ireland and France are likely to be next.

CLP has been monitoring the carbon tax legislation development processes within the Asia-Pacific region. Among the economies where we operate, the Chinese mainland has already gone through a few rounds of consultation. Taiwan has floated the idea of taxing all greenhouse gas emissions. India's Ministry of Finance also suggested introducing a carbon tax, but the government appears to be lukewarm about the idea.

If governments in the region decide to introduce a carbon tax, we urge them to ensure all revenues collected are earmarked for enabling the innovation, development and adoption of carbon-reducing or low carbon technologies. The taxes should be intended to encourage emissions reduction – achieving that will require proven, reliable and commercially viable low-carbon solutions.

Since carbon taxes are national policy decisions, CLP will continue to prepare for them by maintaining a balanced portfolio in every market that we operate and factoring the possibility of various taxes into our business planning. Our transition in the Chinese mainland towards lower carbon emitting generation is a particular example of this.

The following table sets out the generally good levels of utilisation and availability achieved by our generating plant in the Mainland.

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2009	2008	2009	2008	2009	2008	2009	2008
Daya Bay	1,968	15,662	15,430	95	93	96	93	8,428	8,221
Guangzhou Pumped Storage (Phase I)	1,200	1,331	1,589	13*	15*	92	88	2,931*	3,248*
Shiheng I and II	1,260	6,641	6,609	63	63	88	95	5,534	5,508
Heze II	600	3,326	3,311	63	63	90	88	5,544	5,518
Liaocheng	1,200	6,667	6,764	63	64	91	93	5,556	5,637
Yire	400	2,326	2,417	67	69	96	96	5,816	6,042
Sanhe I and II	1,300	6,920	6,502	61	57	93	95	5,323	5,002
Panshan	1,030 **	6,054	6,043	69	69	84	96	6,054	6,043
Suizhong I	1,600	9,408	8,317	67	59	83	75	5,880	5,198
Zhungeer II and III	1,320	5,919	6,522	51	56	93	93	4,484	4,941
Shenmu	220 ***	1,425	1,413	76	80	92	91	6,627	7,065
Anshun II	600	3,250	3,075	61	59	84	95	5,417	5,125
Huaiji	125	284	347	26	36	87	91	2,267	3,185
Fangchenggang	1,260	5,227	4,055	47	38	91	82	4,149	3,380
Dali Yang_er****	50	71	N/A	46	N/A	98	N/A	1,421	N/A

* Generating and pumping modes.

** Unit 2 of Panshan completed a capacity upgrade modification in December 2009 to increase the nameplate rating from 500MW to 530MW.

*** The total installed capacity of Shenmu increased from 200MW to 220MW due to upgrades in 2009.

**** Commissioned in September 2009.

Blade-raising at Qian'an, CLP's first wholly-owned wind farm in China

The value of our generating portfolio in the Mainland stems not only from high levels of reliability and availability, but from the security offered by diversified fuel sources and the securing and maintaining of approved tariff levels from the relevant authorities. The following table illustrates that, viewed as a whole, this generating portfolio is characterised by reasonably robust tariff arrangements and fuel supply arrangements.

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)	Service charge based on capacity right	Mechanisms agreed under long-term agreements	Pumped storage between dedicated reservoirs	
Shiheng I and II	48.75 for I & II	Shiheng I obtained 1.5 fens FGD tariff	Coal – Shandong and Shanxi mines	Adequate coal supply with slightly increased price
Heze II Liaocheng	44.69 44.69	Heze II obtained 1.5 fens FGD tariff	Coal – Shanxi and Henan 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 39.84 27.95 for II 28.49 for III	Suizhong I obtained 1.5 fens FGD tariff but lowered by 0.38 fens from November 2009 onwards	Coal – Mainly supplied by Shenhua from Shaanxi and Inner Mongolia	Adequate and stable coal supply
Shenmu	36.45	Obtained 1.5 fens FGD tariff and increased by 1.0 fens from November 2009 onwards	Coal – Local mines	Adequate coal supply with slightly increased price
Anshun II	33.71	Increased by 0.2 fens on FGD tariff adjustment from November 2009 onwards	Coal – Guizhou local mines	Adequate coal supply with slightly increased price
Huaiji	Tariffs range from 21.62 to 59.57 fens 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	2009 actual tariff is 36.8 fens due to tariff concession to high-energy consumption enterprises	Imported coal	Long term coal supply agreement commenced in January 2010 will substantially improve the coal supply stability
Dali Yang_er	Tariffs range from 19.40 to 24.40 fens according to the wet or dry season generation	Tariff approved in November 2009	Small hydropower	Renewable energy source

Renewable Energy

The major focus of CLP's renewable energy activities in 2009 was the expansion of our wind energy business. We used three channels to increase our presence in this sector, all of which showed growth during the year, as described on the next page. These channels are:

- a range of minority interests in individual wind farms;
- our participation in CGN Wind; and
- the development of wholly-owned wind projects.

Qian'an Phase I
- CLP's first wholly-owned wind farm in China under construction

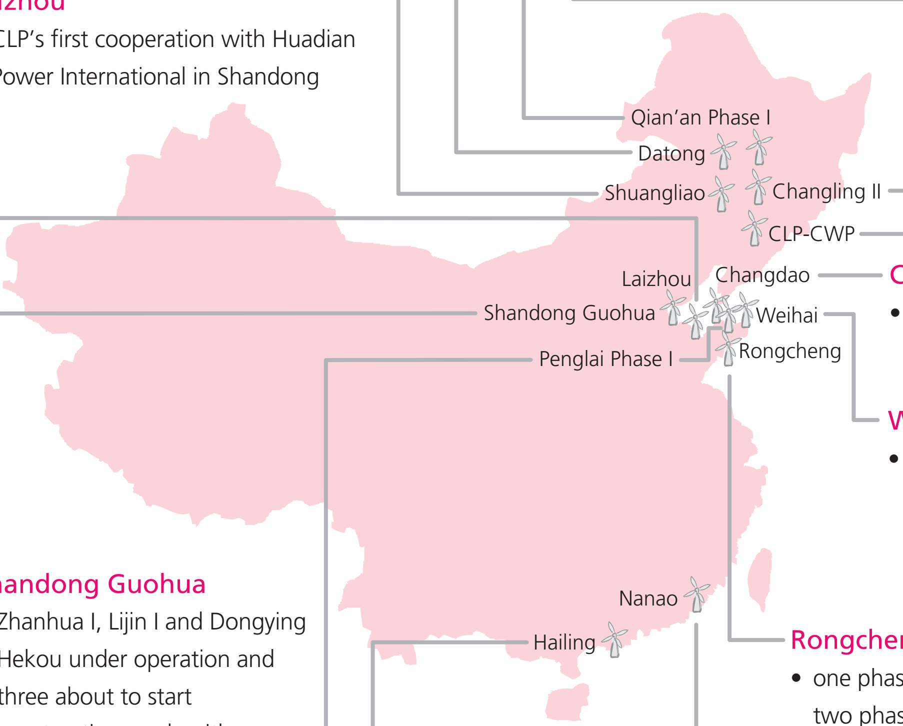
Datong
- in operation throughout 2009

Shuangliao
- both phases now in operation

Laizhou
- CLP's first cooperation with Huadian Power International in Shandong

Changling II
- commenced operation in fourth quarter of 2009. Possibility of developing a subsequent phase

CLP-CWP
- A 50:50 joint venture with China WindPower Group, with two 49.5MW wind farm located in Liaoning



Changdao
- operating according to plan since 2006

Weihai
- two phases with the second fully commissioned at end 2008

Shandong Guohua
- Zhanhua I, Lijin I and Dongying Hekou under operation and three about to start construction, each with an installed capacity of 49.5 MW

Rongcheng
- one phase under operation and two phases under construction with operations planned to start by the first half of 2011

Hailing
- we are in the process of selling our interests

Nanao
- Nanao III started construction at end 2009 and scheduled to commence operation in mid-2010

Penglai Phase I
- CLP's second wholly-owned wind farm in China about to start construction in second quarter of 2010

CLP acquired a 50% equity interest in a wholly-owned subsidiary of China WindPower Group which owns two wind farms in Fuxin City, Liaoning Province with a total installed capacity of 99MW (CLP's equity capacity: 24MW). We also acquired Roaring 40s' stakes in wind farm projects in the Mainland. Capacity growth from CLP minority-owned projects is expected to come primarily from subsequent phases of these ex-Roaring 40s' wind farms.

The Ministry of Commerce of the People's Republic of China (MOFCOM) approved CLP's acquisition of 32% of CGN Wind. The injection of initial equity of HK$1.2 billion is expected in early 2010. As the growth targets and strategy of CGN Wind became significantly more aggressive than originally expected, CLP has decided not to inject additional equity, and instead accept a dilution of our holding in CGN Wind.

The start of construction of Qian'an Wind Farm Phase I (49.5MW) in September 2009 was a significant milestone. This is CLP's first wholly-owned wind project in China. The expertise and experience gained on this project will be the base from which we can move on to expand our portfolio of wholly-owned wind farms.

In addition to wind projects, CLP has a substantial presence in hydro power. Our major project is a 330MW project at Jiangbian in Sichuan Province. This is targeted for commissioning in 2011. We are constructing this project in a location subject to earthquakes, landslides and flooding. We also experience rock bursts within the tunnels and power house. These occur without warning on recently excavated surfaces, shooting fragments of rock into the working areas. As a result construction has been delayed, but we have reprogrammed work as far as possible to mitigate the effect on the overall project schedule. On 1 February 2010, CLP agreed with its joint venture partner, Sichuan Basic Power Company Limited (Basic Power) to acquire Basic Power's 35% interest in the Jiangbian hydro project. Upon completion of the acquisition, CLP will own a 100% interest in the Jiangbian hydro project company. This acquisition will enable CLP to take full control of the joint venture and give CLP greater flexibility in deploying its resources to develop the project company's business.

Dali Yang_er in Yunnan Province is a 49.8MW hydro project we acquired part way through construction and which entered service in the second half of 2009. The acquisition of a partly complete project did not turn out to be a good approach and we found various problems with construction quality. The start of operation was delayed and costs increased. Nonetheless, it was commissioned in September 2009 and the on-grid tariff was approved in November 2009. At our Huaiji Project in Guangdong, the total generation for the 12 small hydro power stations in 2009 was 18% lower than that of 2008, mainly due to reduced rainfall in 2009.

How this business performance delivered **economic value** is on page 64.

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Ms. Elizabeth Pang
Vice President
Asian Equity Research
JPMorgan Asset Management
(Singapore) Limited

A

Ko Yu Ming
Managing Director – China

There has been intense media attention on the rejection of China wind farms for Clean Development Mechanism (CDM) qualification, what are your views and how do you think that would impact CLP's renewable strategy in China?

In December 2009 the Executive Board of the CDM (EB) held its 51st meeting, in which CDM registration for 10 China wind farms was rejected because these projects failed to substantiate the additionality of the project activity. However, at the same meeting the EB agreed to register, subject to satisfactory corrections, 10 PRC wind projects and to review 14 other PRC wind projects for qualification of CDM registration at its upcoming meeting in February 2010, rather than expressing an outright rejection. Our assessment is that there is a certain level of uncertainty in CDM registration for Chinese wind projects and that the EB has been getting tighter in the scrutiny of CDM registration.

A few of CLP's PRC wind projects are in the process of applying for CDM registration. If the registration and approval process is delayed, there will certainly be some impact on the returns for our wind projects (although a short delay would have only a limited impact). We will continue to pursue renewable energy projects, particularly wind power, in China, unless there is abrupt negative change to CDM or carbon-related revenues.

India

Business Environment

During the global economic crisis, Indian GDP growth dropped to 6% in 2009, compared to 9% the previous year. However, the impact on the power sector was minimal due to a sustained shortage in electricity supply, since the addition of new generating capacity continues to trail the growth in electricity demand. The per capita electricity consumption in India remains low, being between a quarter and one-fifth of that of China for example. The gap between supply and demand at peak levels remains at around 14% nationwide.

The Indian stock market showed signs of recovery during the year with the Bombay Stock Exchange Sensex up 100% at the end of 2009, compared to its level in October 2008. The combination of market recovery and positive investor sentiment towards the Indian power sector was evidenced in the second half of 2009, when the initial public offerings (IPO) of three major power sector players were heavily over-subscribed.

The Indian Rupee steadily appreciated against the U.S. dollar, rising 10.6% between March and December 2009. Although interest rates declined in the same period, they are showing signs of hardening in the first quarter of 2010, including as a result of policy changes by the Reserve Bank of India to control the risk of inflation.

The Union Government is continuing to promote a competitive bidding model for new electricity infrastructure projects, both in generation and transmission. The authorities and domestic power producers are showing a preference for merchant generation projects, as opposed to those supported by long-term PPAs at set tariff rates.

Both the Union Government and state governments are making available transmission projects for private sector investment through competitive bidding. Such projects, especially when located in progressive states, offer openings for small to medium size investments (HK$600 million to HK$3 billion) and are attractive vehicles for project financing, possibly with gearing levels of up to 80%.

2009 has also seen a more pragmatic approach in the formulation of renewable energy policy, with a focus on long-term sustainability and growth.

In the new Indian cabinet, formed after the 2009 general elections, the Ministry of New and Renewable Energy has been accorded the rank of a full cabinet minister with greater executive powers than before. In April 2009, the cabinet approved the National Solar Mission which aims to generate 20,000MW of power by 2022. About US$900 million has been sanctioned by the Government for use in various aspects of solar power development (including research and development). In September 2009, India's Central Electricity Regulatory Commission (CERC) announced new regulations that include a system of feed-in tariffs for renewable energy, incentivising both wind and solar energy. This was closely followed by the announcement of the "Generation-based Incentive (GBI) policy" in December 2009 which encourages independent power producer (IPP) projects. The GBI scheme is applicable only to those IPPs whose capacities are commissioned for sale of power to the grid. Under the policy, investors, apart from receiving the tariff as determined by the respective State Regulatory Commissions will also receive an incentive of Rs.0.50 per unit of electricity for a period of 10 years, provided they do not claim the benefit of accelerated depreciation. This policy is expected to give a major boost to the wind power sector in India and promote higher efficiencies in wind electricity generation.

Performance

As in 2008, our activities centred on three areas: the successful management of our existing power station at GPEC, the growth of our renewable energy investments and progress on the greenfield coal-fired power station project at Jhajjar. In addition, we explored opportunities in transmission projects.

GPEC

A longstanding dispute, where Gujarat Urja Vikas Nigam Ltd. (GUVNL) is claiming repayment of amounts totalling around HK$1,207 million for deemed generation, is working its way through the Indian legal and regulatory system. In February 2009 the Gujarat Electricity Regulatory Commission (GERC) made an adjudication on GUVNL's claim. The GERC dismissed a substantial amount of that claim. However, the GERC upheld part of GUVNL's claim in relation to "deemed generation incentive" paid to GPEC when it declares availability to generate on naphtha, rather than gas. The total amount of the claim allowed by GERC against GPEC was thereby reduced to around HK$482 million. Both GPEC and GUVNL appealed the GERC decision to the Appellate Tribunal for Electricity (ATE) of India. The ATE's judgment was delivered in January 2010 and confirmed the GERC decision. We are appealing to the Supreme Court of India in respect of that proportion of GUVNL's claim against GPEC which was allowed by the ATE. We have been advised that we have a strong case in this dispute – which is also our own assessment. GUVNL's claim is treated as a contingent liability under Note 33 to the Financial Statements.

During the year, the GPEC plant operated at a high level of availability of 92.94%. GPEC delivers all electricity generated to its off-taker, GUVNL. GPEC's high operating standards were recognised when it was awarded the "Five Star NOSA Rating" status, having scored 94.85% in the NOSA 4th Grading Audit of the SHE Management System.

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2009	2008	2009	2008	2009	2008	2009	2008
GPEC	655	4,602	4,102	80.24	71.3	92.94	87.8	8,269	7,674

Our efforts to secure long-term gas supply for GPEC led to a five-year contract with Reliance Industries Limited for 1.3 million cubic metres/day of gas. Long-term contracts for gas supply are now in place to meet 66% of GPEC's full load capacity.

Renewable Energy

CLP is the largest wind power developer in India, with a renewable energy portfolio, in operation and under construction, of 446MW.

The first phase of our Samana project (50.4MW) was commissioned in March 2009. Construction of Samana phase II (50.4MW) and Saundatti (82.4MW) is well underway, with commissioning expected in the first half of 2010. Construction is also in hand on our 113.6MW wind project at Andhra Lake in Maharashtra – the single largest wind project being developed anywhere by the CLP Group. This project is scheduled for completion in two equal phases by June and December 2010 respectively.

Theni wind project

All of these projects use wind turbines supplied by Enercon India, who also undertook the preliminary project development work. In line with our policy of diversified power equipment suppliers, in 2009 CLP entered into an agreement with Vestas for the development of a 99MW project at Theni in Tamil Nadu and construction is well advanced. This project is expected to achieve full completion in March 2010.

Jhajjar

We started construction of our 1,320MW domestic coal-based power plant in Jhajjar District, Haryana in January 2009, using equipment and other resources from PRC suppliers and contractors. We chose to use a PRC main contractor with previous experience in India. Initially, we encountered problems because increases in the cost of raw materials and unfavourable currency movements during the financial crisis impeded progress. As a result it became necessary to amend the contract price. Even so, the increased pricing reflected in the revised agreement is still well below international market levels. Financial documents for the project were signed with a consortium of Indian banks and financial institutions in September 2009 and the first draw-down was achieved in December 2009. Construction is progressing satisfactorily, with the first unit of the plant due for commissioning in December 2011, followed by the second unit in May 2012. Progress towards completion, on time and to budget was the major focus of management's attention in 2009. It will remain so during the year ahead.

Transmission Projects

There are considerable opportunities available for private sector investment in transmission infrastructure. CLP has been prepared to bid for such projects provided these correspond to our investment criteria, including:

- location in reforming states;
- favourable project returns;
- creditworthy off-takers;
- credible partners, especially engineering, procurement and construction (EPC) contractors; and
- the opportunity to take a majority stake.

Although we have extensive experience in the construction, operation and maintenance of our transmission network in Hong Kong, this would be a new venture for CLP in India. Our intention is to approach such investments on a "step-by-step" basis, first testing the concept and capturing the necessary experience, before deciding to move on to further projects in this sector. In line with that approach, we have identified a number of transmission projects coming up in the near term which appear to meet our criteria. In late 2009 we submitted a bid for two transmission projects in Rajasthan, in joint venture with Gammon India Ltd., a leading Indian engineering contractor. The results of the bid are still awaited.

How this business performance delivered **economic value** is on page 65.

Q

Dr. Rajiv Lall
Managing Director and CEO
IDFC

A

Rajiv Mishra
Managing Director – India

What is your biggest execution challenge in the Indian market?

Two areas stand out above all else in India – issues of fuel security and land acquisition. As a country, we are hugely hydrocarbon deficient – whether one takes coal or gas, the position is very similar. And this is exacerbated by the fact that as consumers, we are still reluctant to accept international market prices for hydrocarbon fuels (and domestic coal and gas are both priced at significant discounts to the prevailing international prices). Similarly, power (and other industrial) projects in India often get bogged-down by issues relating to land acquisition. In the near-term, we see these as the pre-eminent execution challenges to the power sector in India.

Southeast Asia and Taiwan

Business Environment

CLP's business in the Southeast Asia and Taiwan markets comprises our longstanding investments in EGCO of Thailand and the Ho-Ping project in Taiwan, and also a pipeline of development projects including coal-fired projects in Vietnam and renewable projects in Thailand. The majority of these investments and development projects are held through OneEnergy, the vehicle that we jointly set up with Mitsubishi Corporation in 2006. During 2009 we restructured OneEnergy, such that while it remains a strong alliance for greenfield developments, the corporate organisation and overheads have been substantially simplified and reduced. The restructuring also provided more flexibility for the two partners to pursue acquisition opportunities as they arise.

The global financial crisis that started in 2008 affected electricity demand growth in most of the regional markets, leading to postponement and cancellation of requirements for new power generation capacities in our incumbent markets of Thailand and Taiwan. However, we believe that the medium to long-term prospects for the regional markets remain strong, as evidenced by the modest year-on-year increase in demand in Thailand towards the end of 2009, the continued supply shortages in the emerging markets of Vietnam and Indonesia, and The Philippines government's successful sale of a number of power generation assets and contracted capacity.

While CLP has pursued, and will continue to pursue, strategic acquisitions to strengthen its regional business, its advantages lie in greenfield developments where we can manage the whole cycle of project identification, development and construction through to operations. To be successful in new greenfield projects, CLP, like other developers, will need competitive equipment and construction costs, long-term and low-cost financing, and fuel supply management capabilities. CLP has successfully built the coal-fired Fangchenggang power plant in China, which went on line in 2007 and 2008 using Chinese equipment and service providers. Based on this experience, we have also used a Chinese EPC contractor for the coal-fired Jhajjar project in India which is currently under construction. We believe that CLP's experience with Chinese equipment in China and outside provide us with an edge in our efforts to achieve competitive EPC solutions for new power plant projects that we pursue within the Southeast Asian region.

The fuel markets of coal and natural gas have been highly volatile in recent years. Although prices have dropped significantly from the highs recorded in mid-2008, they are still well above the historical averages. It has also been forecast that in the medium to long-term demand will remain strong, leading to the possibility of a continued rise in fuel costs. Our experience gained over the years and the relationships built with key suppliers will be a significant advantage in the planning and management of fuel supply for power plants that are operating, or projects that are being developed.

The Bureau of Energy and Taipower asked IPPs, including Ho-Ping, to review the possibility of revising the formulae for calculating capacity charges under their respective PPAs by indexation to the prevailing Taiwan Government bond yields. The IPPs raised objections to this change, but nevertheless appointed advisors to review the matter and to formulate a formal response to the Government in early 2010. CLP believes, and has expressed its position, that the contractual terms of the PPA need to be respected and enforced, and that any mid-term changes will affect investor confidence, especially of overseas investors. In 2009 Taiwan passed the Renewable Energy Act. This provides a mechanism for the Government to collect renewable energy levies from conventional fuel power generators to provide subsidies and higher tariffs for new infrastructure projects. Ho-Ping will be subject to the levy, but the legislation also provided for recovery of the levies through the tariffs charged to the energy users. The Government has also initiated discussions on carbon emission-related taxes, but no details or the timeline for implementation are yet available.

Performance

Asset Management

All major power plants in our portfolio achieved good operational performance in 2009:

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2009	2008	2009	2008	2009	2008	2009	2008
Ho-Ping	1,297#	9,793	8,632	86	76	92*	81*	7,550	6,655
EGCO / Rayong	1,232	3,059	2,342	28	22	95	91	2,483	1,901
EGCO / Khanom (KEGCO)	824	5,762	5,694	80	79	94	90	6,993	6,911
EGCO / BLCP	1,434	10,513	10,701	84	85	89	93	7,331	7,462

Capacity used for purposes of its PPA

* Guaranteed hours

All of the operating power plants have long-term PPAs with creditworthy off-takers.

Station	Off-taker	Off-take Arrangement	Duration / Remaining
Ho-Ping	Taipower	PPA	25 years / 17 years
EGCO / Rayong	Electricity Generating Authority of Thailand (EGAT)	PPA	20 years / 4 years
EGCO / KEGCO	EGAT	PPA	15 and 20 years / 1 to 6 years
EGCO / BLCP	EGAT	PPA	25 years / 21 to 22 years
EGCO / Kaeng Khoi 2	EGAT	PPA	25 years / 22 to 23 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 / 9 to 20 years
EGCO / Quezon Power	Manila Electric Company, The Philippines	PPA	25 years / 16 years
EGCO / Mindanao small power projects	National Power Corporation, The Philippines	PPAs	18 years / 5 to 6 years

Following the purchase of a 23.4% interest in the Quezon Power coal-fired project in The Philippines in late 2008, EGCO completed the purchase of a further 2.6% in early 2009. The project brought immediate accretive earnings to the EGCO group. In December 2009, CLP sold its 50% interest in Power Generation Services Company Limited (PGS) in Thailand to EGCO and the remaining 10% interest to Banpu Power. PGS is the operator of the BLCP Power coal-fired project, and EGCO had previously purchased its 50% interest in BLCP Power Ltd. from CLP in 2006. EGCO also completed the transfer of the entire Rayong power plant business, previously undertaken by a separate wholly-owned subsidiary, into EGCO. The transfer brought cashflow and tax benefits to the EGCO group.

Commissioning of the Nam Theun 2 hydro project in Laos, in which EGCO owns 25%, was originally scheduled for December 2009. However, delays in construction works and technical problems encountered during testing pushed back the commercial operation date to the first quarter of 2010. The project company will be subject to liquidated damages charged by the major power off-taker EGAT because of the delay. These will be largely compensated by liquidated damages to be received from the EPC contractor.

The coal-fired Ho-Ping project in Taiwan has been affected in past years by plant problems and extreme weather conditions, which have included turbine blade failures, coal storage domes damaged during strong typhoons, and heavy rain affecting the transportation of wet coal in the damaged domes. These problems were tackled painstakingly by Ho-Ping, with technical support from CLP, and have been largely resolved with turbine blade replacements and complete rebuilding of stronger coal domes in 2009. This has enabled Ho-Ping to achieve record operational results for the year in terms of plant availability and generation. Under the PPA with Taipower, Ho-Ping's annual energy tariff is adjusted to reflect Taipower's actual prior year average coal costs. Consequently, Ho-Ping's 2009 energy tariff reflected the surge in coal prices sustained by Taipower during 2008. This together with the operational performance and more reasonable coal price in 2009 culminated in a year of record earnings for Ho-Ping. We expect that the earnings for 2010 will return to a more normal and sustainable level, provided Ho-Ping continues to maintain its availability and manage its fuel costs.

Development Activities

During 2009, our major development activities were focused on progressing two coal-fired projects in Vietnam and renewable projects in Thailand. CLP, Mitsubishi Corporation and local partners established a project company in 2007 to develop the 2 x 660MW coal-fired Vung Ang 2 project located in Central Vietnam. In 2009 the focus was on finalising the engineering design and commencing the EPC tendering process. The project company has engaged a team of financial, legal, tax and accounting, technical and environmental advisors to assist in the upcoming financing discussions and PPA negotiations. CLP, Mitsubishi Corporation, state-owned electricity company Vietnam Electricity and a local shareholder have also joined forces to develop the 3 x 660MW coal-fired Vinh Tan 3 project in Southern Vietnam. The project company, organisation and staffing were set up in 2009. The project company has initiated the feasibility study and environmental and health impact assessment.

Renewable Energy

In line with the overall objective of contributing to the CLP Group's aim to reduce the carbon intensity of its generating portfolio, we have in recent years explored the possibilities for investment in renewable energy in Southeast Asia and Taiwan. The Thai authorities have announced a supportive regime for solar projects. This includes permitted tariff levels which may allow solar energy to be viable in circumstances where it would otherwise be prohibitively expensive, when compared with conventional, higher carbon-emitting forms of generation. In response to this initiative from the Thai authorities, CLP in partnership with Mitsubishi Corporation and EGCO has been developing a 55MW solar project. Discussions with the EPC contractors are at an advanced stage. CLP and EGCO are also studying the development of a 60MW wind project, for which wind resource measurement is ongoing.

How this business performance delivered **economic value** is on page 65.

Ho-Ping Power Station, with repaired coal storage domes

Economic Value

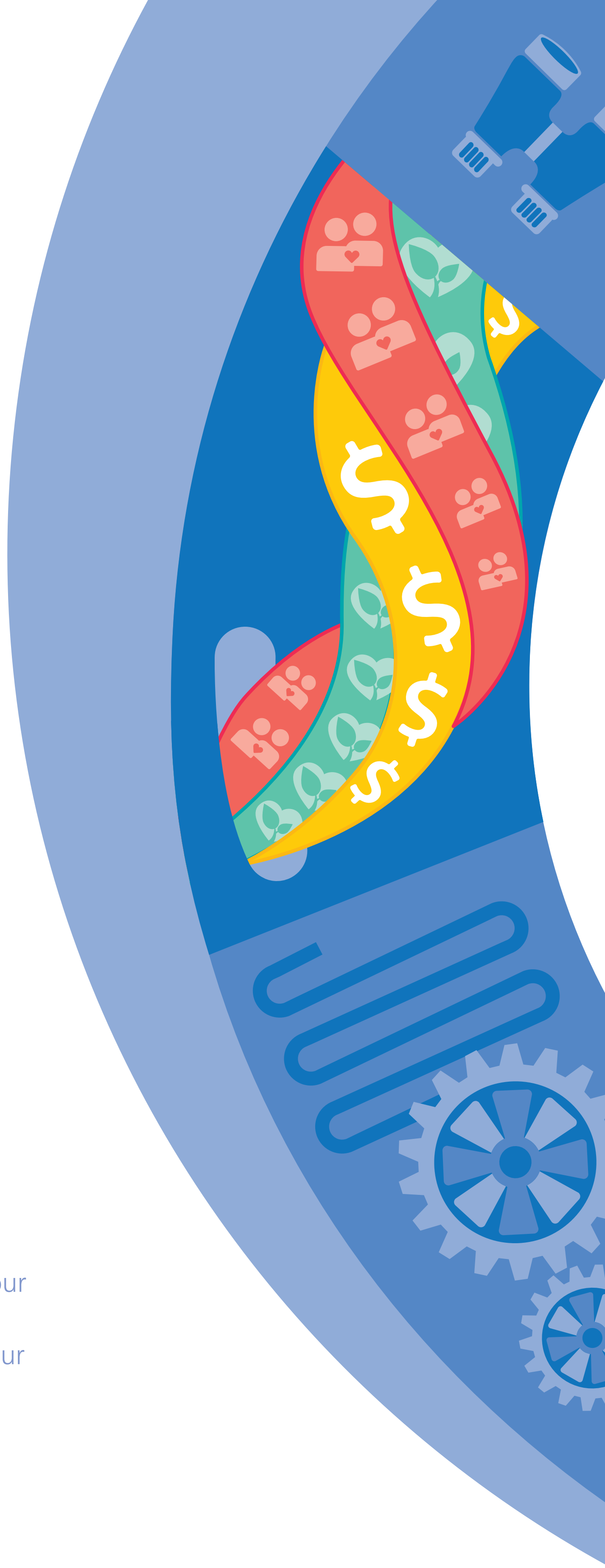
Good performance in the management and operation of our assets delivers economic value to our capital providers (shareholders and lenders).

58 Financial Review

Social Value

Environmental Value

The effective management and operation of our assets also delivers social and environmental value to all stakeholders. This is described in our Sustainability Report.



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, especially shareholders, investors and lenders. In this section we try to help those readers who do not have an accounting background to understand our financial information, by explaining the functions and relationships between three essential financial statements: the statement of comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

Statement of comprehensive income

"Financial performance measured by recording the flow of resources over a period of time"

The statement of comprehensive income comprises (a) profit or loss in the same way as the previous years and (b) other comprehensive income ("OCI") which represents changes in net assets / equity not arising from transactions with owners (i.e. shareholders). An example of OCI in CLP is the exchange gain arising from the translation of our Australia and India businesses in 2009 which increased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity. The statement of comprehensive income is further analysed on pages 66 and 67.

Statement of financial position

"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"

The statement of financial position sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2009. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The new name reflects its function more accurately. Further analysis of this statement is set out on pages 68 to 71.

Statement of cash flows

"Where the company gets its cash and how it spends it"

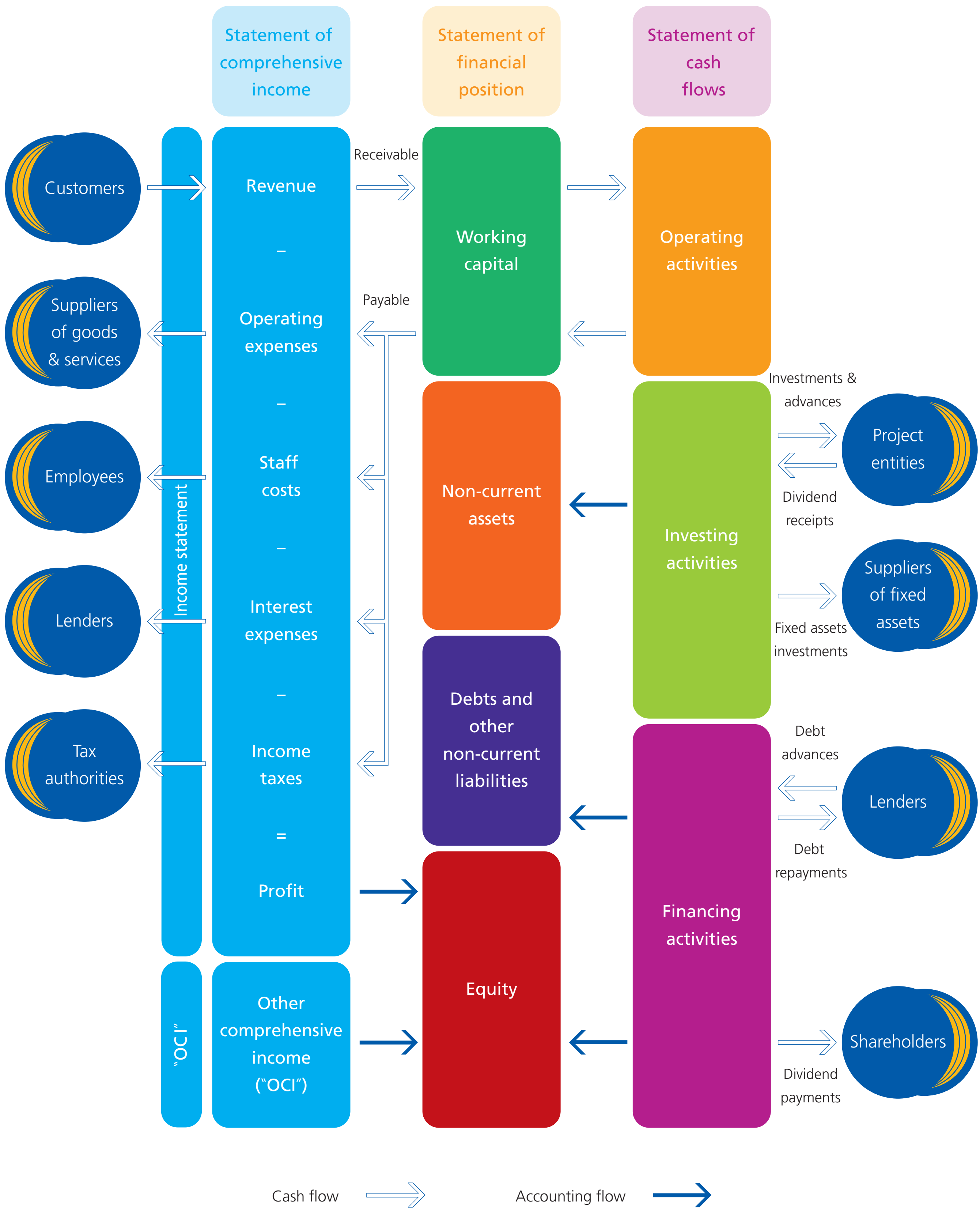
The statement of cash flows divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders. Further analysis of the Group's cash flows is set out on page 74.

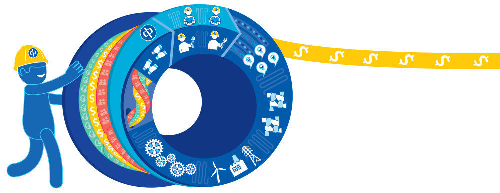
Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of comprehensive income, the statement of financial position, the statement of cash flows, 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, incurs staff costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders (interest expenses and debt repayment) and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. Moreover, the Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration





CLP Group's Financial Results and Position at a Glance

Financial statements are the scorecard of a business and the window on a company's operations. The Group's strategy drives investment decisions and business performance, which then translate into a set of numbers in the financial statements. This summary shows how we delivered economic value in 2009:

Diversified Electricity Business

CLP invests in energy businesses in Hong Kong, the Chinese mainland, Australia, India and Southeast Asia and Taiwan. It has a diversified portfolio of power generation from gas, coal, renewables and nuclear in the Asia-Pacific region.

- Revenue mainly came from operations in Hong Kong and Australia. This fell by 6.7%[(1)]. While Hong Kong revenue dropped by 6.3% because of a 10% net basic tariff reduction on 1 October 2008, our Australian revenue (excluding exchange effect) improved by 5.6% because of the increase in retail tariffs for both electricity and gas and favourable sales volumes. Hong Kong basic tariff has subsequently increased by HK¢2.6 per unit starting from 1 January 2010;
- Group earnings reduced by 21.4%[(2)] mainly due to reduced earnings from the electricity business in Hong Kong (-21.0%)[(3)] as a result of a lower permitted return under the new SoC from 13.5% – 15% to 9.99%, partly offset by better earnings from other investments / operations (+17.3%)[(4)]. All the other four regions showed improvements in performance in 2009;
- Major one-off items[(5)] included impairment provisions for the Group's 20% interest in Solar Systems (HK$346 million) and investment in OneEnergy (HK$131 million), as well as a disposal gain for Power Generation Services Company Limited (PGS) in Thailand (HK$153 million);
- The closing rate of Australian dollar used to translate the Australia business assets and liabilities was 29.9% higher (2008: 21.8% lower). This accounted for the major movements in other comprehensive income in 2008 and 2009[(6)], and part of the increases in fixed assets, goodwill and borrowings at this year end. However, in 2009, the average exchange rates for Australian dollar and Indian rupee were 6.8% and 10.6% lower respectively as compared to 2008, which reduced the reported earnings of the Australia and India businesses after translation into Hong Kong dollar.

Prudent Financial Management

Accounting profit is not the same as cash flow (for example because the accounting profit includes non-cash items such as depreciation). The fact that we make an accounting profit does not by itself mean that we have actual cash to meet our needs. We must manage our cash carefully and strike the right balance between these competing needs:

- Dividend payments to our shareholders: we kept the same amount of dividends per share (HK$2.48 per share[(7)]) as last year despite lower earnings;
- Maintaining a strong credit rating and a healthy gearing ratio: CLP Holdings maintained a long-term rating of A- by Standard & Poor's and A2 by Moody's. Net debt to total capital ratio of 30.7% at 2009 year end compares favourably with other benchmark companies;
- Financing investments and capital expenditure: this is done primarily through strong and stable operating cash inflow[(8)] and prudent borrowings at Group[(9)] and project levels (please refer to page 73 for the detailed breakdown of debts).

Financial Risk Management

Managing interest rate, foreign currency and energy price risks: we arranged financial instruments to hedge our exposures on interest rate, foreign currency and energy price risks. This resulted in derivative financial instruments assets[(10)] and liabilities[(11)]. That means, if these contracts were closed out at 31 December 2009, we would receive a net amount of HK$1,641 million (the breakdown by instruments can be found on page 70).

Investment in Electricity Infrastructure and Renewables

- Continuous investment in electricity infrastructure to serve increased demand as well as to enhance supply reliability and availability: we acquired HK$9.6 billion fixed assets;
- Reduction in carbon intensity of generating portfolio: we invested HK$2.8 billion in renewable energy projects in 2009.

Last Year's Consolidated Statement of Financial Position

	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
Interests in associated companies	242
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	7,451
	132,831
Equity and Liabilities	
Share capital, premium & reserves	15,318
Retained profits	47,699
Shareholders' funds	63,017
Minority interests	105
Derivative financial instruments	2,035
Trade and other payables	5,919
Borrowings	26,696
Obligations under finance leases	21,765
SoC reserve accounts	1,826
Other liabilities	11,468
	132,831

Beyond Last Year's Statement of Financial Position*

	HK$M
Charges on assets	2,992
Contingent liabilities	1,157
Operating commitments	9,403
Capital commitments	21,960

Consolidated Statement of Comprehensive Income for Two Years

		2009 HK$M	2008 HK$M
Revenue	(1)	50,668	54,297
Expenses		(39,974)	(41,717)
Other income		153	727
Share of results of jointly controlled entities and associated companies, net of tax		2,415	2,597
Net finance costs		(3,408)	(4,121)
Income tax expense		(1,665)	(1,349)
Loss / (profit) attributable to minority interests		7	(11)
Earnings attributable to shareholders	(2)	8,196	10,423
Analysed into:			
Electricity business in HK	(3)	5,964	7,549
Other investments / operations	(4)	3,007	2,564
Unallocated net finance costs		(21)	(21)
Unallocated Group expenses		(413)	(345)
One-off items	(5)	(341)	676
Earnings attributable to shareholders		8,196	10,423
Plus:			
Other comprehensive income / (loss) attributable to shareholders	(6)	5,515	(5,233)
Total comprehensive income attributable to shareholders		13,711	5,190
Earnings per share (HK$)		3.41	4.33
Return on equity (%)		12.3	16.4

* Details can be found on page 72.

Consolidated Statement of Cash Flows for This Year

		HK$M
Operating activities		
Cash inflow from operating activities	(8)	14,529
Investing activities		
Dividends received		2,557
Investments in and advances to jointly controlled entities and associated company		(1,992)
Capital expenditure		(7,449)
Other net outflow		(472)
Financing activities		
Net increase in borrowings		9,876
Repayment of finance lease obligations		(1,516)
Interest and other finance costs paid		(3,354)
Dividends paid		(5,967)
Net increase in cash and cash equivalents		6,212
Cash and cash equivalents at 31.12.2008		780
Effect of exchange rate changes		156
Cash and cash equivalents at 31.12.2009		7,148

Consolidated Profits Retained For This Year

		HK$M
Earnings attributable to shareholders		8,196
Dividends paid for the year		
2008 final (HK$0.92 per share)		(2,214)
2009 interim (HK$1.56 per share)	(7)	(3,753)
Other movements		(7)
Net increase in retained profits		2,222
Retained profits at 31.12.2008		47,699
Retained profits at 31.12.2009		49,921
Proposed final dividend for 2009, HK$ per share	(7)	0.92

Today's Consolidated Statement of Financial Position

		HK$M
Assets		
Fixed assets, leasehold land and land use rights		98,858
Goodwill and other intangible assets		8,105
Interests in jointly controlled entities		18,838
Interests in associated companies		1,813
Derivative financial instruments	(10)	3,293
Trade and other receivables		9,018
Cash and cash equivalents		7,148
Cash restricted for specific purposes and bank deposits with maturities of more than three months		846
Bank balances, cash and other liquid funds		7,994
Other assets		8,612
		156,531
Equity and Liabilities		
Share capital, premium & reserves		20,840
Retained profits		49,921
Shareholders' funds		70,761
Minority interests		107
Derivative financial instruments	(11)	1,652
Trade and other payables		8,926
Borrowings	(9)	39,431
Obligations under finance leases		21,855
SoC reserve accounts		1,654
Other liabilities		12,145
		156,531

Beyond Today's Statement of Financial Position*

	HK$M
Charges on assets	5,314
Contingent liabilities	1,207
Operating commitments	9,811
Capital commitments	26,311

CLP Group's Financial Performance by Segments

	2009		2008		Increase / (Decrease)	
	HK$M	HK$M	HK$M	HK$M	HK$M	%
Electricity business in Hong Kong (HK)		5,964		7,549	(1,585)	(21.0)
Electricity sales to Chinese mainland from HK	74		80			
Generating facilities in Chinese mainland serving HK	748		931			
Other power projects in Chinese mainland	371		5			
Energy business in Australia	736		604			
Electricity business in India	446		320			
Power projects in Southeast Asia and Taiwan	525		116			
Other earnings	107		508			
Earnings from other investments/operations		3,007		2,564	443	17.3
Unallocated net finance costs		(21)		(21)		
Unallocated Group expenses		(413)		(345)		
Operating earnings		8,537		9,747	(1,210)	(12.4)
Other income		153		657		
Provisions for Solar Systems and OneEnergy		(477)		–		
TIPS* related contracts – MTM amortisation		(16)		(108)		
Yallourn coal mine subsidence (costs) / insurance recovery		(1)		127		
Total earnings		8,196		10,423	(2,227)	(21.4)

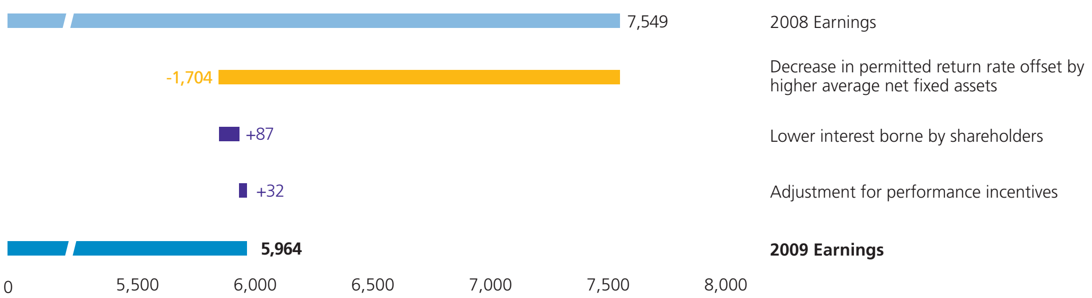
* Torrens Island Power Station (TIPS) in South Australia was sold in July 2007.

The events that shaped our financial performance in 2009 and outlook in 2010 are discussed below.

Hong Kong

The lower SoC permitted return rate explains the fall in the earnings of Hong Kong electricity business. This was partially offset by the effect of higher average net fixed assets and lower interest borne by shareholders. The SoC earnings are expected to pick up gradually due to ongoing capital investment in electricity infrastructure.

Hong Kong Earnings (HK$M)

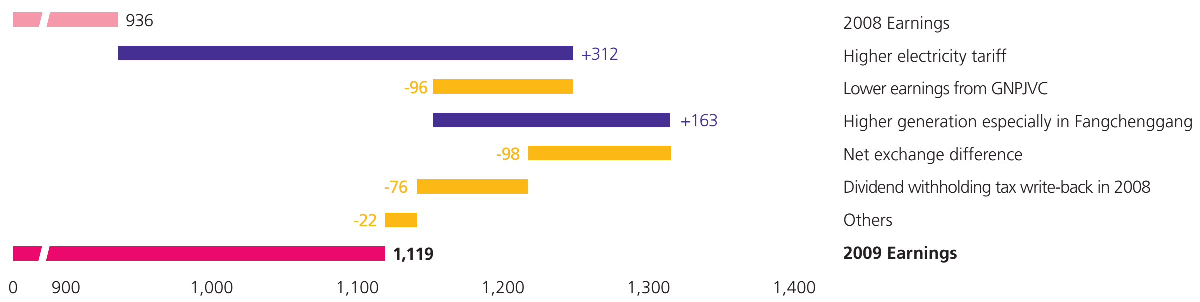


Chinese Mainland

The reduced earnings from generating facilities in Chinese mainland serving Hong Kong were mainly due to lower earnings of GNPJVC because of lower shareholders' funds and the write-back of provision of HK$76 million for dividend withholding tax in 2008. We expect these generating assets to maintain stable operations and performance.

The sharp rise in earnings from other power projects in Chinese mainland came mainly from Fangchenggang (2009: HK$238 million; 2008: loss of HK$29 million) as a result of higher generation output in the second half of 2009. Our Chinese mainland projects also benefited from the full year effect of tariff increases in July / August 2008. The performance of wind projects has improved owing to the earnings contributed by the newly acquired projects from Roaring 40s. Electricity demand and coal prices are difficult to predict and will shape the performance of our Chinese mainland assets in 2010.

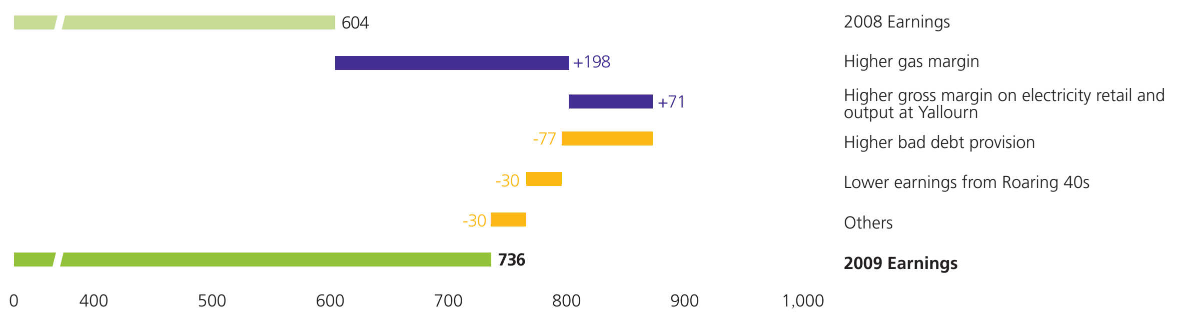
Chinese Mainland Earnings (HK$M)

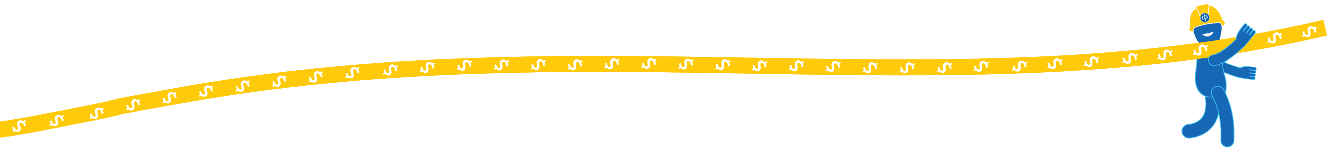


Australia

Despite the lower average exchange rate of the Australian dollar (6.8%), earnings from Australia rose as a result of the increase in electricity retail and gas gross margins and higher generation output from the Yallourn power station. Despite continued improvement in financial performance, our Australia business faces uncertainty in the form of possible legislation for a Carbon Pollution Reduction Scheme (CPRS). This casts a shadow over TRUenergy's future outlook. The impairment implications of the CPRS are discussed more thoroughly on page 77 of this Financial Review. On the other hand, the fluctuations of the Australian dollar may affect the Group favourably or adversely.

Australia Earnings (HK$M)

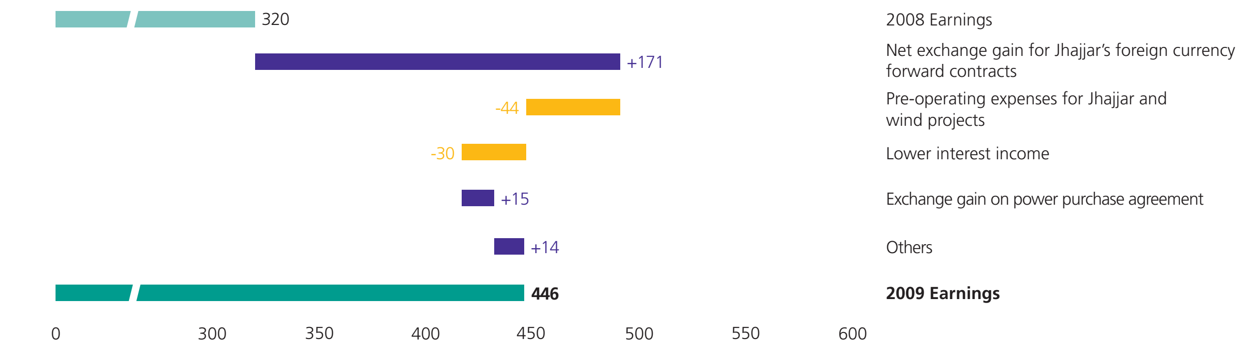




India

GPEC continued to operate reliably and made a steady profit contribution to the Group. Non-operating items included a net exchange gain for Jhajjar's foreign currency forward contracts, partially offset by the adverse impact of the lower average exchange rate of the Indian rupee (10.6%) and the pre-operating expenses incurred for Jhajjar and wind projects in India. The fluctuations of the Indian rupee increase the volatility of Group earnings.

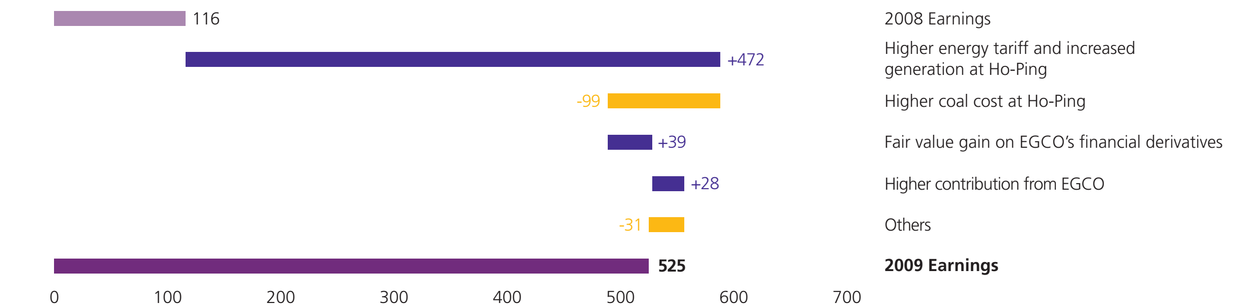
India Earnings (HK$M)



Southeast Asia and Taiwan

The higher energy tariff (reflecting Taipower's high prior year average coal cost) at Ho-Ping and increased generation revenues from EGCO's existing and new plants improved our earnings from Southeast Asia and Taiwan significantly. The effect of the high energy tariff of Ho-Ping due to the delay in adjustment will fade out in 2010.

Southeast Asia and Taiwan Earnings (HK$M)



Non-recurring Items

Other earnings in 2008 included a one-off gain from the write-back of HK$389 million (including share of CAPCO) deferred tax due to the reduction in Hong Kong profits tax rate.

Other income in 2009 represented the gain on the sale of a 60% interest in PGS, the operator of BLCP Power Station in Thailand. In 2008, other income comprised gains of HK$432 million on the sale of SEAGas and HK$225 million on the deemed disposal from the CSEC Guohua restructuring.

Provision for OneEnergy (HK$131 million) represented a provision for EGCO's carrying value in OneEnergy given the power purchase agreements of EGCO's two combined cycle power plants are nearing their ends.

Financial Analysis

Group's Financial Results

Reflecting a lower permitted return, our SoC earnings fell by 21.0%. However, our operating earnings were only down by 12.4% due to strong pick up in the Chinese mainland and Southeast Asia and Taiwan. Even though total earnings decreased by 21.4% to HK$8.2 billion, we have been able to maintain our dividends at the 2008 level.

Financial Results	*Accounting Policy*	*Notes to the Financial Statements*	2009 HK$M	2008 HK$M	Increase / (Decrease) HK$M	%
Revenue	*8*	*3*	**50,668**	54,297	(3,629)	(6.7)
Expenses			**(39,974)**	(41,717)	(1,743)	(4.2)
Other income		*5*	**153**	727	(574)	(79.0)
Finance costs	*21*	*7*	**(3,477)**	(4,245)	(768)	(18.1)
Share of results of jointly controlled entities, net of income tax	*11*	*15*	**2,675**	2,624	51	1.9
Share of results of associated companies, net of income tax	*11*	*16*	**(260)**	(27)	(233)	N/A
Income tax expense	*22*	8	**(1,665)**	(1,349)	316	23.4

Revenue and Expenses

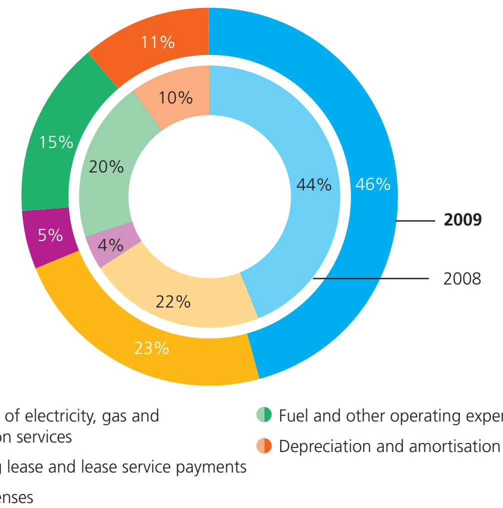
A majority of the decrease in revenue was attributed to the Hong Kong electricity business. Hong Kong electricity sales revenue decreased by 6.3% as a result of a 10% reduction in net basic tariff on 1 October 2008. Revenues from TRUenergy and GPEC were adversely affected by the lower average exchange rates of the Australian dollar (6.8%) and the Indian rupee (10.6%). Lower fuel cost and, therefore, lower recovery from the off-taker under the pass-through mechanism also decreased GPEC's revenue.

Expenses declined by HK$1.7 billion mainly attributable to the decrease in fuel cost. The use of naphtha as a lower cost substitute in the first quarter and subsequent lower gas price significantly reduced GPEC's fuel expense.

	Revenue		Expenses	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Hong Kong	**28,484**	30,471	**(19,795)**	(19,632)
Australia	**19,166**	19,432	**(17,414)**	(17,912)
Chinese mainland	**180**	169	**(280)**	(112)
India	**2,786**	4,197	**(2,030)**	(3,669)
Southeast Asia and Taiwan	**43**	24	**(33)**	(37)
Unallocated	**9**	4	**(422)**	(355)
	50,668	54,297	**(39,974)**	(41,717)

Note: About 39% (2008: 39%) 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

The current year's other income represented the gain on disposal of PGS in Thailand, whereas in 2008 we made gains on the disposal of SEAGas in Australia and the CSEC Guohua restructuring.

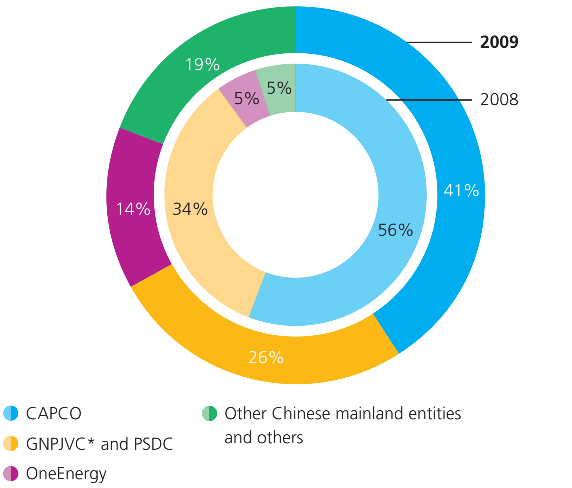
Finance Costs

Finance costs consist mostly of finance charges under finance leases as well as interest on bank loans and other borrowings. The 18.1% decrease in finance costs was mainly due to lower finance lease charges, which are linked to the permitted return, paid to CAPCO for the generation assets leased by CLP Power Hong Kong.

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

The higher energy tariff at Ho-Ping and the strong turnaround of earnings from Fangchenggang and Shandong were offset by the reduced SoC earnings from CAPCO, the provision for investment in OneEnergy (HK$131 million) and the reclassification of earnings of GNPJVC for the last quarter of 2009 to the category of associated companies (see below).

Contribution from Jointly Controlled Entities



* GNPJVC has been reclassified to associated company since September 2009

Share of Results of Associated Companies, net of Income Tax

The results included a provision for the investment in Solar Systems of HK$319 million (HK$346 million together with related tax adjustment) and the three-month earnings of GNPJVC of HK$94 million following its reclassification from jointly controlled entity to associated company.

Income Tax Expense

The increase in income tax was due to the write-back of deferred tax of HK$327 million (owing to the reduction in Hong Kong profits tax rate) and dividend withholding tax of HK$76 million in 2008, but partially offset by lower tax on lower profit at CLP Power Hong Kong in 2009.

Group's Financial Position

One of CLP's key strengths is its robust financial position. Total assets increased by 17.8% to HK$156.5 billion on the back of a healthy net debt to total capital ratio of 30.7%.

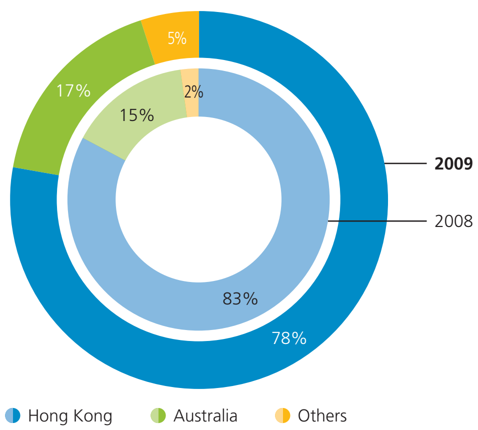
On the statement of financial position

Non-current assets	*Accounting Policy*	*Notes to the Financial Statements*	2009 HK$M	2008 HK$M	Increase HK$M	%
Fixed assets	*12*	*12(A)*	**96,604**	86,873	9,731	11.2
Leasehold land and land use rights	*12*	*12(B)*	**2,254**	2,250	4	0.2
Goodwill and other intangible assets	*13*	*13*	**8,105**	6,324	1,781	28.2
Interests in jointly controlled entities	*11*	*15*	**18,838**	17,791	1,047	5.9
Interests in associated companies	*11*	*16*	**1,813**	242	1,571	N/A
Available-for-sale investments	*16*	*19*	**1,692**	224	1,468	N/A
Deferred tax assets	*22*	*25*	**3,355**	2,992	363	12.1
Total assets			**156,531**	132,831	23,700	17.8
Net assets (total assets less total liabilities)			**70,868**	63,122	7,746	12.3

Fixed Assets, Leasehold Land and Land Use Rights

CLP seeks continuous improvement and development of our generation facilities, transmission and distribution network in our operating regions. Fixed asset additions amounted to HK$9.6 billion in 2009. These mainly related to the network upgrade in Hong Kong, together with the construction of the power plant in Jhajjar and other wind projects in India.

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



Goodwill and Other Intangible Assets

As most of the goodwill and other intangible assets are related to our Australia business, the 28.2% increase represented approximately the 29.9% increase in the closing rate of the Australian dollar in 2009.

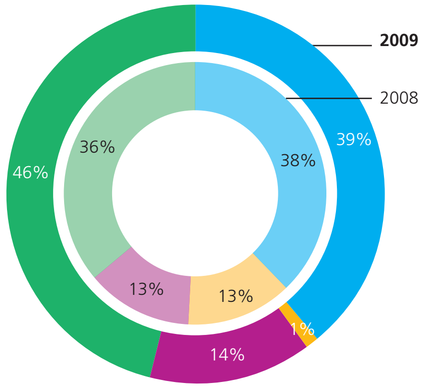
Interests in Associated Companies

The increase in our interests in associated companies was mainly due to the reclassification of GNPJVC of HK$1.8 billion from jointly controlled entity to associated company following certain amendments to the extended Joint Venture Contract, partially offset by the provision for our investment in Solar Systems.

Interests in Jointly Controlled Entities

In 2009, the Group invested HK$1.1 billion to acquire additional direct interests in several wind projects in the Chinese mainland from Roaring 40s and to complete the CSEC Guohua restructuring. An advance of HK$536 million was also made to CAPCO. These were partly offset by the reclassification of GNPJVC to associated company (see page 68).

The Group's Major Jointly Controlled Entities



* GNPJVC has been reclassified to associated company since September 2009

Available-for-sale Investments

The balance mainly represented our new investment in CGN Wind of HK$1.2 billion, whose principal activity is the investment in wind projects in the Chinese mainland. This is classified as a non-current asset as there is no intention to sell (even though, according to the relevant accounting policy, it is described as "available-for-sale").

Deferred Tax Assets

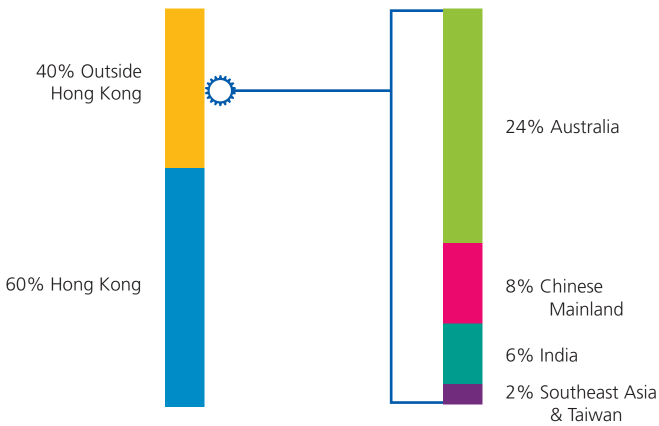
The deferred tax assets predominantly related to TRUenergy's unused tax loss at year end. Whilst HK$332 million of the tax losses were utilised against its earnings in the year, the strong appreciation of the Australian dollar at year end increased the balance.

Total Assets and Net Assets

The net assets and total assets are further analysed as follows:

Net Assets	2009 HK$M	2008 HK$M	Increase / (Decrease) %
Hong Kong	**27,376**	33,371	(18.0)
Australia	**21,032**	15,481	35.9
Chinese mainland	**10,750**	8,904	20.7
India	**5,634**	3,646	54.5
Southeast Asia and Taiwan	**2,946**	2,480	18.8
Unallocated	**3,130**	(760)	N/A
	70,868	63,122	

Total Assets by Geographical Location in 2009



Following our strategy to diversify our portfolio, 40% of total assets and 57% of net assets are now located outside Hong Kong. The decrease in net assets in Hong Kong was due to higher borrowings of CLP Power Hong Kong. The increases in net assets in Australia and India came from the higher Australian dollar and Indian rupee exchange rates at year end as well as the development of Jhajjar and other wind projects in India.

Group's Financial Position

On the statement of financial position

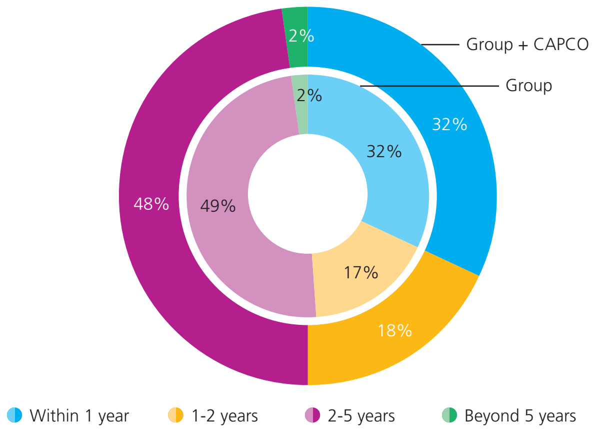
Working capital, Debts and other non-current liabilities and Equity	*Accounting Policy*	*Notes to the Financial Statements*	2009 HK$M	2008 HK$M	Increase / (Decrease) HK$M	%
Derivative financial instruments assets (current & non-current)	*15*	*18*	**3,293**	2,879	414	14.4
Derivative financial instruments liabilities (current & non-current)	*15*	*18*	**(1,652)**	(2,035)	(383)	(18.8)
Trade and other receivables	*18*	*20*	**9,018**	8,239	779	9.5
Bank balances, cash and other liquid funds	*19*	*21*	**7,994**	782	7,212	N/A
Trade and other payables	*20*	*22*	**(8,926)**	(5,919)	3,007	50.8
Bank loans and other borrowings (current & non-current)	*21*	*23*	**(39,431)**	(26,696)	12,735	47.7
Shareholders' funds			**70,761**	63,017	7,744	12.3

Derivative Financial Instruments and Hedging

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

	Notional Amount 2009 HK$M	Notional Amount 2008 HK$M	Fair Value Gain / (Loss) 2009 HK$M	Fair Value Gain / (Loss) 2008 HK$M
CLP Group				
Forward foreign exchange contracts	**67,261**	62,127	**629**	696
Interest rate swaps / cross currency & interest rate swaps	**20,066**	15,175	**139**	(287)
Energy contracts	**12,440**	18,236	**873**	435
	99,767	95,538	**1,641**	844
CAPCO				
Forward foreign exchange contracts	**454**	1,037	**(29)**	(117)
Interest rate swaps	**1,586**	2,291	**(60)**	(92)
Total	**101,807**	98,866	**1,552**	635

Maturity Profile in 2009



Trade and Other Receivables

The increase in trade and other receivables of HK$779 million mainly came from the increase in electricity and gas sales debtors in Australia as a result of the uplift in retail prices and a higher closing exchange rate; as well as the advance payments (2009: HK$1.1 billion; 2008: HK$817 million) paid for the construction contracts of Jhajjar and other wind projects in India.

Bank Balances, Cash and Other Liquid Funds

Substantial cash and bank balances were retained at corporate level to meet the funding requirements of planned and committed investments.

Trade and Other Payables

The increase was due to the consideration payable for the investment in CGN Wind of HK$1.2 billion, increased payables for pool purchases (due to higher pool prices in New South Wales), a higher closing exchange rate in Australia and the construction payables on the Jhajjar and wind projects in India.

Bank Loans and Other Borrowings

In spite of the severe challenges in the credit market during the year, CLP was able to diversify its funding sources. For instance, CLP Power Hong Kong issued a Japanese yen bond of ¥15 billion (HK$1.2 billion) and Hong Kong dollar bonds of HK$2.8 billion under the MTN programme during the year. New bank loan facilities of HK$4.9 billion in total were also arranged by CLP Power Hong Kong. Jhajjar arranged a Rs.39 billion (HK$6.5 billion) facility in India with HK$1.2 billion drawn down at year end.

Shareholders' Funds

The translation gain from our overseas investments as a consequence of the higher exchange rates, notably from the Australian dollar, together with the earnings attributable to shareholders accounted for the 12.3% increase in shareholders' funds. We maintained a stable dividend pay-out despite the fall in earnings in 2009.

Group's Financial Position

Beyond the statement of financial position

The statement of financial position does what it says. However, there are missing bits like contingencies and commitments which are equally important if readers are to grasp the full picture of the Group's financial standing.

Charges on Assets

In order to meet their local funding needs, certain borrowings of the Group's overseas subsidiaries totalling HK$3.3 billion were charged against the respective assets of subsidiaries in India, Huaiji and Boxing of HK$5.3 billion (being 3.4% of the Group's total assets).

Contingent Liabilities

Apart from the dispute between GPEC and its off-taker over the payments of "deemed generation incentive", no material contingent liabilities were identified. The claims against GPEC amounted to HK$1.2 billion at 31 December 2009. Based on our assessment and external legal advice that GPEC is on strong grounds, no provision has been made in the financial statements. The legal proceedings are continuing. Details of the contingent liabilities are disclosed in Note 33 to the financial statements.

Operating Commitments

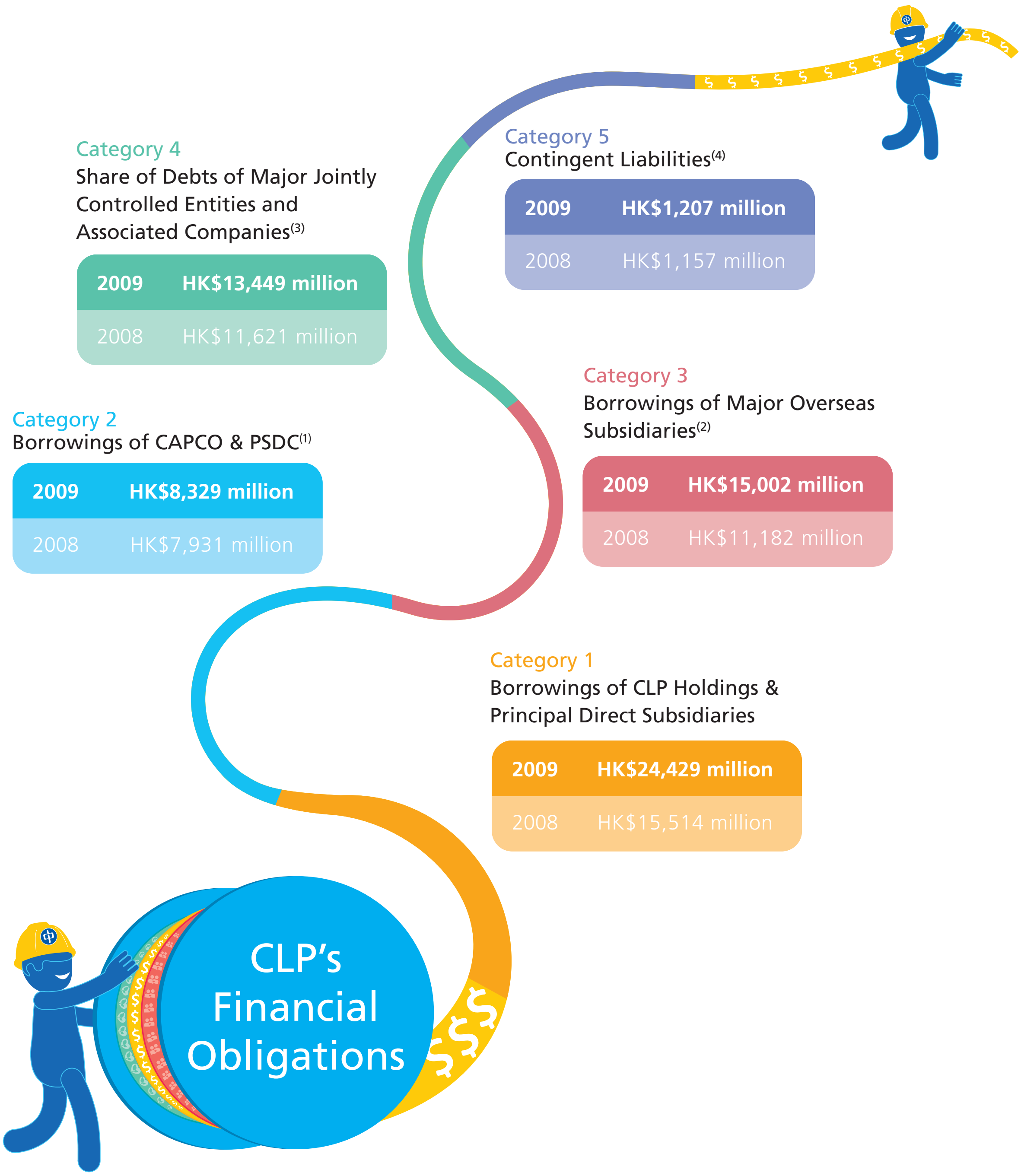
CLP Power Hong Kong's power purchase arrangement with CAPCO (accounted for as a lease) made up a substantial portion (69.4%) of the operating commitments of the Group. The balance mainly related to the right to request electricity supply under the Master Hedge Agreement between TRUenergy and Ecogen.

Capital Commitments

At 31 December 2009, the Group's capital commitments amounted to HK$26.3 billion (2008: HK$22 billion). These mostly related to the construction of Jhajjar and wind projects in India and continuous investment in the transmission and distribution network in Hong Kong.

CLP Group's Financial Obligations at a Glance

The financial risks associated with borrowings and unconsolidated financial obligations of listed companies continue to be of market concern. Our policy is to adopt a conservative approach to such matters. The purpose of the following diagram 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 diagram.



Notes:

(1) 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 SoC Statement on pages 201 to 203 and Note 32 to the financial statements.

(2) These debts are non-recourse to CLP Holdings.

(3) These debts are non-recourse to CLP Holdings or its subsidiaries. The share of debts is calculated by reference to the Group's shareholdings in the relevant jointly controlled entities and associated companies.

(4) Details of the contingent liabilities of CLP Holdings and its subsidiaries are set out in Note 33 to the financial statements.

Cash Flows

CLP Power Hong Kong's strong and stable operating cash flows continue to power the Group's liquidity. At the same time, we ensure that appropriate funds can be arranged from the financial markets to meet our investment and operation needs. Excluding exchange effects, cash and cash equivalents increased by HK$6,212 million to HK$7,148 million in 2009. A summarised analysis of our cash flows along with a reconciliation between operating profit and operating cash flows is set out below.

	2009	2008	Increase / (Decrease)	
	HK$M	HK$M	HK$M	%
Operating activities	14,529	15,238	(709)	(4.7)
Investing activities	(7,356)	(5,153)	(2,203)	(42.8)
Financing activities	(961)	(11,326)	10,365	91.5
	6,212	(1,241)	7,453	

Operating Activities

Despite a lower operating profit in the current year, our operating cash inflows remain strong and only decreased by 4.7% to HK$14.5 billion.

Investing Activities

The capital expenditure in Hong Kong and India as well as investments in and advances to jointly controlled entities and associated company accounted for substantial investment cash outflows for the year.

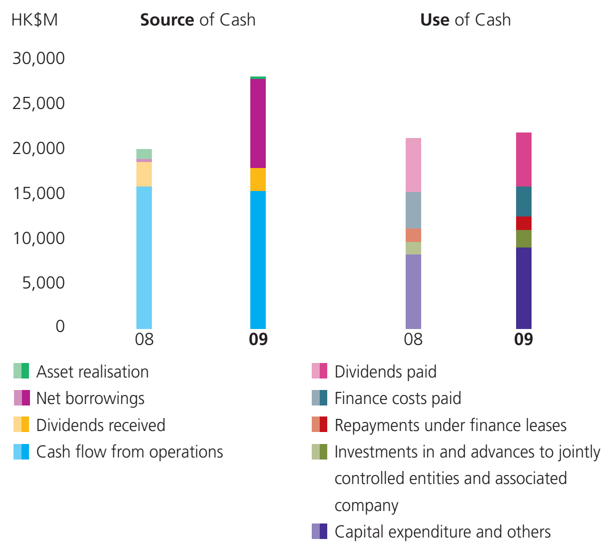
Financing Activities

Key financing cash flows included net additional borrowings (HK$9.9 billion), payments of interest to lenders (HK$3.4 billion) and dividends to our shareholders (HK$6 billion).

From "Operating Profit" to "Cash from Operating Activities"

	HK$M
Operating profit	10,847
Depreciation and amortisation	4,332
Impairment charge	299
Net loss on asset realisation	19
SoC items	893
Changes in working capital	(944)
Others	(917)
Net cash inflow from operating activities	**14,529**

Cash Utilisation



Accounting Mini-series

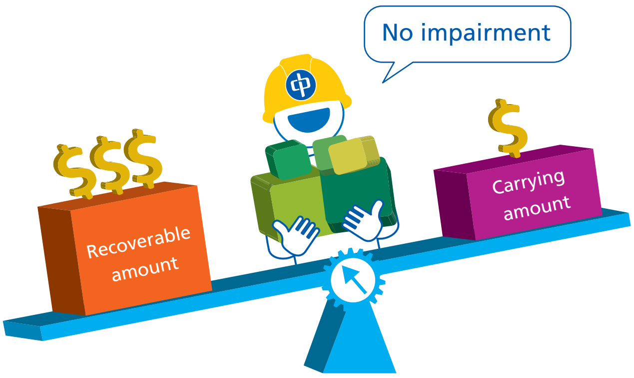
In our "Accounting Mini-series" in recent Annual Reports, each year we have explained a topical and difficult accounting concept which can help you understand our accounts. This year we talk about impairment – even though, and as you will see, this is not a topic we want to see feature too often in CLP's accounts.

Why talk about impairment?

CLP has steadily expanded its business activities beyond its original Hong Kong base since the mid-1990s. We adopt a disciplined investment approach with well-defined investment criteria for project selection. However, no matter how careful we are in making investment decisions, the regulatory, economic and business environments are sometimes beyond our control and the value of our investments can be affected. An impairment alarm rings when the return falls below our original expectation. After going through the financial crisis, we are particularly alert to any changes to our operating environment which might trigger an impairment review. We believe it is time to explain the mechanism of impairment assessment to our readers.

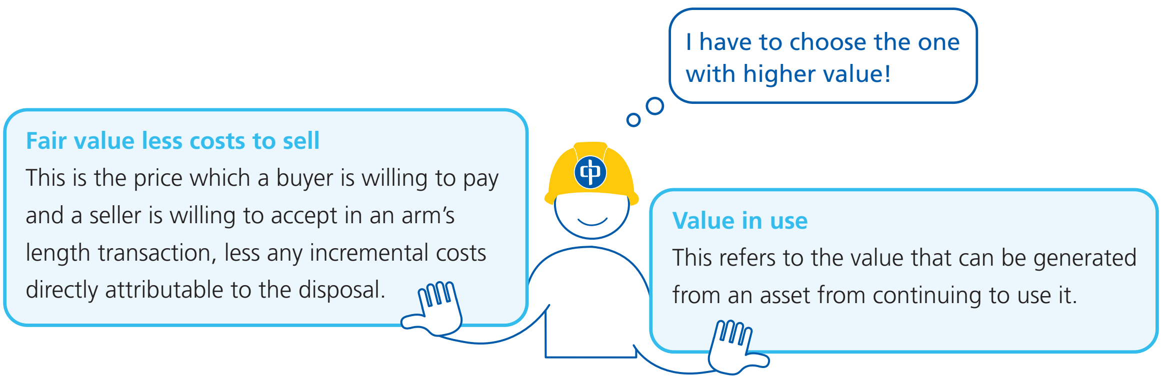
When does impairment occur?

The deterioration of market conditions, imposition of new regulations, technological advances and other significant changes are impairment indicators which may have a drastic impact on our operating environment and lead to an unexpected decrease in investment returns. Whenever a fall in returns is foreseen, we have to check whether an impairment loss has arisen. An impairment review assesses whether the benefits to be derived from an asset in the future (the recoverable amount) still exceed its current value in our financial statements (the carrying amount).



How to assess impairment?

The critical element in impairment assessment is the recoverable amount of an asset. The recoverable amount is the benefit to be derived from an asset, either by future use (i.e. value in use) or by disposal (i.e. fair value less costs to sell) of the asset, whichever is higher.



It is reasonably easy to determine the fair value less costs to sell by comparing this with current market transactions. However, in practice, an active market or reliable market information may not exist for all assets. When the market is illiquid or comparable transactions are few, especially for specific assets such as a power plant, it may not be possible to determine the fair value of the asset. We then have no choice, but to assess the recoverable amount of the asset by estimating its value in use.

How to assess the recoverable amount of a power company owning several power stations?

If each power station operates and generates cash inflows from electricity sales independently within a power company, we assess the recoverable amount of each power station individually when conducting impairment assessment. We do not assess impairment based on the power company as a whole, because each power station is considered as the smallest identifiable group of assets that can generate cash inflows independently from other assets of the company. In other words, each power station is regarded as a cash generating unit (CGU), the smallest unit on which a recoverable amount should be assessed.

How to calculate value in use?

The value in use of an asset is the present value of a series of future cash flows expected to be generated from using the asset. This is derived from the concept of discounted cash flows (the amount you would pay today for cash expected to be received in future years). The calculation of value in use of an asset seems complicated. It will be easier to understand if we divide the present value of cash flows into two basic elements: the cash flow projections and the discount rate.

Cash flow projections

Cash flow projections include cash inflows from continuing use of an asset over its expected useful life, as well as those expected to be received on disposal of the asset at the end of its useful life. In determining future cash flows, significant management judgment is involved. Management predict the future cash flows by estimating a range of economic conditions that will exist over the remaining useful life of an asset. This prediction is based on the current condition of the asset. Future expenditure on improving and enhancing the performance of the asset is excluded.

What is a discount rate?

Discount rate is the rate of return that an investor would require when he invests in a risk portfolio. The higher the risk, the higher the discount rate.

To illustrate the concept of present value, let us go through a very simple example.

Carrying amount of an asset
= HK$50 million

Annually expected cash inflows
= HK$20 million

Useful life of the asset
= 4 years

Disposal value at the end of the 4th year
= HK$5 million

Discount rate
= 10%

Present		Year 1		Year 2		Year 3		Year 4 (end of useful life)
HK$66.8M	=	$\frac{\text{HK\$20M}}{(1+10\%)^1}$	+	$\frac{\text{HK\$20M}}{(1+10\%)^2}$	+	$\frac{\text{HK\$20M}}{(1+10\%)^3}$	+	$\frac{\text{HK\$(20+5)M}}{(1+10\%)^4}$
		(HK$18.2M)		(HK$16.5M)		(HK$15M)		(HK$17.1M)

By discounting the annual cash inflows, the present value of the asset (i.e., its value in use) is estimated to be HK$66.8 million. As this is higher than its carrying amount of HK$50 million, the asset is not impaired.

Note : The present value of the cash inflows is far less than HK$85 million (the straight summation of 4 years cash inflows of HK$20 million per year and the disposal value of HK$5 million) because it takes into account the compensation for not receiving the cash immediately and the risk that the projected cash inflows may not ultimately materialise.

What is on our radar screen?

As highlighted in the Critical Accounting Estimates and Judgments on pages 153 and 154, the Australian Government has proposed to implement a CPRS which requires carbon dioxide emitters to surrender a permit for every tonne of CO_2 that they emit. If such new legislation is imposed, it will impact our Yallourn Power Station. Assuming that the CPRS, in its current form, were passed, an impairment review of Yallourn Power Station would be performed as follows:

Yallourn Power Station is a brown coal-fired power station. It has a generation capacity of approximately 10,500GWh. It supplies approximately 22% of Victoria's electricity needs and 8% nationally in Australia. The carrying amount of Yallourn is HK$11,592 million as of 31 December 2009.

What is the impairment indicator?

The imposition of the new legislation, the CPRS.

Is Yallourn a CGU?

Yes, Yallourn has been operated and managed as a standalone asset. It is one of several CGUs of TRUenergy.

Can fair value of Yallourn be determined?

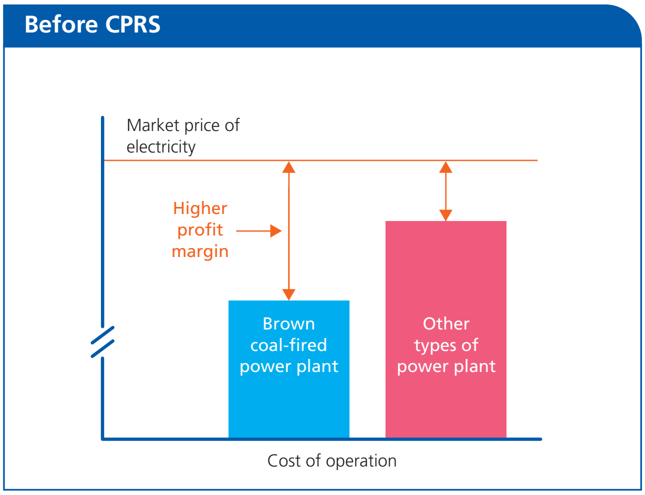
No. Because power plant is a specific asset with no active market.

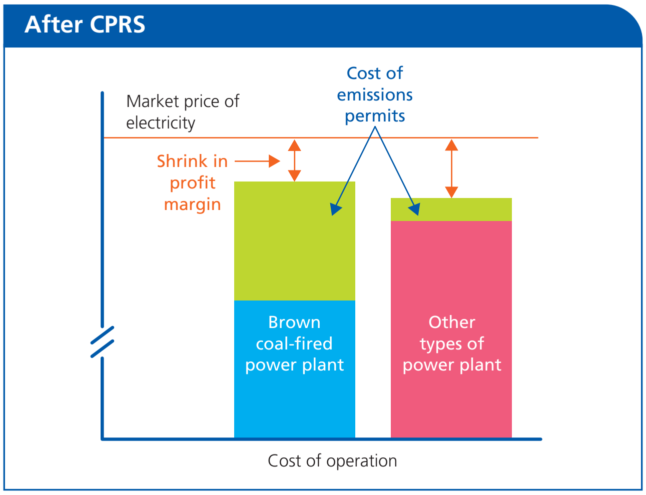
What is the impact on Yallourn's assets?

The value in use of Yallourn will primarily be driven by its short run marginal costs and how these position it in the merit order of the wholesale electricity market (i.e., how competitive it is in the market against other generators).

Currently, the key short run marginal cost of Yallourn is its fuel cost. However, given the relative low cost of its mine-mouth brown coal fuel source, Yallourn's dispatch is heavily embedded in the merit order of the wholesale electricity market in Australia. Any change to Yallourn's short run marginal cost, such as the cost of carbon emissions contemplated by the CPRS, will significantly change its position in the merit order and hence its longer term operating profile and profit margins.

These changes will determine the cash flows used in the value in use calculations, with any detrimental changes to the margins and operating life of Yallourn having the potential to cause an impairment of this asset.





A hard lesson learned?

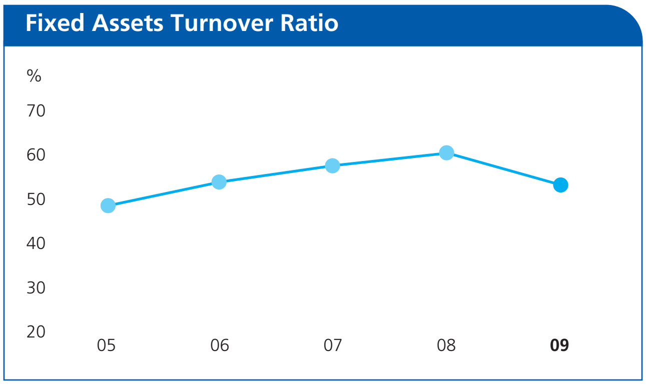
Even though making impairment provision is a painful decision, this reminds us to be cautious when making investment decisions. Our duty to make impairment assessments helps keep us alert to any changes in the market conditions so that we react to those changes promptly.

A Broader Perspective

Financial ratio analysis is a powerful tool to understand financial statements. There are many kinds of financial ratios used to interpret the financial performance and position of a company. Each ratio has its specific purpose and is derived from a specific formula. Here, we look at the financial ratios of the Group from three different perspectives: Performance, Financial Health and Investors' Return.

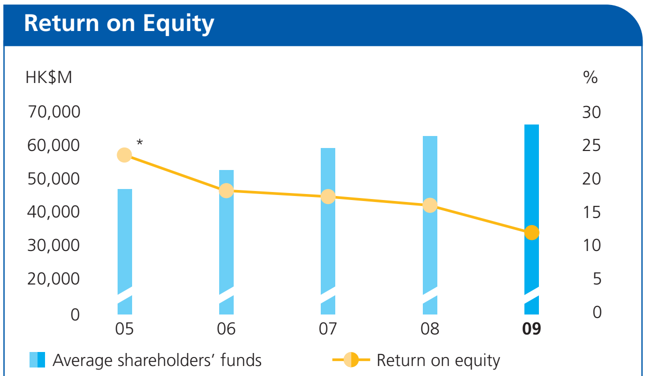
Performance Indicators

The performance indicators tell you how well a company is performing. Because the electricity business is highly capital intensive, the fixed assets turnover ratio provides an overview on how efficiently a company is generating sales from using its fixed assets. Another performance indicator we show below is the return on equity, which demonstrates how effectively a company is investing its shareholders' funds.



$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Total Sales}}{\text{Average Fixed Assets}}$$

As a power company, the ability to generate revenue links closely with the quantity and quality of fixed assets owned/operated by the Group. In particular, our SoC business in Hong Kong is strongly asset-based. Despite large capital expenditure in Hong Kong and overseas during the past five years, our fixed assets turnover ratio is around 50% or higher. This demonstrates sensible capital expenditure planning and efficient use of our fixed assets.



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

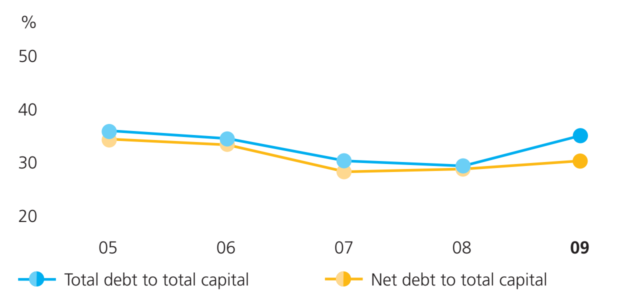
$$\text{Return on Equity} = \frac{\text{Earnings}}{\text{Average Shareholders' Funds}}$$

The build-up of translation reserves (which are not included in earnings) from our overseas operations, especially Australia and India, has adversely affected the return on equity in the past years. This effect is exacerbated by the lower SoC permitted return in the current year. Nevertheless, the average return of 17% (excluding the 2005 one-off Australian tax consolidation benefit of HK$2 billion) is still satisfactory compared with the current low interest (return) environment.

Financial Health Indicators

These indicators help readers to assess a company's financial health. The gearing ratios (total debt to total capital and net debt to total capital) demonstrate the degree to which a company's activities are funded by shareholders' funds as opposed to creditors' funds. A greater proportion of equity provides a cushion and is less vulnerable to an economic downturn. However, an extremely low gearing may imply financial inefficiency. The interest cover ratio demonstrates how comfortably a company's interest obligations are served by the profit it generates.

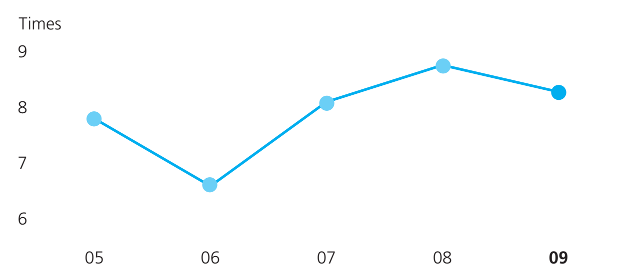
Gearing



$$\text{Total / Net Debt to Total Capital Ratio} = \frac{\text{Total / Net Debt}}{\text{Total Capital}}$$

We use debt to finance the Group's expansion and development in accordance with prudent financial management policy. During the past five years, the total debt to total capital ratio remained stable between 29% and 37%, whilst the net debt to total capital ratio was at a comparable level of 28% to 35%.

Interest Cover Ratio



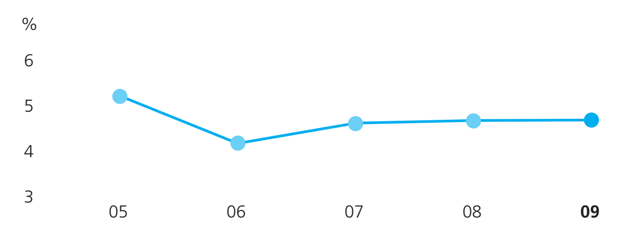
$$\text{Interest Cover Ratio} = \frac{\text{Profit before Income Tax and Interest}}{\text{Interest Charges + Capitalised Interest}}$$

As a key obligation to our lenders, we manage our interest cover carefully to ensure that interest payments are well served by our operating profit. Alongside the recent low interest rate trend, our interest cover ratio remains high. The average interest cover for the past five years is 8 times.

Investors' Return Indicators

Many of our shareholders look for dividends as part of their total return from their shareholdings in CLP. The following two indicators show the relationship between dividends received by shareholders and the value of their shares in the market (dividend yield) and the proportion of our earnings which is delivered to our shareholders as dividends (dividend pay-out).

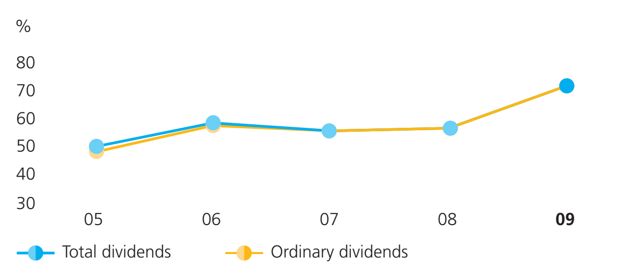
Dividend Yield



$$\text{Dividend Yield} = \frac{\text{Dividends per Share}}{\text{Closing Share Price}}$$

Despite the significant fluctuations in the Hong Kong stock market, CLP's stock price remains relatively stable. In order to provide our shareholders with a steady return, we decided to maintain the 2009 dividends at 2008 level. The average annual dividend yield over the past five years has been 4.7%.

Dividend Pay-out

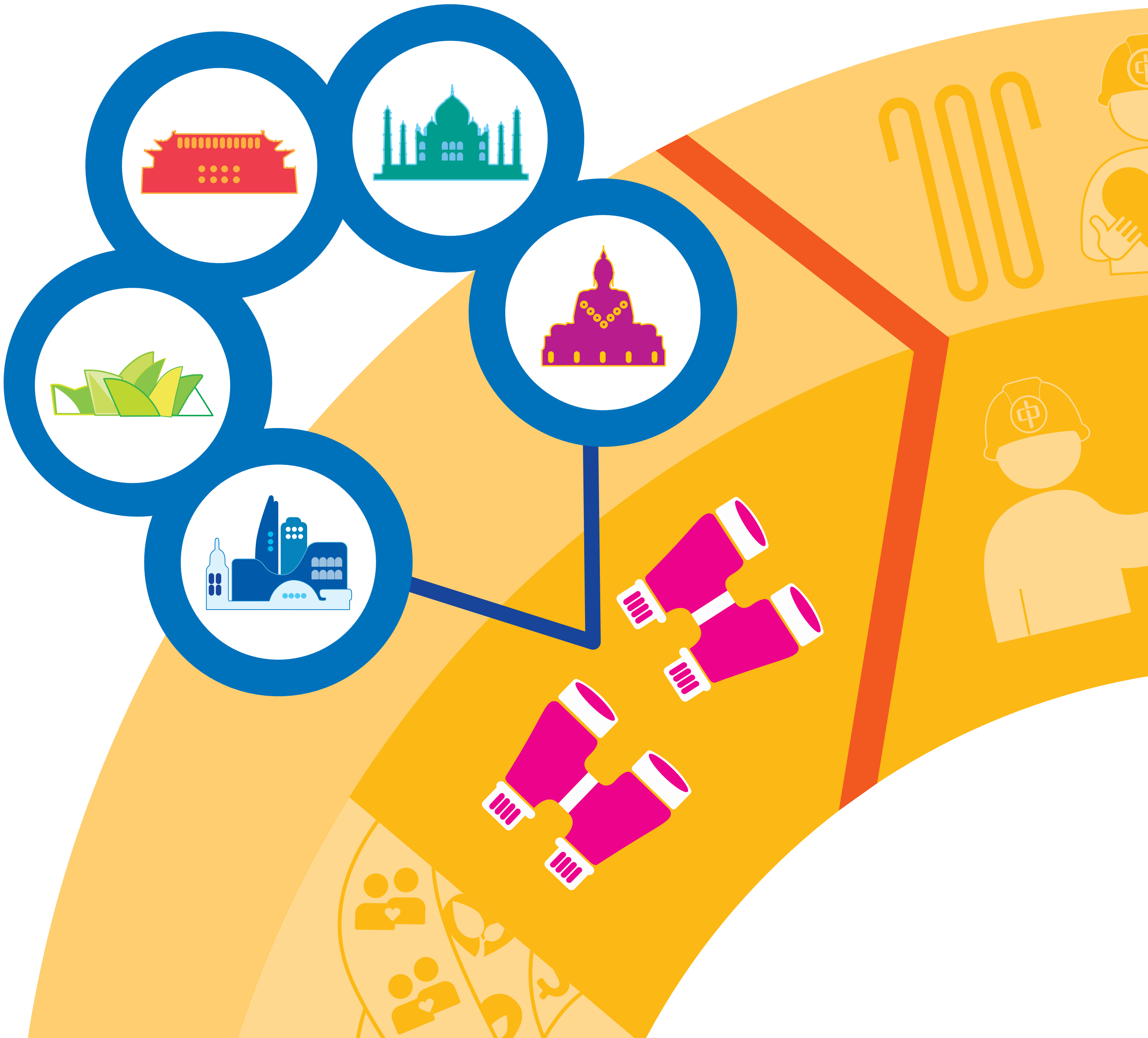


$$\text{Dividend Pay-out} = \frac{\text{Dividends per Share}}{\text{Earnings per Share}}$$

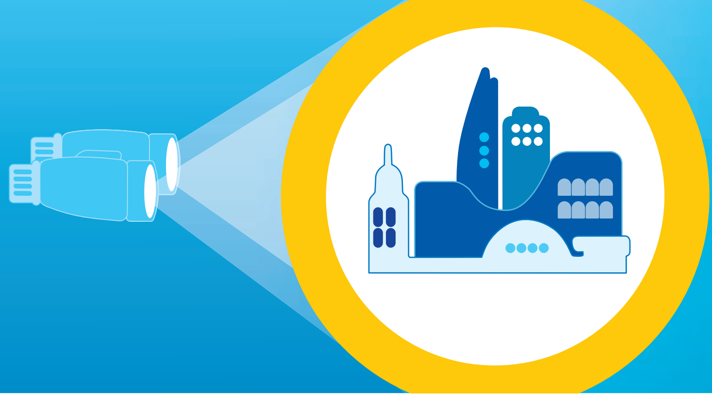
Dividend payout has increased over the past five years as we preserve a stable dividend policy against economic downturn and other negative factors such as the reduction in SoC return. Our stable dividend policy is backed by a resilient financial position and improving earning prospects.

Outlook

By delivering economic value to our capital providers, as well as social and environmental value to all our stakeholders, we can create a sustainable business with a positive outlook.



Hong Kong



Although the future shape of Hong Kong's electricity sector should the current SoC come to an end in 2018 is uncertain, we look forward to the continuing growth of our Hong Kong electricity business. We have achieved, and aim to improve where possible, excellence in supply reliability, tariff levels, customer service and environmental performance. In all of these respects, we compare more than favourably to the electricity supply system in neighbouring Guangdong Province. We believe that continuing excellence in all these areas offers the best guarantee of the future success of our business under any fair and reasonable electricity regulatory regime.

In "Towards a Greener Pearl River Delta – a Roadmap for Clean Energy Generation for Hong Kong" issued in 2009, we set out CLP's vision for energy for the next 10 years. We are closely aligned with PRC and HKSAR Government objectives for climate change and air quality. Securing more clean energy to continue our contribution to addressing climate change and improving Hong Kong's air quality is a cornerstone of CLP's operations, both now and in the future. As our Energy Vision explains, the outlook for our business will include the development of clean and reliable electricity generation on three levels:

- strengthening infrastructure integration – notably through gas supplies and nuclear power imported from or through Guangdong;
- adopting a cleaner fuel mix – which will involve using more gas, importing more nuclear energy, reducing the reliance on coal and promoting local renewable energy sources (even if these sources may be constrained by local geographical, climatic and land use factors); and
- promoting energy efficiency – we will help and encourage our customers to boost energy conservation through energy efficiency related services and public education, as well as offering advice on using more energy efficient products, the better design of buildings and optimal equipment selection for business.

The tasks that we have set ourselves for 2010 fall within this Energy Vision, and within our overarching responsibility to provide an electricity supply to Hong Kong of a quality that our customers demand. These tasks will include:

- continuing to implement the MOU signed between the HKSAR and Central People's Government in August 2008 to bring new, long-term gas supplies to Hong Kong;
- completing the emissions control project at Castle Peak "B" Power Station on schedule, within budget and without safety incidents;
- engaging the HKSAR Government on a practical plan for meeting climate change goals and achieving air quality objectives;
- driving (literally and metaphorically) development of the electric vehicle market;
- supporting the development of local renewable energy projects;
- stepping up efforts on achieving and promoting energy efficiency; and
- managing critical business issues, including tariff, environment and electricity market development, through excellence in operations and clarity and credibility of communication.

Australia

The major challenge for participants in Australia's National Electricity Market will continue to be emissions trading policy uncertainty. The final form of the Australian Government's emissions trading scheme, known as the CPRS, has yet to be finally determined. Under the current form of the government's proposed CPRS, the ability of all existing participants to invest in new opportunities will be severely affected. This is particularly true of brown coal-fired generators such as TRUenergy which would be faced with impairment of their balance sheets and increased difficulties in raising finance for new investment.

The demand for new gas-fired generation creates an opportunity to build Tallawarra Stage B in NSW, as well as the transformation of the coal-fired Yallourn Power Station to gas-fired generation. However, TRUenergy's decision on any such major investments is going to depend on an outcome on the CPRS which provides adequate financial compensation for the balance-sheet impact on our existing brown coal-fired power station at Yallourn, and which provides a fair, rational and stable investment platform for large-scale, long-term investment in gas and renewable generation. This is especially important in circumstances where the ability to raise capital is critical. The combination of regulatory uncertainty in the domestic Australian power industry and the generally challenging conditions in the international capital markets is likely to hinder TRUenergy's ability to raise capital on a scale and on terms which will allow us to grow the business, support the enhancement of Australia's energy structure and contribute to the competitive landscape in the power sector. To this end, we continue to advocate for a clear regulatory framework under which large, experienced operators, such as TRUenergy, can continue to invest with confidence in the Australian power sector.

In retail markets our focus will be on delivering the profit improvement programme, reducing our bad debt levels and retaining profitable customers.

In February 2010 the New South Wales (NSW) government announced a revised timetable for its electricity privatisation programme with the due diligence phase not expected until the middle of the year. In its announcement the Government indicated that it expected transactions to be completed later this year. Privatisation will create opportunities for large-scale market entry to NSW, Australia's major electricity market. TRUenergy will assess the opportunities on their merits and will consider the structure of the privatisation, the overall market attractiveness as well as the need for bidding discipline, particularly given the experience of other participants in the previous Queensland retailer privatisation process.

During 2009, Wollongong City Council adopted the Wollongong Local Environmental Plan (LEP), which incorporates the Tallawarra Lands site and its future use. The LEP was also approved by the New South Wales Planning Minister. Detailed planning for the Tallawarra Lands project will now enter its final phase, including development and subdivision applications.

The growing demand for energy and the need to transition Australia to cleaner generation will likely create opportunities for new investment, particularly in new gas-fired capacity and renewable energy. Since 1 January 2010 renewable energy is being supported by the new RET. The RET has encouraged Roaring 40s to commit to the 111MW Waterloo wind farm, which it expects to commission by the end of 2010. The new farm will further assist TRUenergy to meet the higher obligations under the RET. Whilst the current REC prices in Australia do not support commercial investment in new wind farm developments right now, our Roaring 40s joint venture has strong capabilities and an attractive pipeline of wind farm opportunities for investment once market conditions are more favourable.

We believe that clean coal technology with carbon capture and storage will make an important contribution to the management of greenhouse gases emissions. TRUenergy will continue to explore opportunities to participate in carbon capture and storage projects at or related to our existing facilities, whether under Victorian and / or Australian government sponsorship or through business partnerships.

Technologies such as integrated gasified combined cycle (IGCC) with carbon capture are not economically viable today in Australia without government support. With further research, development and demonstration, new technologies could provide a practical means of providing base-load electricity generation with low greenhouse gas emissions.

Within this overall context, TRUenergy envisages 2010 as being "the year of retail" with five key focus areas

- achieving customer growth and maintaining retail margins in all the states in the National Energy Market; in particular focusing on maintaining and expanding our profitable customer segments and managing our retail bad debt position;
- improving the business-as-usual processes within our retail operation and ensuring a high level of customer service;
- preparing our meter data systems to manage the roll-out of advanced metering infrastructure;
- delivering Project Odyssey (our new retail customer service and back office IT platform) to plan and on schedule – or assessing alternative courses if this outcome appears not realisable; and
- assessing the potential acquisition of a NSW retailer.

But we will also aim to move forward in other areas, including

- formulating and implementing a response to prospective carbon legislation, if and when it passes into effect, including:
  – understanding its impact on our business value;
  – minimising that adverse impact; and
  – developing a strategic response which will allow us to carry TRUenergy's business forward;
- safely maintaining all our power plant operations at the highest levels of commercial availability;
- maintaining planned generating output from Yallourn and Tallawara;
- commissioning the expansion project at the Iona Gas Plant and achieving expected performance; and
- maintaining current credit ratings, while refinancing existing debt facilities, when due, and obtaining loans for new projects. We will also investigate the availability of new capital to fund the long-term growth of our Australian business.

Q

Mr. Wang Shumin
Vice President
Shenhua Group Beijing
Guohua Electric Power
Corporation

A

Andrew Brandler
Chief Executive Officer

What will be CLP's specific actions in combating the global warming issue as well as promoting energy saving and emissions reduction in a collective effort?

Our Climate Vision 2050 document spells out how we will address climate change by reducing the carbon intensity of our generating portfolio from 0.84 kg CO_2/kWh in 2007 to 0.2 kg CO_2/kWh by 2050. All of our businesses will contribute. For example, TRUenergy has announced its Climate Change Strategy. This includes reducing carbon emissions by 60% by 2050 against a 1990 baseline, proportional to its market share.

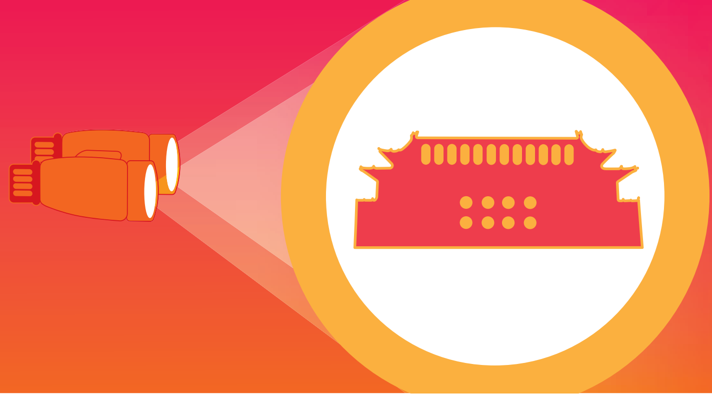
The CLP Group will achieve its goals through a number of ways. First, we will continue to maintain a balanced fuel mix. With coal being a dominant fuel of choice in this region, we must work with it, using the most efficient and cleanest coal technologies available. But we will balance that with cleaner gas, renewable energy and nuclear when it is practical to do so. Our fuel mix will improve over time as we strive to reach our Climate Vision goals.

Secondly, we will grow our renewable energy portfolio. Today this includes wind, hydro and biomass, and we are looking at expanding it to include geothermal and solar.

Thirdly, we will continue to promote energy efficiency and help other organisations to be more efficient. For instance, CLP Energy Services & Technology (Shenzhen) Co. Ltd. has been advising a wide range of companies in Guangdong on clean production and energy efficiency. In Hong Kong, we have also been working with hotels, office buildings and factories to enhance their performance.

Lastly, CLP Holdings signed the World Business Council for Sustainable Development's Manifesto for Energy Efficiency in Buildings. As a signatory, we have volunteered to improve the energy performance of all company-owned buildings to help achieve emissions reductions in buildings and encourage our stakeholders to do so.

Chinese Mainland



CLP had already adjusted its China strategy to position ourselves in line with the PRC Government's move towards cleaner electricity generation, as part of our Group policy of reducing the carbon intensity of our generation portfolio. Over the next 3-5 years, we aim to rebalance our project portfolio from one centred on coal-fired generation to one which prioritises low carbon emissions. This re-orientation of our Mainland electricity business will include exploring investment opportunities where CLP has a competitive advantage, developing projects which have a synergy with existing investments or relationships and pursuing clean energy projects in selected regions. 2010 and beyond should see the following specific initiatives being pursued.

On coal-fired generating capacity, we will:

- reduce fuel costs by pursuing long-term coal supply contracts and sourcing alternative coal supplies when needed;
- continue to lobby for higher despatch for our power stations, and maintain high despatch at Fangchenggang;
- rationalise the project structure of Anshun II through merger or sale;
- implement efficiency improvement projects at those power stations in which we have an interest through joint ventures;
- support CSEC Guohua, our joint venture with Shenhua, to explore expansion opportunities; and
- explore the possibility of a Fangchenggang Phase II project.

On wind energy, we will:

- only grow our investments in minority-owned wind farms in the form of expansion projects to existing sites;
- pursue wind projects through our CGN Wind platform, to the extent that the quality of the projects being undertaken by CGN Wind corresponds to appropriate investment standards; and
- build on our experience at Qian'an to grow our capability to undertake wholly-owned wind projects, for example, Penglai Wind Farm Phase I (48MW) in Shandong will be the second wholly-owned wind project and will be built in 2010.

On other renewable energy projects, we will:

- take the Jiangbian hydro project towards completion in early 2011, with a high priority on construction safety; and
- complete the modification works underway at our Boxing Biomass Power Station. These should improve the station's economics by increasing its capacity to earn revenue through electricity generation, as opposed to steam sales.

Q

Mr. Wang Shumin
Vice President
Shenhua Group Beijing
Guohua Electric Power
Corporation

A

Peter P. W. Tse
Group Executive Director

What is CLP's view on the development of conventional power project in the Mainland? What is the subsisting strategy and why?

With the strengthening of environmental protection by the PRC Government, environmental standards are being continually tightened. This will impose pressure on the operating costs of conventional power assets in the PRC, including CLP's. At the same time, the PRC Government is emphasing the increasing role of clean generation – nuclear and renewable energy. These are areas where CLP has a considerable presence and expertise. Our strategy was already leading us to scale back our investment in coal-fired generation and focus on growth in nuclear, wind and hydro – in line with the Group's carbon emission reduction targets. The recent developments in PRC energy strategy reinforce our confidence that low carbon generation in the Mainland presents promising opportunities for CLP.

India

The outlook for CLP in India is good, with the opportunity to build a balanced portfolio of value-creating investments across the electricity supply chain, including a range of generating technologies and transmission projects. At the moment we do not envisage to invest in distribution. This is because the opportunities elsewhere in the power sector are more attractive and the potential returns from distribution projects may be out of proportion to the demands they can make on management time and resources.

Although we are positive about our future in India, we intend to invest at a steady pace. In practice this means at a speed and on a scale which is consistent with our organisational and capital resources, not getting ahead of ourselves in terms of our capacity and capabilities and ensuring that we learn from experience before moving on to the next step in growing our business. Our future investments may involve partners or other stakeholders when needed. Our growth in India must also be consistent with the CLP Group's Climate Change Strategy – in other words we need to achieve and maintain a sensible mix of fuels and technologies within our Indian generating portfolio. Finally, our investments in India, as elsewhere in the CLP Group, must be aligned with our values – including our ethical practices and our priority on safety.

During the coming year our priorities will be to:

- continue the construction of Jhajjar according to schedule and budget;
- commission our wind farms at Samana Phase II, Saundatti, Andhra Lake and Theni;
- establish processes for clean development mechanism (CDM) registration and sale – enabling us to maximise revenues from carbon credits for wind projects;
- participation in generation and transmission bids, including the development of greenfield coal-fired and gas-fired projects and, subject to the availability of sufficient long-term gas supply, exploring an expansion to GPEC; and
- continue the expansion of our renewable portfolio. This will mostly be in the form of wind energy, but we are actively considering opportunities in solar energy and small to medium-sized hydro projects, especially run-of-the river projects.

Q

Mr. Rajesh Panjwani
Head of Asia-Pacific
Power Research
CLSA Research Limited

A

Mark Takahashi
Group Director &
Chief Financial Officer

You have spoken about the potential listing of your India business. What are the objectives of this proposed listing? What is the possible timeline for the IPO? What kind of asset base or project pipeline would you like to build before considering listing the India business?

For CLP, a separate listing of any business unit would be a means to fund growth and not an end in itself. In India, our business is growing strongly (we have nearly quadrupled our generation capacity in the last three years). Given the need for additional capacity in that market, we believe CLP will have a meaningful role to play in the coming years. In addition, India has vibrant capital markets. We believe investors would welcome a company with CLP's track record and values. Hence, as capital requirements increase, we would consider listing our business in India. It should be noted that there is no definitive timeline nor prescribed asset base for listing the business, and that any potential listing would need to consider strategic as well as non-financial related matters.

Southeast Asia and Taiwan

Opportunities for new IPP solicitation in Thailand will be limited in the near term future. EGCO has placed its focus on preparing plans for the Rayong and Khanom power plants, the PPAs of which will expire in five to six years. It is also reviewing Small Power Producer and Very Small Power Producer Projects which are being promoted by the Thai government for efficiency and environmental benefits. Following the successful acquisition of a 26% interest in the Quezon project in The Philippines, EGCO will continue to look for investment opportunities in The Philippines and other emerging ASEAN countries such as Indonesia.

Taiwan is not expected to require new IPP capacity for a few years and therefore the expansion project at Ho-Ping had been put on hold. Meanwhile, Ho-Ping is exploring opportunities in solar and wind projects which will benefit from higher tariffs and other benefits provided under the recently passed Renewable Energy Act.

In the circumstances, our future development activities will focus on the solar energy and wind farm projects in Thailand on which we are working in partnership with Mitsubishi Corporation and EGCO. On a considerably larger scale, the development of the two coal-fired projects in Vietnam on which CLP is working with Mitsubishi Corporation and local partners are likely to receive increased attention and resources during the course of 2010. At present, CLP holds an effective 24.2% interest in the 1,320MW project at Vung Ang 2 and a 24.5% interest in the 1,980MW project at Vinh Tan 3. It is possible that some further restructuring of the various shareholding interests may occur, in which case CLP might consider taking a larger stake in these projects should they move forward.

There are presently 11 build-operate-transfer (BOT) projects in active development in Vietnam. It is unlikely that all of these will proceed. Success on Vung Ang 2 and Vinh Tan 3 will depend on a range of factors, including a supportive regulatory framework from the Vietnamese authorities and long-term PPAs with the Vietnamese state-owned electric utility (EVN). A particular challenge for CLP and its project partners will be to structure the project in a way which achieves low tariffs through efficient procurement of plant and equipment, but on a basis which nonetheless enables project finance to be obtained from international lenders (the Vietnamese capital market is unable to support such large-scale projects). Our assessment is that only expertly-developed projects with clear national importance to Vietnam as well as experienced and committed shareholders are likely to get done. Our challenge is to make that happen with one or both of the projects in which we are engaged.

Against this background, the outlook for CLP's activities in the Southeast Asia and Taiwan markets is progress in:

- the management of the operating assets to achieve good financial, operational, safety and environmental performance;
- strengthening our position in EGCO and assisting EGCO in pursuing its growth strategies focused mainly on ASEAN markets and renewable energy;
- leveraging CLP's strength in equipment supply, construction and fuel supply management to compete in greenfield developments;
- strategic acquisitions as opportunities arise; and
- contributing towards the Group objective of reducing carbon intensity, while recognising each target market's characteristics.

Within this overall direction, our plans for 2010 are to:

- maintain operational performance at Ho-Ping;
- finalise the EPC contract, financing arrangements and PPA negotiations for the Vung Ang 2 project in Vietnam;
- complete the feasibility study, environmental and safety impact assessment and EPC tendering for the Vinh Tan 3 project in Vietnam;
- commence construction of the 55MW solar project and progress development of wind projects in Thailand; and
- strengthen our position in EGCO and support EGCO to grow through acquisition and greenfield opportunities in ASEAN countries.

Process

All of the phases in our corporate cycle are accompanied by processes which encourage, enable, monitor, and measure what we are doing.

Board of Directors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Non-executive Directors

1 The Honourable Sir Michael Kadoorie
GBS, LLD (Hon.), DSc (Hon.), aged 68, Chairman, 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 56, Vice Chairman, 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., Kar Ho Development Co. Ltd. and 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 74 (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 56 (Appointed on 10 February 1997▲)

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 68, 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 65, F&G (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 42 (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 63 (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, U.K. He is a Chartered Engineer, a Fellow of the Hong Kong Institution of Engineers and an Honorary Professor of the University of Hong Kong. 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 first joined the CLP Group in 1976 and retired as an Executive Director in 2007.

9 Paul Arthur Theys
aged 52 (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 92, N (Appointed on 23 March 1967▲)

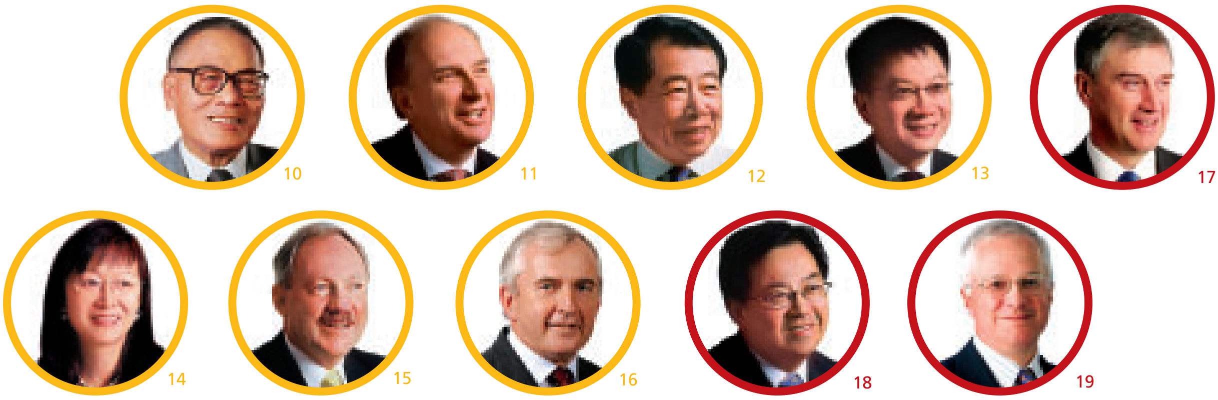
Sir S. Y. is the Chairman and an Independent Non-executive Director of Transport International Holdings Limited (previously known as The Kowloon Motor Bus Holdings Ltd.) as well as other companies in Hong Kong. He has contributed significantly in Hong Kong's political, industrial, social and tertiary 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).

11 Vernon Francis Moore
BBS, FCA, FCPA, aged 63, A, F&G, H (Appointed on 7 March 1997▲)

Mr. Moore is an Executive Director of CITIC Pacific Ltd., and until November 2009 a Non-executive Director of Cathay Pacific Airways Limited. He is also the Chairman of both the New Hong Kong Tunnel Company Ltd. and the Western Harbour Tunnel Company Ltd., and Deputy Chairman of the Community Chest of Hong Kong.

12 Loh Chung Hon Hansen
aged 72, 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, SBS, JP, MBA, aged 63 (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 is 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 55, A, S (Appointed on 10 May 2005)

Professor Judy Tsui is the Vice President (Marketing, Internationalisation and Advanced Executive Development) (Designate), 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 60, 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 Ltd. and Rio Tinto plc. 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) Nicholas Charles Allen

aged 54, A, F&G, H, S (Appointed on 12 May 2009)

Mr. Allen holds a Bachelor of Arts degree in Economics / Social Studies from Manchester University, United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He is also an Independent Non-executive Director of Lenovo Group Ltd. and Hysan Development Co. Ltd. Mr. Allen joined Coopers & Lybrand (C&L) in London in 1977 and transferred to C&L Hong Kong in 1983. He was admitted to partnership in C&L Hong Kong in 1988, which was subsequently merged with Price Waterhouse into PricewaterhouseCoopers (PwC) in 1998. Mr. Allen retired from PwC in June 2007.

Executive Directors

(17) Andrew Clifford Winawer Brandler

MA, MBA, ACA, aged 53, 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 58, F&G (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 was the Chief Financial Officer of the Group until 31 May 2009. As a Group Executive Director, Mr. Tse has an active role in the monitoring of all of the Group's activities, working closely with the Group Chief Executive Officer. This role includes a particular emphasis on the oversight of all aspects of CLP's activities in the Chinese mainland. 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 53, 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. 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 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. His principal focus is to work on matters impacting the overall direction of the CLP Group. He is also responsible for the oversight of corporate secretarial and legal affairs.

The late Mr. Peter T. C. Lee was an Independent Non-Executive Director of the Company until his death on 17 October 2009. His contributions to the Board were marked by insight, foresight and unfailing courtesy. We deeply regret his passing.

A Audit 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: Giuseppe Jacobelli, Stefan Robertsson, Mark Jobling, Richard Lancaster, Betty Yuen, Richard McIndoe, Rajiv Mishra, Ko Yu Ming, Peter Littlewood, Mark Takahashi, Peter Greenwood, Peter Tse, Andrew Brandler

Giuseppe Jacobelli

Group Director – Carbon Ventures, MA, aged 44, 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 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.

John Stefan Robertsson

Group Director – Corporate Finance and Development, aged 45

Mr. Robertsson is responsible for corporate finance and development activities throughout the CLP Group. He has 17 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.

Mark Christopher Jobling

Managing Director – Southeast Asia, aged 38

Mr. Jobling is responsible for the Group's activities in Southeast Asia and Taiwan. He has over 10 years' experience in the Asian power sector. He joined CLP in 2002. He holds a Bachelor of Economics degree and Bachelor of Laws (Hons) degree, is a Barrister and Solicitor in Victoria and admitted as a Solicitor in Hong Kong.

Richard Kendall Lancaster

Group Director – Managing Director Hong Kong, BE, aged 48

Mr. Lancaster was appointed as Managing Director of CLP Power Hong Kong Limited in 2010 and has overall responsibility for the operations of the Hong Kong business. Mr. Lancaster has over 25 years' experience in the power industry and in other industrial operations in Australia, U.K. and Hong Kong. He holds a Bachelor's degree in Electrical Engineering from the University of New South Wales.

Yuen So Siu Mai Betty

Vice Chairman – CLP Power Hong Kong Limited, B.Comm., HKICPA, aged 52, F&G

Mrs. Yuen was appointed as the Vice Chairman of CLP Power Hong Kong Limited in 2010, with a primary focus on the strategic direction of the Group's Hong Kong electricity business, supporting the relationships with senior government officials and key business partners in the Chinese mainland. She is also responsible for CLP's investments in Guangdong Daya Bay Nuclear Power Station as well as further development of CLP's nuclear business on the Mainland. She worked for ExxonMobil for 13 years before joining CLP in 1999.

Richard Iain James McIndoe

Group Director – Managing Director Australia, MA, MBA, aged 45, F&G

Mr. McIndoe is Managing Director of TRUenergy in 2006. He joined CLP in 2002 and has an 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.

Rajiv Ranjan Mishra

Managing Director – India, MBA, aged 44

Mr. Mishra is responsible for the management and development of CLP's business in India. He joined CLP in 2002 and has 14 years' experience in the Indian and regional power industry, mostly in project financing, investment appraisal, finance and accounting and general management. He holds a Bachelor's degree in Chemical Engineering (first class distinction) and an MBA degree from the Indian Institute of Management, Lucknow.

Ko Yu Ming

Managing Director – China, PhD, aged 54

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. Dr. Ko holds a PhD degree from University of Manchester Institute of Science and Technology.

Peter Albert Littlewood

Group Director – Operations, MA, aged 58

Mr. Littlewood is responsible for construction, operations and fuel procurement activities. He joined the CLP Group in 1977 and has over 35 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.

Mark Takahashi

Group Director & Chief Financial Officer, BSc (Eng.), MBA, aged 51, F&G, P

Since his appointment in June 2009 Mr. Takahashi is responsible for group finance, treasury and investor relations. He joined CLP in 2003 and has over 20 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.

Peter William Greenwood

Group Executive Director – Strategy

Tse Pak Wing Peter

Group Executive Director

Andrew Clifford Winawer Brandler

Chief Executive Officer

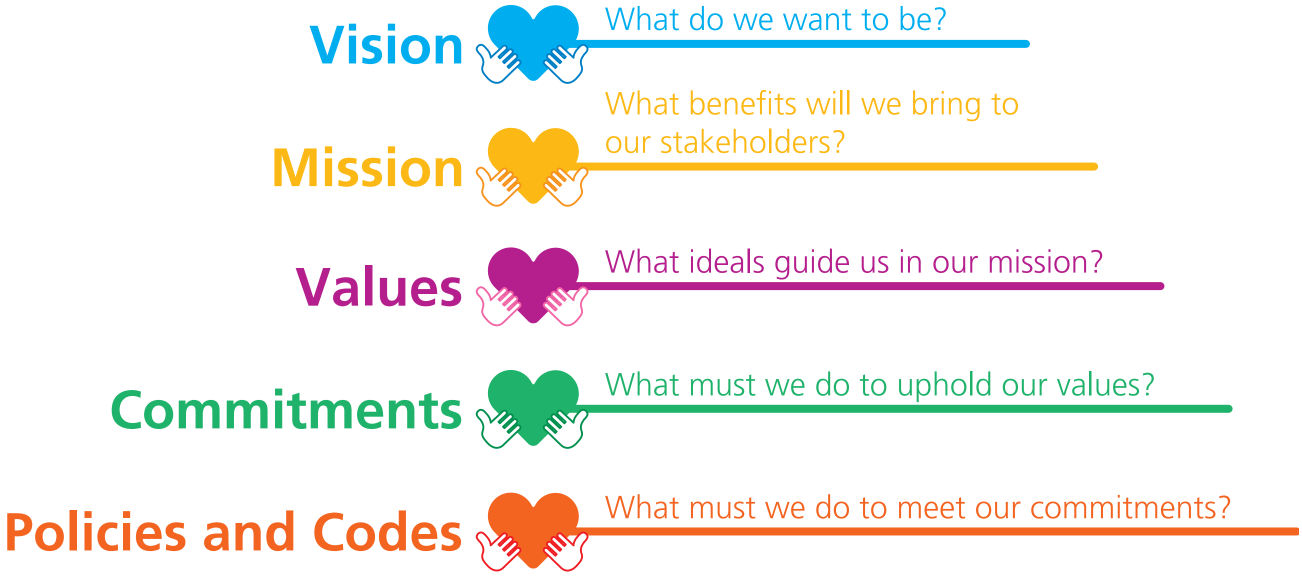
See biographies on page 89.

F&G Finance & General Committee   P Provident & Retirement Fund Committee   S Sustainability Committee

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

Corporate Governance Report

The values we apply to ourselves, towards our stakeholders and in all aspects of our operations are set out comprehensively in CLP's Value Framework. This **Value Framework** is a continuing statement of what CLP wants to be and the values, commitments, policies and Code of Conduct which all of us must respect – no matter where we work or whatever our individual roles may be.



CLP's **Corporate Governance Framework** forms part of the processes we apply to support, promote and monitor the respect of our Value Framework.

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

- We disclose our corporate governance principles and practices openly and fully; and
- We recognise the need to adapt and improve our principles and practices in light of our experience, regulatory requirements, international developments and investor expectations.

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.

Directors' visit to Daya Bay nuclear power station

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. Three of the four 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.
✓✓		We publish a set of Continuous Disclosure Obligation Procedures which formalise the current practices in monitoring developments in our businesses for potentially price-sensitive information and communicating such information to our shareholders, the media and analysts.
	✓	All Code Provisions of the Stock Exchange Code.
	✓	All Recommended Best Practices of the Stock Exchange Code, except the single one explained on the next page.

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 2009, 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 2009

- Undertook an independent review on the fees payable to Non-executive Directors and published this on CLP's website (see the Remuneration Report at pages 118 to 125)
- Published a set of Continuous Disclosure Obligation Procedures which formalised the current practices for monitoring developments in our businesses for potentially price-sensitive information and communicating such information to our shareholders, the media and analysts
- Carried out corporate governance roadshows in U.S. and Canada to encourage feedback from institutional investors and analysts on CLP's corporate governance practices
- Appointed an additional member to the Audit Committee with appropriate professional qualifications and experience in financial matters
- Appointed a Director – Risk Management to formalise the current risk management practices into a group-wide framework for risk management
- Continued to carry out shareholders' identification exercise pursuant to Section 329 of the Securities and Futures Ordinance with summary results published on the CLP website
- Continued to roll-out the development programme for Directors, including visits to CLP's businesses in the Chinese mainland and India, and participation in the Shareholders' Visit Programme in Hong Kong
- Updated CLP's Code for Securities Transactions
- Shared our expertise and views on corporate governance issues by participating in formal and informal working groups organised by various authorities, as well as by responding to formal Consultation Papers issued by various authorities and publishing our 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 28 April 2009 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:

- Re-election of Mr. I. D. Boyce, Dr. Y. B. Lee and Messrs. Jason Whittle, Peter T. C. Lee, Peter W. Greenwood, R. Bischof and William Mocatta as Directors of the Company (99.096% to 99.473% 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 (82.842%); and
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (99.997%).

All resolutions put to shareholders were passed at the 2009 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 2009.

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 25 February 2010, being the latest practicable date prior to the issue of this Annual Report; and
- a calendar of important shareholders' dates for 2010.

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

The Board

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

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

- setting the Group's values and standards;
- the strategic direction of the Group;
- the objectives of the Group;
- 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;
- monitoring the performance of management; and
- ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed.

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 2009, 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, Group Executive Director and 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 88 and 89 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 88) 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 2009, there was one occasion when a Non-executive Director declared his indirect interests and withdrew from the relevant discussion at the Board meeting. 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 2009, 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 three 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 2009 are set out in the following table. The overall attendance rate of Directors at Board Meetings was 92.1% (2008 : 86.8%).

Directors	Meetings Attended / Held								
	Board[a]	Audit Committee	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Sustainability Committee	China Committee[b]	AGM
Non-executive Directors									
The Hon. Sir Michael Kadoorie	4/6				(c)			1/1	1
Mr. William Mocatta	6/6		9/9	1/1		3/3		1/1	1
Mr. R. J. McAulay	4/6								1
Mr. J. A. H. Leigh	5/6								1
Mr. R. Bischof	6/6					3/3			1
Mr. I. D. Boyce[d]	6/6		2/2						1
Mr. Jason Whittle	5/6								1
Dr. Y. B. Lee	6/6							1/1	1
Mr. Paul A. Theys	5/6							0/1	1
Independent Non-executive Directors									
The Hon. Sir S. Y. Chung[e]	6/6				(c)				1
Mr. V. F. Moore	6/6	4/4	9/9	1/1					1
Mr. Hansen C. H. Loh	6/6	4/4			(c)				1
Mr. Paul M. L. Kan	5/6								1
Professor Judy Tsui	6/6	3/4					2/2	0/1	1
Sir Rod Eddington	5/6		6/9	0/1					0
Mr. Nicholas C. Allen[f]	5/5	3/3	1/1				1/1		N/A
Mr. Peter T. C. Lee[g]	4/4			1/1			1/1		1
Ms. Marjorie M. T. Yang[h]	N/A							N/A	N/A
Executive Directors									
Mr. Andrew Brandler	5/5		9/9				2/2	1/1	1
Mr. Peter P. W. Tse[i]	5/5		6/9			1/1		1/1	1
Mr. Peter W. Greenwood	5/5		9/9				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 China Committee was abolished on 13 May 2009, and all significant matters relating to China are now considered by the full Board.

(c) Review and approval of nomination of Director's appointment was by circular to all the members of the Nomination Committee which considered such nomination on one occasion in 2009.

(d) Mr. I. D. Boyce was appointed a member of the Finance & General Committee with effect from 27 October 2009.

(e) The Hon. Sir S. Y. Chung resigned as a member of the Human Resources & Remuneration Committee with effect from 1 January 2009.

(f) Mr. Nicholas C. Allen was appointed an Independent Non-executive Director and a member of the Audit Committee on 12 May 2009. He was also appointed a member of the Sustainability Committee, member of the Finance & General Committee and member of the Human Resources & Remuneration Committee with effect from 1 October 2009, 1 November 2009 and 1 February 2010 respectively.

(g) The late Mr. Peter T. C. Lee died on 17 October 2009. At the time of his death he was an Independent Non-executive Director and member of the Human Resources & Remuneration and Sustainability Committees.

(h) Ms. Marjorie M. T. Yang resigned as an Independent Non-executive Director and a member of the China Committee on 20 January 2009 due to her time commitment to her new appointment to the Executive Council of the HKSAR Government.

(i) Mr. Peter P. W. Tse resigned as a member of the Provident & Retirement Fund Committee on 1 June 2009.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2009 and in 2010 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 Mr. Peter T. C. Lee for re-election as Independent Non-executive Director at the 2009 AGM; and
- nomination of Mr. Nicholas C. Allen as Independent Non-executive Director with effect from 12 May 2009.

At the 2010 AGM, Mr. Nicholas C. Allen, who was appointed by the Board, will retire and present himself for election. Six other Directors will retire by rotation and present themselves for re-election by shareholders. The independence of those who are Independent Non-executive Directors has been reviewed by the Nomination Committee.

Membership of Sustainability Committee

Mr. Andrew Brandler (Chairman), Professor Judy Tsui, Mr. Nicholas C. Allen, 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 progress of our Climate Vision 2050;
- CLP's position paper, entitled "Beyond Copenhagen – Powering Asia Responsibly";
- CLP's position on The Copenhagen Accord;
- the 2008 and 2009 CLP Group Sustainability Reports;
- the status of CLP Group social and environmental goals;
- corporate citizenship initiatives in the region; and
- the stakeholder engagement plan to support business sustainability – Powering Asia Responsibly.

Membership of Provident & Retirement Fund Committee

Mr. William Mocatta (Chairman), Mr. R. Bischof, Mr. Mark Takahashi 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.

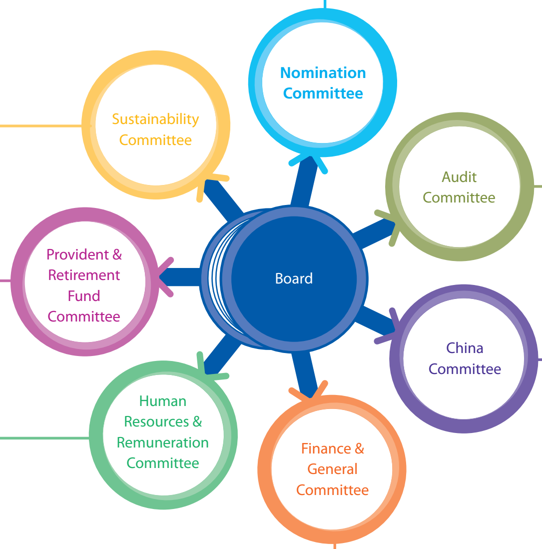
Membership of Human Resources & Remuneration Committee

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. William Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington and Mr. Nicholas C. Allen.

Responsibilities and Work Done

This Committee considers 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 2008 and 2009 Remuneration Reports, and reviewed

- the Group performance for 2008 and 2009 and Group targets for 2009 and 2010;
- base pay review for 2009 and 2010 for Hong Kong payroll staff;
- annual pay review for TRUenergy and CLP India;
- Non-executive Directors' fees;
- CEO's remuneration;
- the Senior Executive Remuneration, including annual incentive payments for 2008 and 2009 and annual pay review for 2009 and 2010; and
- the Long-term Incentive Plan for Senior Executives.



Membership of Finance & General Committee

Mr. William Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington, Mr. I. D. Boyce, Mr. Nicholas C. Allen, Mr. Andrew Brandler, Mr. Peter P. W. Tse, Mr. Peter Greenwood, Mrs. Betty Yuen, Mr. Richard McIndoe and Mr. Mark Takahashi.

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 2008 and 2009;
- the progress of the Jhajjar Project in India;
- bids for transmission projects in India;
- the extension of the joint venture term of Guangdong Nuclear Power Joint Venture Co., Ltd. and the nuclear power supply arrangement to Hong Kong;
- the Group's investments in renewable projects in China and Australia;
- China wind energy business plan;
- the potential impact of the proposed Carbon Pollution Reduction Scheme on the Group's investment in Australia;
- CLP's investment opportunities in Thailand and The Philippines;
- CLP's foreign exchange translation risk exposure;
- the Group's capital allocation and firepower;
- the CLP Group business plan and budget 2010-2014;
- the Company Management Authority Manual;
- the investment authorisations exercised by CEO;
- the Company's funding requirements, undertakings, guarantees and indemnities;
- the cost of capital study; and
- the Code of Conduct and Gifts & Entertainment Policy.

Membership of China Committee

The Hon. Sir Michael Kadoorie (Chairman), Mr. Andrew Brandler (Vice Chairman), Professor Judy Tsui, Mr. William 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;
- Clean Development Mechanism for renewable projects; and
- the Group's investment opportunities in nuclear power projects in the Mainland.

The China Committee was abolished with effect from 13 May 2009. Significant matters relating to China are now considered by the full Board.

Audit Committee

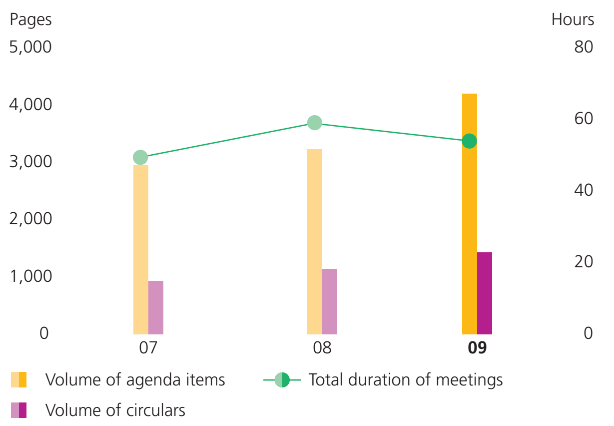
Details of the Audit Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Audit Committee Report at page 116 of this Annual Report.

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 2009, no current Director held directorships in more than four 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 2010 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 under "Board of Directors" at page 88 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 2009.

Workload of Board and Board Committees



Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2009 are disclosed in the Directors' Report of this Annual Report at page 126. 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 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 2009 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 undertaken no less frequently than every three years. A review was undertaken at the beginning of 2010. The remuneration policy and fees paid to each Non-executive Director in 2009 and the proposed fees payable to Non-executive Directors for 2010-2013 are set out in the Remuneration Report at page 118 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. This year, a company wide Business Practices Review was conducted. This is an exercise conducted once every four years to ensure the principles of the Code of Conduct are clearly understood throughout the entire organisation. Attendance at briefings is compulsory for all CLP full-time and contract employees. 6,850 staff attended.

Non-compliance with the Code results in disciplinary action. Disciplinary measures are decided by the relevant line management and reviewed by a Code of Conduct Committee comprised of the Group Executive Director, Director – Group Legal Affairs and Director – Group Human Resources in order to ensure consistency and fairness.

During 2009, there were eight breaches of the Code. Sanctions applied in 2009 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.

We have voluntarily extended the ambit of the CLP Code for Securities Transactions to cover Senior Management (comprising the 13 managers, whose biographies are set out on page 90 of this Annual Report) and other "Specified Individuals" such as senior managers in the CLP Group. With respect to this voluntary extension of the CLP Securities Code to Senior Management, a member of the Senior Management who is not a Director of the Company advised the Company in July 2009 that his spouse had purchased 2,000 shares in CLP Holdings in June 2009. As soon as he himself became aware of this purchase, he brought the matter to the attention of the Company and updated the Company with the details of his interests in CLP Holdings' securities. The other members of the Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2009 they complied with the required standard set out in the Model Code and CLP Securities Code.

Save for the interests disclosed by the three Executive Directors in the Directors' Report at page 126 of this Annual Report, the interests in 2,600 shares disclosed by the Group Director – Operations, the interests in 600 shares respectively disclosed by the Group Director – Managing Director Hong Kong and Managing Director – China, and the interests in 22,500 shares disclosed by the Group Director – Carbon Ventures, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2009.

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 118 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 23 other professional staff. The tasks of the department are set out in the CLP Code and include

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

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

During 2009, 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 approved 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, they 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:

	2009 HK$M	2008 HK$M
Audit	27	25
Permissible non-audit services		
Due diligence and accounting / tax advisory services relating to business developments	7	9
Other services	3	4
Total	37	38

Other Stakeholders

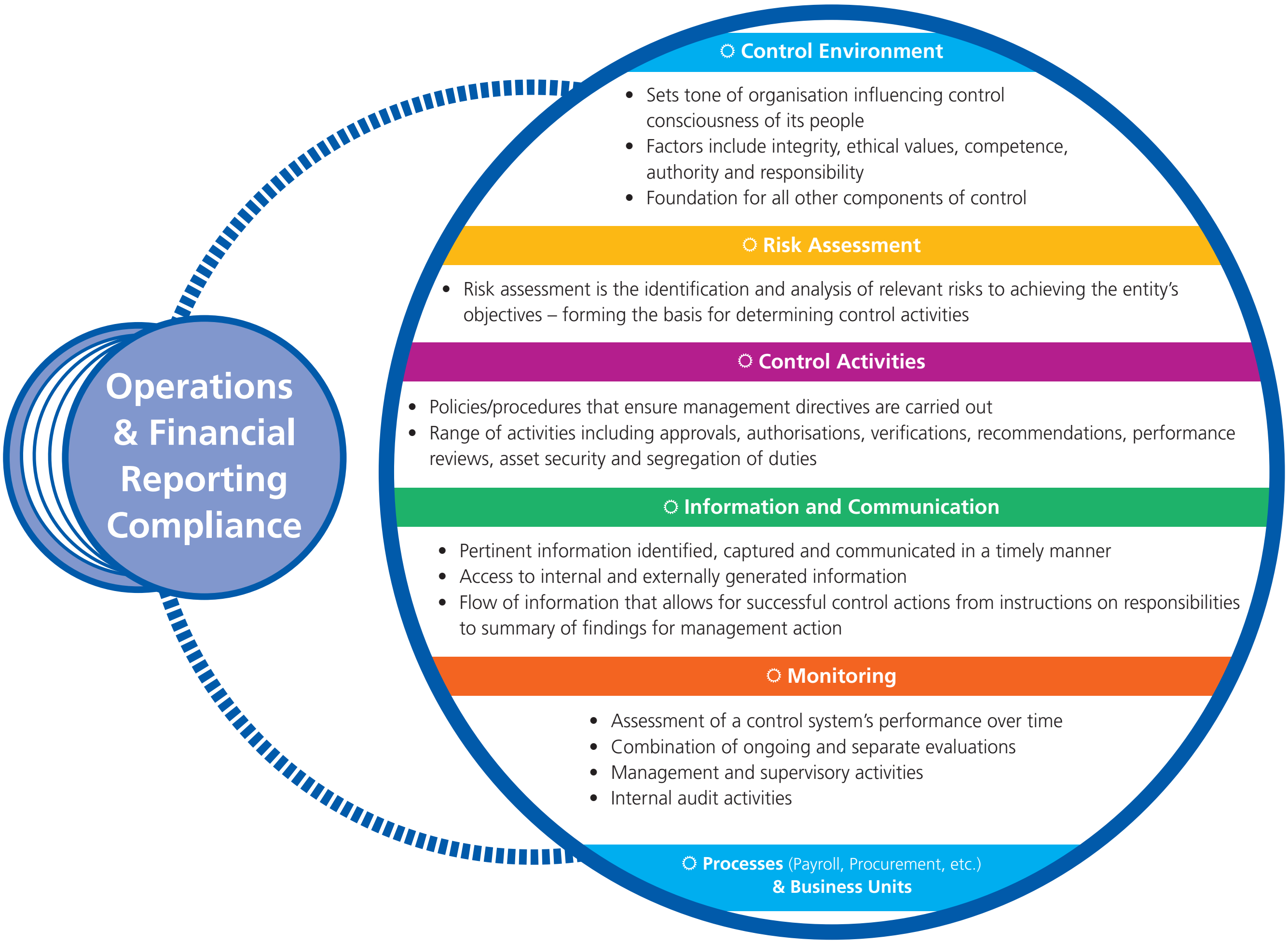
Good governance requires due regard to the impact of business decisions (including environmental impact), both on shareholders and on other key stakeholders. This Annual Report and our Sustainability Report explain how we discharge our responsibilities to employees, customers, lenders, the environment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

Directors...

... and Shareholders turn out in force at our AGM

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.

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

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 tested annually by our management and internal auditors. Based on the results of those tests, process owners are able to represent 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 report 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.

To further strengthen the monitoring of the Group's overall risk management approach and strategy, a Director – Risk Management has been appointed and tasked with formalising the group-wide framework for risk management. The way we manage risk is set out in the Risk Management Report at page 107.

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 2009, 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" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Hong Kong Stock Exchange in 2002 and 2008 respectively;
- 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

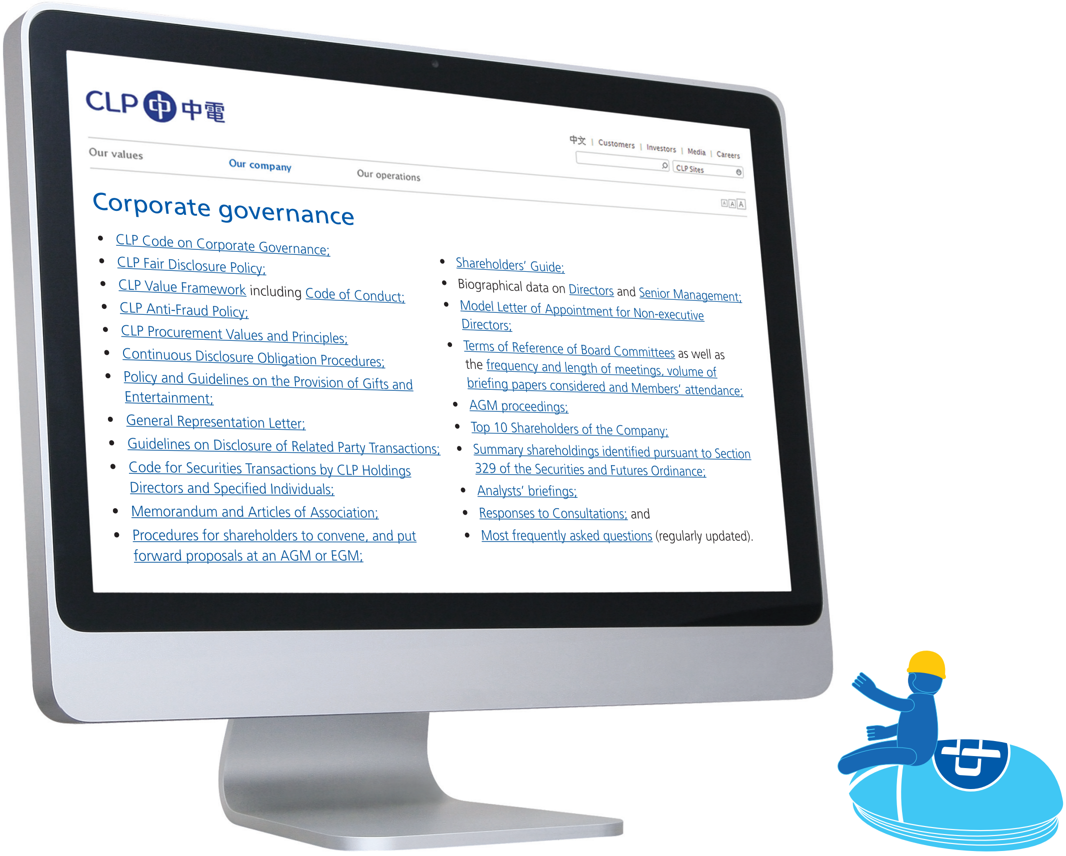
CLP aims to present a clear and balanced assessment of its financial position and prospects. Financial results are announced as early as possible, and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep shareholders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

Social and Environmental Reporting

The CLP Group's 2009 Sustainability Report, published at the same time as this Annual Report, gives a detailed description of our delivery of social and environmental value in 2009. Our annual Sustainability Reports, complemented by an online version, aim to disclose our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. We shall continue to engage our stakeholders openly and report honestly on our progress in those areas. We welcome constructive and critical feedback.

Reporting via Internet

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



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

Corporate Governance – Continuing Evolution

We are an active and constructive contributor to the ongoing debate on the future shape of corporate governance in Hong Kong. 2009 was a busy year for proposed governance and regulatory reforms. During the year we responded to Consultation Papers issued by the Hong Kong Exchanges and Clearing Limited on matters as varied, complex and, occasionally, controversial as connected transaction rules, disclosure requirements of circulars and listing documents, right issues, open offers 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.

We will continue to review and, where appropriate, improve on our corporate governance practices in order to protect and enhance the interests of our shareholders.

By Order of the Board

April Chan
Company Secretary
Hong Kong, 25 February 2010

Risk Management Report

In last year's Annual Report we explained how we were managing CLP's risk during a period of global financial and market difficulty and uncertainty. We referred to this as "riding out the storm". Twelve months on we have revisited our Risk Management Report to address the changing risk profile of the CLP Group's activities as we come through such a challenging period – "emerging from the storm".

Our overall strategy remains simple, straightforward and has been well-tested throughout the global financial market turmoil. The electricity business is highly capital intensive and returns are generated over the long-term. We closely monitor CLP's financial and other resources, including contingent liabilities, to maintain day-to-day operations and prepare for new business opportunities which might arise at any time. We maintain a conservative capital reserve, emphasise that capital comes at a price and that investments should meet minimum risk and return threshold profiles to achieve shareholder returns. You have read all this in previous Annual Reports; it is still true and still valid.

In our Risk Management Report we do not try to list each and every risk that CLP faces in its business. Many of those risks are inherent in the nature, scale and location of our business interests. As such, the effective management and mitigation of these risks is part of our day-to-day operating disciplines and demands and is already well covered elsewhere in this Annual Report. In this Risk Management Report and in the description of the operations of each of our five main business streams in this Annual Report, we try to convey an awareness of the type of risk to which our business is subject and the existence of processes to manage and mitigate the impact of such risks.

Traditionally, utilities have focused on the management of operational risk – matters such as safety and plant reliability. CLP has been no different in this regard. With the growth of the business, especially overseas, our risk management is moving towards a multi-disciplinary approach involving the awareness and management of a broader set of risks, such as regulatory and market risks. This is being tackled both within individual businesses and at the Group level. For example in 2009, our Australia business redeveloped a number of enterprise risk management tools (including risk registers and a risk assessment matrix) to improve the standardisation of risk assessment, undertook a programme to increase the awareness and identification of risk, and implemented risk dashboard reporting to summarise and highlight the status of top tier risks. At the Group level, in 2009 CLP reinforced its capabilities through the establishment of a dedicated, Group-wide risk management function that aims to:

- Establish and co-ordinate risk review procedures and tools on a more systematic basis, thereby allowing management to review business risks across the Group within a more consistent framework;
- Provide an overall and comparative view of the risks affecting the Group as a whole to assist us in a more effective allocation and optimisation of resources across the Group;
- Serve as a formal governance tool for reference by external stakeholders, such as insurers, rating agencies, financial institutions and investors and provide additional transparency and disclosure of our risk reduction activities; and
- Impose greater discipline in the follow-up processes necessary to react to identified risks. This will include strengthened risk monitoring, benchmarking and reporting procedures, as well as systems to alert us to major changes to the likelihood or impact of risks which have already been identified or the effectiveness of risk mitigation measures which are already in place.

This broader group-wide risk management resource will supplement existing risk management activities within individual business streams. This is all with a view to enhancing risk management, both horizontally across the Group and vertically through the processes from project development, construction, operation, maintenance and, ultimately, refurbishment, replacement or disposal of particular assets. Towards achieving this objective, an enhanced risk assessment process and improved functional review for new investment activities of the Group have already been implemented with the establishment of the Group-wide risk management unit.

The contents of the paragraphs below which are highlighted in green comprise the auditable part of the Risk Management Report in that they concern Financial Risk Factors which also fall within the scope of "Financial Risk Management" in the Financial Statements on pages 194 to 200.

Financial Risks

The Group's investments and operations have resulted in exposure to various financial risks – cash flow and liquidity risks, credit and counterparty risks, interest rate risks, and foreign currency risks. We manage these risks, each of which is discussed in detail in this Risk Management Report, by using different derivative instruments to minimise the impact of rate and price fluctuations on earnings, reserves and tariff charges to customers. To meet the objectives of risk management, we prefer simple, cost-efficient and HKAS 39 hedge-effective instruments. For instance, we prefer foreign currency forward contracts, cross currency and interest rate swaps to options and structured products. We monitor our risk exposures with the assistance of "Value-at-Risk" (VaR) measures and stress testing techniques. Our philosophy is to contract out financial risk exposure to qualified financial institutions, so that CLP's Management can focus on delivery of good business performance and growth.

Cash Flow and Liquidity Risk

The electricity business requires significant and long-term funding commitments, in the form of equity and debt facilities, to finance operation and business expansion. This calls for an optimal balance between equity and debt to offer an acceptable risk and return profile to investors and lenders. In a normal business environment and especially when there is plenty of liquidity, the difference between prudent and assertive financial management is not felt. However, at times of unprecedented financial market challenges, a strong financial position, prudent financial management and a good, long-term business relationship with lenders are essential in retaining liquidity and arranging debt facilities at reasonable costs.

The way we manage

We plan ahead to ensure 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 endeavour to cultivate and develop business relationships with potential lenders and investors to further diversify funding sources and seek optimal ways of financing our business. We leverage off 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 page 73) that might call on those resources. We maintain a conservative capital structure so that we can respond to any potentially adverse challenges in a timely manner, and we hold an appropriate buffer of available debt facilities or cash 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 seek to develop long-term relationships with lenders and investors sharing similar business and financial management philosophies with CLP. We maintain an appropriate mix of committed credit facilities and spread out their maturities to reduce liquidity and refinancing risk in any year. We raise long-term funding from multiple debt capital markets through established medium term note programmes in place at 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 19.
- We aim to minimise our cash balances by adopting "Just-in-time" financing to the extent possible. Group companies use surplus cash to pay down revolving loans to reduce financing costs. When surplus funds exist, they are only kept with creditworthy financial institutions at strictly-applied internal exposure limits in the form of deposits or invested in safe, liquid, interest-bearing instruments with good 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 works with them to 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 good investment grade levels (see pages 19 and 20). Our objective is to support funding and investment through a strong financial profile and to provide financing flexibility for future growth and acquisitions.

Emerging from the storm

Planning ahead, diversified and committed funding sources, staggered maturities to ride out refinancing risks and solid, long-term relationships with lenders and investors have helped CLP complete refinancing and meet all incremental financing requirements in a timely manner with good outcomes during a period of extreme uncertainty in credit markets. Even though credit markets were effectively closed in late 2008 / early 2009, CLP faced no liquidity problem during this time.

CLP entities in Hong Kong have funding support from a larger group of diversified, high quality lenders and investors at attractive pricing, thanks to our prudent financial and business management approaches. This support includes a balanced mix of short, medium to long-term credit facilities from lending banks; multiple issuances of medium and long-dated fixed rate bonds in the Hong Kong Dollar (HKD) market and a Japanese Yen (JPY) 15 billion (HK$1.2 billion) 15-year bond placement by CLP Power to American Family Life Assurance Company of Columbus under the MTN Programme. The JPY was swapped back into fixed rate HKD at attractive pricing at the time of issuance to fully mitigate foreign currency and interest rate risks. In Australia, TRUenergy rolled over a A$300 million (HK$2.1 billion) working capital loan in June and completed refinancing of a A$350 million (HK$2.4 billion) long-term credit facility in August. The latter tranche achieved an overwhelming response when it was launched to a selected group of CLP relationship banks in Hong Kong.

In India, Jhajjar Power completed an Indian Rupee (INR) 39 billion (HK$6.5 billion) non-recourse project level loan in September to fund construction of the 1,320MW coal-fired project. Our move from the traditional United States Dollar (USD), export credit agency type financing to a more pragmatic INR project level funding to better match revenues was made possible as liquidity in the local market was sufficient to help us secure the project level debt in a timely manner.

In China, expansion of our renewable energy portfolio continues on a non-recourse basis with good funding support from national and regional Chinese banks. We have also taken market opportunities to restructure or lengthen certain project level debts to optimise the economics of our investments. All of our projects procured the required funding at reasonable costs. For example, Qian'an Wind, a CLP wholly-owned wind power project in Jilin Province, procured a RMB364 million (HK$413 million) project level loan on a competitive basis at an attractive interest rate and on good terms.

As at 31 December 2009, the Group had liquid funds of HK$8.0 billion. Total facilities and outstanding loan amounts are shown on page 19. 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 on pages 194 to 200.

The way ahead

No one knows if the financial market turmoil is completely over. What is certain is the unprecedented accommodating monetary policies will not last forever. With a number of central banks starting to exit from massive monetary easing, the impact of "pulling back" on liquidity and cost of borrowing remains to be seen.

CLP entities will continue to be mindful of this, maintain our prudent strategy to plan ahead for our funding requirements and seek financing in a diversified and cost-efficient way. Our investment-grade credit ratings, strong financial position, disciplined investment decision-making and good relationships with financial institutions will help us meet the Group's funding requirements going forward.

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, foreign currency, cash deposit arrangements and energy price hedging in Australia. The possibility of credit default, credit rating downgrade or non-performance by counterparties creates the risk of non-recovery of financial instrument gains or cash deposits, and the possibility of apparently hedged positions becoming unhedged.

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 hedging transactions and deposits of the Company and its direct principal subsidiaries to pre-approved counterparties with good credit quality in accordance with CLP's risk management policies. We establish internal exposure limits for each counterparty and allocate appropriate portions to Group companies to contain risk exposure. Management reviews this list of approved counterparties and closely monitors their credit quality on an ongoing basis.
- 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 addition, the Group also monitors potential exposure to counterparties using VaR methodologies to mitigate the impact of adverse market movements.
- 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.

Emerging from the storm

We closely followed market developments over the past year to ascertain if we would face any undue counterparty risk. Due to the Group's prudent criteria for approving counterparties, CLP entities have had no exposure to entities that have either failed or have otherwise become incapable of fulfilling their obligations to us. CLP Group treasury policies require all CLP entities to conduct treasury transactions only with financial institutions that have solid credit ratings 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. Our list of approved counterparties is reviewed periodically, and more frequently at times of major market developments or changes in the financial position of the counterparties, to enable CLP to verify that the level of counterparty risk is acceptable.

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

The way ahead

The fall of once renowned financial institutions and the number of market participants whose financial positions have not yet fully recovered has reminded us of the importance of keeping our business with qualified counterparties to minimise the risk of failure of contractual performance. As significant risks remain, and recovery is likely to be slow in most countries, we will continue with our established policies on counterparty exposure management and associated governance. These look beyond credit ratings alone and help us protect the financial integrity of the CLP Group. Looking ahead, we will closely monitor market developments and review approved counterparties 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 increase. The Group's major interest rate risk exposures originate from borrowings to finance long-term capital investment. Interest rate movements, especially in 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 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, and 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.

Emerging from the storm

CLP have always maintained an appropriate mix of fixed and floating interest rates in our investments, domestically and overseas, in good and bad times in the financial markets.

Even though short-term rates were close to zero after the stabilisation of the financial markets, we have safeguarded our earnings and cash flow position from cyclical interest rate movements by maintaining an appropriate fixed and floating interest rate mix. We continue to use easy to understand, cost-and-hedge-effective instruments, such as fixed rate borrowings and interest rate swaps to reduce floating rate exposure. For instance, CLP Power and CAPCO swapped more floating rate debt into fixed rate in early 2009 when fixed rate swaps were at historically low levels.

As at 31 December 2009, the Group's fixed rate debt as a proportion of total debt was approximately 59% (57% for the Group and CAPCO combined). The sensitivity analysis of our interest rate exposure in accordance with the Hong Kong Financial Reporting Standards (HKFRS 7) requirements is set out in the Financial Statements on pages 195 and 196.

The way ahead

The current extremely low interest rate environment is unlikely to last for long. This accommodating situation sparks inflation concerns and could reverse if central banks start pulling back to guard against asset market overheating. Interest rate movements could be fast and extreme under such a scenario. Whether interest rates rise or fall, our treasury policy will continue to require CLP entities to protect CLP from interest rate fluctuations through the review of fixed / floating interest rate mixes at least annually, and the corresponding implementation of interest rate hedging. We welcome further opportunities to lock in fixed rate borrowings and further reduce the impact of interest rate fluctuations on our business portfolio if interest rates remain at the existing low levels.

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, payment obligations to contractors, CLP Power's foreign currency obligations related to its U.S. dollar-denominated debt, nuclear power purchase off-take commitments and fuel-related payments.

The way we manage

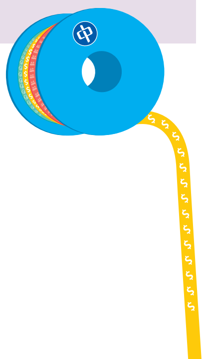
We strive to reduce transactional foreign currency risks by matching assets with borrowings to assets in the same currency to the fullest extent possible. We recognise that the Group operates regionally and is exposed to translational foreign currency risk. We closely monitor this and conduct periodic reviews using a VaR 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, and tax and accounting implications.
- We do not hedge foreign currency translation movements arising from the conversion of the equity in our overseas investments into the Group's reporting currency of HKD. 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 USD debt repayment obligations for the full tenor and a significant portion of its forward USD 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 HK$7.80 to US$1.00. The objective is to reduce the potential adverse impact of foreign currency movements on electricity tariffs in Hong Kong.

Emerging from the storm

The "flight to quality" early in the sub-prime crisis and subsequent USD weaknesses have shown foreign currency movements are difficult to predict and can be extremely damaging. The consistent application of prudent foreign exchange risk management policy is critical for the long-term growth of a company. At CLP, we limit our unhedged foreign exchange exposure. Firstly, CLP entities follow the Group treasury policy to cover the majority of their committed, and an appropriate portion of the expected, 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 repayments, 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 sensitivity analysis explaining foreign currency risk exposure, in accordance with HKFRS 7 is set out under the heading "Financial Risk Management" in the Financial Statements at page 194.



The way ahead

Views differ over the direction of the USD. The abundant money supply and close to zero borrowing costs have fuelled carry trades. The HKD, which is pegged against the USD under the Linked Exchange Rate System, has moved to the strong side of its allowed range, with massive amounts of hot money flowing into Hong Kong. We will continue to guard against volatile foreign currency movements in times of financial market uncertainty. 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.

Key Business Risks

Energy Market Risk

Our TRUenergy business in Australia carries primarily all of the CLP Group's exposure to risks associated with wholesale energy markets. As a major participant in Australia's competitive merchant electricity and gas industry, TRUenergy is, by nature and necessity, involved in wholesale energy market hedging activities.

The way we manage

TRUenergy holds an integrated and diversified portfolio, largely based in the state of Victoria but with a growing presence in South Australia, New South Wales and Queensland. The vertically-integrated portfolio as a whole carries less risk than its individual parts and provides flexibility to respond to shifting conditions across the value chain.

While wholesale markets do involve an element of risk, significant risk taking is not consistent with TRUenergy's general business philosophy. We have comprehensive risk management polices 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 is constrained by the highly competitive market in which we operate. However, the basis of this framework is explained below:

- TRUenergy's hedging activities must be consistent with a documented hedging plan that is approved on an annual basis by TRUenergy's Risk Management Committee. The plan sets out the objectives for hedging and the approach to managing risk including types of instruments to be used, use of forecasts and how to manage plant outages.
- We have a number of risk metrics, including VaR 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 functions. Front Office executes the company's hedging strategies, Middle Office is responsible for independent monitoring and reporting and maintenance of the overall control environment, and Back Office performs settlement, invoicing and accounting functions.

Emerging from the storm

Although Australia has remained reasonably resilient to the global financial crisis, compared to other regions of the world, there have still been impacts on the Australian energy market where some smaller participants have withdrawn from the market either as a result of a change in strategy or due to financial distress caused by the difficult economic conditions. TRUenergy has had little or no exposure to those entities who have withdrawn from the market and our business has not been impacted as a result.

The way ahead

TRUenergy must continue to monitor energy market counterparties and limits closely, as well as enhance and adapt its risk management framework to market changes. Developments to its Enterprise Risk Management framework will continue to permeate across all divisions of the TRUenergy business. This involves identifying particular events or circumstances relevant to the organisation's objectives, assessing them in terms of likelihood and consequence, and determining a comprehensive response strategy and benchmark monitoring involving all stakeholders in the business.

Climate Change – Carbon Risk

Climate change has created a new category of business risk which can have a direct physical impact on our business facilities through unusual weather conditions (such as drought, severe storms, flooding and rising sea levels), as well as a direct financial impact through actions taken by governments to regulate greenhouse gas emissions, including by the introduction of carbon taxation, carbon credits or emission trading schemes which affect power producers.

The way we manage

At a strategic level, the implementation of our "Climate Vision 2050 – Our Manifesto on Climate Change" in December 2007 commits us to reduce the carbon emissions intensity of our generation portfolio by 75% by 2050. Our ultimate goal is to conduct our business in such a way that our carbon emissions are brought down to a level compatible with the global objective of stabilising the concentration of greenhouse gases in the upper atmosphere at a level at which the most catastrophic effects of global warming may be avoided. To reinforce the credibility of our Climate Vision 2050, to establish goals which are relevant to us and our stakeholders and to help us and others to track our progress, we have set up a number of intermediate milestones. As well as reducing the carbon intensity of our generating portfolio, CLP has also committed in our Manifesto to other initiatives in the fields of renewable energy, nuclear energy, natural gas, clean coal technology, and energy efficiency and conservation. We see our proactive approach to reducing carbon intensity at the Group level as a pre-emptive measure against future regulatory change, even though most of our investments (outside Australia) may face only limited compliance requirements in the near future.

At the project level, we review carbon emissions for each individual investment. During the pre-investment review stage, we carefully assess and take into account emissions criteria 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 solely because of their associated emissions levels. For our existing assets, we continually examine and, where appropriate, implement engineering and process improvements which can increase generation efficiencies, thereby lowering carbon intensity.

Emerging from the storm

From our efforts to diversify into low-carbon fuels and renewable energy sources, we have learned the importance of distinguishing between the various types of clean energy and the differing characteristics of each of the markets within which we might be contemplating such investments. In our target investment regions, wind energy, given adequate policy support, is becoming a proven means of adding renewable energy capacity which is reasonably predictable in terms of technical reliability, performance and output. "Newer" renewable energy sources, such as larger-scale solar or tidal power, still face major hurdles in our region with respect to commercial feasibility.

The way ahead

Over the short to medium term, we see wind, hydro, and nuclear power as making the major contribution to the growth of low carbon energy capacity in Asia, with solar energy, probably in the form of large-scale solar photovoltaic installations, and clean coal technologies gradually moving into commercial scale deployment. CLP has its part to play in the deployment of solar energy and other emerging, but reasonably proven, clean energy in Asia. Our experience has taught us that different markets offer different opportunities for clean energy. Sometimes this is for climatic or geographical reasons, but more often because of wide variances in national or local policy support. We view investments in the power industry as long-term plays and recognise that CLP must look beyond current market conditions and take a prudent view of the trends in environmental regulation over the decades ahead. Our view is that, whilst such regulations may vary significantly from country to country and between developed and developing economies, the general trend towards the reduction of carbon emissions remains clear. Therefore, we will continue to maintain a proactive stance, mindful of the value carbon reduction brings, when formulating our future investment strategies.

Climate change and carbon risk are also discussed in our 2009 Sustainability Report and our recent "Beyond Copenhagen – Powering Asia Responsibly" publication.

Safety and Health Risks

The construction, maintenance, and operation of power plants and electricity transmission systems involve risks in the workplace that can be reduced but not eliminated completely. Outstanding health and safety performance is one of the keys to the sustainability of a business because of the potential risks resulting from poor performance, such as physical harm, damage to reputation, legal liabilities, and business interruption.

The way we manage

We believe that all workplace injuries are preventable and we strive to achieve the safest working environments possible. A high standard of safety is as important to us as technical or commercial performance.

We have experienced an unprecedented growth in our business over the past decade, which has taken us into different jurisdictions with varying local safety norms. Our objective is always to use sound equipment and to establish effective systems and procedures for construction and operation. We also make a continuing effort to build the highest safety culture in our organisations so that managers and staff think about safety before anything else. We promote the same high standards for all our sites regardless of ownership, operational control, project complexity and cultural considerations. We require that all our managers contribute to this effort and display a visible leadership commitment to safety on their sites.

Emerging from the storm

The financial turmoil did not affect our commitment to safety. 2009 saw an even greater effort and level of resources than ever before devoted to safety improvement activities and initiatives. This has resulted in significantly better safety performance, with no fatalities on our sites, and a reduction in the injury rate to our employees.

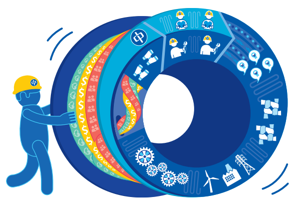
The way ahead

We have found that safety is one of our greatest challenges. We are frequently having to set standards and attempt to build a safety culture that is well above locally prevailing norms. We do, however, have the benefit of a group structure where we are able to mobilise a large number of managers into a combined effort and bring together their wide range of industry experience. Any single site is part of a much larger community within CLP and will receive support, suggestions and, at times, constructive peer pressure.

Our aim is to use this combined resource and knowledge to achieve a Group-wide workplace that is free from injuries. We will continue to apply Group and Regional level resources to support all those working with us and to provide the necessary management tools and skills to create a culture of zero injuries. We will require our partners and contractors to demonstrate a clear commitment to the same goal. Safety and Health are also discussed in our 2009 Sustainability Report.

As you can see from this Risk Management Report, we are improving and enhancing our risk management activities in parallel with the expansion of our business throughout the region. Our approach to identifying, assessing, managing, mitigating, and reporting risks forms an integral part of our pursuit of a high standard of corporate governance and enables us to make informed and timely decisions. The continuous improvement of our risk management framework and efforts to spread the culture of effective risk management throughout the organisation will be a critical tool in facing the challenges of the future.

Mark Takahashi
Group Director and Chief Financial Officer
Hong Kong, 25 February 2010



Audit Committee Report

The Audit Committee

The Audit Committee is appointed by CLP Holdings' Board of Directors and has four members, all of whom are Independent Non-executive Directors. The Chairman, Mr. Vernon Moore, Professor Judy Tsui and Mr. Nicholas Allen have appropriate professional qualifications and experience in financial matters and Mr. Hansen C. H. Loh has wide business experience. 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 Hong Kong Stock Exchange's "Code on Corporate Governance Practices" (the Stock Exchange Code). 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 Committee meets four times per annum so that full attention can be given to the matters submitted. Special meetings may be called by the Chairman or at the request of the CEO or Director – Group Internal Audit to review significant control or financial issues. The Committee is accountable to the Board and the minutes of all meetings are circulated to the Board. 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

Between 1 January 2009 and 25 February 2010 (the date of this Report), the Audit Committee 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 reviewed the Financial Statements for the year ended 31 December 2009, including the CLP Group's adopted accounting principles and practices, in conjunction with the internal and external auditors. The Committee also reviewed the compliance by the Company with the Stock Exchange Code throughout the year ended 31 December 2009. Individual attendance of members at the four meetings held in 2009 is set out in the Corporate Governance Report on page 97. The work performed by the Committee in 2009 included reviews of

- the 2008 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 2009 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2009 and the interim results announcement, with a recommendation to the Board for approval;
- compliance by the Company with the Stock Exchange Code throughout the year ended 31 December 2008 and throughout the six months ended 30 June 2009. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 94 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 2008. 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 2008*;
- 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 2008, 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 2008 for approval by the Board, with a

recommendation to the Board for their reappointment for the financial year 2009, subject to final approval by shareholders* (which was given on 28 April 2009);

- the audit strategy submitted by external auditors, PricewaterhouseCoopers (PwC) for the year ended 31 December 2009;
- the proposed engagement of external auditors in respect of audit-related and permissible non-audit services*;
- 27 reports on the CLP Group's affairs submitted by Group Internal Audit during 2008. Of these, three 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 review of 2008 and audit plan for 2009 with areas of emphasis identified;
- Group internal audit policies and procedures;
- internal control review approach for 2009. 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 the substance 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 2009. 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 18 February 2010, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2009 and the annual results announcement with a recommendation to the Board for approval. The Committee was advised that 2 out of 23 reports on the Group's affairs submitted by Group Internal Audit during 2009 carried an unsatisfactory audit opinion, and the issues arising from these audits are being addressed by management. The Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2009 and audit plan for 2010, the staffing and resources of the Group Internal Audit department, and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function. 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 2009.

Internal Control

Based on the information received from management, external auditors and Group Internal Audit, the Committee believes that overall financial and operating controls for the Group during 2009 continue to be effective and adequate. Significant issues which have been raised by external or internal auditors during 2009 have been or are 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 on pages 103 to 105. 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 Code with respect to internal controls.

External Auditors

PwC were reappointed independent auditors of the Company at the 2009 Annual General Meeting. PwC audit all companies in the CLP Group which require statutory audit opinions. Having reviewed PwC's performance during 2009 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, 25 February 2010

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 previously reviewed at the beginning of 2004 and 2007 (the 2004 and 2007 Reviews). Accordingly, a new review was undertaken at the beginning of 2010 (the 2010 Review). The methodology adopted in the 2010 Review was the same as that used in the 2004 and 2007 Reviews and as explained to shareholders in the CLP Code. The methodology is aligned with the recommendations of the Higgs Report and includes

- the application of an average of the hourly rates at partner level charged by legal and financial advisors and accounting and consulting firms in providing professional services to CLP. Based on this, the average hourly rate at partner level has been increased from HK$4,000 to HK$4,500. It should be noted that the original hourly rate of HK$4,000 has remained unchanged since its first application to the calculation of Non-executive Directors' fees in 2004;
- 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.). The 2010 Review revealed a significant increase between 2007 and 2009 in the time spent by Non-executive Directors in performing their duties on the Board and on Board Committees; and
- an additional fee of about 40% and 10% per annum for the Chairmen of the Board / Board Committees and the Vice Chairman of the Board respectively (reflecting the additional workload and responsibility which these offices involve).

The resulting fees were then benchmarked against those paid by leading listed companies in Hong Kong and major utility companies listed on the London Stock Exchange. The methodology and resulting fees were independently reviewed by Stephenson Harwood (SH), Solicitors. Further to CLP's commitment to the adoption of a transparent methodology for determining Non-executive Directors' remuneration, the 2010 Review and the opinion of SH 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 below were proposed by Management, reviewed by SH and will be put for approval by our shareholders at the Annual General Meeting on 27 April 2010. 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.

	Proposed fees per annum (w.e.f. 28 April 2010) HK$	Current Fees per annum HK$
Board		
Chairman	560,000	430,000
Vice Chairman	440,000	340,000
Non-executive Director	400,000	310,000
Nomination Committee*		
Chairman	14,000	14,000
Member	10,000	10,000
Audit Committee		
Chairman	315,000	220,000
Member	225,000	160,000
Finance & General Committee		
Chairman	390,000	215,000
Member	280,000	155,000
Human Resources & Remuneration Committee		
Chairman	45,000	40,000
Member	35,000	30,000
Provident & Retirement Fund Committee*		
Chairman	14,000	14,000
Member	10,000	10,000
Sustainability Committee		
Chairman	75,000	45,000
Member	55,000	35,000

* A nominal fee has been maintained for the Chairman and Member of the Nomination Committee and the Provident & Retirement Fund Committee.

Note : Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

The proposed fees represent a substantial percentage increase on those paid between 2007 and 2010. This is in line with a measurable and major increase in the workload shouldered by our Non-executive Directors (reflecting the growth in CLP's business and increased regulatory requirements). The methodology applied in determining those fees is unchanged from that used in 2007 and publicly disclosed. We have also applied the methodology in a conservative manner.

In particular, we have neither assumed nor taken into account

- any increase in Directors' workload over the coming years to 2013 (despite the rising trend of past years);
- any increase in the hourly rates of professional advisors in the coming years (again, despite the rising trend of past years); and
- in benchmarking our own Directors' fees against other companies, any ongoing increase in directors' fees paid by those companies.

4. Non-executive Directors – Remuneration in 2009

The fees paid to each of our Non-executive Directors in 2009 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below.

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	Human Resources & Remuneration Committee	Provident & Retirement Fund Committee	Sustainability Committee	China Committee [1]	Total 2009	Total 2008
Non-executive Directors										
The Hon. Sir Michael Kadoorie	430,000 (C)	–	14,000 (C)	–	–	–	–	21,878 (C)	465,878	504,000
Mr. William Mocatta [2]	340,000 (VC)	–	–	215,000 (C)	40,000 (C)	14,000 (C)	–	16,409	625,409	656,473
Mr. R. J. McAulay	310,000	–	–	–	–	–	–	–	310,000	310,000
Mr. J. A. H. Leigh	310,000	–	–	–	–	–	–	–	310,000	310,000
Mr. R. Bischof	310,000	–	–	–	–	10,000	–	–	320,000	320,000
Mr. I. D. Boyce [3]	310,000	–	–	27,799	–	–	–	–	337,799	310,000
Mr. Jason Whittle	310,000	–	–	–	–	–	–	–	310,000	470,462
Dr. Y. B. Lee	310,000	–	–	–	–	–	–	16,409	326,409	355,000
Mr. Paul A. Theys	310,000	–	–	–	–	–	–	16,409	326,409	357,473
Mr. J. S. Dickson Leach	–	–	–	–	–	–	–	–	–	101,346
Independent Non-executive Directors										
The Hon. Sir S. Y. Chung [4]	310,000	–	10,000	–	–	–	–	–	320,000	352,473
Mr. V. F. Moore	310,000	220,000 (C)	–	155,000	30,000	–	–	–	715,000	717,473
Mr. Hansen C. H. Loh	310,000	160,000	10,000	–	–	–	–	–	480,000	479,973
Mr. Paul M. L. Kan	310,000	–	–	–	–	–	–	–	310,000	310,000
Professor Judy Tsui	310,000	160,000	–	–	–	–	35,000	16,409	521,409	550,000
Sir Rod Eddington	310,000	–	–	155,000	30,000	–	–	–	495,000	495,000
Mr. Nicholas C. Allen [5]	197,818	102,099	–	25,693	–	–	8,750	–	334,360	–
Mr. Peter T. C. Lee [6]	245,978	–	–	–	23,804	–	27,772	–	297,554	345,000
Ms. Marjorie M. T. Yang [7]	16,271	–	–	–	–	–	–	2,362	18,633	206,758
Dr. William K. Fung	–	–	–	–	–	–	–	–	–	88,750
								Total	6,823,860	7,240,181

Notes:

(1) The China Committee was abolished on 13 May 2009, and all significant matters relating to China are considered by the full Board.

(2) Mr. William Mocatta also received HK$281,696 as fees for his service on the boards of CLP Power Hong Kong Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. In 2008, he received HK$226,304 as fees for his service on the boards of these companies and Hong Kong Nuclear Investment Company Limited.

(3) Mr. I. D. Boyce was appointed a member of the Finance & General Committee on 27 October 2009.

(4) The Hon. Sir S. Y. Chung resigned as a member of the Human Resources & Remuneration Committee on 1 January 2009.

(5) Mr. Nicholas C. Allen was appointed an Independent Non-executive Director and a member of the Audit Committee on 12 May 2009. He was also appointed a member of the Sustainability Committee, member of the Finance & General Committee and member of the Human Resources & Remuneration Committee on 1 October 2009, 1 November 2009 and 1 February 2010 respectively.

(6) The late Mr. Peter T. C. Lee died on 17 October 2009. At the time of his death he was an Independent Non-executive Director and member of the Human Resources & Remuneration and the Sustainability Committees.

(7) Ms. Marjorie M. T. Yang resigned as a Director on 20 January 2009.

5. Executive Directors – Remuneration in 2009

The remuneration paid to the Executive Directors of the Company in 2009 was as follows:

	Base Compensation, Allowances & Benefits HK$M	Performance Bonus (Note A) Annual Incentive HK$M	Performance Bonus (Note A) Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total HK$M
2009					
CEO					
(Mr. Andrew Brandler)	6.8	5.8	2.2	0.8	15.6
Group Executive Director					
(Mr. Peter P. W. Tse) (Note B)	4.6	3.3	1.4	0.6	9.9
Group Executive Director – Strategy					
(Mr. Peter W. Greenwood)	5.1	3.8	–	0.6	9.5
	16.5	12.9	3.6	2.0	35.0
2008					
CEO	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	5.0	4.7	–	0.6	10.3
	16.3	15.1	2.9	1.9	36.2

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 2009 was reviewed and approved by the Human Resources & Remuneration Committee after 31 December 2009. 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 2009 for the last year in excess of the previous accruals made.

(b) The long-term incentive (LTI) is the incentive for 2006, paid in 2009 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2005 paid in 2008). About 24% of the amount of 2006 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2006 and 2008, with dividends reinvested.

(c) Payment of the annual incentive and granting of the LTI awards relating to 2009 performance will be made in March 2010. These payments and awards are subject to the prior approval of the Human Resources & Remuneration Committee. Details of these will be published on the CLP Group website at the time that the 2009 Annual Report is published.

Note B:

Mr. Peter P. W. Tse, formerly Group Executive Director & Chief Financial Officer, was succeeded as Chief Financial Officer by Mr. Mark Takahashi on 1 June 2009, a member of the Senior Management of the Company.

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.

6. Total Directors' Remuneration in 2009

The total remuneration of Non-executive and Executive Directors in 2009 was:

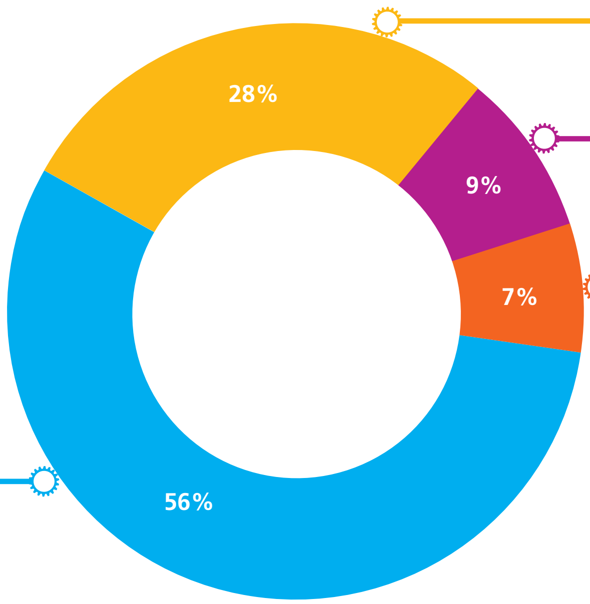
	2009 HK$M	2008 HK$M
Fees	7	7
Base compensation, allowances and benefits in kind	16	16
Performance bonus*		
– Annual incentive	13	15
– Long-term incentive	4	3
Provident fund contributions	2	2
	42	43

* Refer to Note A on performance bonus on page 121.

Of the total remuneration paid to Directors, HK$2 million (2008: HK$3 million) has been charged to the SoC operation.

7. Senior Management – Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 90. 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 2008 and 2009.



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.

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 2009, based on an assessment of the 2008 performance of the Group and the individuals concerned. The average payout to this group in 2009 was 64% above the target level based on the above target achievement of financial goals, operational performance targets and individual objectives for 2008.

Long-term Incentive

The Long-term Incentive (LTI) Plan is designed to strengthen the linkage to organisational and individual performance and enhance its effectiveness as a retention plan. The following diagram illustrates the composition of the LTI award:

Target LTI award set at the beginning of 2007

×

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

Payment of LTI award will be made in 2010

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.

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.

8. Senior Management – Remuneration in 2009

Senior Management comprises the Executive Directors and managers listed below. Details of their remuneration (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
2009						
Chief Executive Officer – OneEnergy Limited (Mr. Mark Takahashi) (a)	1.4	1.9	0.8	0.2	–	4.3
Group Director & Chief Financial Officer (Mr. Mark Takahashi) (a)	2.3	1.2	–	0.3	–	3.8
Group Director – Managing Director Hong Kong (Mrs. Betty Yuen) (b)	4.6	4.5	1.6	0.6	–	11.3#
Group Director – Managing Director Australia (Mr. Richard McIndoe)	4.8	4.5	1.9	0.6	9.0 (c)	20.8
Group Director – Operations (Mr. Peter Littlewood)	3.5	2.8	1.1	0.4	–	7.8
Managing Director – India (Mr. Rajiv Mishra)	3.0	1.7	0.4	0.4	–	5.5
Managing Director – China (Dr. Ko Yu Ming)	2.6	1.8	0.5	0.3	–	5.2
Managing Director – Southeast Asia (Mr. Mark Jobling) (d)	1.6	0.8	–	0.2	–	2.6
Group Director – Corporate Finance and Development (Mr. Stefan Robertsson)	2.7	1.9	0.7	0.3	–	5.6
Group Director – Carbon Ventures (Mr. Giuseppe Jacobelli)	2.7	1.8	–	0.3	–	4.8
	29.2	22.9	7.0	3.6	9.0	71.7
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	4.7	4.6	1.2	0.6	8.2 (c)	19.3
Group Director – Operations	3.4	3.2	0.7	0.4	-	7.7
Chief Executive Officer – OneEnergy Limited (Mr. Mark Takahashi)	3.3	3.0	0.7	0.4	-	7.4
Managing Director – India	2.8	2.2	-	0.3	-	5.3
Managing Director – China (Mr. Shen Zhongmin) (resigned on 31 August 2008)	2.0	1.1	-	0.2	2.8 (e)	6.1
Managing Director – China (Dr. Ko Yu Ming) (f)	0.8	0.4	-	0.1	-	1.3
Group Director – Corporate Finance and Development	2.6	2.2	0.6	0.3	-	5.7
Group Director – Carbon Ventures	1.4	0.7	-	0.2	0.8 (g)	3.1
	25.7	22.0	4.5	3.1	11.8	67.1

Notes:

(a) Mr. Mark Takahashi was the Chief Executive Officer of OneEnergy Limited up to 31 May 2009. He became Group Director & Chief Financial Officer on 1 June 2009.

(b) Mrs. Betty Yuen was appointed as the Vice Chairman of CLP Power Hong Kong Ltd. on 4 January 2010. Mr. Richard Lancaster was appointed as Group Director – Managing Director Hong Kong on 4 January 2010.

(c) 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$7.7 million (86%) (2008: HK$7.3 million (89%)) was the tax payment to the tax authority of the country where the executive was based during secondment.

(d) Mr. Mark Jobling became Managing Director – Southeast Asia on 1 June 2009, and the remuneration covered the period from that date to 31 December 2009.

(e) 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%) was the tax payment to the tax authority of the country where the executive was based during secondment.

(f) 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.

(g) 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 121.

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

The five highest paid individuals in the Group included three Directors (2008: two Directors), two members of Senior Management (2008: two 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:

	2009 HK$M	2008 HK$M
Base compensation, allowances and benefits in kind	26	25
Performance bonus *		
– Annual incentive	22	24
– Long-term incentive	7	4
Provident fund contributions	3	3
Final payment #	–	5
Other payments **	9	8
	67	69

* Refer to Note A on performance bonus on page 121.

\# 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.

** Refer to Note (c) above on other payments.

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

	Number of Individuals 2009	Number of Individuals 2008		Number of Individuals 2009	Number of Individuals 2008
HK$ 9,000,001 – HK$ 9,500,000	1	–	HK$ 9,500,001 – HK$10,000,000	1	–
HK$10,000,001 – HK$10,500,000	–	1	HK$11,000,001 – HK$11,500,000	1	1
HK$12,000,001 – HK$12,500,000	–	1	HK$15,500,001 – HK$16,000,000	1	1
HK$19,000,001 – HK$19,500,000	–	1	HK$20,500,001 – HK$21,000,000	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.

William Mocatta

William Mocatta
Chairman
Human Resources & Remuneration Committee
Hong Kong, 25 February 2010

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2009.

Principal Activities

The principal activity of the Company is investment holding and those of the subsidiaries are the generation and supply of electricity. The Company's principal subsidiary companies are listed 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.

Earnings and Final Dividend

	2009 HK$M	2008 HK$M
Total earnings for the year	8,196	10,423
Less: Interim dividends of HK$1.56 (2008 : HK$1.56) per share paid	(3,753)	(3,757)
Balance after interim dividends	4,443	6,666
The Directors recommend that this balance be dealt with as follows:		
Final dividend of HK$0.92 (2008: HK$0.92) per share	2,214	2,214
Retained profits for the year	2,229	4,452
	4,443	6,666

Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting (AGM) to be held on 27 April 2010, the final dividend will be paid on 28 April 2010.

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 58 to 79 of this Annual Report.

Share Capital

There was no movement in the share capital of the Company during the year. 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$28,158 million as at 31 December 2009 (2008: HK$21,421 million). Movements in the reserves of the Group and the Company during the year are set out in the Statement of Changes in Equity on pages 139 and 140 of this Annual Report.

Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK$9,616 million, comprising HK$8,012 million in owned assets (transmission and distribution equipment, land and buildings) and HK$1,604 million in leased assets. In 2008, a total addition of HK$7,644 million was recorded, made up of HK$6,526 million for owned assets and HK$1,118 million for leased assets. Additions to the fixed assets of Castle Peak Power Company Limited totalled HK$1,590 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 2009 amounted to HK$39,431 million (2008: HK$26,696 million). Particulars of borrowings are set out in Note 23 to the Financial Statements.

Financial Assistance and Guarantees to Affiliated Companies

The financial assistance given to affiliated companies and the guarantees given for facilities granted to affiliated companies aggregated to 5.1% of the Group's total assets as at 31 December 2009.

Finance Costs Capitalised

Finance costs amounting to HK$318 million (2008: HK$380 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$3,843,000 (2008: HK$7,507,000).

Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2009 and for the previous four financial years are on pages 204 and 205 of this Annual Report. A ten-year summary is on the CLP website.

Senior Management

The biographical details of the Senior Management as at the date of this Report are set out on page 90 of this Annual Report. Details of their remuneration are set out in the Remuneration Report at page 118 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 67.37% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 34.64% from Castle Peak Power Company Limited (CAPCO) of which Mr. Neo Kim Teck, Mr. William Mocatta and Mr. Andrew Brandler are directors. 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. 15.11% from Australian Energy Market Operator (AEMO)/National Electricity Market Management Company Limited (NEMMCO) in which the Group has no interest. NEMMCO ceased operations with effect from 1 July 2009 and all of its roles and responsibilities have been transitioned to AEMO. AEMO/NEMMCO is the administrator and operator of the Australian energy market, from whom electricity is bought to supply TRUenergy group customers and to whom electricity is sold from TRUenergy group generators.

3. 9.00% from Guangdong Nuclear Investment Company, Limited (GNIC) in which the Group has no interest.

4. 5.00% from Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) of which Mr. Peter P. W. Tse is a director. GNPJVC is 25% and 75% owned by the Group and GNIC respectively and supplies electricity to the Group.

5. 3.62% from SPI Electricity Pty Ltd. (SPI) in which the Group has no interest. TRUenergy pays the transmission and distribution charges to SPI which owns and operates the electricity distribution network that provides services to customers located in the eastern half of Victoria.

As at 31 December 2009, Bermuda Trust Company Limited, Bermuda Trust (Cayman) Limited, Guardian Limited, Harneys Trustees Limited (formerly known as HWR Trustees Limited), Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited, The Magna Foundation, Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited), The Mikado Private Trust Company Limited, Muriel, Lady Kadoorie, New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Oak CLP Limited, Oak (Unit Trust) Holdings Limited, The Hon. Sir Michael Kadoorie, Lady Kadoorie, Mr. R. J. McAulay, Mr. J. A. H. Leigh and Mr. R. Parsons 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.

Directors

With the exception of Mr. Nicholas C. Allen, the Directors of the Company, whose names appear on pages 88 and 89 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 118 of this Annual Report.

Mr. Nicholas C. Allen was appointed an Independent Non-executive Director effective from 12 May 2009. Ms. Marjorie M. T. Yang resigned as an Independent Non-executive Director on 20 January 2009. The late Mr. Peter T. C. Lee, an Independent Non-executive Director of the Company, passed away on 17 October 2009.

Mr. Nicholas C. Allen, being a new Independent Non-executive Director appointed by the Board, retires at the AGM in accordance with Article 109 of the Company's Articles of Association and, being eligible, offers himself for election by shareholders.

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Article 103 of the Company's Articles of Association, The Hon. Sir Michael Kadoorie and Messrs. V. F. Moore, Hansen C. H. Loh, Peter P. W. Tse, Andrew Brandler and Paul A. Theys 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 2009 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. William Mocatta } (for the year)
Mr. Jason Whittle, alternate to Mr. R. J. McAulay }
Mr. Neo Kim Teck, alternate to Mr. Paul A. Theys }

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 2009, 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 2009 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)	457,172,780	19.00023
Mr. William Mocatta	Founder of a discretionary trust	250,000	0.01039
Mr. R. J. McAulay	Note (b)	273,611,649	11.37138
The Hon. Sir S. Y. Chung	Beneficial owner	393,789	0.01637
Mr. J. A. H. Leigh	Note (c)	209,071,077	8.68905
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)	83,069,290	3.45238
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 457,172,780 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) 70,146,655 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects.

iii) 237,044,212 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

iv) 147,980,670 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

v) 1,000,000 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

vi) 1,000,000 shares were ultimately held by a discretionary trust, 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) to (vi) above. The spouse of The Hon. Sir Michael Kadoorie was therefore deemed to be interested in 457,172,780 shares in the Company representing approximately 19.00% of the issued share capital of the Company, of which 1,243 shares were held by her in a personal capacity and an aggregate of 457,171,537 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 457,171,537 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 273,611,649 shares in the Company. These shares were held in the following capacity:

i) 13,141 shares were held in a personal capacity.

ii) 70,146,655 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 was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 209,071,077 shares in the Company. These shares were held in the following capacity:

i) 57,000 shares were held in a beneficial owner capacity.

ii) 5,562,224 shares were ultimately held by a discretionary trust. Mr. J. A. H. Leigh was deemed to be interested in such 5,562,224 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 5,562,224 shares.

iii) 203,451,853 shares were ultimately held by a discretionary trust. Mr. J. A. H. Leigh was deemed to be interested in such 203,451,853 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 203,451,853 shares.

(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 83,069,290 shares in the Company. These shares were held in the following capacity:

i) 600 shares were held in a personal capacity.

ii) 70,146,655 shares were ultimately held by discretionary trusts, of which Mr. Jason Whittle is one of the discretionary objects.

iii) 7,359,811 shares were ultimately held by a discretionary trust, of which Mr. Jason Whittle is one of the discretionary objects.

iv) 5,562,224 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, Paul A. Theys and Nicholas C. Allen, Professor Judy Tsui and Sir Rod Eddington who are Directors of the Company, 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 2009. 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 2009.

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 2009.

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 2009, 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 2009:

Substantial Shareholders	Capacity	Total Interests in Number of Ordinary Shares of the Company	% of the Issued Share Capital of the Company
Bermuda Trust Company Limited	Trustee / Interests of controlled corporations	518,278,544 Note (a)	21.54
Bermuda Trust (Cayman) Limited	Trustee / Interests of controlled corporations	218,171,475 Note (d)	9.07
Guardian Limited	Beneficiary / Interests of controlled corporations	209,014,077 Note (h)	8.69
Harneys Trustees Limited (formerly known as HWR Trustees Limited)	Interests of controlled corporations	394,660,706 Note (c)	16.40
Lawrencium Holdings Limited	Beneficiary	147,980,670 Note (b)	6.15
Lawrencium Mikado Holdings Limited	Beneficiary	239,044,212 Note (b)	9.93
The Magna Foundation	Beneficiary	239,044,212 Note (b)	9.93
Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited)	Interest of controlled corporation / Beneficiary of trusts	239,044,212 Note (a)	9.93
The Mikado Private Trust Company Limited	Trustee / Interests of controlled corporations	387,024,882 Note (b)	16.08
Muriel, Lady Kadoorie	Founder and Beneficiary	203,451,853 Note (d)	8.46
New Mikado Holding Inc. (formerly known as Mikado Holding Inc.)	Trustee	239,044,212 Note (a)	9.93
Oak CLP Limited	Beneficiary	196,554,172 Note (d)	8.17
Oak (Unit Trust) Holdings Limited	Trustee	196,554,172 Note (a)	8.17
The Hon. Sir Michael Kadoorie	Note (e)	457,172,780 Note (e)	19.00
Mr. R. J. McAulay	Note (f)	273,611,649 Note (f)	11.37
Mr. J. A. H. Leigh	Notes (g) & (h)	209,071,077 Notes (g) & (h)	8.69
Mr. R. Parsons	Trustee	209,014,077 Note (h)	8.69

Notes:

(a) Bermuda Trust Company Limited was deemed to be interested in the shares in which New Mikado Holding Inc. (formerly known as Mikado Holding Inc.), Mikado Investments (PTC) Limited (formerly known as Mikado Investments Limited), Oak (Unit Trust) Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and / or Mr. R. J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

In addition, the Company was notified by Oak (Unit Trust) Holdings Limited that it was interested in 196,554,172 shares as at 26 August 2003. However, Bermuda Trust Company Limited indicated in its latest disclosure form that as at 8 October 2009, 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 8 October 2009 but was not itself under a duty to notify the Company of the change under the Securities and Futures Ordinance.

(b) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited, Lawrencium Mikado Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested. The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".

(c) Harneys Trustees Limited (formerly known as HWR Trustees Limited) controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.

(d) Bermuda Trust (Cayman) Limited was deemed to be interested in the shares in which Oak CLP Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and / or by virtue of having direct or indirect control over such companies. The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the shares held by a discretionary trust of which Muriel, Lady Kadoorie is a founder and a beneficiary and of which Mr. R. J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

In addition, 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.

(e) See Note (a) under "Interests of Directors and Chief Executive Officer".

(f) See Note (b) under "Interests of Directors and Chief Executive Officer".

(g) See Note (c) under "Interests of Directors and Chief Executive Officer".

(h) 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 209,014,077 shares in which Guardian Limited was interested was duplicated within the interests attributed to each of Mr. J. A. H. Leigh and Mr. R. Parsons.

2. Aggregate short position in the shares and underlying shares of the Company

As at 31 December 2009, 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 2009, 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.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 32 to the Financial Statements. None constitutes a discloseable connected transaction as defined under the Listing Rules.

Connected Transaction

On 1 February 2010, CLP Power China (Jiangbian) Limited, an indirect wholly-owned subsidiary of the Company, entered into a conditional equity interest sale and purchase agreement with Sichuan Basic Power Company Limited to acquire from Sichuan Basic Power Company Limited its 35% equity interest in the registered capital of CLP Sichuan (Jiangbian) Power Company Limited (a then 65% owned indirect subsidiary of the Company) at a cash consideration of RMB63.6 million. In the circumstances, Sichuan Basic Power Company Limited is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. After completion of the acquisition, CLP Sichuan (Jiangbian) Power Company Limited will become a wholly-owned subsidiary of CLP Power China (Jiangbian) Limited who will then assume the obligation of Sichuan Basic Power Company Limited to pay the unpaid registered capital of RMB123.62 million in CLP Sichuan (Jiangbian) Power Company Limited. This acquisition will be reflected in the Financial Statements for the year ending 31 December 2010. Details of the acquisition can be found in the announcement of this connected transaction made by the Company and published on the websites of the Company and the Stock Exchange of Hong Kong.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report at page 91 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

William Mocatta
Vice Chairman
Hong Kong, 25 February 2010

Financial Statements

The Financial Statements rest on Board and Management accountability and independent auditing, all within a defined legal and regulatory framework. They represent the key process by which the delivery of economic value is measured and reported.

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 134 to 200, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows 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 2009 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, 25 February 2010

Consolidated Income Statement

for the year ended 31 December 2009

	Note	2009 HK$M	2008 HK$M
Revenue	3	50,668	54,297
Expenses			
Purchases of electricity, gas and distribution services		(18,306)	(18,235)
Operating lease and lease service payments	4	(9,201)	(9,102)
Staff expenses		(1,819)	(1,755)
Fuel and other operating expenses		(6,316)	(8,570)
Depreciation and amortisation		(4,332)	(4,055)
		(39,974)	(41,717)
Other income	5	153	727
Operating profit	6	10,847	13,307
Finance costs	7	(3,477)	(4,245)
Finance income	7	69	124
Share of results, net of income tax			
Jointly controlled entities	15	2,675	2,624
Associated companies	16	(260)	(27)
Profit before income tax		9,854	11,783
Income tax expense	8	(1,665)	(1,349)
Profit for the year		8,189	10,434
Loss / (profit) attributable to minority interests		7	(11)
Earnings attributable to shareholders	9	8,196	10,423
Dividends	10		
Interim dividends paid		3,753	3,757
Final dividend proposed		2,214	2,214
		5,967	5,971
Earnings per share, basic and diluted	11	HK$3.41	HK$4.33

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2009

	2009		2008	
	HK$M	HK$M	HK$M	HK$M
Profit for the year		**8,189**		10,434
Other comprehensive income				
Exchange differences on translation of				
Subsidiaries	**4,637**		(4,741)	
Jointly controlled entities	**371**		267	
Associated companies	**62**		(60)	
		5,070		(4,534)
Cash flow hedges				
Net fair value gains	**402**		65	
Reclassification adjustment for amounts included in profit or loss	**(145)**		218	
Transfer to assets	**(7)**		14	
Translation difference	**50**		(30)	
Tax on the above items	**(80)**		(38)	
		220		229
Available-for-sale investments				
Fair value gains	**109**		28	
Tax on the above item	**(18)**		(13)	
		91		15
Revaluation surplus on step-acquisition of subsidiaries		**15**		–
Share of other comprehensive income of jointly controlled entities		**120**		(625)
Reclassification adjustment relating to disposal of jointly controlled entities		**–**		(319)
Other comprehensive income / (loss) for the year, net of tax		**5,516**		(5,234)
Total comprehensive income for the year		**13,705**		5,200
Total comprehensive income attributable to:				
Shareholders of the Company		**13,711**		5,190
Minority interests		**(6)**		10
		13,705		5,200

This year, a new statement of comprehensive income is presented. The concept of other comprehensive income is explained on page 58.

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2009

	Note	2009 HK$M	2008 HK$M
Non-current assets			
Fixed assets	12(A)	96,604	86,873
Leasehold land and land use rights	12(B)	2,254	2,250
Goodwill and other intangible assets	13	8,105	6,324
Interests in jointly controlled entities	15	18,838	17,791
Interests in associated companies	16	1,813	242
Finance lease receivables	17	2,379	2,387
Deferred tax assets	25	3,355	2,992
Fuel clause account	26	14	800
Derivative financial instruments	18	1,821	1,505
Available-for-sale investments	19	1,692	224
Other non-current assets		327	258
		137,202	121,646
Current assets			
Inventory – stores and fuel		715	662
Trade and other receivables	20	9,018	8,239
Finance lease receivables	17	130	128
Derivative financial instruments	18	1,472	1,374
Bank balances, cash and other liquid funds	21	7,994	782
		19,329	11,185
Current liabilities			
Customers' deposits	20(a)	(3,854)	(3,722)
Trade and other payables	22	(8,926)	(5,919)
Income tax payable		(208)	(366)
Bank loans and other borrowings	23	(6,892)	(3,313)
Obligations under finance leases	24	(1,523)	(1,403)
Derivative financial instruments	18	(1,035)	(1,198)
		(22,438)	(15,921)
Net current liabilities		(3,109)	(4,736)
Total assets less current liabilities		134,093	116,910

	Note	2009 HK$M	2008 HK$M
Financed by:			
Equity			
Share capital	*28*	12,031	12,031
Share premium		1,164	1,164
Reserves	*29*		
Proposed dividends		2,214	2,214
Others		55,352	47,608
Shareholders' funds		70,761	63,017
Minority interests		107	105
		70,868	63,122
Non-current liabilities			
Bank loans and other borrowings	*23*	32,539	23,383
Obligations under finance leases	*24*	20,332	20,362
Deferred tax liabilities	*25*	7,009	6,435
Derivative financial instruments	*18*	617	837
Scheme of Control (SoC) reserve accounts	*27*	1,654	1,826
Other non-current liabilities		1,074	945
		63,225	53,788
Equity and non-current liabilities		134,093	116,910

The risk exposures of the Group's financial instruments are detailed in the Risk Management Report and the Financial Risk Management section set out on pages 107 to 115 and 194 to 200 respectively.

William Mocatta Andrew Brandler Mark Takahashi

William Mocatta
Vice Chairman

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

Hong Kong, 25 February 2010

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Company Statement of Financial Position
as at 31 December 2009

	Note	2009 HK$M	2008 HK$M
Non-current assets			
Fixed assets	*12(A)*	62	42
Investments in subsidiaries	*14*	46,005	37,933
Advance to a subsidiary	*14*	39	39
Other non-current assets		2	2
		46,108	38,016
Current assets			
Trade and other receivables	*20*	44	55
Bank balances and cash		3	1
		47	56
Current liabilities			
Trade and other payables	*22*	(200)	(192)
Advances from subsidiaries	*32(C)*	(110)	(106)
Bank loans and other borrowings	*23*	(2,000)	(166)
		(2,310)	(464)
Net current liabilities		(2,263)	(408)
Total assets less current liabilities		43,845	37,608
Financed by:			
Equity			
Share capital	*28*	12,031	12,031
Share premium		1,164	1,164
Reserves			
Proposed dividends		2,214	2,214
Others		28,436	21,699
Shareholders' funds		43,845	37,108
Non-current liabilities			
Bank loans and other borrowings	*23*	–	500
Equity and non-current liabilities		43,845	37,608

William Mocatta
Vice Chairman

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

Hong Kong, 25 February 2010

The notes and disclosures on pages 142 to 200 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Attributable to shareholders					
	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Total HK$M	Minority Interests HK$M	Total HK$M
Balance at 1 January 2008	12,041	1,164	50,696	63,901	95	63,996
Total comprehensive income for the year	–	–	5,190	5,190	10	5,200
Dividends paid						
2007 final	–	–	(2,216)	(2,216)	–	(2,216)
2008 interim	–	–	(3,757)	(3,757)	–	(3,757)
Repurchase of shares	(10)	–	(91)	(101)	–	(101)
Balance at 31 December 2008	12,031	1,164	49,822	63,017	105	63,122
Balance at 1 January 2009	12,031	1,164	49,822	63,017	105	63,122
Total comprehensive income for the year	–	–	13,711	13,711	(6)	13,705
Dividends paid						
2008 final	–	–	(2,214)	(2,214)	–	(2,214)
2009 interim	–	–	(3,753)	(3,753)	–	(3,753)
Capital contribution from minority interests	–	–	–	–	8	8
Balance at 31 December 2009	**12,031**	**1,164**	**57,566**	**70,761**	**107**	**70,868**

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2009

	Share Capital HK$M	Share Premium HK$M	Capital Redemption Reserve HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2008	12,041	1,164	2,482	20,854	36,541
Total comprehensive income for the year	–	–	–	6,641	6,641
Dividends paid					
2007 final	–	–	–	(2,216)	(2,216)
2008 interim	–	–	–	(3,757)	(3,757)
Repurchase of shares	(10)	–	10	(101)	(101)
Balance at 31 December 2008	12,031	1,164	2,492	21,421[a]	37,108
Balance at 1 January 2009	12,031	1,164	2,492	21,421	37,108
Total comprehensive income for the year	–	–	–	12,704	12,704
Dividends paid					
2008 final	–	–	–	(2,214)	(2,214)
2009 interim	–	–	–	(3,753)	(3,753)
Balance at 31 December 2009	**12,031**	**1,164**	**2,492**	**28,158**[a]	**43,845**

Note (a): The proposed final dividend at 31 December 2009 was HK$2,214 million (2008: HK$2,214 million) and the balance of retained profits after the proposed final dividend was HK$25,944 million (2008: HK$19,207 million).

At 31 December 2009, distributable reserves of the Company amounted to HK$28,158 million (2008: HK$21,421 million).

The notes and disclosures on pages 142 to 200 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2009

	Note	2009 HK$M	2009 HK$M	2008 HK$M	2008 HK$M
Operating activities					
Net cash inflow from operations	*30*	15,398		15,916	
Interest received		55		132	
Income tax paid		(924)		(810)	
Net cash inflow from operating activities			14,529		15,238
Investing activities					
Capital expenditure		(7,449)		(6,569)	
Capitalised interest paid		(320)		(388)	
Proceeds from disposal of fixed assets		121		175	
Additions of intangible assets		(124)		(168)	
Additions of available-for-sale investments		(144)		(106)	
Acquisition of subsidiaries		(153)		(321)	
Proceeds from sale of Power Generation Services Company Limited (PGS) / SEAGas		156		895	
Investments in and advances to jointly controlled entities and associated company		(1,992)		(1,347)	
Dividends received from jointly controlled entities		2,557		2,676	
Increase in bank deposits with maturities of more than three months		(8)		–	
Net cash outflow from investing activities			(7,356)		(5,153)
Net cash inflow before financing activities			7,173		10,085
Financing activities					
Proceeds from long-term borrowings		18,105		9,591	
Repayment of long-term borrowings		(7,694)		(11,083)	
Repayment of obligations under finance leases		(1,516)		(1,558)	
(Decrease) / increase in short-term borrowings		(535)		1,872	
Interest and other finance costs paid		(3,354)		(4,074)	
Repurchase of shares		–		(101)	
Dividends paid		(5,967)		(5,973)	
Net cash outflow from financing activities			(961)		(11,326)
Net increase / (decrease) in cash and cash equivalents			6,212		(1,241)
Cash and cash equivalents at beginning of year			780		2,160
Effect of exchange rate changes			156		(139)
Cash and cash equivalents at end of year			7,148		780
Analysis of balances of cash and cash equivalents					
Short-term investments			–		90
Deposits with banks			7,214		228
Cash at banks and on hand			780		464
Bank balances, cash and other liquid funds	*21*		7,994		782
Excluding:					
Cash restricted for specific purposes			(838)		(2)
Bank deposits with maturities of more than three months			(8)		–
			7,148		780

The notes and disclosures on pages 142 to 200 are an integral part of these consolidated financial statements.

Significant Accounting Policies

1. Basis of Preparation

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements.

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 measured at fair values.

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 153 to 156.

2. Effect of New / Revised HKFRS

(A) Adoption of new / revised HKFRS effective 1 January 2009

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

- HKAS 1 (Revised) "Presentation of Financial Statements"
- HKAS 23 (Revised) "Borrowing Costs"
- HKFRS 8 "Operating Segments"
- HK(IFRIC)-Int 16 "Hedges of a Net Investment in a Foreign Operation"
- HK(IFRIC)-Int 18 "Transfers of Assets from Customers"
- Amendments to HKAS 27 "Consolidated and Separate Financial Statements" – Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to HKFRS 7 "Financial Instruments: Disclosures" – Improving Disclosures about Financial Instruments
- Amendments to HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" and HKAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives
- Amendment to HK-Int 4 "Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases"
- HKICPA's improvements to HKFRS published in October 2008

Apart from certain presentational changes, the adoption of these new / revised standards and interpretations has no significant impact 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, are mandatory, and will be adopted by the Group for accounting periods beginning on or after 1 January 2010:

- HKAS 24 (Revised) "Related Party Disclosures"
- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HKFRS 3 (Revised) "Business Combinations"
- HKFRS 9 "Financial Instruments"
- HK(IFRIC)-Int 17 "Distribution of Non-cash Assets to Owners"
- Amendment to HKAS 39 "Eligible Hedged Items"
- HKICPA's improvements to HKFRS published in May 2009

The adoption of HKAS 27 (Revised) "Consolidated and Separate Financial Statements" and HKFRS 3 (Revised) "Business Combinations" may have an effect on the accounting of future business combinations, if any.

Otherwise, save for the above-mentioned, and apart from certain presentational changes, the adoption of these HKFRS will have no significant impact on the results and the financial position of the Group.

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 Policy No. 11.

The results of subsidiaries acquired during the year are included in the consolidated financial statements 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 entities 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 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 the 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 of monetary assets and liabilities denominated in foreign currencies by using the exchange rates at the end of the reporting period are recognised in profit or loss.

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 statement of financial position presented are translated using the closing rate at the end of the reporting period; whilst income and expenses for each income statement presented are translated at average exchange rate for the reporting period (unless this average rate 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 initially recognised in other comprehensive income and as a separate component of equity. When a foreign entity is sold, exchange differences that were accumulated in equity are reclassified to profit or loss 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 using the closing rate at the end of the reporting period.

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 uncertain how much you will receive if the fixed asset is to be sold.

5. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions.

Segment revenue is based on the country in which the electricity is generated and / or services are rendered. Segment capital additions represent the total cost incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year. Unallocated items comprise mainly corporate expenses, corporate assets, and the Company's liquid funds and borrowings.

6. Leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease and the corresponding lease income / expense, e.g. up-front payments for leasehold land or land use rights, are amortised on a straight-line basis over the term of the lease to profit or loss.

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 profit or loss 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 and are recognised as lease service income / payment. 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 SoC Agreement and accordingly, the finance charge has been treated as contingent rent. Contingent rent is recognised as an expense in the period in which it is incurred.

Readers who would like to revisit our explanation of lease accounting can find this on our website.

7. Related Parties

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, jointly controlled entities, associated companies and key management personnel, where the individual or company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party. Parties are also considered to be related if they are under common control.

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.

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 actual and accrued consumption or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

Lease service income comprises servicing income and fuel costs received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receipts on lease receivables and is recognised over the lease period using the effective interest method. Interest income is recognised on a time proportion basis using the effective interest method.

9. Employee Benefits

(A) Retirement benefits

The Group operates and / or participates in a number of defined contribution plans in Hong Kong, including the CLP Group Provident Fund Scheme (GPFS) 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 expenses 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 end of the reporting period, where there is a contractual obligation or past practice has created a constructive obligation.

10. Subsidiaries

A subsidiary is an entity which is controlled by the Company through, directly or indirectly, controlling the composition of the board of directors, controlling more than half of the voting power or holding more than half of the issued share capital. Control represents the power to govern the financial and operating policies of that entity. 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 at 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 profit or loss.

Investments in subsidiaries are carried on the statement of financial position of the Company at cost together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, less provision for impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

11. Jointly Controlled Entities and Associated Companies

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.

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 jointly controlled entities / 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 jointly controlled entities / associated companies' post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated statement of financial position, interests in jointly controlled entities / associated companies comprise the Group's share of the net assets and its net advances made to the jointly controlled entities / 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 a jointly controlled entity / 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 jointly controlled entities / associated companies.

Unrealised gains on transactions between the Group and its jointly controlled entities / associated companies are eliminated to the extent of the Group's interest in the jointly controlled entities / associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

A quick guide to the classification of different entities:

Control → Subsidiary
Joint Control → Jointly Controlled Entity
Significant Influence → Associated Company
Less than Significant Influence → Available-for-sale Investment

12. 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 recognised as expenses in the period 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 on a straight-line basis using the rates authorised under the SoC which reflect the pattern in which the assets' economic benefits are consumed.

Leasehold land	unexpired term of the lease
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

Fixed assets used for the non-SoC business, primarily relating to the electricity businesses 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 the end of each reporting period. 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 profit or loss.

13. 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 statement of financial position 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.

14. Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and in any case, at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its 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.

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.

This year, we have an expanded discussion on impairment assessment on pages 75 to 77.

15. Derivative Financial Instruments and Hedging Activities

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges, which are hedges of the fair value of recognised financial assets or financial liabilities or firm commitments (e.g. fixed interest rate loans, foreign currency trade receivables) or cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities or highly probable forecast transactions (e.g. floating interest rate loans, future purchases 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 recognised in profit or loss, which will offset any changes in the fair value recognised in profit or loss 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 other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

The cumulative gain or loss that has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss 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 that were recognised in other comprehensive income and accumulated 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 that has been recognised in other comprehensive income and accumulated in equity shall remain separately and be reclassified from equity to profit or loss in the same period when the hedged forecast cash flows affect profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been recognised in other comprehensive income and accumulated in equity is reclassified from equity to profit or loss immediately.

(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 profit or loss.

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 the end of each of the reporting period. 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.

16. Available-for-sale Investments

Available-for-sale investments are non-derivative financial assets that are either designated in the category or not classified in any of the other categories of financial instruments including financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity financial assets. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

Changes in the fair value of monetary investment denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the investment and other changes in the carrying amount of the investment. The translation differences on monetary investment are recognised in profit or loss; translation differences on non-monetary investments are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary investment classified as available-for-sale are recognised in other comprehensive income.

When an investment classified as available-for-sale is sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Dividends on available-for-sale equity investment are recognised in profit or loss when the Group's right to receive payments is established.

The Group assesses at the end of each reporting period whether there is objective evidence that an available-for-sale investment is impaired. A significant or prolonged decline in the fair value of an equity investment below its cost is evidence that the asset is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity investment are not reversed through profit or loss.

Available-for-sale investments are classified as non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

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 profit or loss. 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 recognised in profit or loss.

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, subjected to insignificant risk of change in value 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 statement of financial position.

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 profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. 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 end of the reporting period.

Borrowing costs are recognised as an expense 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.

22. Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised as income or an expense and included in profit or loss, except to the extent that it relates to items recognised either in other comprehensive income or directly in equity. In this case, the tax is also recognised in either other comprehensive income or equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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 substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

23. Provisions and Contingent Liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

What is the difference between a legal obligation and a constructive obligation?

A legal obligation derives from a contract, legislation or the operation of law.

A constructive obligation 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.

Here is a quick guide on how to account for contingent liabilities:

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 (CPRS)

Introduction

Recent developments in climate change policy in Australia pose potentially significant financial risks to the Group's business in Australia. The position up to 31 December 2008 was disclosed on pages 156 to 157 of the 2008 Annual Report.

Background

The Australian Government (the "Government") released its White Paper (the "White Paper" [1]) on the CPRS on 15 December 2008. The White Paper recognised 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.

An exposure draft of the CPRS legislation was subsequently introduced on 10 March 2009. This set out what would be required of participants in the CPRS and the mechanics of the CPRS. The Government sought feedback from stakeholders on the terms of the draft legislation and its effectiveness in delivering the White Paper's policy positions.

New measures for the CPRS were announced by the Government on 4 May 2009, including a one year delay in the proposed start date for the CPRS to July 2011, a fixed price for carbon permits for the first year (A$10 / tonne) and a target of 25% reduction of 2000 levels of carbon emissions by 2020.

The Government introduced a package of 11 emissions trading scheme bills into the Parliament on 14 May 2009 [2]. On 4 June 2009, the lower house of parliament (House of Representatives) passed the legislation, allowing it to proceed to a vote in the upper house (Senate). The legislation passed by 74 votes to 63 in the lower house, where the Government holds a majority. The bills were debated in the Senate during the June and August sittings of the Parliament and were ultimately defeated by a vote of 42 to 30 on 13 August 2009.

The Government then reintroduced the bills to the Parliament in mid November. After progressing again through the House of Representatives, the bills moved on to broader debate in the Senate focussed on a set of amendments agreed between the Government and the Opposition leadership. The Senate voted down the CPRS by 41 to 33.

The CPRS version that was amended in November 2009, following discussions with the Opposition, was reintroduced a third time to the Parliament in February 2010. The Opposition under new leadership, has backed bipartisan emissions targets but has ruled out support for an emissions trading scheme or a carbon tax. Instead the new Opposition policy envisages a focus on direct action through land management and energy efficiency measures.

Potential Implications for Electricity Generators

In recognition of the impact on the most emissions intensive electricity generators, the Government has proposed 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.

[1] Refer to Australian Government website: http://climatechange.gov.au/publications/cprs/white-paper/cprs-whitepaper.aspx
[2] Refer to Australian Government website: http://climatechange.gov.au/government/initiatives/cprs/cprs-progress/legislation.aspx

1. Australia Carbon Pollution Reduction Scheme (CPRS) (continued)

In the December 2008 White Paper, the Government estimated the total value of the permits allocated in the ESAS as A$3.5 billion [3] (HK$24 billion). This was based on an assumed carbon price starting at A$25 per tonne, consistent with their 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 is likely to dictate Australian carbon prices. The current draft of the legislation has been amended to increase the quantum of assistance available under the ESAS from 130.7 million permits to 228.7 million permits (a 75% increase) and to extend the period over which ESAS is provided from five years to ten.

Assuming legislation is ultimately passed in line with these amended terms and conditions, these permits will be distributed to eligible companies over the first ten years of the CPRS (mid 2011 through mid 2021). The amount of assistance applicable to companies and assets will be determined prior to the start date of the CPRS. The Government will allocate assistance through the 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 2018 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.

Potential Implications for TRUenergy

The possible 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 earnings from a combination of reduced output and increased costs not fully offset by higher electricity prices and / or a reduction in the useful life of the asset.

Given the lack of support from the Opposition for the existing CPRS proposal, uncertainty remains regarding the timing and structure of any CPRS. As such, the introduction of the CPRS presents an unquantifiable, but potentially material risk to the Group. At 31 December 2009, no impact of the CPRS has been reflected in the Group's financial statements (including impairment model cash flows, assumptions on discount rate, asset useful lives, outage rates and capital expenditure) on the basis that there is currently uncertainty in relation to the likely structure, timing and impact of any CPRS.

The carrying amount of the Yallourn power station assets, which comprised a single cash generating unit, was A$1,662 million or HK$11,592 million at 31 December 2009 (2008: A$1,682 million or HK$9,036 million). Other parts of the Group in Australia may also be impacted adversely or favourably.

[3] In 2008 / 09 Australian dollars.

The impact of CPRS on Yallourn Power Station is also discussed on page 77.

2. Asset Impairment

The Group has made substantial investments in tangible long-lived assets, jointly controlled entities and associated companies. 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. During 2009, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management concluded that there was no material impairment loss for Yallourn (please also refer to item 1 above), SoC fixed assets of HK$74,523 million (2008: HK$71,899 million), goodwill of HK$6,766 million (2008: HK$5,205 million) and other long-lived assets, except for the provisions for Solar Systems Pty Ltd (Solar Systems) of HK$319 million (HK$346 million with related tax adjustment) (2008: nil) and OneEnergy Limited (OneEnergy) of HK$131 million (2008: nil). As the latest annual impairment models indicated that headroom (meaning the excess of the recoverable amount over carrying value) existed for the relevant assets, management believe that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2009 year end except for the introduction of CPRS disclosed in item 1 above.

3. Deferred Tax

At 31 December 2009, a deferred tax asset of HK$4,794 million (2008: HK$3,979 million) in relation to unused tax losses was recognised in the consolidated statement of financial position. 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 profit or loss for the period in which such a reversal takes place. The Group's deferred tax asset arises from tax losses in our Australia business. The current financial models indicate that the tax losses can be utilised in the foreseeable future and with no expiry date for utilising losses in Australia, management believe that any reasonable changes in the model assumptions would not affect management's view as at the close of 2009. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

4. Asset Retirement Obligations

CLP Power Hong Kong and CAPCO have been investing in the transmission and distribution network and power stations respectively to supply electricity to the customers in its supply area in Hong Kong. CLP Power Hong Kong and CAPCO expect that the land currently used for its transmission and distribution network and generation facilities will continue to be used for generation and distribution of electricity supply in order to maintain the electricity supply to the customers for the foreseeable future. It is considered remote that the transmission and distribution network and the power stations would be removed from the existing land sites. As such, an asset retirement obligation has not been recognised upfront in the respective financial statements of CLP Power Hong Kong and CAPCO in accordance with the requirements of accounting standards.

5. SoC-related Accounts

As stipulated in the 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$1,654 million (2008: HK$1,826 million) meet the definition of a liability.

Features of the current SoC are summarised on pages 201 and 202.

6. Lease Accounting

The application of HK(IFRIC)-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 consolidated financial statements.

7. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 3 Fair Value Estimation on page 198.

1. General Information

The Company is a limited liability company incorporated in Hong Kong and listed on the Stock Exchange of 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 current SoC Agreement took effect from 1 October 2008 (2008 SoC), immediately after the expiry of the previous SoC which covered the period from 1 October 1993 to 30 September 2008 (1993 SoC). The main features of these SoC agreements are summarised on pages 201 and 202.

These financial statements have been approved for issue by the Board of Directors on 25 February 2010.

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 and Taiwan. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions. Substantially all the principal activities of the Group in each region are for the generation and supply of electricity which are managed and operated on an integrated basis.

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 2009							
Revenue	28,484	19,166	180	2,786	43	9	50,668
Operating profit / (loss)	8,689	1,752	(100)	756	163	(413)	10,847
Share of results, net of income tax							
Jointly controlled entities	1,107	(40)	1,218[(a)]	–	390	–	2,675
Associated companies	–	(354)	94[(a)]	–	–	–	(260)
Profit / (loss) before net finance costs and income tax	9,796	1,358	1,212	756	553	(413)	13,262
Finance costs	(2,673)	(666)	(35)	(82)	–	(21)	(3,477)
Finance income	11	30	5	23	–	–	69
Profit / (loss) before income tax	7,134	722	1,182	697	553	(434)	9,854
Income tax expense	(989)	(349)	(70)	(251)	(6)	–	(1,665)
Profit / (loss) for the year	6,145	373	1,112	446	547	(434)	8,189
Loss attributable to minority interests	–	–	7	–	–	–	7
Earnings / (loss) attributable to shareholders	6,145	373	1,119	446	547	(434)	8,196
Capital additions	6,105	1,349	239	2,111	3	30	9,837
Depreciation and amortisation	3,088	1,132	68	35	–	9	4,332
Impairment charge	–	264	19	16	–	–	299
At 31 December 2009							
Fixed assets	74,567	17,283	1,730	2,960	3	61	96,604
Interests in							
Jointly controlled entities	7,545	1,144	7,447	–	2,702	–	18,838
Associated companies	–	37	1,776	–	–	–	1,813
Deferred tax assets	–	3,291	64	–	–	–	3,355
Other assets	5,895	15,277	1,919	7,331	244	5,255	35,921
Total assets	88,007	37,032	12,936	10,291	2,949	5,316	156,531
Bank loans and other borrowings	22,429	11,155	784	3,063	–	2,000	39,431
Current and deferred tax liabilities	6,425	24	139	629	–	–	7,217
Obligations under finance leases	21,838	17	–	–	–	–	21,855
Other liabilities	9,939	4,804	1,263	965	3	186	17,160
Total liabilities	60,631	16,000	2,186	4,657	3	2,186	85,663

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
Operating profit / (loss)	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	(3,409)	(731)	(31)	(45)	–	(29)	(4,245)
Finance income	15	46	3	52	–	8	124
Profit / (loss) before income tax	9,026	1,331	1,143	535	120	(372)	11,783
Income tax (expense) / credit	(883)	(276)	29	(215)	(4)	–	(1,349)
Profit / (loss) for the year	8,143	1,055	1,172	320	116	(372)	10,434
Profit attributable to minority interests	–	–	(11)	–	–	–	(11)
Earnings / (loss) attributable to shareholders	8,143	1,055	1,161	320	116	(372)	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
At 31 December 2008							
Fixed assets	71,869	13,001	1,588	373	–	42	86,873
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
Other assets	6,892	11,476	652	5,746	121	46	24,933
Total assets	85,775	28,508	9,847	6,119	2,494	88	132,831
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
Obligations under finance leases	21,752	13	–	–	–	–	21,765
Other liabilities	9,594	3,917	62	678	14	182	14,447
Total liabilities	52,404	13,027	943	2,473	14	848	69,709

Note (a): Out of the amounts, HK$784 million (2008: HK$896 million) was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

3. Revenue

Accounting Policy No. 8

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

	2009 HK$M	2008 HK$M
Sales of electricity	42,754	44,249
Lease service income (note)	2,327	3,754
Finance lease income	368	428
Sales of gas	4,775	5,093
Other revenue	587	966
	50,811	54,490
Transfer for SoC (Note 27)	(143)	(193)
	50,668	54,297

Note: In accordance with HK(IFRIC)-Int 4 and HKAS 17, 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.

4. Operating Lease and Lease Service Payments

Accounting Policy No. 6

In accordance with HK(IFRIC)-Int 4 and HKAS 17, 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

	2009 HK$M	2008 HK$M
Gain on sale of PGS (note)	153	–
Gain on sale of SEAGas	–	502
Gain on deemed disposal from CSEC Guohua International Power Company Limited (CSEC Guohua) restructuring	–	225
	153	727

Note: In December 2009, CLP sold its entire 60% interest in PGS, a jointly controlled entity in Thailand, to EGCO and Banpu Power Limited at total considerations of US$20 million (HK$156 million) resulting in a gain of HK$153 million.

6. Operating Profit

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

	2009 HK$M	2008 HK$M
Charging		
Staff costs		
Salaries and other costs	1,652	1,619
Retirement benefits costs [a]	167	136
Auditors' remuneration		
Audit	27	25
Permissible non-audit services [b]	10	13
Operating lease expenditure on the agreement with Ecogen	238	254
Net loss on disposal of fixed assets	172	140
Impairment of fixed assets	50	–
Coal mine subsidence of TRUenergy	1	84
Net fair value loss / (gain) on derivative financial instruments		
Cash flow hedges, reclassify from equity to fuel and other operating expenses	(151)	213
Transactions not qualifying as hedges	136	(6)
Net exchange (gain) / loss	(256)	146
Crediting		
Net rental income from properties	(18)	(13)
Insurance recovery relating to coal mine subsidence of TRUenergy	–	(266)

Notes:

(a) The retirement benefit plans for staff employed by the Group entities in Hong Kong are regarded as defined contribution schemes. The current scheme, GPFS, provides benefits linked to contributions and investment returns on the scheme. Contributions to defined contribution schemes, including GPFS and MPF as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK$195 million (2008: HK$198 million), of which HK$95 million (2008: HK$103 million) was capitalised.

Staff employed by the Group entities outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK$70 million (2008: HK$37 million).

(b) Permissible non-audit services comprise primarily accounting / tax advisory services for business development.

7. Finance Costs and Income

Accounting Policy No. 21

	2009 HK$M	2008 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	713	831
Other borrowings		
Wholly repayable within five years	165	120
Not wholly repayable within five years	450	527
Tariff Stabilisation Fund / Development Fund (a)	3	132
Customers' deposits, fuel clause over-recovery and others	–	10
Finance charges under finance leases (b)	2,190	2,930
Other finance charges	207	100
Fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassify from equity	6	5
Fair value hedges	67	(151)
(Gain) / loss on hedged items in fair value hedges	(56)	121
Other net exchange loss on financing activities	50	–
	3,795	4,625
Less: amount capitalised (c)	(318)	(380)
	3,477	4,245
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	69	124

Notes:

(a) CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the 2008 SoC; and 8% per annum on the average balance of the Development Fund under the 1993 SoC (Note 27).

(b) 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 HK(IFRIC)-Int 4 and HKAS 17.

(c) Finance costs have been capitalised at average interest rates of 3.39% – 12.31% (2008: 3.86% – 6.74%) per annum.

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:

	2009 HK$M	2008 HK$M
Current income tax		
Hong Kong	613	817
Outside Hong Kong	151	127
	764	944
Deferred tax		
Hong Kong (note)	376	68
Outside Hong Kong	525	337
	901	405
	1,665	1,349

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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:

	2009 HK$M	2008 HK$M
Profit before income tax	9,854	11,783
Less: Share of results in jointly controlled entities and associated companies, net of income tax	(2,415)	(2,597)
	7,439	9,186
Calculated at an income tax rate of 16.5% (2008: 16.5%)	1,227	1,516
Effect of different income tax rates in other countries	340	185
Change in Hong Kong profits tax rate (note)	–	(327)
Income not subject to tax	(64)	(43)
Expenses not deductible for tax purposes	142	72
Revenue adjustment for SoC not subject to tax (Note 27)	24	54
Tariff rebates deductible for tax purposes	(12)	(122)
(Over) / under-provision in prior years	(2)	27
Utilisation of previously unrecognised tax losses	–	(19)
Tax losses not recognised	10	6
Income tax expense	1,665	1,349

Note: The amount in 2008 included a write-back of deferred tax liabilities of HK$327 million as the Hong Kong profits tax rate was reduced from 17.5% to 16.5%.

9. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$12,704 million (2008: HK$6,641 million).

10. Dividends

	2009 HK$ per share	2009 HK$M	2008 HK$ per share	2008 HK$M
Interim dividends paid	1.56	3,753	1.56	3,757
Final dividend proposed	0.92	2,214	0.92	2,214
	2.48	5,967	2.48	5,971

At the Board meeting held on 25 February 2010, the Directors recommended a final dividend of HK$0.92 per share (2008: HK$0.92 per share). Such dividends are to be proposed at the Annual General Meeting on 27 April 2010 and are not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2009.

11. Earnings per Share

The earnings per share are computed as follows:

	2009	2008
Earnings attributable to shareholders (HK$M)	8,196	10,423
Weighted average number of shares in issue (thousand shares)	2,406,143	2,407,873
Earnings per share (HK$)	3.41	4.33

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 2009 (2008: nil).

12. Fixed Assets, Leasehold Land and Land Use Rights

Accounting Policy No. 12

Fixed assets, leasehold land and land use rights totalled HK$98,858 million (2008: HK$89,123 million). Included in fixed assets is plant under construction with book value of HK$7,825 million (2008: HK$7,503 million). Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Freehold Land HK$M	Buildings Owned HK$M	Buildings Leased [(a)] HK$M	Plant, Machinery and Equipment Owned HK$M	Plant, Machinery and Equipment Leased [(a)] HK$M	Total HK$M
Cost	232	9,666	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 at 1 January 2008	232	7,210	4,823	56,827	17,321	86,413
Net book value at 1 January 2008	232	7,210	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	(50)	11	–	(3,531)	(8)	(3,578)
Net book value at 31 December 2008	182	8,110	4,615	56,800	17,166	86,873
Cost	182	10,709	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 at 31 December 2008	182	8,110	4,615	56,800	17,166	86,873
Net book value at 1 January 2009	182	8,110	4,615	56,800	17,166	86,873
Acquisition of subsidiaries	14	–	–	403	–	417
Additions	526	922	110	6,564	1,494	9,616
Transfers and disposals	–	(15)	(5)	(148)	(122)	(290)
Depreciation	–	(179)	(268)	(2,490)	(1,116)	(4,053)
Impairment charge	–	(4)	–	(46)	–	(50)
Exchange differences	67	48	–	3,966	10	4,091
Net book value at 31 December 2009	**789**	**8,882**	**4,452**	**65,049**	**17,432**	**96,604**
Cost	789	11,682	9,790	99,388	37,898	159,547
Accumulated depreciation and impairment	–	(2,800)	(5,338)	(34,339)	(20,466)	(62,943)
Net book value at 31 December 2009	**789**	**8,882**	**4,452**	**65,049**	**17,432**	**96,604**

Note (a): The leased assets include mainly CAPCO's operational plant and associated fixed assets of net book value of HK$21,838 million (2008: HK$21,752 million), 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 HK(IFRIC)-Int 4 and HKAS 17.

12. Fixed Assets, Leasehold Land and Land Use Rights (continued)

(A) Fixed Assets (continued)

Company

The net book value of fixed assets of the Company was HK$62 million (2008: HK$42 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$30 million (2008: HK$24 million) and HK$9 million (2008: HK$4 million) respectively.

(B) Leasehold Land and Land Use Rights

Group

	2009 HK$M	2008 HK$M
Net book value at 1 January	2,250	2,196
Acquisition of subsidiaries	1	6
Additions	97	116
Transfers and disposals	(40)	(19)
Amortisation	(54)	(54)
Exchange differences	–	5
Net book value at 31 December	2,254	2,250
Cost	2,571	2,521
Accumulated amortisation	(317)	(271)
Net book value at 31 December	2,254	2,250

The tenure of the leasehold land and land use rights of the Group is as follows:

	2009 HK$M	2008 HK$M
Held in Hong Kong:		
On long-term leases (over 50 years)	132	135
On medium-term leases (10 – 50 years)	2,012	2,009
	2,144	2,144
Held outside Hong Kong:		
On medium-term leases (10 – 50 years)	110	106
	2,254	2,250

13. Goodwill and Other Intangible Assets

Accounting Policy No. 13

	Goodwill HK$M	Other Intangible Assets HK$M	Total HK$M
Cost	6,648	1,966	8,614
Accumulated amortisation	–	(479)	(479)
Net carrying value at 1 January 2008	6,648	1,487	8,135
Net carrying value 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 at 31 December 2008	5,205	1,119	6,324
Cost	5,205	1,674	6,879
Accumulated amortisation	–	(555)	(555)
Net carrying value at 31 December 2008	5,205	1,119	6,324
Net carrying value at 1 January 2009	5,205	1,119	6,324
Acquisition of subsidiaries	12	–	12
Additions	–	124	124
Amortisation	–	(225)	(225)
Exchange differences	1,549	321	1,870
Net carrying value at 31 December 2009	**6,766**	**1,339**	**8,105**
Cost	6,766	2,313	9,079
Accumulated amortisation	–	(974)	(974)
Net carrying value at 31 December 2009	**6,766**	**1,339**	**8,105**

Goodwill predominantly arose from the previous acquisition of the Merchant Energy Business (MEB) in Australia. In accordance with the Group's 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 of 12.09% (2008: 10.52%) based on MEB's weighted average cost of capital, which 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 Master Hedge Agreement with Ecogen arising from the acquisition of MEB in May 2005.

14. Investments in and Advances to Subsidiaries

Accounting Policy No. 10

	2009 HK$M	2008 HK$M
Unlisted shares, at cost	23,612	23,612
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	22,493	14,421
	46,005	37,933

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 32(C)). These advances are considered equity in nature.

Apart from the above advances to subsidiaries which are considered equity in nature, the Company has also made an advance to CLP Engineering Limited of HK$39 million (2008: HK$39 million), which is interest-free and due on or after 30 June 2011 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 2009:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2009	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 2009	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 equity shares of Rs.10 each	100*	India	Generation of Electricity
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each, 770,380,476 compulsory convertible preference 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

	2009 HK$M	2008 HK$M
Share of net assets	11,131	10,601
Goodwill	381	273
Advances	7,326	6,917
	18,838	17,791

Advances to jointly controlled entities are unsecured, interest-free and have no fixed repayment terms. These advances are considered equity in nature.

The Group's interests in jointly controlled entities are analysed as follows:

		2009				2008			
		Share of Net Assets HK$M	Goodwill HK$M	Advances HK$M	Total HK$M	Share of Net Assets HK$M	Goodwill HK$M	Advances HK$M	Total HK$M
CAPCO	(A)	211	–	7,060	7,271	220	–	6,520	6,740
GNPJVC (note)		–	–	–	–	1,877	–	–	1,877
OneEnergy	(B)	2,695	–	–	2,695	2,365	–	–	2,365
CSEC Guohua	(C)	2,385	93	–	2,478	2,029	80	–	2,109
Shandong Zhonghua Power Company, Limited	(D)	1,111	–	–	1,111	1,039	–	–	1,039
CLP Guangxi Fangchenggang Power Company Limited	(E)	1,221	–	–	1,221	976	–	–	976
Guizhou CLP Power Company Limited	(E)	534	–	–	534	522	–	–	522
Roaring 40s Renewable Energy Pty Ltd	(F)	917	227	–	1,144	613	175	76	864
PSDC	(G)	12	–	258	270	12	–	319	331
Others	(H)	2,045	61	8	2,114	948	18	2	968
		11,131	381	7,326	18,838	10,601	273	6,917	17,791

Note: During the year, GNPJVC was reclassified to become an associated company (Note 16(A)).

15. Interests in Jointly Controlled Entities (continued)

The Group's share of net assets, capital commitments and contingent liabilities of the jointly controlled entities at 31 December and its share of profit for the year then ended are as follows:

	2009 HK$M	2008 HK$M
Non-current assets	37,365	34,498
Current assets	5,563	6,401
Current liabilities	(8,688)	(8,032)
Non-current liabilities	(21,715)	(21,238)
Minority interests	(1,394)	(1,028)
Share of net assets	11,131	10,601
Income	14,043	13,268
Expenses	(10,886)	(10,215)
Profit before income tax	3,157	3,053
Income tax expense	(449)	(382)
Minority interests	(33)	(47)
Share of profit for the year (note)	2,675	2,624
Share of capital commitments	5,511	5,214
Share of contingent liabilities	57	57

Note: Including a provision for OneEnergy of HK$131 million (2008: nil).

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 31.

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 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 HK(IFRIC)-Int 4 and HKAS 17, such arrangement is considered as a finance lease and the power generation assets are accounted for as leased fixed assets on the Group's statement of financial position (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 taxation, retained profits and any proposed dividend.

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:

	2009 HK$M	2008 HK$M
Results for the year		
Income	11,474	12,122
Profit after income tax	2,722	3,681
Net assets (note)		
Non-current assets	27,578	25,912
Current assets	4,096	3,637
Current liabilities	(7,042)	(6,378)
Deferred tax	(3,226)	(2,875)
Non-current liabilities	(3,225)	(3,452)
	18,181	16,844
Group's share of profit after income tax	1,089	1,476

Note: The amounts exclude advances from shareholders.

(B) OneEnergy, 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 for the year ended 31 December is set out as follows:

	2009 HK$M	2008 HK$M
Results for the year		
Income	–	–
Profit after income tax	761	235
Net assets		
Non-current assets	5,015	4,156
Current assets	381	604
Current liabilities	(7)	(29)
	5,389	4,731
Group's share of profit after income tax (note)	380	117

Note: Including a provision for OneEnergy of HK$131 million (2008: nil).

(C) CSEC Guohua, the joint stock company with 70% (2008: 73%) owned by China Shenhua Energy Company Limited and 30% (2008: 27%) owned 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 7,650MW. 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.

15. Interests in Jointly Controlled Entities (continued)

(D) 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.

(E) 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.

(F) Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) is 50% owned by the Group and is incorporated in Australia. This company develops renewable energy business and owns several wind farms in Australia.

(G) 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.

(H) 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;
- 49% interest in CLP Guohua Shenmu Power Company Limited, 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 220MW; and
- 49% interests in various Chinese jointly controlled entities at a carrying amount of HK$852 million in aggregate acquired from Roaring 40s in 2009. The jointly controlled entities are incorporated in the Chinese mainland and hold interests in various wind power stations in Shandong and Jilin, with a total installed capacity of 593MW.

16. Interests in Associated Companies

Accounting Policy No. 11

	2009 HK$M	2008 HK$M
Share of net assets	1,796	26
Goodwill	10	186
Advances	7	30
	1,813	242

Advances to associated companies are unsecured, interest-free and have no fixed repayment terms. These advances are considered equity in nature.

16. Interests in Associated Companies (continued)

The Group's interests in associated companies are analysed as follows:

	2009 HK$M	2008 HK$M
GNPJVC (A)	1,776	–
Solar Systems (B)	7	221
Others	30	21
	1,813	242

Summarised financial information in respect of the Group's associated companies is set out below:

	2009 HK$M	2008 HK$M
Total assets	14,824	459
Total liabilities	(7,673)	(360)
Net assets	7,151	99
Group's share of associated companies' net assets	1,796	26
Income	4,189	2,985
Profit / (loss) after income tax	192	(144)
Group's share of loss after income tax (note)	(260)	(27)

Note: Including a provision for Solar Systems of HK$319 million (2008: nil).

At 31 December 2009, the Group's share of capital commitments of its associated companies was HK$148 million (2008: HK$13 million).

(A) GNPJVC, which is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited, is unlisted and 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.

In September 2009, the Joint Venture Contract of GNPJVC and the Electricity Off-take Contracts were extended for another 20 years from May 2014. Certain provisions in GNPJVC's Joint Venture Contract and Articles of Association were also amended to differentiate the rights and obligations of CLP as an off-taker and as a shareholder. As a result of these amendments, it is considered that CLP, as a shareholder of GNPJVC, has not retained the joint control in GNPJVC. Therefore, the investment in GNPJVC has been reclassified from a jointly controlled entity to an associated company.

16. Interests in Associated Companies (continued)

An extract of the management financial statements of GNPJVC for the year ended 31 December is set out as follows:

	2009 HK$M	2008 HK$M
Results for the year		
Income	7,290	7,116
Profit after income tax	2,868	3,320
Net assets		
Non-current assets	6,486	8,158
Current assets	8,119	7,192
Current liabilities	(1,340)	(1,917)
Non-current liabilities	(6,162)	(5,928)
	7,103	7,505
Group's share of profit after income tax (note)	715	830

Note: Out of HK$715 million, HK$94 million, represented GNPJVC's last three-month results, is presented as share of results of associated company following its reclassification in September 2009, whilst the balance of HK$621 million is presented as share of results of jointly controlled entity.

(B) The Group indirectly holds a 20% interest in Solar Systems, an unlisted company incorporated in Australia which is currently under voluntary administration. During the year, a provision for the investment was made resulting in a loss of HK$319 million (2008: nil). Together with related tax adjustment, the total loss was HK$346 million (2008: nil).

17. Finance Lease Receivables

Accounting Policy No. 6

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Amounts receivable under finance leases:				
Within one year	466	464	130	128
After one year but within five years	1,648	1,747	500	578
Over five years	2,860	2,987	1,879	1,809
	4,974	5,198	2,509	2,515
Less: unearned finance income	(2,465)	(2,683)		
Present value of minimum lease payments receivable	2,509	2,515		
Analysed as:				
Current (recoverable within 12 months)			130	128
Non-current (recoverable after 12 months)			2,379	2,387
			2,509	2,515

17. Finance Lease Receivables (continued)

The finance lease receivables, accounted for as finance lease in accordance with HK(IFRIC)-Int 4 and HKAS 17, 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 2008 and 2009. The carrying amounts of the finance lease receivables approximate to their fair values.

An overview of lease accounting is on our website.

18. Derivative Financial Instruments

Accounting Policy No. 15

	2009		2008	
	Assets HK$M	Liabilities HK$M	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	532	113	677	34
Cross currency & interest rate swaps	301	96	–	49
Interest rate swaps	5	251	–	485
Energy contracts	1,033	475	696	427
Fair value hedges				
Cross currency & interest rate swaps	180	–	252	5
Held for trading or not qualifying as hedges				
Forward foreign exchange contracts	375	165	356	303
Energy contracts	867	552	898	732
	3,293	1,652	2,879	2,035
Analysed as:				
Current	1,472	1,035	1,374	1,198
Non-current	1,821	617	1,505	837
	3,293	1,652	2,879	2,035

Recall our accounting "mini-series" on derivatives and hedging? Please visit our website.

Derivative assets — the amounts we would receive based on normal circumstance if the positions were closed out at year end.

Derivative liabilities — the amounts we would pay based on normal circumstance if the positions were closed out at year end.

18. Derivative Financial Instruments (continued)

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	2009 HK$M	2008 HK$M
Forward foreign exchange contracts	67,261	62,127
Interest rate swaps / cross currency & interest rate swaps	20,066	15,175
Energy contracts	12,440	18,236

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

Derivative financial instruments qualifying as cash flow hedges at 31 December 2009 have a maturity of up to 15 years (2008: five years) from the end of the reporting period.

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 recognised are deferred in the hedging reserve (through other comprehensive income) and reclassified to profit or loss, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.

19. Available-for-sale Investments

Accounting Policy No. 16

According to the accounting policy No. 16, the Group's unquoted investment in CGN Wind of HK$1,189 million (2008: nil) is treated for accounting purpose as an available-for-sale investment. There is no intention to sell the investment.

20. Trade and Other Receivables

Accounting Policy No. 18

	Group		Company	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Trade receivables [(a)]	6,150	5,655	–	–
Deposits and prepayments	2,593	2,085	5	10
Dividend receivables from jointly controlled entities and associated company [(b)]	194	452	–	–
Current accounts with jointly controlled entities [(b)]	81	47	–	–
Current accounts with subsidiaries [(b)]	–	–	39	45
	9,018	8,239	44	55

Trade and other receivables attributed to overseas subsidiaries amounted to HK$6,379 million (2008: HK$5,263 million). GPEC has obtained payment for some of its receivables from GUVNL through bill discounting with recourse and the transactions have been accounted for as collateralised borrowings (Note 23).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

20. Trade and Other Receivables (continued)

Notes:

(a) Trade receivables

32% (2008: 39%) and 52% (2008: 37%) 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 the customer bases are widely dispersed in different sectors and industries. The trade receivables in currencies other than Hong Kong dollar 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. At 31 December 2009, such cash deposits amounted to HK$3,852 million (2008: HK$3,722 million) and the bank guarantees stood at HK$934 million (2008: HK$932 million). The customer deposits are repayable on demand, bear interest at the HSBC bank savings rate and their carrying value approximates to 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.

During the year ended 31 December 2009, TRUenergy in Australia revised its methodology in relation to doubtful debt provisioning to reflect a more conservative approach. The rationale for the change in provisioning methodology came about due to changes in the economic climate, a competitive market and an increasing trend in bad debt levels. Currently the provision for doubtful debts is determined by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions and the days overdue. Future cash flows for each group of trade receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions. As a result of this credit risk assessment, virtually all of the credit risk groupings have been subject to some level of impairment. Receivable balances relating to known insolvencies are individually impaired. At 31 December 2009, TRUenergy held bank guarantees of HK$27 million (2008: nil) from large industrial and commercial customers as security in relation to outstanding receivable balances.

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

	2009				2008			
	Not impaired HK$M	Impaired HK$M	Provision for impairment HK$M	Total HK$M	Not impaired HK$M	Impaired HK$M	Provision for impairment HK$M	Total HK$M
Not yet due	4,938	543	(42)	5,439	5,173	28	(3)	5,198
Overdue								
1 – 30 days	138	297	(35)	400	285	23	(23)	285
31 – 90 days	30	206	(57)	179	58	75	(36)	97
Over 90 days	16	410	(294)	132	2	268	(195)	75
	5,122	1,456	(428)	6,150	5,518	394	(257)	5,655

At 31 December 2009, trade receivables of HK$184 million (2008: HK$345 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default.

Movements in the provision for impairment are as follows:

	2009 HK$M	2008 HK$M
Balance at 1 January	257	279
Provision for impairment	252	189
Receivables written off during the year as uncollectible	(130)	(99)
Amounts reversed	(3)	(58)
Exchange differences	52	(54)
Balance at 31 December	428	257

(b) The amounts receivable from jointly controlled entities, associated company and subsidiaries are unsecured, interest-free and have no fixed repayment terms.

21. Bank Balances, Cash and Other Liquid Funds

Accounting Policy No. 19

	2009 HK$M	2008 HK$M
Trust accounts under TRAA (note)		
Restricted for specific purposes	838	2
Unrestricted	65	–
	903	2
Short-term investments and bank deposits	6,612	318
Bank balances and cash	479	462
	7,994	782

Note: Pursuant to Trust and Retention Account Agreements (TRAA) of GPEC and other subsidiaries in India with their corresponding lenders, various trust accounts are set up for designated purposes. At the end of December 2008, there was a shortfall of HK$282 million in the required restricted cash balances of GPEC. 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 had communicated the shortfall as required under TRAA to the lenders, and had 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 average effective interest rate on the Group's bank balances, cash and other liquid funds is 1.0% (2008: 3.0%).

The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currency of the respective overseas entities amounted to HK$428 million (2008: HK$248 million) which was mostly denominated in U.S. dollar.

22. Trade and Other Payables

Accounting Policy No. 20

	Group		Company	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Trade payables [(a)]	3,368	2,113	–	–
Other payables and accruals	4,038	2,376	179	172
Current accounts with jointly controlled entities and associated company [(b)]	1,520	1,430	1	1
Current accounts with subsidiaries [(b)]	–	–	20	19
	8,926	5,919	200	192

Notes:

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

	2009 HK$M	2008 HK$M
Below 30 days (including amount not yet due)	3,334	2,099
31 – 90 days	8	9
Over 90 days	26	5
	3,368	2,113

At 31 December 2009, HK$404 million (2008: HK$339 million) of the trade payables were denominated in a currency other than the functional currency of the corresponding group entities.

(b) The amounts payable to jointly controlled entities, associated company and subsidiaries are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,260 million (2008: HK$1,212 million) is due to CAPCO.

23. Bank Loans and Other Borrowings

Accounting Policy No. 21

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Current				
Short-term bank loans	**1,838**	2,600	**–**	166
Long-term bank loans	**5,054**	713	**2,000**	–
	6,892	3,313	**2,000**	166
Non-current				
Long-term bank loans	**15,370**	11,323	**–**	500
Other long-term borrowings				
MTN programme (USD) due 2012	**2,523**	2,578	**–**	–
MTN programme (HKD) due 2012 to 2023 (note)	**8,520**	5,740	**–**	–
MTN programme (JPY) due 2024 (note)	**1,260**	–	**–**	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012 and 2015	**4,866**	3,742	**–**	–
	32,539	23,383	**–**	500
Total borrowings	**39,431**	26,696	**2,000**	666

Note: CLP Power Hong Kong issued fixed-rate bonds during the year. This comprises HK$3,978 million bond issuances with tenors of 3 to 15 years under the Medium Term Note (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$3,336 million (2008: HK$1,373 million). Of these, HK$2,904 million (2008: HK$891 million) were related to GPEC and other subsidiaries in India, HK$364 million (2008: HK$402 million) related to subsidiaries in Huaiji and HK$68 million (2008: HK$80 million) related to CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing).

Bank loans for GPEC and other subsidiaries in India are secured by fixed and floating charges over their immoveable and moveable properties with total carrying amounts of HK$4,225 million (2008: HK$1,642 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$775 million (2008: HK$815 million) for Huaiji and HK$123 million (2008: HK$113 million) for Boxing. Collateralised borrowings for GPEC are secured by trade receivables, the carrying amounts of which were HK$191 million (2008: HK$422 million).

Bank loans and other borrowings totalling HK$15,002 million (2008: HK$11,182 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

23. Bank Loans and Other Borrowings (continued)

At 31 December 2009, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Within one year	6,892	3,313	–	–	6,892	3,313
Between one and two years	8,420	3,043	–	–	8,420	3,043
Between two to five years	5,097	7,859	10,720	7,052	15,817	14,911
Over five years	1,853	421	6,449	5,008	8,302	5,429
	22,262	14,636	17,169	12,060	39,431	26,696

Of the Company's borrowings, HK$2,000 million (2008: HK$166 million) is repayable within one year and nil is between one and two years (2008: HK$500 million).

Another presentation of the Group's liquidity risk is set out on page 197.

At 31 December 2009 and 2008, all of the Group's borrowings are either in the functional currencies of the corresponding group entities or hedged into those currencies.

The loans and borrowings of the Group are predominantly in Hong Kong dollar or Australian dollar. The effective interest rates at the end of the reporting period were as follows:

	2009		2008	
	HK$	A$	HK$	A$
Fixed rate loans and loans swapped to fixed rates	2.3% – 5.0%	6.3% – 6.6%	3.9% – 5.0%	6.3% – 6.6%
Variable rate loans and loans swapped from fixed rates	0.3% – 1.4%	3.7% – 4.0%	0.3% – 4.6%	4.9% – 5.3%

The carrying amounts of loans and borrowings approximate to 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.

At 31 December 2009, the Group had undrawn bank loan and overdraft facilities of HK$20,045 million (2008: HK$14,538 million).

24. Obligations under Finance Leases

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 HK(IFRIC)-Int 4 and HKAS 17.

	Minimum Lease Payments	
	2009 HK$M	2008 HK$M
Amounts payable under finance leases		
Within one year	1,523	1,403
After one year but within two years	1,519	1,399
After two years but within five years	4,502	4,183
Over five years	14,311	14,780
	21,855	21,765
Analysed as:		
Amount due for settlement within 12 months	1,523	1,403
Amount due for settlement after 12 months	20,332	20,362
	21,855	21,765

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 2009, the interest rate was 9.99% (2008: 9.99% to 15%). The finance charges associated with the finance leases were charged to profit or loss in the period in which they were actually incurred.

Recall our accounting "mini-series" on lease accounting?
Please visit our website.

25. Deferred Tax

Accounting Policy No. 22

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 on the consolidated statement of financial position:

	2009 HK$M	2008 HK$M
Deferred tax assets	3,355	2,992
Deferred tax liabilities	(7,009)	(6,435)
	(3,654)	(3,443)

Deferred tax asset = income tax recoverable in the future

Deferred tax liability = income tax payable in the future

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:

	2009 HK$M	2008 HK$M
At 1 January	(3,443)	(2,429)
Disposal of subsidiaries	–	49
Charged to profit or loss	(901)	(405)
(Charged) / credited to other comprehensive income	(124)	52
Withholding tax	26	–
Exchange differences	788	(710)
At 31 December	(3,654)	(3,443)

25. 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 [b]		Total	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
At 1 January	3,979	5,600	337	280	506	640	4,822	6,520
(Charged) / credited to profit or loss	(332)	(501)	31	19	(199)	5	(500)	(477)
(Charged) / credited to other comprehensive income	–	–	(26)	103	–	–	(26)	103
Exchange differences	1,147	(1,120)	70	(65)	123	(139)	1,340	(1,324)
At 31 December [a]	4,794	3,979	412	337	430	506	5,636	4,822

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others [b]		Total	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
At 1 January	(6,382)	(6,445)	(250)	(280)	(348)	(410)	(264)	(372)	(1,021)	(1,442)	(8,265)	(8,949)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	49	–	49
(Charged) / credited to profit or loss	(400)	(98)	(122)	(14)	(38)	(34)	33	34	126	184	(401)	72
Charged to other comprehensive income	–	–	–	–	–	–	–	–	(98)	(51)	(98)	(51)
Withholding tax	–	–	26	–	–	–	–	–	–	–	26	–
Exchange differences	(192)	161	(10)	44	(109)	96	(75)	74	(166)	239	(552)	614
At 31 December	(6,974)	(6,382)	(356)	(250)	(495)	(348)	(306)	(264)	(1,159)	(1,021)	(9,290)	(8,265)

Notes:

(a) 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. Apart from the tax losses in Australia, there are no significant unused tax losses not recognised.

(b) Others mainly relate to temporary differences arising from trading derivative financial instruments and lease accounting adjustments.

26. 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 to its fair value.

27. SoC Reserve Accounts

The Tariff Stabilisation Fund 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:

	2009 HK$M	2008 HK$M
Tariff Stabilisation Fund (A)	1,653	1,756
Rate Reduction Reserve (B)	1	70
	1,654	1,826

The Tariff Stabilisation Fund is to replace the Development Fund under the 1993 SoC and operates in the same manner as the Development Fund. The movements during the year are shown as follows:

	2009 HK$M	2008 HK$M
(A) Tariff Stabilisation Fund / Development Fund		
At 1 January	1,756	2,117
Transfer under SoC [(a)]		
– transfer for SoC from profit or loss (Note 3)	143	193
– charge for asset decommissioning [(b)]	(246)	(60)
Special rebate to customers	–	(494)
At 31 December	1,653	1,756

	2009 HK$M	2008 HK$M
(B) Rate Reduction Reserve		
At 1 January	70	183
Interest expense charged to profit or loss (Note 7)	3	132
Special rebate to customers	–	1
Rebate to customers [(c)]	(72)	(246)
At 31 December	1	70

The carrying amounts of the SoC reserve accounts approximate to their fair values.

Notes:

(a) 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. 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 profit or loss (Note 3).

(b) Under the 2008 SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. For CLP Power Hong Kong, the balance of the asset decommissioning liabilities account of HK$176 million (2008: HK$34 million) recognised under the SoC represents a liability to the Group. The carrying amount of the asset decommissioning liabilities approximates to its fair value.

(c) A rebate of HK¢0.8 per unit (2008: HK¢0.8 per unit) was made to customers during the period from 1 January to 5 May 2009.

28. Share Capital

	2009 Number of Ordinary Shares of HK$5 Each	2009 Amount HK$M	2008 Number of Ordinary Shares of HK$5 Each	2008 Amount HK$M
Authorised, at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid:				
At 1 January	2,406,143,400	12,031	2,408,245,900	12,041
Repurchase of shares (note)	–	–	(2,102,500)	(10)
At 31 December	2,406,143,400	12,031	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 29).

29. Reserves

	Capital Redemption Reserve [a] HK$M	Translation Reserves HK$M	Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2008	2,482	3,592	215	1,122	43,285	50,696
Revaluation reserve realised upon depreciation	–	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	–	12	(12)	–
Total comprehensive income attributable to shareholders	–	(4,795)	57	(495)	10,423	5,190
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	–	–	–	(74)	74	–
Balance at 31 December 2008	2,492	(1,203)	272	562	47,699 [b]	49,822
Balance at 1 January 2009	2,492	(1,203)	272	562	47,699	49,822
Revaluation reserve realised upon depreciation	–	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	–	10	(10)	–
Total comprehensive income attributable to shareholders	–	5,069	290	156	8,196	13,711
Dividends paid						
2008 final	–	–	–	–	(2,214)	(2,214)
2009 interim	–	–	–	–	(3,753)	(3,753)
Balance at 31 December 2009	**2,492**	**3,866**	**562**	**725**	**49,921 [b]**	**57,566**

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 (2008: HK$2,214 million), the balance of retained profits at 31 December 2009 was HK$47,707 million (2008: HK$45,485 million).

30. Note to the Consolidated Statement of Cash Flows

Reconciliation of profit before income tax to net cash inflow from operations:

	2009 HK$M	2008 HK$M
Profit before income tax	9,854	11,783
Adjustments for:		
Finance costs	3,477	4,245
Finance income	(69)	(124)
Share of results in jointly controlled entities and associated companies, net of income tax	(2,415)	(2,597)
Depreciation and amortisation	4,332	4,055
Impairment charge	299	131
Net loss on disposal of fixed assets	172	140
Gain on sale of PGS / SEAGas	(153)	(502)
Gain on deemed disposal from CSEC Guohua restructuring	–	(225)
Fair value (gain) / loss on borrowings under fair value hedges and net exchange difference	(48)	168
SoC items		
Increase in customers' deposits	130	138
Decrease / (increase) in fuel clause account (under-recovery)	796	(653)
Rebate to customers under SoC	(72)	(246)
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a jointly controlled entity	(104)	(25)
Special rebate	–	(493)
Transfer for SoC	143	193
	893	(1,086)
Increase in trade and other receivables	(357)	(1,836)
Decrease in finance lease receivables	111	145
(Increase) / decrease in cash restricted for specific purposes	(836)	617
(Increase) / decrease in derivative financial instruments	(202)	199
Increase in trade and other payables	285	124
Increase in current accounts due to jointly controlled entities	55	679
Net cash inflow from operations	15,398	15,916

31. Commitments

(A) Capital expenditure on fixed assets, leasehold land and land use rights authorised but not brought into the financial statements is as follows:

	Group		Company	
	2009 HK$M	2008 HK$M	2009 HK$M	2008 HK$M
Contracted but not provided for	14,668	4,008	3	4
Authorised but not contracted for	11,643	17,952	49	47
	26,311	21,960	52	51

(B) The Group has entered into a number of joint venture arrangements to develop power projects. Equity contributions required and made by the Group under each project are summarised below:

Project Name	Total Equity Contributions Required	Amount Contributed at 31 December 2009	Remaining Balance to be Contributed	Expected Year for Last Contribution
Jiangbian hydro power project	RMB335 million	RMB298 million (HK$322 million)	RMB37 million (HK$42 million)	2010
Nanao wind power project	RMB12 million	–	RMB12 million (HK$14 million)	2010
Rongcheng wind power project	RMB87 million	–	RMB87 million (HK$99 million)	2010
Zhanhua wind power project	RMB88 million	–	RMB88 million (HK$100 million)	2010
Lijin wind power project	RMB88 million	–	RMB88 million (HK$100 million)	2010
Haifang wind power project	RMB92 million	–	RMB92 million (HK$105 million)	2010

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2009 HK$M	2008 HK$M
Within one year	633	563
Later than one year but not later than five years	2,368	2,014
Over five years	6,810	6,826
	9,811	9,403

Of the above amount, HK$6,810 million (2008: HK$7,113 million) was related to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,502 million (2008: HK$2,125 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.

32. 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:

	2009 HK$M	2008 HK$M
Lease and lease service payment to CAPCO (a)	12,954	13,506
Purchases of nuclear electricity from GNPS (b)	5,237	5,031
Pumped storage service fee to PSDC (c)	390	363
	18,581	18,900

(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 HK(IFRIC)-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 2009 was HK$583 million (2008: HK$889 million).

Amounts due to the related parties at 31 December 2009 are disclosed in Note 22.

32. Related Party Transactions (continued)

(B) Rendering of services to jointly controlled entities

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the year amounted to HK$1,159 million (2008: HK$1,100 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 at 31 December 2009 are disclosed in Note 20.

No provision has been made for the amounts owed by the related parties.

(C) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$22,493 million (2008: HK$14,421 million) made to its subsidiaries (Note 14), HK$13,216 million (2008: HK$13,921 million) and HK$3,596 million (2008: nil) were made to CLP Power Asia Limited and CLP Asia Finance Limited respectively to fund investments in power projects in Australia, India, the Chinese mainland, and Southeast Asia and Taiwan. Another advance of HK$5,227 million (2008: nil) was made to CLP Treasury Services Limited for treasury operations purpose.

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$110 million (2008: HK$106 million), of which HK$106 million (2008: HK$95 million) was from CLP Properties Group.

(D) The loan and advances made to jointly controlled entities totalled HK$7,326 million (2008: HK$6,917 million) (Note 15). Of these, HK$7,060 million (2008: HK$6,520 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2009, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2008: nil).

32. 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 nine (2008: eight) senior management personnel. The total remuneration of the key management personnel is shown below:

	2009 HK$M	2008 HK$M
Fees	7	7
Base compensation, allowances and benefits in kind	46	42
Tax equalisation, allowances and benefits in kind for secondment to overseas offices	9	12
Performance bonus		
Annual incentive	36	37
Long-term incentive	10	8
Provident fund contributions	6	5
	114	111

At 31 December 2009, the CLP Holdings' Board was composed of 16 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year totalled HK$42 million (2008: HK$43 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included three Directors (2008: two Directors) and two senior management (2008: two senior management and one former senior employee). The total remuneration of these five highest paid individuals amounted to HK$67 million (2008: HK$69 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 120 to 122, 124 and 125 respectively. These sections form the "auditable" part of the Remuneration Report and are part of the financial statements.

33. Contingent Liabilities Accounting Policy No. 23

(A) GPEC – Deemed Generation Incentive Payment

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 Rs.7,260 million or HK$1,207 million (2008: Rs.7,260 million or 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 Rs.2,896 million or HK$482 million. GPEC filed an appeal with the Appellate Tribunal for Electricity (ATE) against the decision of the GERC.

GUVNL also filed an appeal in the ATE against an Order of the GERC rejecting GUVNL's claims on interest on deemed loan and the time barring of the deemed generation claim to 14 September 2002.

On 19 January 2010, the ATE dismissed both GPEC and GUVNL's appeals and upheld the decision of the GERC. GPEC intends to appeal the ATE order to the Supreme Court.

On the basis of legal advice obtained, the Directors are of the opinion that GPEC has a strong case on appeal to the Supreme Court. In consequence, no provision has been made in the financial statements at this stage in respect of these matters.

(B) Indian Wind Power Projects – Enercon's Contracts

CLP Wind Farms (India) Private Limited, GPEC and CLP India group companies ("CLP India") have invested (or are committed to invest) in around 350MW of wind power projects to be developed with Enercon India Limited (EIL). EIL's major shareholder, Enercon GmbH, has commenced litigation against EIL claiming infringement of intellectual property rights. CLP India, as a customer of EIL, has been named as a pro-forma defendant. As at 31 December 2009, the Group considered that CLP India is an innocent purchaser and the legal proceedings will not result in material outflow of economic benefits to the Group.

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. Risk management for Hong Kong operations, predominantly 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.

Details of the Group's financial risks and their management are disclosed in the Financial Risks and Key Business Risks sections (as highlighted in green) of the Risk Management Report on pages 108 to 113 and form the "auditable" part of the Risk Management Report and are part of the financial statements. The Group's exposures to these risks are disclosed as follows.

Foreign currency risk

All foreign exchange gains and losses incurred by CLP Power Hong Kong are recoverable under the SoC. Therefore, exchange rate fluctuations effectively will have no ultimate impact on CLP Power Hong Kong's profit or loss. As a measure of additional prudence, CLP Power Hong Kong enters forward contracts and currency swaps to hedge its currency risk exposures on U.S. dollar and Japanese yen. At the end of the reporting period, the fair value movement of the derivative financial instruments in a cash flow hedge relationship is recorded as other comprehensive income and accumulated in equity. To the extent that the Hong Kong dollar had weakened / strengthened by 0.6% (2008: 0.6%) against the U.S. dollar and 6.0% (2008: nil) against the Japanese yen, with all other variables held constant, the impact would have been an increase / decrease of HK$272 million (2008: HK$252 million) and HK$36 million (2008: nil) respectively to equity. This fluctuation in equity is a timing difference as when the exchange gain or loss is reclassified from equity to profit or loss, the amount is recoverable under the SoC.

Apart from CLP Power Hong Kong, most foreign currency 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. The following analysis presents the Group's (apart from CLP Power Hong Kong) sensitivity to a reasonably possible change in the functional currency of the Group entities against the U.S. dollar, with all other variables held constant.

	2009 HK$M	2008 HK$M
If the respective functional currency weakened by 5.5% (2008: 3%)		
Post-tax profit for the year	55	30
Equity – hedging reserve	96	–
If the respective functional currency strengthened by 5.5% (2008: 3%)		
Post-tax profit for the year	(52)	(32)
Equity – hedging reserve	(96)	–

In relation to foreign currency translation risk, at 31 December 2009, the Group's net investment subject to translation exposure was approximately HK$40 billion (2008: HK$31 billion), arising mainly from our investments in Australia, India, the Chinese mainland, and Southeast Asia and Taiwan. This means that, for each 1% (2008: 1%) average foreign currency movement, our translation exposure will vary by about HK$404 million (2008: HK$305 million).

1. Financial Risk Factors (continued)

Energy price risk

TRUenergy measures the risk of the fluctuation of the spot market price using Value-at-Risk (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 at 31 December 2009 was HK$234 million (2008: HK$149 million). The change reflects an increase in holding of volatile positions and higher market volatility estimates. During 2009, the VaR ranged between a low of HK$161 million (2008: HK$123 million) and a high of HK$255 million (2008: HK$528 million).

Analyses below show the effect on profit after tax and equity if market prices were 15% (2008: 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% (2008: 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.

	2009 HK$M	2008 HK$M
If market prices were 15% (2008: 15%) higher		
Post-tax profit for the year	99	40
Equity – hedging reserve	(23)	(335)
If market prices were 15% (2008: 15%) lower		
Post-tax profit for the year	(99)	(40)
Equity – hedging reserve	23	335

Interest rate risk

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 reclassified to profit or loss in the periods when the hedged items affect profit or loss, and offset one another in the profit or loss.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. For floating-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity to interest rate used is considered reasonable given the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

1. Financial Risk Factors (continued)

Interest rate risk (continued)

	2009 HK$M	2008 HK$M
Hong Kong dollar		
If interest rates were 0.5% (2008: 0.5%) higher		
Post-tax profit for the year	(46)	(25)
Equity – hedging reserve	20	40
If interest rates were 0.1% (2008: 0.5%) lower		
Post-tax profit for the year	9	25
Equity – hedging reserve	(5)	(40)
Australian dollar		
If interest rates were 1% (2008: 1%) higher		
Post-tax profit for the year	(12)	(15)
Equity – hedging reserve	57	120
If interest rates were 1% (2008: 1%) lower		
Post-tax profit for the year	12	15
Equity – hedging reserve	(57)	(120)

The Company’s sensitivity to interest rate is not significant and therefore is not presented.

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’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of each financial asset, including trade and other receivables and derivative financial instruments, as reported on the statement of financial position.

1. Financial Risk Factors (continued)

Liquidity risk

The table below analyses the remaining contractual maturities at the end of the reporting period 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
At 31 December 2009					
Non-derivative financial liabilities					
Bank loans	7,639	8,565	6,067	2,599	24,870
Other borrowings	822	838	11,408	7,479	20,547
Obligations under finance leases	3,629	3,474	9,462	23,195	39,760
Customers' deposits	3,854	–	–	–	3,854
Trade and other payables	8,926	–	–	–	8,926
SoC reserve accounts	–	–	–	1,654	1,654
	24,870	12,877	26,937	34,927	99,611
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	4	–	–	–	4
Interest rate swaps	193	63	14	–	270
Energy contracts	672	202	158	–	1,032
Gross settled					
Forward foreign exchange contracts	15,645	11,427	36,037	–	63,109
Cross currency & interest rate swaps	223	244	3,485	2,155	6,107
	16,737	11,936	39,694	2,155	70,522
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	3,507	3,362	9,237	24,539	40,645
Customers' deposits	3,722	–	–	–	3,722
Trade and other payables	5,919	–	–	–	5,919
SoC reserve accounts	–	–	–	1,826	1,826
	17,252	7,572	24,962	32,451	82,237
Derivative financial 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

At 31 December 2009, the maturity profile of the Company's bank loans, included in the Group amounts shown above, was HK$2,003 million (2008: HK$176 million) repayable within one year and nil (2008: HK$503 million) within one to two years.

2. Accounting for Derivative Financial Instruments and Hedging Activities

These are covered under the Significant Accounting Policy No.15 on page 149.

3. Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period. 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 the end of each reporting period. 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 end of the reporting period. 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 to their fair values.

4. Fair Value Hierarchy of Financial Instruments

HKFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 — inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

4. Fair Value Hierarchy of Financial Instruments (continued)

The following table presents the financial instruments that are measured at fair value at 31 December 2009.

	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Assets				
Available-for-sale investments	429	–	1,263	1,692
Forward foreign exchange contracts	–	907	–	907
Cross currency & interest rate swaps	–	481	–	481
Interest rate swaps	–	5	–	5
Energy contracts	–	1,115	785	1,900
	429	2,508	2,048	4,985
Liabilities				
Forward foreign exchange contracts	–	278	–	278
Cross currency & interest rate swaps	–	96	–	96
Interest rate swaps	–	251	–	251
Energy contracts	–	607	420	1,027
	–	1,232	420	1,652

During the year, there are no significant transfers between Level 1 and Level 2.

The movements of the balance of financial assets and financial liabilities measured at fair value based on Level 3 are as follows:

	Available-for-sale Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	3	277	280
Total gains or losses recognised in			
Profit or loss	–	(78)	(78)
Other comprehensive income	1	132	133
Purchases	1,259	107	1,366
Settlements	–	6	6
Transfers out of Level 3 (note)	–	(79)	(79)
Closing balance	1,263	365	1,628
Total gains or losses for the year included in profit or loss and presented in fuel and other operating expenses	–	(78)	(78)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting period and presented in fuel and other operating expenses	–	(29)	(29)

Note: The transfer of certain energy contracts out of Level 3 is because certain observable significant inputs are used in the fair value measurement instead of those unobservable ones used previously.

5. 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 2008 and 2009.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2009 HK$M	2008 HK$M
Total debt [(a)]	**39,431**	26,696
Net debt [(b)]	**31,437**	25,914
Total equity	**70,868**	63,122
Total capital (based on total debt) [(c)]	**110,299**	89,818
Total capital (based on net debt) [(d)]	**102,305**	89,036
Total debt to total capital (based on total debt) ratio (%)	**35.7**	29.7
Net debt to total capital (based on net debt) ratio (%)	**30.7**	29.1

The increase in total debt to total capital ratio in 2009 is primarily the result of our overseas business expansion, which led to additional borrowings, and the translation of Australian dollar denominated loan balances at a higher exchange rate prevailing at 2009 year end. The net debt to total capital ratio has increased to a smaller extent mainly due to the offsetting effect of HK$7,994 million of bank balances, cash and other liquid funds.

Certain entities of the Group are subject to certain loan covenants. For both 2009 and 2008, these entities have fully complied with those imposed loan covenants, apart from the obligation under TRAA in 2008 which was subsequently remediated (Note 21).

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

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

Tariff Setting Mechanism

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

(i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula "(a-b) / c":

  (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;

  (b) 80% of the profit on electricity sale to the Chinese mainland; and

  (c) local unit sales as determined by the load forecast.

(ii) fuel clause charge or rebate which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate; and

(iii) SoC rebate from the Rate Reduction Reserve.

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

Permitted and Net Return

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

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

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

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

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

Five-year Summary: CLP Group Financial & Operating Statistics

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

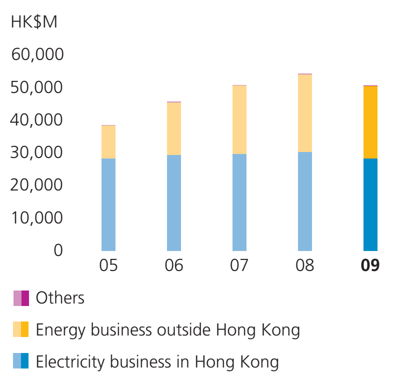
	2009	2008	2007	2006	2005
Ratios					
Return on equity, %	12.3	16.4	17.7	18.6	24.0
Total debt to total capital, %	35.7	29.7	30.7	35.1	36.7
Net debt to total capital, %	30.7	29.1	28.6	33.9	35.0
Interest cover, times	8	9	8	7	8
Price / Earnings, times	15	12	12	14	9
Dividend yield, %	4.7	4.7	4.7	4.2	5.3
Dividend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

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

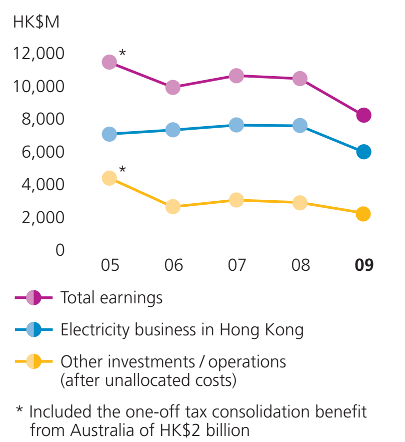
** Including our interests in wind farms held through Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) for 2005 to 2008. CLP acquired these wind farms from Roaring 40s during 2009.

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

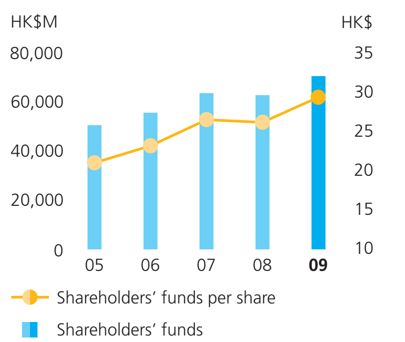
Revenue



Earnings



Shareholders' Funds



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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

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

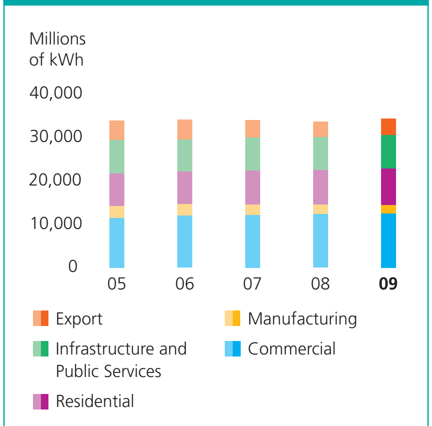
	2009	2008	2007	2006	2005
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,888**	8,888	8,888	8,888	8,576
System maximum demand					
Local, MW	**6,389**	6,749	6,284	6,435	6,475
Annual change, %	**(5.3)**	7.4	(2.3)	(0.6)	2.3
Local and the Chinese mainland, MW	**7,616**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

Note:

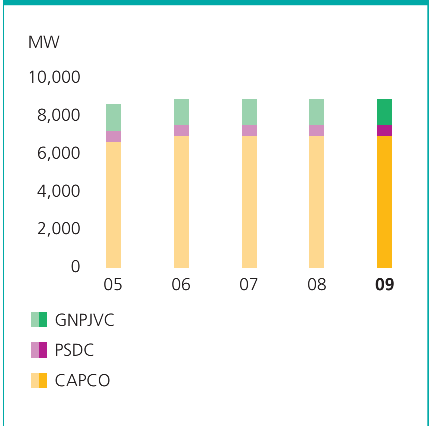
1 The Tariff Stabilisation Fund has replaced the Development Fund under the new SoC effective from 1 October 2008.

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

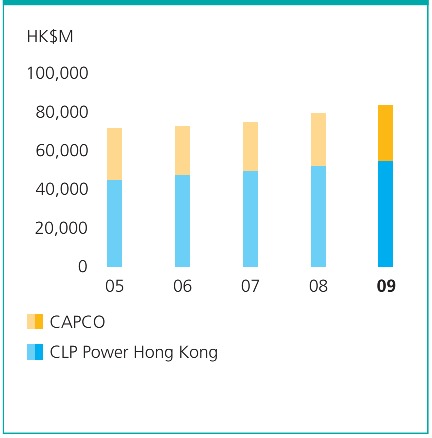
Electricity Sales by Sector



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 11 March 2010 and posted to Shareholders on 24 March 2010.

Those Shareholders who (a) received our 2009 Annual Report electronically and would like to receive a printed copy or vice versa; or (b) received our 2009 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 (HKFRS). HKFRS 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 19 to 27 April 2010, both days inclusive.

Annual General Meeting (AGM)

To be held on 27 April 2010. 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 24 March 2010.

Company's Registrars

Computershare Hong Kong Investor Services Limited

Address:	17th Floor, 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:	00002
Bloomberg:	2 HK
Reuters:	0002.HK
Ticker Symbol for ADR Code:	CLPHY
CUSIP Reference Number:	18946Q101

April Chan
Company Secretary

Contact Us

Address:	**147 Argyle Street, Kowloon, Hong Kong**	
Telephone:	**(852) 2678 8228** (Shareholders' hotline)	**(852) 2678 8322** (Investor Relations' 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)

Gloria Kwan
Investor Relations Manager

Together, how can we help the community?

Every year CLP, together with its shareholders and other stakeholders, makes use of the Annual Report and the Sustainability Report as an opportunity to support community initiatives. We do this by making a donation of HK$60 to charity for each registered shareholder who elects to receive corporate communications electronically.

Hong Kong Breast Cancer Foundation (HKBCF)

Last year, CLP donated HK$343,040 to HKBCF. This amount comprised:

- HK$190,000 as an expression of appreciation to those shareholders who had already chosen electronic communication;
- HK$17,520 in respect of those shareholders who changed to electronic communication as at 30 June 2009;
- HK$9,120 for those stakeholders who provided feedback on our Sustainability Report (CLP donated HK$60 for every feedback received); and
- HK$126,400 contributed by shareholders for each guest they brought with them on our Shareholders Visit Programme.

The donation made with your support went towards HKBCF's Free Mammography Screening Financial Assistance Program. This provides low income women in the 40 to 59 age category with access to timely, high quality mammogram screening and diagnostic services so that breast cancer can be detected at the earliest stage.

Since we started this charitable initiative in 2003, CLP has donated more than HK$1 million to a range of deserving causes, such as Médecins Sans Frontières, the Society for the Welfare of the Autistic Persons, the Hong Kong Association for Cleft Lip and Palate, the Hong Kong Association for Specific Learning Disabilities and Hong Kong Breast Cancer Foundation.

The Society for the Welfare of the Autistic Persons (SWAP)

This year, our donation will go to the SWAP, with whom we have previously worked. This is a Hong Kong association founded by the parents of children with autism for mutual support and for improving the daily lives of people who are autistic. SWAP's services include individual and group training, social and recreational activities, parent support and public education about autism.

SWAP intends to apply CLP's donation towards equipment, play materials and educational toys which will help people with autism develop social and emotional skills through play and activities. This involves teaching them appropriate ways to communicate and interact with others, techniques to control their temper and behaviour, as well as knowledge and facts which will help them function effectively within their environment. In addition, CLP's donation will help SWAP publish an introductory booklet for the parents of suspected or newly diagnosed autistic children. This will explain the characteristics of autism and different intervention strategies available to respond to the challenges which it poses.

Shareholders who do not yet receive their corporate communications electronically can help support this community initiative by electing for electronic communication through returning to us the notification form which accompanies this Annual Report, in the provided pre-paid reply envelope, on or before 30 June 2010.

We thank you all for your support

CLP welcomes your views...

CLP 中電

Section A – Feedback on 2009 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
	Values and Abilities								
3	Chairman's Statement	1	2	3	4	1	2	3	4
	Strategy								
7	CEO's Review	1	2	3	4	1	2	3	4
	Relationships								
11	Shareholders	1	2	3	4	1	2	3	4
18	Lenders	1	2	3	4	1	2	3	4
21	Customers	1	2	3	4	1	2	3	4
26	Employees	1	2	3	4	1	2	3	4
	Performance								
36	Hong Kong	1	2	3	4	1	2	3	4
40	Australia	1	2	3	4	1	2	3	4
45	Chinese Mainland	1	2	3	4	1	2	3	4
51	India	1	2	3	4	1	2	3	4
54	Southeast Asia and Taiwan	1	2	3	4	1	2	3	4
	Economic Value								
58	Financial Review	1	2	3	4	1	2	3	4
	Outlook								
81	Hong Kong	1	2	3	4	1	2	3	4
82	Australia	1	2	3	4	1	2	3	4
84	Chinese Mainland	1	2	3	4	1	2	3	4
85	India	1	2	3	4	1	2	3	4
86	Southeast Asia and Taiwan	1	2	3	4	1	2	3	4
	Process								
91	Corporate Governance Report	1	2	3	4	1	2	3	4
107	Risk Management Report	1	2	3	4	1	2	3	4
116	Audit Committee Report	1	2	3	4	1	2	3	4
118	Remuneration Report	1	2	3	4	1	2	3	4
	Financial Statements								
133	Financial Section	1	2	3	4	1	2	3	4
	Questions and Answers with CLP Management	1	2	3	4	1	2	3	4

.../cont'd

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.

   ____

   ____

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.

   ____

   ____

5. Any other comments/suggestions?

   ____

   ____

   ____

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 ____

____

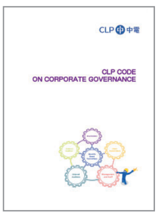
(Please " ✔ " appropriate box)

☐ Web Information Required (Please specify which) ____

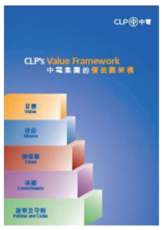
____

☐ 2009 Sustainability Report – In Essence

☐ CLP Code on Corporate Governance (2009 update)



☐ CLP's Value Framework



Please send your feedback to CLP Holdings Limited using the enclosed prepaid envelope; fax: (852) 2678 8390; or e-mail: cosec@clp.com.hk

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This Annual Report is printed on environmentally friendly paper.