2010 Annual Report

CLP 中電

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What social and environmental value have we delivered?

- Look at our Sustainability Report

Explaining Our Business – The Corporate Cycle

We are engaged in all the elements of the electricity business, from fuel procurement to serving customers. The technologies we use range from steam turbines to solar photovoltaic panels and electric vehicles. From our Hong Kong base, we are present in markets which include almost half of the world's population and we are amongst the largest external investors in those markets.

Explaining a complex business is an interesting challenge.

The aim of this Annual Report, one of the key components in our corporate communications, is to offer an integrated picture of our business, how it is managed and where it is heading. In doing so, we must achieve the following:

- compliance with the laws, rules and regulations which govern this Annual Report – that must be the starting point, but in many respects we go beyond mere compliance in the scope of the information we present;
- accuracy – we make extraordinary efforts to check and recheck everything we say. If we later find we have made a mistake, we'll correct this on our website;
- relevance – we are not talking to ourselves. We think hard about what our shareholders and stakeholders need to know;
- clarity – what we write must be understandable. Our Financial Review is our way of presenting financial information so that you do not have to be an accountant to understand it. You'll find the Review clearly marked by the orange edges on pages 68 to 86;
- forward-looking – the past is the past and we cannot change it. Our shareholders hold CLP's shares not for what we have done, but for what they expect we will do. We do our best to explain the way ahead for their business; and
- going digital – interfacing with new media. Increasingly, our stakeholders serve themselves from our website (almost 4 million hits in 2010 alone). We seek to weld together this Report with the wealth of information on our website.

For us, integrated reporting means two things. First, linking up the economic, social and environmental performance and outcomes of our business – the so-called "triple bottom line". That's why, whilst this Annual Report focuses on financial and economic value, our Sustainability Report explains the delivery of social and environmental value to our stakeholders.

Secondly, we need to connect values, actions and outcomes in a structured and logical way. And we recognise that our business does not start on 1 January and stop on 31 December in each year. We use a "corporate cycle" to explain how, starting with the values which govern our behaviour and the key capabilities of CLP which can create value, we develop a strategy. That strategy is implemented through the ownership and effective management of electricity assets. That in turn creates economic value for our shareholders, as well as social and environmental value for all stakeholders.

This corporate cycle is accompanied by processes which encourage, enable, monitor and measure what we are doing. These include our Financial Statements which report on our delivery of economic value.

In the future, we will continue to revisit, revise and reinforce our values and strategy in the light of experience, good and bad. We will also strengthen our processes whenever this will help us to deliver value to our shareholders and stakeholders.

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

Finally, we appreciate that not everyone wants to read a 200-page Annual Report. The "At a glance" feature, Financial Highlights and Chairman's Statement, which you'll find from pages 2 to 10, together give a pretty good snapshot of CLP.

We hope that this Annual Report, the Sustainability Report and our website provide an integrated picture of your Company. We welcome your feedback.

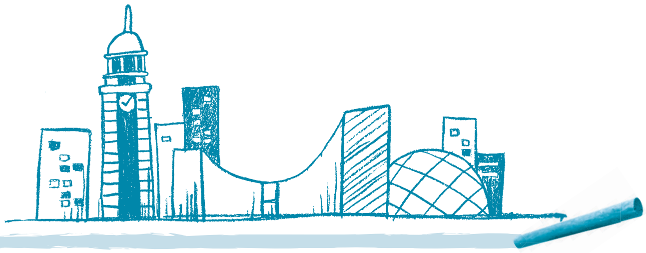
Powering Asia Responsibly

Business Description	2010 Highlights
Hong Kong • Electricity supplier since 1903 • We own and operate an integrated electricity business which comprises – Generation: 6,908 megawatts (MW)* – Energy Delivery: over 13,700 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 which provides a stable base for investment until at least 2018 * 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 • We achieved the 2010 emissions reduction targets established by the HKSAR and Guangdong Governments – emissions of SO_2, NO_x and respirable suspended particulates went down by approximately 58%, 32% and 32% compared to 2009 and massively down since 1990 despite a 79% increase in electricity demand over that period • We met a new record peak of local maximum demand of 6,766MW
Australia • We've been 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 with – Generation: 2,103MW from wholly-owned large coal and gas-fired power stations, a 966MW long-term hedge contract – 1.25 million customer accounts (gas and electricity) – Gas storage and processing – Renewable energy purchases and investments	• Good operating and financial performance over the year • TRUenergy entered an agreement with the New South Wales (NSW) Government to acquire EnergyAustralia Retail, the State's largest retailer, the Delta Western GenTrader contract for the Mount Piper (1,400MW) and Wallerawang (1,000MW) coal-fired power stations, and three power station development sites • Our Mallee Solar Park project to develop a 180MW solar photovoltaic power station in Victoria was shortlisted under the Australian Government's Solar Flagships Program and received Victorian Government support
Chinese Mainland • We've been 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 5,899 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, Sichuan, Jilin and Yunnan	• Fangchenggang Power Station performed well throughout the year • Units 3 and 4 of Suizhong II Power Station (2,000MW) entered operation • Completed the disposal of CLP Power China (Anshun) Limited which held a 70% interest in the 600MW Anshun II Power Station in Guizhou Province • Acquired a 35% shareholding in the 330MW Jiangbian hydro project from the existing local partner – the project is now wholly-owned. Construction is on schedule, with safety always a challenge • We commissioned CLP's first wholly-owned wind project, Qian'an I • A cooperation agreement was signed with China Guangdong Nuclear Power Holding Company, Limited (CGNPC) and Guangdong Yudean Group Co., Ltd. with an intention to invest jointly in Yangjiang Nuclear Power Station in Guangdong, with CLP owning 17% of the project
India • We've been 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 2,461MW equity interest in power projects in the country • We're the largest private sector investor in wind energy in India with 486MW of wind projects • We're building a 1,320MW coal-based power plant based on supercritical technology at Jhajjar, Haryana	• GPEC operated at high levels of reliability and sets one of the highest standards in safety of any asset in the CLP Group • The Jhajjar project has been underway since January 2008 and is now around 70% complete. Obtaining adequate labour resources on site has been difficult but we are maintaining progress in the critical areas of construction. Safety is a major challenge • We added 213MW of operating wind energy to our portfolio and started development of another 40MW
Southeast Asia and Taiwan • We've been a developer, investor, project manager and operator in the power business since 1994 • Following the sale in February 2011 of our stake in EGCO in Thailand, we now have 282 equity MW interests in Ho-Ping in Taiwan and the Lopburi solar project in Thailand • We're co-developing two coal-fired projects in Vietnam	• Ho-Ping continued to perform well and achieved record generation and availability • The 55MW NED solar project at Lopburi commenced construction under CLP construction management • The two coal-fired projects in Vietnam made progress with a focus on major project document negotiations, sourcing of equipment, coal supply and financing

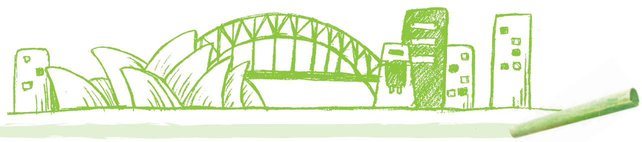
CLP is a leading investor-operator in the Asia-Pacific electric power sector

2011 Outlook

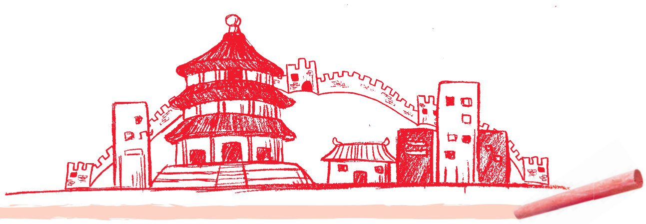
- Maintaining and improving where possible our excellent record in supply reliability, tariff levels, customer service and environmental performance
- Completing commissioning works for the emissions control project at Castle Peak Power Station
- Continuing to work with the Beijing and Hong Kong Governments and Chinese mainland parties, to bring in new supplies of gas under the Government-to-Government Memorandum of Understanding on energy supply
- Evaluating potential options for additional import of nuclear energy to Hong Kong
- Supporting an enhanced reporting mechanism of nuclear incidents and community education to reinforce public confidence in the import of nuclear generated electricity



- Finalise the acquisition of NSW energy assets in March and undertake integration of the retail business and GenTrader contract
- Continue to build on our strong operational performance
- Complete permitting for new power stations in NSW and Victoria
- Complete implementation of IT customer platform by the end of 2011
- The Federal Government aims to announce its preferred mechanism to address carbon emissions by the end of 2011 – we'll be an active voice in the debate and an active supporter of a fair outcome



- Continue to consolidate and rationalise our existing asset ownership and structure in the light of the evolving position on coal costs, tariffs and the ability of CLP to apply its expertise effectively
- Take the 330MW Jiangbian hydro project towards completion in 2011, with a high priority on construction safety
- Pursue expansion at our Fangchenggang site
- Continue to grow the hydro asset portfolio by investing in small and medium-sized hydro stations in selected regions
- We'll grow our wind portfolio focusing on majority-owned projects
- We'll build on our relationship with CGNPC and see how we can work together in the expansion of China's nuclear power industry. This includes nuclear power projects for the supply of Hong Kong, in line with HKSAR Government policy direction



- There are opportunities across the power sector – coal and gas-fired generation, renewable energy (mostly wind) and transmission
- We'll keep the Jhajjar project on track to phase I commissioning by May 2012
- We'll stick to reforming states
- We've a good position in wind energy and we're looking for new projects
- We'll keep bidding for generation and transmission projects

- Our Lopburi solar project should be commissioned in phases starting late 2011, while work is in hand for an 8MW expansion
- We will continue to explore various equipment supply and financing options for the two coal-fired projects in Vietnam with a view to lowering the overall costs and achieving reasonable tariffs which may be acceptable to the Vietnamese Government

Financial Highlights

Strong financial results with 7.2% increase in operating earnings accompanied by 26.1% uplift in total earnings

	2010	2009	Increase %
For the year *(in HK$ million)*			
Revenue			
Electricity business in Hong Kong (HK)	29,944	28,297	5.8
Energy business outside HK	28,124	22,175	26.8
Others	342	196	
Total	58,410	50,668	15.3
Earnings			
Electricity business in HK	6,129	5,964	2.8
Other investments / operations	3,476	3,007	15.6
Unallocated net finance costs	(18)	(21)	
Unallocated Group expenses	(439)	(413)	
Operating earnings	9,148	8,537	7.2
Other income	356	153	
Tax consolidation benefit from Australia	989	–	
Other one-off items of TRUenergy	97	(17)	
Provisions for Roaring 40s / Solar Systems and OneEnergy	(258)	(477)	
Total earnings	10,332	8,196	26.1
Net cash inflow from operating activities	16,085	14,529	10.7
At 31 December *(in HK$ million)*			
Total assets	179,355	156,531	14.6
Total borrowings	44,623	39,431	13.2
Shareholders' funds	79,661	70,761	12.6
Per share *(in HK$)*			
Earnings per share	4.29	3.41	26.1
Dividends per share			
Interim	2.48	1.56	
Final[1]	–	0.92	
Total	2.48	2.48	–
Shareholders' funds per share	33.11	29.41	12.6
Ratios			
Return on equity[2] (%)	13.7	12.3	
Total debt to total capital[3] (%)	35.9	35.7	
Net debt to total capital[4] (%)	33.3	30.7	
Interest cover[5] (times)	7	8	
Price / Earnings[6] (times)	15	15	
Dividend yield[7] (%)	3.9	4.7	

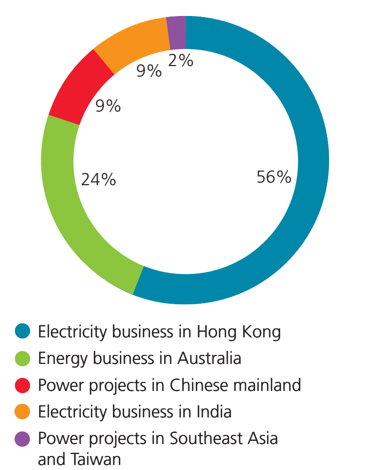
Notes:
1 A fourth interim dividend is paid instead of a final dividend for the year 2010.
2 Return on equity = Total earnings / Average shareholders' funds
3 Total debt to total capital = Debt / (Equity + debt). Debt = Bank loans and other borrowings.
4 Net debt to total capital = Net debt / (Equity + net debt). Net debt = Debt - bank balances, cash and other liquid funds.
5 Interest cover = Profit before income tax and interest / (Interest charges + capitalised interest)
6 Price / Earnings = Closing share price on the last trading day of the year / Earnings per share
7 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$989 million

Total Assets in 2010

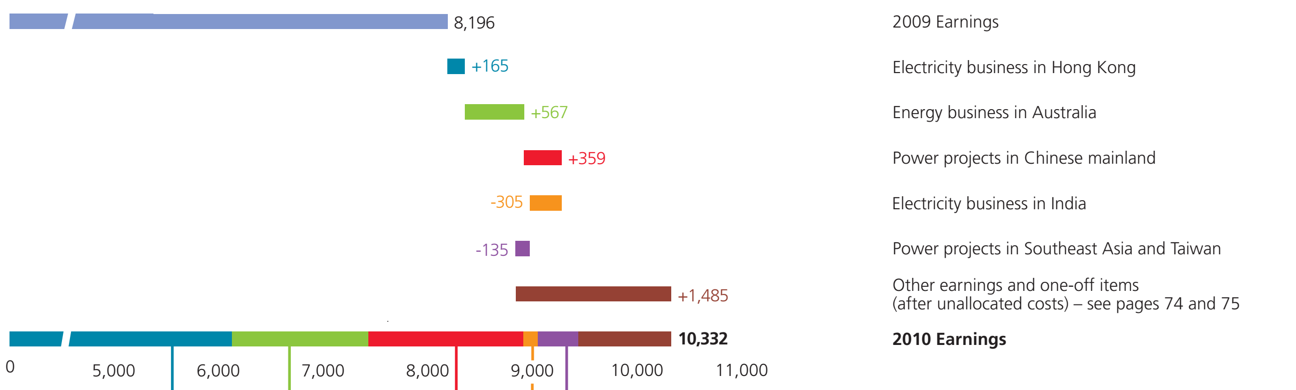


These charts explain the Group's financial performance in 2010 and the relative contributions made by each of our major business streams to that performance. Our objective is to present the highlights of CLP's performance during 2010 in a clear and accessible way.

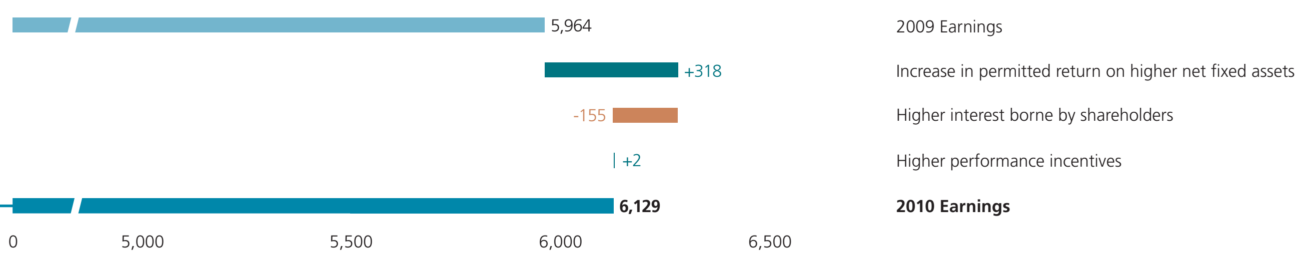
We start by setting out the Group's total earnings in 2009 and explaining the major variations (plus or minus) which have impacted on the earnings for 2010. We then show how each of our five main business streams contributed to Group total earnings, as well as the major variations between 2009 and 2010 in the operating earnings within each business stream.

A fuller explanation of business and operational events and financial performance in 2010 is set out in the Performance and Outlook and Economic Value sections of this Annual Report.

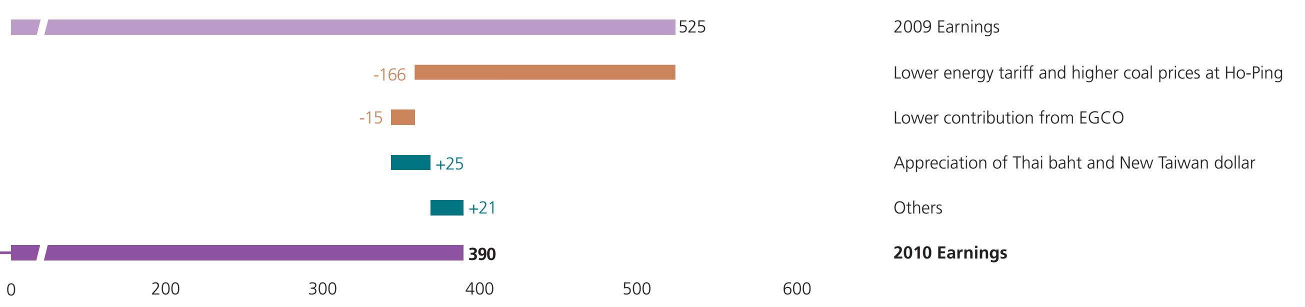
Group Earnings (HK$M)



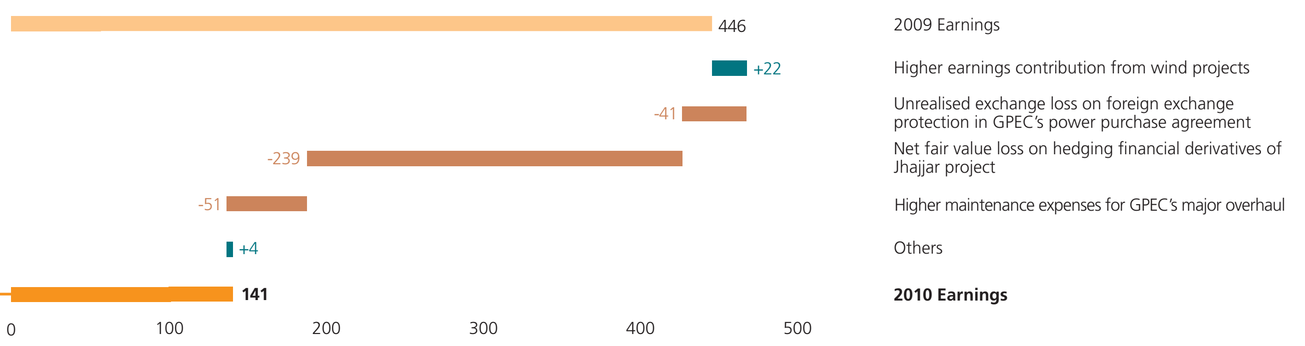
Hong Kong Earnings (HK$M)



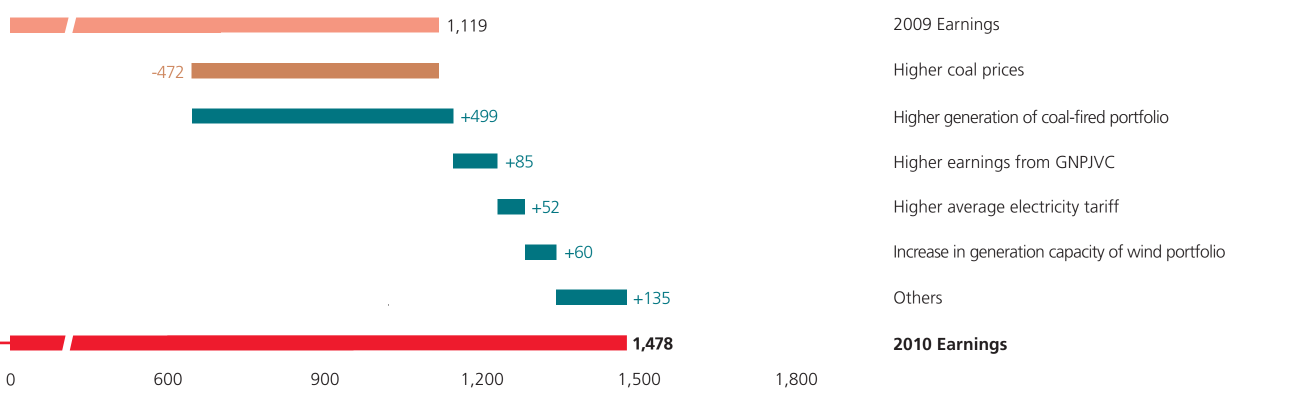
Southeast Asia and Taiwan Earnings (HK$M)



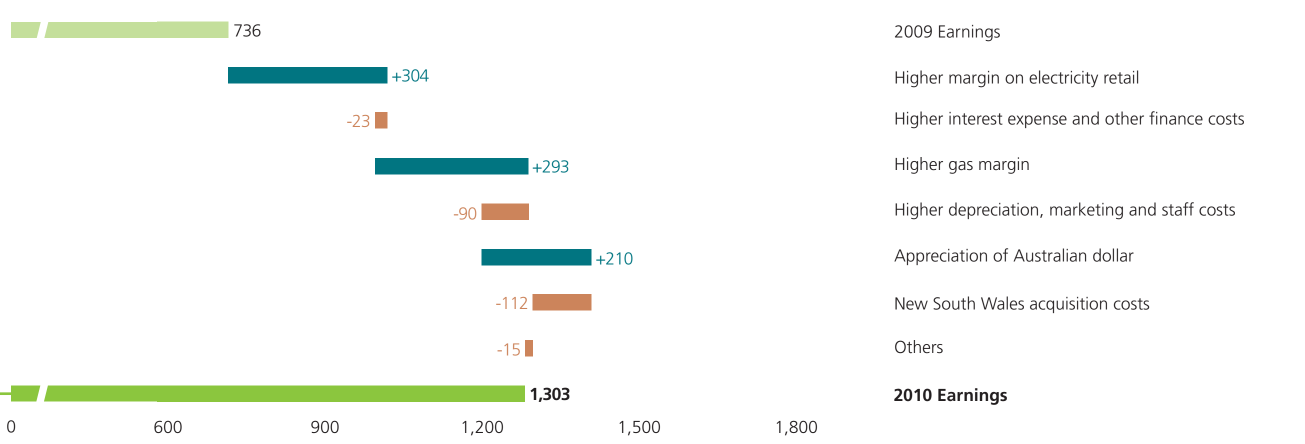
India Earnings (HK$M)

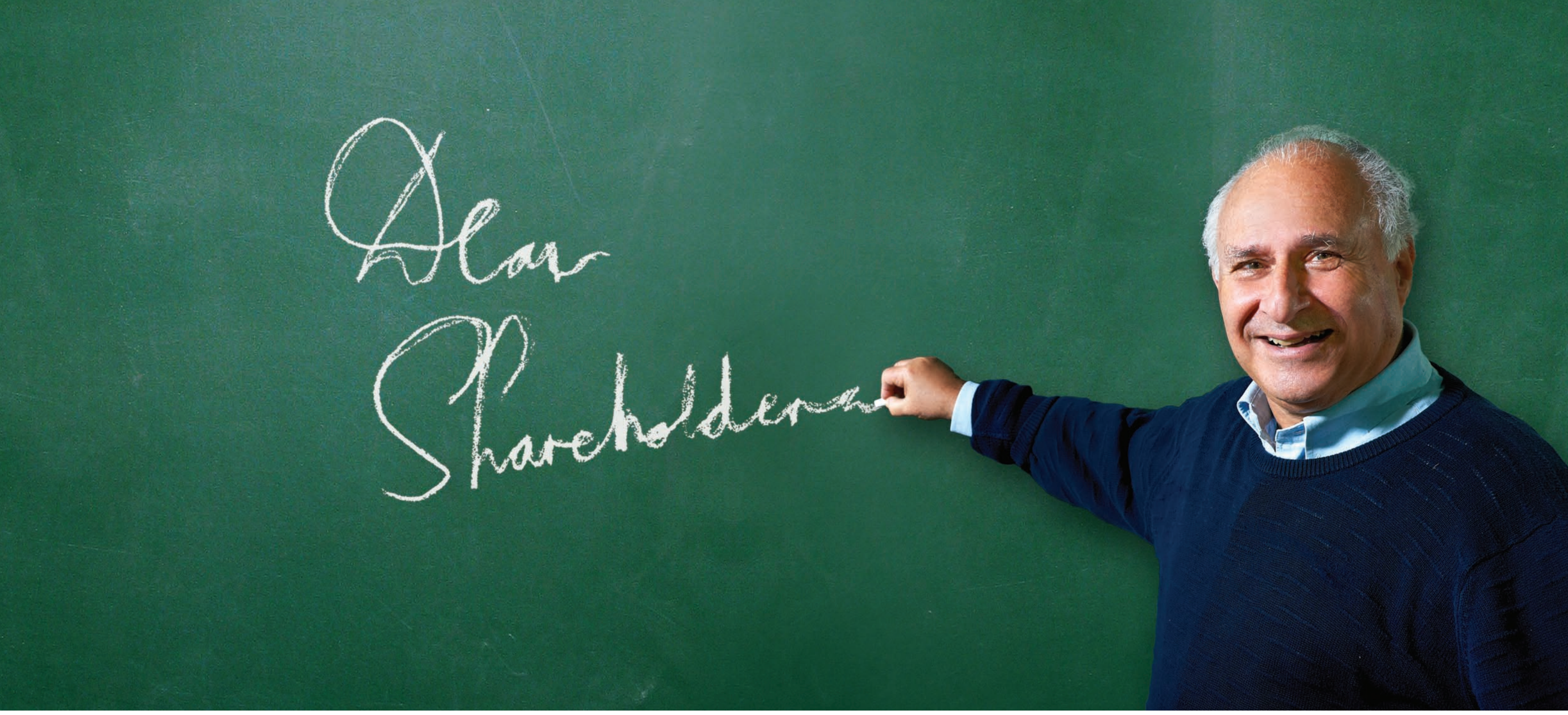


Chinese Mainland Earnings (HK$M)



Australia Earnings (HK$M)





The Hon. Sir Michael Kadoorie, Chairman

In this year's Chairman's Statement,

I wish to present the highlights of the Group's financial performance during 2010. I also wish to discuss some key issues shaping the future of our Hong Kong electricity business – the business which, as in the past year, will continue to be the mainstay of the Group's activities for the years to come.

Strong Financial Results

I used the term "highlights" to introduce my description of the Group's financial performance in 2010. I believe that this term is justified given the strong financial results we have achieved in the past year. The Group's operating earnings were HK$9,148 million, an increase of 7.2% compared with 2009. The Group's total earnings, which take into account the tax consolidation benefit of HK$989 million from Australia, the gain of HK$356 million on the sale of our 70% interest in the Anshun II coal-fired power station in Guizhou Province, China, and the impairment provision for our investment in Roaring 40s of HK$258 million, rose to HK$10,332 million, an increase of 26.1% over the previous year.

These earnings have enabled the Board to approve a fourth interim dividend for 2010 of HK$0.92 per share. This fourth interim dividend (which this year replaces the final dividend so that it can be paid earlier), together with the three interim dividends already paid, make a total dividend of HK$2.48 per share, the same as in 2009. The financial results we have achieved, and which have supported these dividend payments, reflect both a general improvement in operating conditions and the effective implementation of our overall business strategy. This strategy is to ensure a continued focus on the enhancement of our core Hong Kong electricity business, accompanied by targeted investment in our four major business streams outside Hong Kong, namely Australia, the Chinese mainland, India, and Southeast Asia and Taiwan.

In the following paragraphs, I will explain how each of these business streams contributed to overall Group performance.

Hong Kong

Our Hong Kong electricity business continues to be the major contributor to Group operating earnings, representing 67% of total Group operating earnings in 2010. Although earnings from this business are still below the level of 2007, the last full year of the previous SoC Agreement, this business delivered operating earnings of HK$6,129 million, an increase from HK$5,964 million in 2009. This is attributable to an increase in the net fixed assets deployed in the business, partially offset by higher interest charges on the borrowings used to finance them.

Australia

In Australia, our TRUenergy business delivered substantially improved operating earnings of HK$1,303 million, a 77% increase from the previous year, when earnings reached HK$736 million. This improvement was due to stronger financial performance in both the electricity and gas markets. The results also benefited from a favourable average exchange rate in line with the rise of the Australian dollar over the year.

Notwithstanding the impairment provision for the investment in Roaring 40s, the improved earnings in 2010 continued the trajectory of enhanced performance from TRUenergy over several years – earnings from this business were only HK$191 million in 2006 and HK$227 million in 2007. This strengthening financial performance reflects the close attention paid by the Board and Management, in Hong Kong and Melbourne, to improving the performance of a business which, in its earlier years, had not delivered returns commensurate with the level of investment and commitment which CLP was making in the Australian market. The improvement in TRUenergy's performance and the reinforced management and organisational capabilities at TRUenergy gave the Board the confidence to support TRUenergy's successful bids in the NSW energy asset privatisation process in 2010 – the outcome and implications of which are more fully discussed later in this Report.

Chinese Mainland

CLP's earnings from our business in the Chinese mainland, excluding those generating facilities serving Hong Kong, reached a record high in 2010 with operating earnings at HK$642 million, a 73% increase from 2009. Our Fangchenggang Power Station delivered an outstanding performance, benefiting from a strong upturn in electricity demand due to the economic rebound, a fall in competing hydro-generation and a stable coal supply secured from international markets at competitive prices. Earnings from our investments in renewable energy also rose as a result of growth in our wind portfolio and improved output from our Huaiji Hydropower Stations in Guangdong due to increased rainfall. This improvement was partially offset by the drought in Yunnan which affected our hydro-electric station at Dali Yang_er. Our move towards cleaner energy sources, be they nuclear, wind energy or hydropower, is being accompanied by a rationalisation of CLP's portfolio of investments in coal-fired power stations. In line with this approach, in April 2010 CLP completed the sale of its interest in CLP Power China (Anshun) Limited which effectively held a 70% shareholding in the 600MW Anshun II Power Station in Guizhou Province.

For those generating facilities in the Mainland serving Hong Kong, i.e., Daya Bay Nuclear Power Station and Guangdong Pumped Storage Power Station, our earnings rose to HK$836 million, an increase of 12% over the previous year.

India

Earnings from India in 2010 were HK$141 million, down 68% from 2009. Operating and financial performance at GPEC remains strong. The reduction in operating earnings was primarily the result of negative foreign exchange movements and fair value loss on hedging instruments. For example, an exchange loss was recorded on the translation of Sterling and Euro payments into Indian Rupees under the Power Purchase Agreement (PPA) at GPEC, whereas an exchange gain was recorded for the corresponding balance in 2009. Earnings from our substantial wind portfolio in India were adversely affected by project delays and lower wind resources at certain sites. Work has been undertaken to rectify the delays. We expect meaningful earnings to be generated from these wind assets from 2011 onwards.

Southeast Asia and Taiwan

Earnings from investments in Southeast Asia and Taiwan in 2010 were HK$390 million, a decline of 26% compared to HK$525 million in 2009. This was mainly due to lower earnings from our investment in the Ho-Ping Power Station in Taiwan as a result of lower energy tariffs. The off-take agreement for Ho-Ping allows us to recover coal costs by reference to the average coal costs paid by the state-owned off-taker, Taipower, in the preceding year. Since those costs were lower in 2009 than in 2008, the time-lag effect of the off-take agreement pushed down CLP's earnings from Ho-Ping in 2010.

The Changing Shape of our Hong Kong Electricity Business

CLP first started generating electricity in Hong Kong on 2 April 1903. During the following century, the way in which we have generated and supplied power to the people and businesses of Kowloon and the New Territories has never ceased to change. This has been driven by the social and economic progress of our society, political developments, technological advances and our customers' evolving needs and expectations. In recent years the pace of change has, if anything, quickened. These changes continue to be substantial and have major implications for CLP and ExxonMobil, our partner in our jointly-owned Hong Kong electricity generating business, as well as for all the participants in Hong Kong's energy sector. In CLP's case, these changes create both challenges and opportunities. They have the potential to alter the shape of this business in the years ahead. There are probably two factors which drive or underpin these changes – increasing integration between Hong Kong and Guangdong Province, and a greater priority on environmental performance. Whilst these reflect wider trends in Hong Kong's society and economy, they have a particular significance for the electricity industry.

In 2008, the Central People's Government and the HKSAR Government entered into a Memorandum of Understanding (MOU) regarding Hong Kong's future energy supply. This provided for three new sources of gas for power generation in Hong Kong, each of which will originate within, or be routed through, the PRC. The timely delivery of each will be essential for maintaining electricity supply quality and reliability. The MOU also contemplated the continuation of the import by Hong Kong of nuclear energy generated in the Mainland. In all aspects, the MOU envisaged radical developments in the energy sources used to supply electricity in the HKSAR.

The MOU in itself reshapes the Hong Kong electricity industry. Further changes have been driven by increasingly tightened emissions regulations applying to our power stations at Castle Peak and Black Point, as part of the Government's broader efforts to improve local air quality. In the past few years, CLP and our partner ExxonMobil, have invested around HK$9 billion in emissions control reduction equipment at Castle Peak. We have also made major changes in the way in which we operate our plant and in the specification of the coal we source on the international market.

Environmental policy initiatives are likely to accelerate in coming years, judging by the consultation document issued by the HKSAR Government in September 2010 on Hong Kong's Climate Change Strategy and Action Agenda. This proposes an overall 50 to 60% carbon intensity reduction for Hong Kong and, for the power sector, a fuel mix target of 50% nuclear, 40% gas, 3 to 4% renewable energy and not more than 10% coal by 2020. The consultation process was completed on 31 December 2010. Government is in the process of compiling the responses, with its policy direction expected later this year. We have responded constructively to the consultation document (see our response "Clean Energy" on our website). We believe that the proposed electricity fuel mix is feasible, provided that a reasonable lead time is allowed to develop a carefully structured transition and implementation plan – a process which will demand close collaboration between Government and the power sector.

The likelihood of the increased import of nuclear energy as a result of the MOU and Government-led initiatives on climate change brings me to an issue which attracted a great deal of media, political and public attention in 2010. This is the safety performance of Daya Bay Nuclear Power Station in Guangdong, which mostly supplies CLP, and the ways in which that performance is communicated within Hong Kong.

Presently, nuclear power appears to be the only technology capable of the large-scale, reliable, constant and predictable generation of electricity – without producing the greenhouse gases and other emissions associated with burning fossil fuels, and without a major increase in electricity costs. As we have said on previous occasions, the development of nuclear energy requires the careful balancing of complex issues. It gives rise to choices and decisions that cannot, and should not, be made by individual utilities, but by societies themselves and the governments which represent and speak for them. The HKSAR Government must be at the forefront of decision-making about the future of nuclear energy for Hong Kong and in explaining the reasons and consequences of those decisions. CLP will fulfil its role in the implementation of Government's policy and in contributing to public education and information.

Since 1994 Daya Bay has been a source of reliable, carbon-free electricity for Hong Kong. 70% of its output is exported to Hong Kong. It meets almost 25% of local electricity demand. Amongst other benefits, in 2010 alone it avoided the emission of 7.5 million tonnes of carbon dioxide which would have been produced by the equivalent electricity generation from conventional fossil fuel power stations. The safety, reliability and availability of Daya Bay has been world-class, comparing extremely favourably with the performance of similar nuclear power stations in France, for example. CLP holds a 25% minority shareholding in Guangdong Nuclear Power Joint Venture Co., Ltd., which owns Daya Bay. We hold a 12.5% stake in Daya Bay Nuclear Power Operations and Management Co., Ltd. which operates and maintains the power station. Through these minority shareholdings, we have been able to apply a degree of influence over our investment, monitor the ongoing delivery of power to Hong Kong and help safeguard the best interests of the Hong Kong community in respect of Daya Bay's operations and safety.

During 2010, CLP was called upon to respond to press and political concerns relating to two events at Daya Bay, one in May and the second in October. The first was not rated as an incident on the zero-to-seven international scale for the reporting of incidents at nuclear power stations. The second was a level one incident. Neither event involved any release of radioactivity. Neither event had any safety, public health or environmental consequences. The manner in which both events were reported was entirely in line with the longstanding practice at Daya Bay, settled with the relevant Hong Kong and Mainland authorities. The reporting of such events at Daya Bay exceeds international practice elsewhere. To speak plainly, the level of concern expressed in the media bore no relation to the nature of these two events.

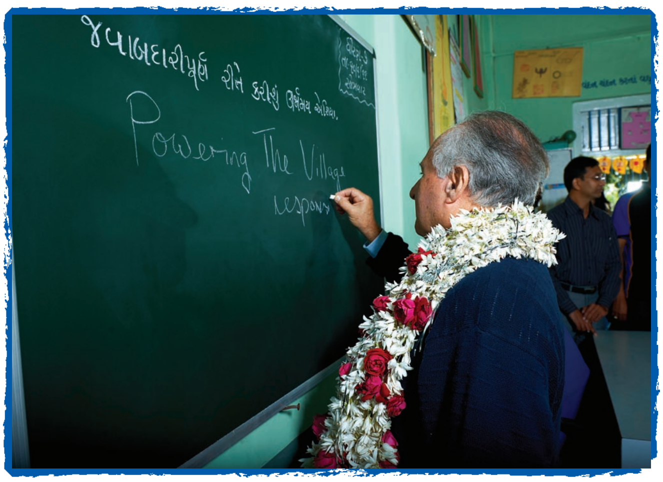
CLP has a responsibility to play its part in putting our community's mind at ease. We have, therefore, been working with the HKSAR Government, China Guangdong Nuclear Power Holding Company, Limited (CGNPC) and the Beijing authorities to seek ways in which the longstanding processes of public information and communication on Daya Bay operations can be further enhanced. I am pleased that these efforts led to the announcement in January 2011 of an enhanced notification mechanism for "non-emergency licensing operational events", that is to say events with no nuclear safety consequences and no impact on the external environment or public safety. The enhanced mechanism of reporting such events within two working days was generally well received by the public. CLP will also be contributing to an enhanced programme of public education and awareness on nuclear energy through initiatives such as plant visits, roving exhibitions and an online education platform. The aim is that the judgments by the media, politicians and the public on nuclear-related matters are better informed and a higher degree of confidence exists in the future role of nuclear energy in powering Hong Kong.

The current SoC will be in place until at least 2018. It provides a stable regulatory framework that has supported our major investment in additional emissions reduction equipment at Castle Peak and which has enabled us to take the initial steps in the implementation of the MOU. Looking ahead, the full implementation of the MOU and the changes to Hong Kong's generation mix foreshadowed in the recently completed consultation process will require major investments and commitments to be made by CLP and other private sector participants in Hong Kong's electricity supply infrastructure. These investments and commitments will depend on a regulatory framework being maintained which recognises the scale of investment needed, the length of the necessary commitments to gas and nuclear supply and which, therefore, enables private sector investment to meet Government's policy requirements and deliver the changed shape of electricity generation and supply in Hong Kong.

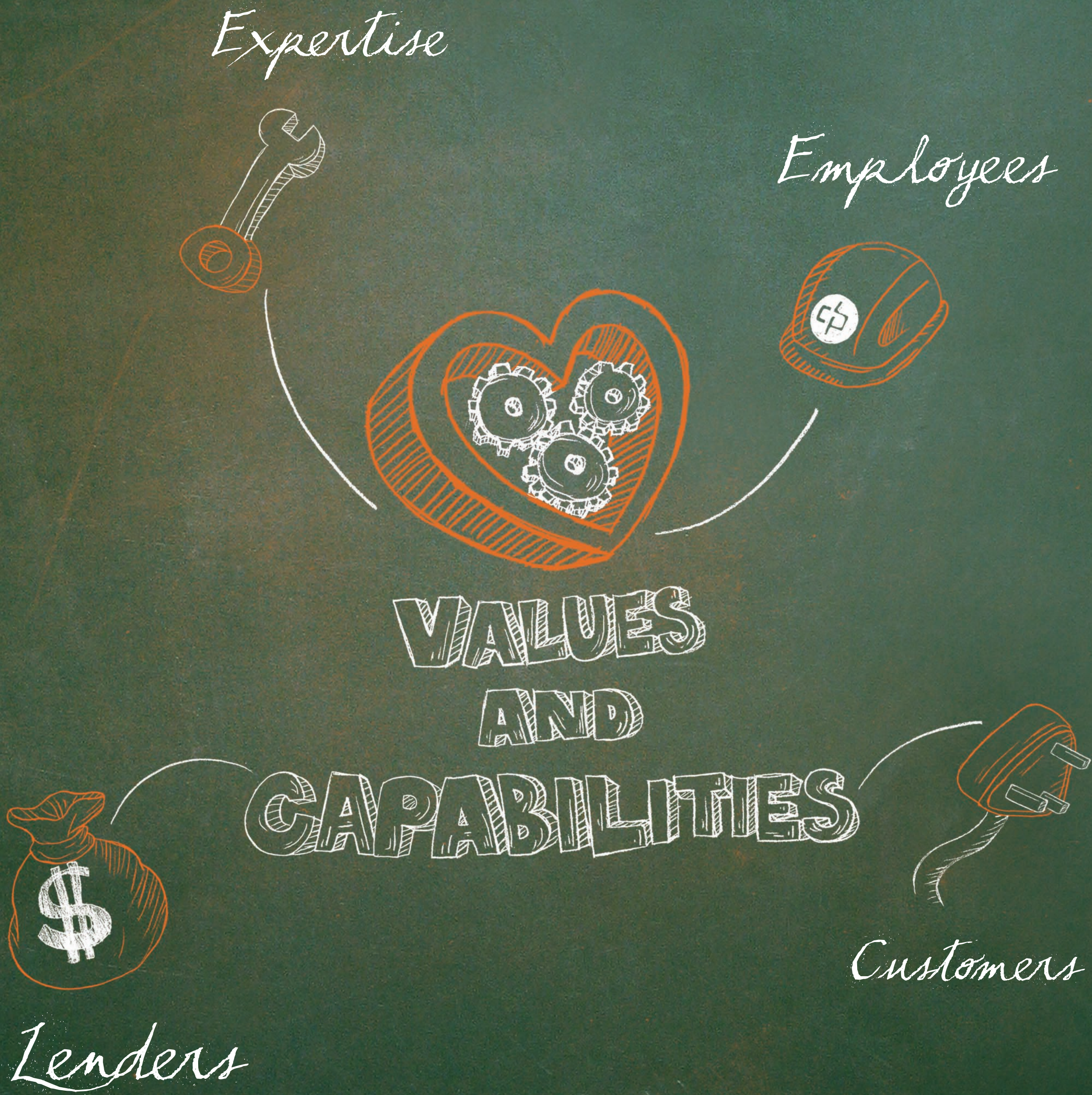
Powering Asia Responsibly

We have long been aware of the importance of responsible environmental management of our business. The evolution of the Hong Kong electricity business is just one example of the growing role that environmental considerations play in CLP's activities and the close interface between the manner in which we conduct our affairs and the wishes and interests of the communities we serve. We work hard to create economic value for our shareholders, contribute to social and economic development in these communities and to safeguard the environment on which all our futures depend. Both our business and our goal are the same – Powering Asia Responsibly.

The Hon. Sir Michael Kadoorie
Hong Kong, 24 February 2011



Visiting the village school ....in Paguthan, India



In this section we explain the values and the key capabilities which CLP brings to its shareholders and other stakeholders with whom we deal, whom we serve or who rely on us. These include

- Expertise in building and operating power infrastructure in Hong Kong and the Asia-Pacific region
- Capable and committed people
- Excellence in customer service
- The capacity to raise finance to support continuing investment and growth

Shortcomings in any of these would erode value. Success in each builds and sustains our business.

Values

The continuing success of CLP must start from a strong belief in the direction we are taking our business. We must also understand how our business will benefit people – not just our own people, but everyone who has a stake in what we do. We must establish and respect a broad set of values towards our stakeholders and key aspects of our operations. This ensures that we behave in a way which is consistent with the direction we have set for CLP.

CLP's Value Framework was published in 2003. It was updated in 2009 to reflect the evaluation of our business and feedback from external stakeholders. It is a continuing statement of where and what CLP wants to be and the values, policies and commitments which all of us must respect.

Vision

What do we want to be?

A leading investor-operator in the Asia-Pacific power sector.

Mission

What benefits will we bring to our stakeholders?

- Enhance our shareholder value.
- Deliver world-class products and services of good value to our customers.
- Provide a safe, healthy and fulfilling work environment for our employees.
- Contribute to the economic and social development of the communities in which we operate.
- Responsibly manage the environmental impact of all our operations and projects.

Values

What ideals guide us in our mission?

We are committed to the principles of sustainable development, balancing the needs of current and future generations.

Commitments

What must we do to uphold our values?

To translate our values into actions we make specific commitments to our stakeholders on our behaviour and practices.

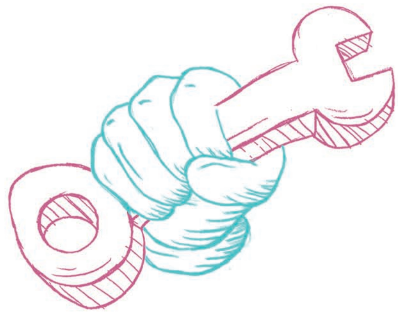
Policies and Codes

What must we do to meet our commitments?

These, which include our Code of Conduct, aid the expression and incorporation of our values and commitments into our everyday operations and practices.

The decisions, actions and performance set out in this Annual Report originate from, and are governed by, our Value Framework. Wherever we conduct our business we apply the same values. Our Value Framework is published in full on our website so that we can be judged on whether the business we describe meets the aspirations of that Framework.

Expertise in Building and Operating Power Infrastructure



CLP's core business is the construction, operation and maintenance of electricity infrastructure in the Asia-Pacific region.

The electricity industry is complex and challenging, especially in the widely varying and rapidly changing markets of Asia. Tremendous opportunities exist to create shareholder value, but the ability to turn good opportunities into good investments requires a range of engineering, commercial and financing skills. CLP has developed and utilised these skills across the Asia-Pacific region over many years.

Producing and transmitting electricity is simple in concept and has been done for many years. However, our industry today faces unprecedented challenges to promote economic growth but to avoid environmental impact. Successful power sector investments therefore come from the ability to understand and manage a number of key issues: selecting the right technology at the right time; choosing the right contracting structure; obtaining the necessary funds to support large capital investments; procuring adequate fuel supplies at reasonable cost and operating and maintaining the assets well. The right combination of these factors will deliver more value to shareholders and stakeholders than any other type of investment.

Selecting the Right Technology

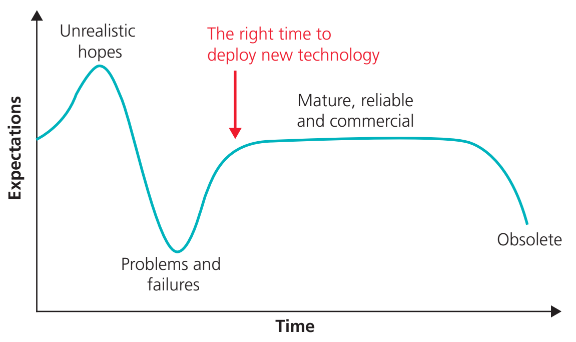
When we select technology, we must consider the physical characteristics of the sites available to us, the availability of fuel, the affordability of power in the market and the wider policy issues that may apply. We are keen, for example, to promote renewable energy where sufficient value is placed on its ability to avoid greenhouse gas emission. At the same time, we understand that some countries need to use fossil fuels to support social and economic growth, and we are prepared to develop this type of project where we are able to use the most efficient technology and apply the most effective controls over emissions into the environment. This means that we have had to master many different technologies. We believe we have a good record in this respect, having built more than 20 large power stations over the last 30 years and many more smaller renewable energy projects. Almost all of them involved new technology or other groundbreaking challenges.

Some of CLP's groundbreaking projects

Castle Peak	Coal	Hong Kong	Introduction of coal to Hong Kong to replace oil
Daya Bay	Nuclear	Chinese mainland	China's first commercial nuclear project
Black Point	Gas	Hong Kong	Introduction of natural gas to Hong Kong
Ho-Ping	Coal	Taiwan	Start of private sector power projects in Taiwan
Fangchenggang	Coal	Chinese mainland	Start of supercritical technology in CLP
Tallawarra	Gas	Australia	One of Australia's most efficient gas-fired plants
Changdao	Wind	Chinese mainland	Start of wind power in CLP
Qian'an, Penglai	Wind	Chinese mainland	CLP's first wholly-owned wind projects in China
Samana, Khandke	Wind	India	CLP as the largest wind power developer in India
Yang_er	Hydro	Chinese mainland	CLP's first wholly-owned hydro project in China
Lopburi	Solar	Thailand	Asia's largest solar photovoltaic (PV) project
Jhajjar	Coal	India	First use of flue gas desulphurisation in India

We must be careful to choose the right time for implementing new technology at a commercial scale. The early volatile stages of new technology are too risky for a commercial power company like CLP. We are an early mover in mature technology, but not a first mover in prototype designs. New technologies are being proposed all the time, but many will never achieve commercial success. Even those that do succeed will often go through various stages of over-excitement and disappointment before reaching maturity. Good technology that survives will then enjoy a period in its prime of life, after these earlier adolescent stages. Eventually, some younger and more advanced alternatives will emerge and we must choose the right time to change.

Lifecycle of New Technology



An Effective Contracting Structure

The only thing that CLP manufactures is electricity. All the equipment we use is manufactured by other companies. So we need to contract with those companies to implement a project and to procure replacement parts to keep it operating reliably. There are many ways to do so, but the strategy we choose essentially rests on an appropriate allocation of risks and reward between our contractors and ourselves, as the owner of the asset. At one extreme, it is possible to engage a single company to act as main contractor for a new project. Such far-reaching responsibility carries many risks and the main contractor may expect a high price from CLP. On the other hand, we may engineer a project by ourselves and buy each component separately. In these cases, CLP takes far more risks itself and so we aim for a total cost that is lower.

It would be wrong for CLP to select the same contracting structure on every occasion. At Fangchenggang in China, we constructed a 1,260MW supercritical coal-fired power station bit by bit with many hundreds of separate contracts. This turned out to be the lowest cost approach (about half the international price) and the shortest construction period (26 months) we have achieved so far. At Jhajjar in India we have used a single main contractor because of local conditions there and as this was our first greenfield coal-fired project in India – so far with good results.

Experience

As our portfolio grows, we apply experience in technology and contracting structures from one project to another in different markets. Our Fangchenggang project used 630MW supercritical coal-fired units manufactured in the PRC. Our Jhajjar project uses similar equipment, now being transferred from China to India. We are exploring the possibility of developing projects in Vietnam in the same way.

In renewable energy, we find that the assessment of how much energy can be produced from each wind farm site is a difficult and critical factor. However, the experience we have gained through early projects in Australia and China enables us to approach new opportunities with greater knowledge and confidence. Similarly, the experience we have gained with different manufacturers and types of wind turbines on past projects helps us to make the best choice for new projects.

Fuel Supply

We mentioned earlier that the availability of fuel was one of the major considerations in determining the viability of a project and choosing the right technology. Fuel represents by far the single largest operational cost of any coal or gas-fired power station and current market prices are high and volatile. CLP has been using coal for electricity generation in Hong Kong since the early 1980s and, as Hong Kong has no indigenous fuel resources, we have a long history in procuring coal on international markets. In 2010, CLP as a group will have purchased coal for the power stations we operate at a total cost of over US$1 billion. We use a range of sources, including Australia, Indonesia and South Africa, and a mixture of long-term contracts and spot market purchases.

Technical opportunities and limitations are becoming increasingly important with supply and demand being finely balanced in the international markets. We must always meet high environmental standards and comply with local regulations but, in some projects, we have been able to adapt to certain types of sub-bituminous coal that have more limited demand and somewhat lower prices. This is an area that requires mastery of technology and operations that not all power companies possess.

We have previously considered the possibility of direct investment in coal resources in Asia. Until now we have decided against this because of our lack of experience in mine ownership and operation, preferring instead to rely on contracted sources. However, the current high coal prices suggest that we should examine again the balance of risks between ownership and contracting in the coal market.

In 1996, CLP first started using natural gas for power generation. Since then, the use of gas has grown to such an extent that gas-fired generation now constitutes about 20% of CLP's generating portfolio, powering our stations at Black Point, Tallawarra and GPEC. Just as with coal, we have acquired expertise in gas procurement and contracting, which will be particularly important for us to meet the Hong Kong Government's objective of increased use of gas for Hong Kong's electricity generation.

Transmission and Distribution

In Hong Kong, CLP owns and operates over 13,700 km of transmission and high voltage distribution lines. Our system is world-class in terms of power stability and reliability. This is a significant achievement given Hong Kong's exposure to typhoons, thousands of lightning strikes each year and the challenges of running transmission lines through densely populated areas. This means that many of our lines need to be run underground, creating difficulties for maintenance, fault location and repair. Because of the understandable sensitivity of the community to power outages, we must use our experience and expertise to design, build and maintain a robust network that can withstand disruptive incidents without imposing an undue cost burden on our customers. Out of a total workforce of 3,709 in our Hong Kong electricity business, 2,003 work in our Power Systems Business Group. This emphasises the importance of the skilful operation of the network to the business.

The Future

CLP's "Technology Roadmap" issued in December 2010 points to a future where electricity will be generated and used in a more sustainable way. We believe that we can achieve substantial reductions in carbon intensity, but only through deployment of the right technology at the right time. As this table explains, our industry is in the eye of a major technological storm.

The current state of power generation technology – New technology is replacing traditional means of power generation

Type	Concept or prototype	Development or demonstration	Proven at commercial scale	Gradually being superseded
Coal	Advanced (50% efficiency)	Gasification	Supercritical (43% efficiency) ✓	Subcritical (< 40% efficiency) ✓
Carbon capture	Biological capture	Post combustion, ? Oxyfiring ?		
Carbon sequestration	Underwater basalt	Large scale saline aquifers ?	Enhanced oil well recovery	
Gas			Combined cycle (60% efficiency) ✓	Combined cycle (50% efficiency) ✓
Nuclear	Advanced reactors, Fusion reactors	Generation 3 reactors ?	Generation 2, 2+ reactors ✓	
Wind	Turbines >10MW	On and offshore turbines > 5MW ?	Onshore turbines <5MW ✓	Onshore turbines <1MW ✓
Solar	PV 50% efficiency	PV >18% efficiency, ? Concentrated PV	PV <18% efficiency, ✓ Solar thermal	
Hydro marine	Wave convertors	Small tidal schemes	High head hydro, ✓ Pumped storage ✓	
Grid	Micro-grid, V2G, Virtual power plant	Advanced metering infrastructure ?	Energy management, ✓ Online condition monitoring ✓	Simple meters ✓

✓ Already implemented by CLP ? Potential to emerge over the next 10 years

The generating plant we build today may still be in operation beyond the middle of the century. We need to build power stations that not only meet today's technical and environmental standards, but also anticipate the expectations of future generations. We know that we will not create value for shareholders and stakeholders by building a business today which will be obsolete tomorrow. CLP has the necessary capability to build the best of today's technology and to continue to create value through the effective and timely deployment of tomorrow's emerging technologies.

Capable and Committed People

The quality, commitment and expertise of CLP's people drives the creation of value for our shareholders and for everyone who relies on, or benefits from, the assets we operate and the services we provide.

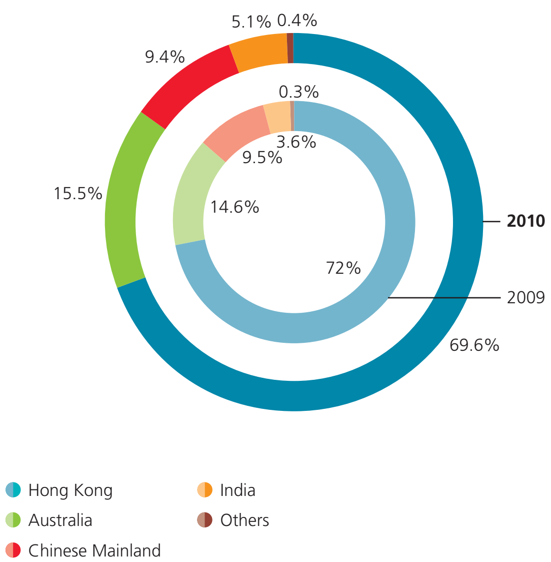
Over 6,000 colleagues in Hong Kong and across the region possess the complex skills needed to build and operate generation, transmission, distribution and retail businesses involving a range of technologies, in differing markets and under ever-changing regulatory regimes. The extra efforts they make and the extra skills they bring, make the difference between being an average company and being a good company.

CLP's Staff

We bring to our shareholders and other stakeholders:

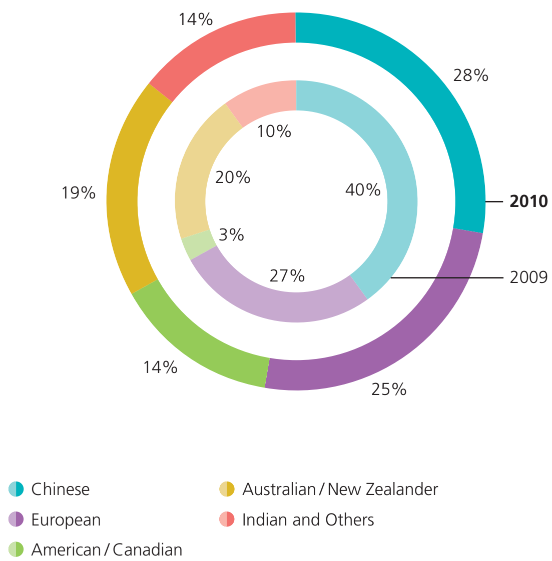
a workforce of 6,075 people distributed across the region in line with the demands of our activities

Staff Distribution by Geographical Location as at 31 December 2009 and 31 December 2010



a workforce led by a diverse management team

Breakdown of Senior Executives by Nationality as at 31 December 2009 and 31 December 2010



a workforce developing in line with a changing industry

Examples of Evolving Skills

	2010	2000
Staff working at gas-fired power stations	284	43
Staff working in renewable energy	591	3
Staff working with remote information technology access	3,000	150

a workforce which is experienced and highly educated

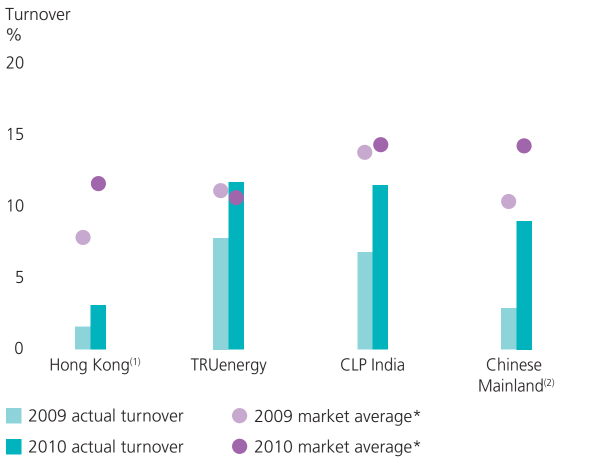
Workforce Characteristics

	2010	2009
Average age	42.8	42.9
Average years of service	16.2	16.3
% of staff holding a university degree or above*	39.8%	36.7%

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

a workforce which is loyal

Voluntary Staff Turnover Rate



Notes:
(1) Includes CLP Holdings, CLP Power Hong Kong, and other Hong Kong payroll staff.
(2) Includes all CLP subsidiaries in China.
(3) Further explanation on the increased turnover is in the following pages.

* Source: Hewitt Salary Increase Survey 2010 – 2011 and 2009 – 2010

Enhancing the value of our people – across the Group

Our approach to human resources (HR) management in each business is geared to the needs of that business, but based on common characteristics. These characteristics, which express our values and our commitments to employees, include competitive remuneration and benefits aligned with local market requirements, ongoing investment in individual training and development, a culture of mutual respect and open communication, and an environment that recognises the importance of employee well-being and work-life balance.

We believe that our consistent Group-wide approach to people management partly explains why, despite the fact that we operate in very competitive labour markets, our businesses have stable and loyal workforces with levels of staff turnover often well below the local market average.

We have been fortunate to have a stable senior executive team in place for many years. However, within the next 10 years the retirement projection of this group will accelerate. Consequently, we need to ensure succession plans are in place. Supporting this is the annual Group-wide Management Development and Succession Planning (MDSP) process. In 2010, internal successors were identified for 100% of Senior Management positions retiring within the next five years (2009: 100%). All existing senior positions which became vacant in 2010 were filled internally in accordance with planned succession arrangements (2009: 96%).

To support our succession planning process, in 2010 we continued to make a significant investment in developing identified successors and other high potential staff. For example:

- Our commitment to talent development is shown by the fact that 55% of participants in our 2008 and 2009 Group-wide Executive Development programme have had job moves within the past three years;
- 18 of our high potential staff attended the Richard Ivey Business School Consortium Management Development Programme in Hong Kong (of which CLP is a founding member) to strengthen their management skills and enhance external networking with their peers in other large organisations;
- Two teams joined the Hong Kong Challenge, an experiential learning event with 24 teams from across the Asia-Pacific region competing on strategic planning, teamwork and physical endurance; and

- A series of workshops were held across the Group to strengthen the "executive presence" and ability to communicate for impact and influence of our high potential staff.

We also invested in the ongoing development of our general workforce through both internal and external training courses. These courses included technical skills, language training and management skills. In 2010, total training man days amounted to an average 5.5 man days per employee (4.9 in 2009).

Leveraging our skills and experience across the Group

The individual businesses in the Group are at different stages of development. For example, the Hong Kong business is relatively mature, while our business in India is more recent and fast growing. A key strength of the Group is that we are able to leverage the skills and experience of our staff to support new projects and to strengthen the expertise of our developing businesses. In 2010, we continued to have a significant number of staff on assignment across the region, including in support of solar plant construction in Thailand, hydro projects in China and coal-fired projects in Vietnam. In total, there were 34 staff assigned to work in six countries across the region in 2010.

We have also embedded knowledge sharing processes in the Group. For example, in 2010, regional forums were conducted for Safety, Group Operations, Group Finance, Information Technology, and Human Resources. This year we also launched a Wind Technology Forum, reflecting the growing significance of wind power in our portfolio. These activities help to share best practices, market intelligence and knowledge, and enhance communication networks across the region.

Employee engagement and communication

We maintain a culture of open communication with our colleagues. Each of our businesses has in place a spectrum of communication channels, both formal and informal. We use these channels to keep colleagues up to date on the performance of our business and important developments, and to seek their views and opinions. We take great care to ensure that our colleagues learn about key developments directly from management, and not indirectly from the media.

Established channels of communication include team-briefings, broadcasts over the intranet, and departmental or workplace meetings. For newly hired senior staff across the region, induction programmes were arranged for them to visit the relevant Group functions in Hong Kong to meet senior management and understand our Group values and practices.

The wide geographic scope of our operations means that we place great reliance on technology to ensure that key messages relating to the Group as a whole are distributed quickly to colleagues across the region. In addition, key executives from the Group Executive Committee make a particular effort to use their frequent travel schedules to engage in two-way discussions with local staff in order to keep them up to date with developments and answer their questions.

As part of our open communication policy, we encourage each of our businesses to carry out employee surveys in order to gauge the opinion of staff on a range of topics. Whilst the design and administration of surveys is a matter for each business, as a Group-wide standard we require all surveys to be administered independently by reputable external consultants, and the responses of individual employees to be guaranteed confidentiality. Survey responses are benchmarked against a normative database of responses for surveys in that country. This recognises different national and cultural norms in responding to survey questions, and allows us to identify substantive issues for further action.

Enhancing the value of our people – business by business

Hong Kong

The Hong Kong business is a mature business with an experienced and loyal workforce. The challenges faced by this business include managing the consequences of workforce ageing and retirement projections, building the organisational and individual capabilities needed to deal with greater integration of business activities with Southern China and, in the medium term, preparing for an evolving regulatory and business environment.

Percentage of staff due to retire within the next five years

	2010	2009
Hong Kong	12.5%	11.4%
TRUenergy	9.5%	10.1%
CLP India	1.3%	1.5%
Chinese Mainland	11.3%	5.7%

In response to the implications of an ageing workforce, we have been taking steps since 2005 to plan ahead for this through:

- our rolling five-year manpower planning framework;
- ongoing supply side initiatives, such as apprentice, technician trainee, and graduate recruitment. Our apprenticeship and graduate traineeship programmes in Hong Kong have now been in operation for over 30 years. Many of our current senior managers graduated from these programmes; and
- investments in knowledge management and training. These are targeted on those areas where we have identified a risk of losing critical expertise.

Our retirement projections have a positive dimension in that these provide an opportunity for promotion and career development for the next generation of managers and professionals. Our internal promotion rates are strongly correlated with our voluntary turnover rate. This confirms that we are preparing existing staff well to benefit whenever opportunities arise.

Voluntary turnover in Hong Kong has remained low at 3.1% (2009: 1.5%) compared to the market (11.6%). However, like other major employers, we have experienced increased competition to attract and retain young professionals, particularly in functional areas.

Australia

The HR context for our business in Australia is perhaps the most complex and challenging in the region. This results from the interaction of a number of factors including a very competitive business environment, a strong economy and mobile staff. In addition, a partially unionised workforce and a comprehensive range of labour-related legislation means that labour negotiations are a feature of our HR calendar. For example, in 2010 Enterprise Bargaining Agreement negotiations were concluded successfully at the Yallourn mine, and the Australian Services Union Enterprise Bargaining Agreement (for call centre personnel) was concluded and approved by Fair Work Australia in June 2010.

As a developed and mature economy, Australia also faces some HR challenges in common with our Hong Kong business. These include an ageing operational workforce and a shortage of qualified engineers in the market. In Australia, these shortages are exacerbated by the strength of the natural resources industry in Western Australia and its ability to attract skilled labour.

In this challenging context, our priorities include ensuring remuneration and benefits are competitive in order to attract and retain the right people, building a high performance culture to ensure behaviours reflect our brand and deliver strong business results, and ensuring that our existing skill base is maximised.

Teamwork at one of the Huaiji hydropower stations

As part of local management development initiatives, TRUenergy completed a three-tiered management and leadership development programme "Focused Energy" for all employees in 2010. A Human Capital Committee has also been established locally to monitor employee training and development and succession issues in the company.

In terms of employee well-being, TRUenergy launched a range of employee health and well-being programmes including stress management, ergonomics assessments and a quit smoking campaign. These encourage a healthy lifestyle and promote a strong occupational health and safety culture throughout the company.

Chinese Mainland

From an HR perspective, operating in China presents us with a number of challenges.

Some of our projects are located in remote areas. This means we face a challenge to attract and retain talent, as there may be a lack of suitably qualified local labour, and inadequate housing and education infrastructure.

Largely as a result of remote locations, combined with significant variation in the number of employees at our assets, we experience very different levels of voluntary turnover at our assets.

Due to the geographic scale and diversity of China, unlike in Hong Kong or Australia for example, there is no national pay market. Rather there are very different local markets, with significant variations in pay between the developed urban centres and rural areas. Whilst this significant variation is a market reality, it results in a level of internal variation in pay that we as an organisation do not feel is consistent with our values. This also inhibits staff movement between assets. In 2010 we carried out a detailed review of the pay of some common benchmark positions in each of our assets. We will use the results of this in 2011 to develop a pay policy that strikes an appropriate balance between the differing local market conditions and overall fairness across our business.

India

In India we face aggressive competition for staff from other power companies, remuneration increasing at the fastest rate in the region, and a shortage of talent with the skills and qualifications that meet the standards of a multi-national organisation. Consequently, attraction and retention of staff is a demanding task. It was noted in a recent "Economist" survey that these challenges are common to all investors in the BRIC economies, and are exacerbated by the need to raise both the number and quality of staff at the same time to support business growth.

Whilst maintaining remuneration at an aggressively competitive level in relation to the market helps us, it can never guarantee 100% staff retention. Non-remuneration factors including the distinctive culture and values of CLP, and our recognised professional approach to management, are also powerful attraction and retention tools.

As part of our long-term talent sourcing strategy, we recruited 42 engineer trainees in India in 2010. All of these trainees are undergoing comprehensive training and on-the-job placement. This will equip them with essential skills and experience in preparation for more responsibility as our business grows in the future. We also established development centres for all senior managerial staff, in order to ensure that management development initiatives are targeted on priority needs. Development programmes including "Collaborative Decision Making" and "Thinking Better for Success" were organised for employees at different levels to prepare our workforce in India to meet future business challenges.

As part of our commitment to effective employee communication, a series of "open house" meetings was conducted in Jhajjar and Bharuch for the Managing Director to meet staff and share with colleagues our business direction and future plans. The feedback was encouraging and this proved to be a useful means of enhancing two-way communication between management and staff.

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. CLP's 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. SR

This is exactly what we said on safety in last year's Annual Report. It is exactly what we will say in next year's Report. For us all safety is an absolute priority – year-in, year-out; day-in, day-out.

Excellence in Customer Service

In 2010, about 85% of the CLP Group's total revenue came from payments made by the public sector, business, industrial and residential electricity customers we serve in Hong Kong and Australia (and 520,000 gas customers in Australia).

We provide electricity to over three million customer accounts in those two markets. Millions of people depend everyday on CLP to deliver power to them. Through excellence in customer service we benefit the communities we serve, we secure our revenue base and we safeguard our opportunity and privilege to be an essential service provider in Hong Kong and Australia. These two markets are very different but, as the following pages explain, the focus on customer service must be equally unwavering.

Hong Kong

The people of Hong Kong demand the highest level of service from their electricity provider. It is our job to deliver it.

The majority of our customers live in high-rise buildings. Their journeys to work, school, or to the shops start at the lift. Our hot and humid climate requires air-conditioning for comfort at home and at work. High population density means an individual power transmission failure, even within a single building, can affect thousands of our fellow citizens. Although Hong Kong is one of Asia's wealthiest cities, more than half of our residential customers live in subsidised public housing. The size of their electricity bills matters a great deal to them. In all these circumstances, we need to offer our customers an electricity supply which is categorised by reliability, reasonable tariffs, power quality and outstanding service.

Reliability

Hong Kong has one of the most reliable electricity services in the world. Since 2000, unplanned Customer Minutes Lost (CML) per year, a standard measure of supply reliability, has been improved by 84%. The improved supply reliability was demonstrated during the severe thunderstorms last September. The unplanned CML during the most intense thunderstorm period was significantly reduced when compared to a similar event in 2005.

A typical CLP customer would have experienced an average of only 2.6 minutes of unplanned power interruptions per year during the period from 2008 to 2010. This compares with 14 to 42 minutes (during 2007 to 2009 – the latest available data) of power outages experienced by electricity users in New York, Sydney and London.

Mr. Zhang Xianchong

What has CLP Power done to promote the share of electricity amongst all end-use energy consumption in Hong Kong? In terms of expanding the electricity market, can you tell some successful cases?

General Manager, Jilin Electric Power Company Limited

Electricity offers the potential for the very efficient use of energy at the point of use. In recent years, we have been able to help many of our customers better meet their needs with new applications, saving them money and giving them a better environmental performance.

In the commercial sector, our account managers have been working closely with customers to introduce heat pumps to many of the major hotels in Hong Kong. As an environmentally friendly product, they have provided good savings to our customers and have helped reduce the burning of more polluting fuels in some of the busiest areas of Hong Kong. We have also promoted sales of energy-efficient equipment such as electric tunnel ovens for commercial catering. For domestic customers, total market share of induction cookers following an active campaign reached 10% in 2010 and we are supporting the use of new domestic water heaters to promote switching from gas to electricity.

Richard Lancaster

Group Director –
Managing Director Hong Kong

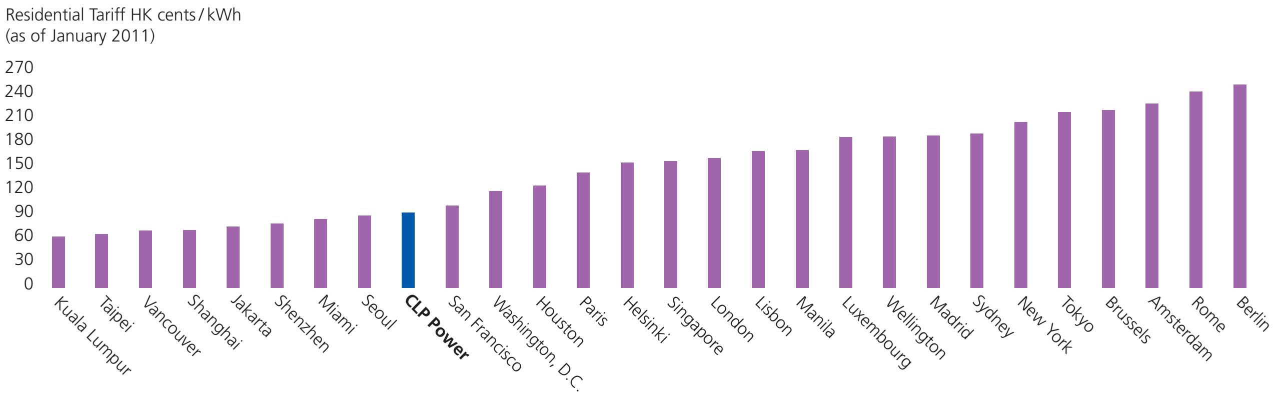
Tariffs

On 14 December 2010, CLP Power announced that, with effect from 1 January 2011, its average net tariff would rise by 2.8%, with the Basic Tariff remaining unchanged and the Fuel Clause Charge being adjusted upward by 2.6 cents per unit of electricity as a result of rapidly rising international fuel prices. The average net tariff for 2011 is now forecast to be 94.2 cents per unit of electricity, up 2.8% from the 2010 actual level.

The Fuel Clause Charge reflects the costs of fuels for generating electricity and is directly passed through to customers. CLP makes no profit on fuel. Coal and gas account for almost 70% of CLP's fuel mix. During 2010, international coal and gas prices rose by more than 30% and 20% respectively and this upward trend is expected to continue. The Fuel Clause Charge adjustment in 2011 is necessary to ease the pressure of rising fuel costs, so that the impact on our customers can be better managed.

CLP was able to freeze the Basic Tariff for 2011 despite the continuing inflationary pressure on operating costs, as reflected by the year-on-year rise of 3.5% in the Consumer Price Index (A) to December 2010. This is achieved by the Company's ongoing efforts to contain tariff adjustments to a minimum through operational efficiency and careful cost control.

2011 Residential Tariff Comparison



Notes: Comparison based on annual domestic consumption of 3,300 kWh.
Tariff and exchange rate at January 2011.

Source: Web search

Mr. Lau Tin Sang, BBS

I have noticed that CLP's current tariffs compare favourably to other major cities, especially those in Europe, the U.S., Australia and Japan. Nevertheless, I have also found that CLP's tariffs are higher than Chinese mainland cities. How do you account for this?

Chairman, Sha Tau Kok District Rural Committee

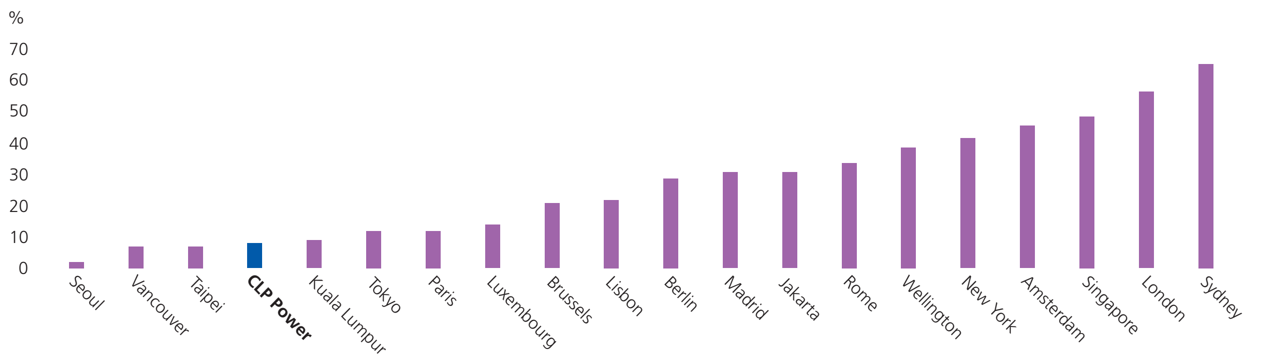
Even with the adjustment for 2011, CLP's basic tariff is lower than it was during the mid-1990s. The adjusted tariff level compares favourably against other world cities such as New York, London, Tokyo and Singapore. CLP's tariff is not subsidised by Government, and our policy is to try to avoid having one customer group cross-subsidising the tariff paid by another group. Different policies apply in Mainland cities which set residential tariffs at a lower level. However if you compare the average tariff across all customer groups between Hong Kong and other cities in Southern China they are broadly the same.

Richard Lancaster

Group Director –
Managing Director Hong Kong

CLP has made great efforts to hold back tariff rises in recent years. We will work hard to ensure that our customers continue to enjoy competitive tariff levels in the coming years.

Electricity Tariff Rises in Major Metropolitan Cities (2005 – January 2011)



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

Source: Web search

Power Quality

The rapid development of electronics and, in particular, computerised equipment in recent decades has brought many advantages to our society. However, this equipment tends to be more sensitive and requires power quality of the highest standard. Minor deviations in power quality, which in the past had no impact on equipment, can now adversely affect it.

Addressing power quality problems requires CLP to improve the stability of our power systems, and customers to understand and manage the vulnerability of their highly sensitive equipment.

CLP has been assisting our customers in solving power quality issues by offering technical services, providing evaluation of sensitive equipment, and by assessing and promoting new power quality technology. In 2010 alone, we recommended 50 technical proposals to our customers to enhance the power quality performance of their equipment. We also met equipment manufacturers and project consultants to develop practical and cost-effective schemes which could be incorporated as power quality requirements for new equipment.

Customer Service

CLP's commitment to customer service is most clearly expressed in our 12 performance pledges. These set out our targets in 12 different areas of particular importance to our customers, such as reliable electricity supply and speedy response to our emergency service hotline. These pledges are set out on our website at www.clponline.com.hk, as well as our performance against those pledges. In 2010, we met all of those service pledges.

Our customer service pledges are backed up by continuing initiatives to find new and improved ways to better serve our customers. For example, a multi-media promotion platform, with quick links to key customer services, was introduced to provide customers with more convenient access to CLP's services. We know that our customers are environmentally aware and so we introduced our "Green Info Hub". This is a user-friendly web-based service which lists CLP's energy efficiency and conservation initiatives that can help our customers use energy more efficiently and wisely.

Our drive for improved customer service is supported by an ongoing dialogue and exchange of information, experience and ideas with our customers. Our Customer Consultative Group and 14 Local Customer Advisory Committees (LCAC) are a valuable network through which we can solicit advice, opinions and feedback from community leaders and customer representatives. These exchanges often centre on matters which are particularly topical. In 2010 we discussed nuclear safety and climate change issues with LCAC members, including through visits to Daya Bay Nuclear Power Station. In our regular meetings we have also discussed CLP's initiatives on electric vehicles, smart meters and energy saving.

Excellence in Customer Service

The judgment on customer service which matters most is not our own – it is our customers who must judge the quality of the service we provide. Each year CLP's customer satisfaction level is measured and compared against other Hong Kong benchmarking utilities.

Customer Satisfaction Level

Source: City U Hong Kong Consumer Satisfaction Index

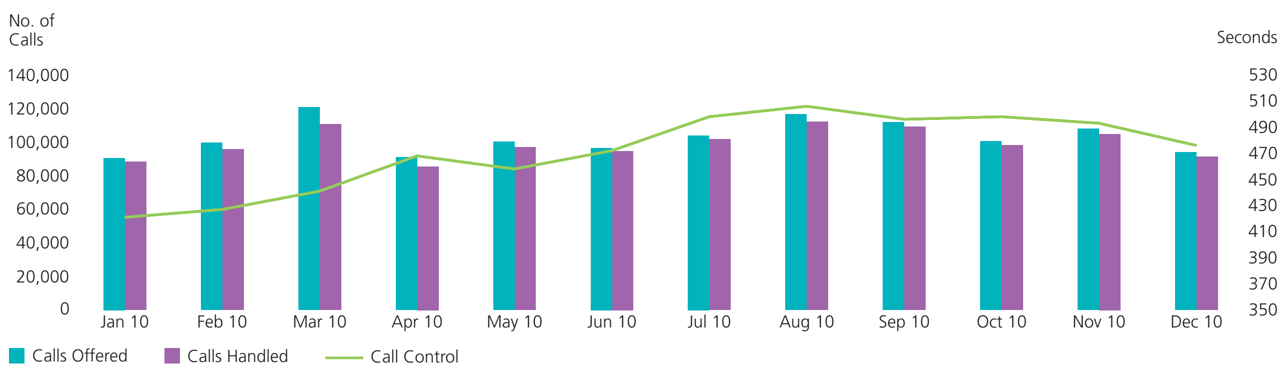
This chart indicates that CLP's level of service compared well with other energy companies in Hong Kong. However, there is always room for improvement. We will continue to do better in 2011.

Australia

In Hong Kong CLP uses its own transmission and distribution system to deliver to customers the electricity we generate or buy from Daya Bay and other sources. In Australia the market structure is quite different. Like all generators there we must sell generated electricity to a pool run by the independent Australian Energy Market Operator (AEMO). We then purchase electricity from that pool to service our 725,000 electricity customer accounts, using the independently owned, regulated transmission and distribution systems. We also have 520,000 gas customer accounts. These are served through gas distribution networks which are also separately owned.

In 2010 TRUenergy handled 2,007,181 customer enquiries. Of these 1,189,084 were handled by consultants, whilst 818,097 were handled by our interactive voice response system by which customers can undertake self-service of most routine matters. During 2010 the average call handling time, measured in seconds, increased slightly due to additional customer activity relating to new domestic solar energy and Advanced Metering Infrastructure programmes.

Customer Interaction Centre – Calls Offered, Handled and Call Control



In Australia, as in Hong Kong, our customer service levels are subject to objective and systematic measurement. Customer service standards are overseen by the State-based energy regulators. Service levels were challenged early in 2010 as a number of operational improvement programmes were undertaken in areas such as customer credit management. As 2010 progressed, TRUenergy's customer service levels improved.

While most customer contacts result in TRUenergy meeting the needs of our customers, TRUenergy continues to focus on those areas where we are not satisfying customers. During the year, TRUenergy had 44 Ombudsman complaints for every 10,000 customer accounts. To better manage customer complaints, TRUenergy introduced a new complaint handling and escalation procedure. TRUenergy is also discussing fast tracking complaint resolution options with the Energy and Water Ombudsman of Victoria.

There are many potential causes of customer complaints. TRUenergy spent considerable time in resolving a number of billing issues in 2010. In particular, TRUenergy introduced additional resources to address a delay in billing for some customers, which was the result of billing system errors. By the end of the year there were 0.3% of customers who had not received their bills on time.

The rapid increase in customers seeking solar-related products and the introduction of interval meters for all Victorian consumers are two of the drivers of system changes to ensure billing is accurate as the market changes. TRUenergy continues to work on resolving a number of system issues to ensure that all customer bills are accurate.

In Australia there has been a particular focus, by State and Federal Governments and from TRUenergy itself, on clean energy and energy efficiency. Our Energy Management Initiative (EMI) was established to offer customers energy efficient products and services to help reduce their carbon impact and energy costs. As part of the Victorian Government's Energy Saver Incentive Programme, EMI this year completed the installation of low energy lighting and low-flow showerheads in over 40,000 Victorian households – at no cost to the customer. TRUenergy also offered free home energy assessments to households under the Federal Government's Green Loans scheme. These assist households in identifying ways in which they can become more energy efficient.

In March 2010, TRUenergy Solar Solutions was established, offering households a range of solar hot water products. The Solar Solutions group consists of a dedicated sales and service centre. This provides expert information on solar options for households. TRUenergy currently sells and installs these systems to Victorian customers. In July 2010, Solar Solutions expanded to selling and installing solar photovoltaic systems, enabling households to generate their own electricity.

The acquisition of EnergyAustralia's retail business, scheduled to be completed in March 2011, will constitute both a challenge and an opportunity for TRUenergy to extend its customer base into NSW, Australia's largest electricity market. EnergyAustralia has a well-regarded retail electricity and gas business. This, combined with TRUenergy's existing high levels of customer service, will provide an excellent platform from which to build Australia's leading electricity and gas retail brand in the coming years.

Mr. Bob Anderson

What tools or programmes does TRUenergy make available to its large user customers, to help them and their staff become better informed about the energy sector? And what goes into developing and managing an energy supply agreement?

Purchasing Unit Manager, YMCA Australia

TRUenergy seeks to assist its large customers to better understand energy supply options.

We offer large customers a dedicated account management programme, which includes competitive fixed term retail pricing. These customers are also offered various payment options, including electronic funds transfer, consolidated billing and direct debit. Customers are managed by their individual account manager, who seeks to assist in all facets of your account. Managers also have access to usage reports that can be made available to help you better understand your consumption.

Online usage tracking is available via the Datanet programme, which gives customers access to reports to help meet their CO_2 emission reporting needs. Through this dedicated programme, our customers have access to trained employees who have information and details relating to new and industry updates. Our staff can provide ongoing network tariff analysis and upon request can also help in determining the best option for your site.

Through our third party affiliations we can also offer quality of supply reporting, power factor correction services, energy audits and thermal imaging, all of which help customers to better manage their energy supply.

Richard McIndoe

Group Director –
Managing Director Australia

Financing Strength and Capacity

CLP's ability to raise external finance is essential to creating value for our shareholders in the highly capital-intensive power industry. Put simply, if we cannot borrow adequate amounts of money, on favourable terms and over long periods we cannot grow our business. The important link between financing strength and capacity and shareholder value may not be immediately apparent. Each of our four value drivers relies heavily on a range of internal and external stakeholders. In the case of CLP Holdings' financing capacity it is our relationships with our lenders that can mean the success or failure of each investment proposition and in turn, whether or not we can continue to grow the business, further creating and enhancing value.

Our Strategy

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. We are disciplined in applying these strategies and successful in maintaining these key relationships both during good and challenging times. As at December 2010, the Group had business relationships with 57 (2009: 54) financial institutions in Hong Kong, Australia, Chinese mainland, India and Southeast Asia. The diversity of our financial partnerships has enabled us to obtain sufficient, cost effective funding for long-term growth. We also consider it a mark of our success in managing these crucial relationships that when comparing the financial institutions we had relationships with in 2001, almost a decade ago, approximately 80% are still working in partnership with us. The longevity of our relationships with financial institutions is no accident. These mutually beneficial relationships help maximise shareholder value through the provision of adequate and cost effective finance that enables the sort of profitable and stable long-term returns that meet our shareholders requirements. In 2010 we implemented our financing strategy effectively across the Group, as demonstrated by the following major financing events.

Major achievements in financing activities

CLP Holdings	Refinanced HK$6 billion bank loan facility	• Financed by a consortium of 18 international and regional banks • Attractive pricing • Overwhelming funding commitment from banks
CLP Power Hong Kong	Issued US$500 million bonds	• Attractive pricing closer to the level of quasi–government bond issuers in Hong Kong vis-à-vis other blue chip companies • 9 times cover from global investors
	Issued HK$760 million fixed rate bonds	• Very long tenor with favourable fixed interest rate
	Arranged HK$1 billion new bank loan facilities	• Medium term loan with favourable interest rate and terms
Jhajjar Power	Refinanced US$288 million syndicated loan	• First time power project finance transaction by PRC lenders in India • One of the first Indian coal-fired projects to be project-financed by overseas lenders • Awarded the Indian Deal of the Year by Project Finance International
TRUenergy	Revised terms of A$350 million bank facility	• Lower interest rates and improved facility terms
	Arranged US$270 million bonds	• Long tenor at low fixed interest rate

CLP Group

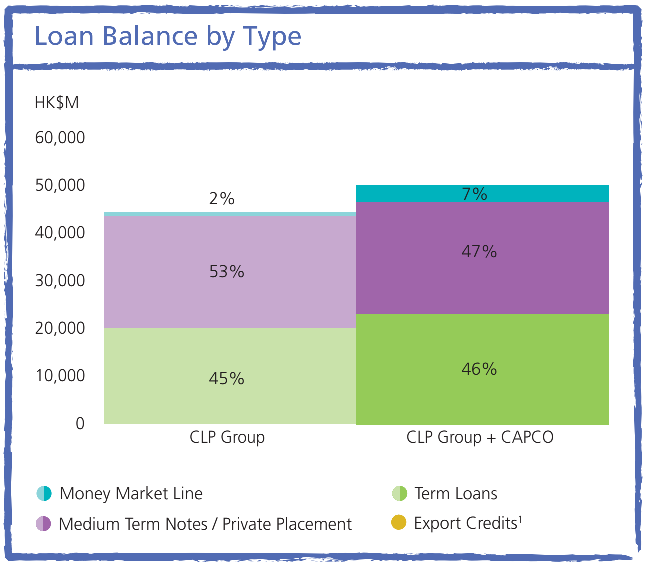
The Group's policy is to apply a certain percentage of retained profits to partially fund business expansion and arrange adequate debt financing facilities to meet the remaining operational and business development.

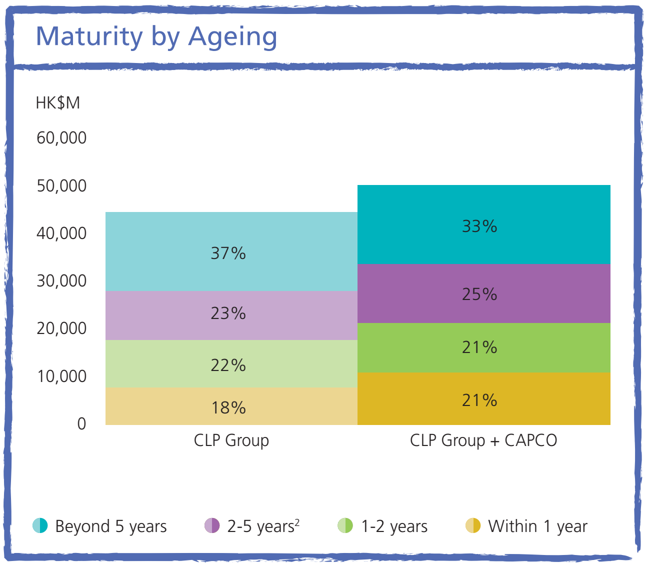
CLP Holdings successfully completed the refinancing of a HK$6 billion 5-year revolving bank loan facility with a consortium of 18 international and regional banks. It received strong support from a wider group of lenders (2005: 15 banks) and achieved attractive pricing not seen in the market since the U.S. subprime turmoil. CLP entities in Hong Kong have further broadened their list of lenders, 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.

The Group's total debt to total capital ratio was 35.9% as at 31 December 2010 (2009: 35.7%), and was 33.3% (2009: 30.7%) after netting off bank balances, cash and other liquid funds as at 31 December 2010.

Debt Profile as at 31 December 2010	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	29,353	40,572	**78,125**	**85,348**
Loan Balance	–	25,603	19,020	**44,623**	**50,285**
Undrawn Facility	8,200	3,750	21,552	**33,502**	**35,063**

Notes:
1 Mainly relates to TRUenergy and subsidiaries in India.
2 For the Medium Term Note Programme, only the amount of the bonds issued as at 31 December 2010 was included in the total amount of Available Facility. The Available Facility in TRUenergy excludes facility set aside for guarantees.





Notes:
1 Export credits only accounted for 0.1% of the total loan balance of the Group and CAPCO combined (nil for the Group) and are not reflected in the chart above.
2 Including loan drawdown with current tenor less than one year under revolving facility with maturity falling beyond one year.

In 2010, interest cover (which equals profit before income tax and interest divided by the sum of interest charges and capitalised interest) was 7 times (2009: 8 times).

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 2010 are shown on page 81.

Financing Strength and Capacity

Hong Kong

In 2010, our Hong Kong-based operation continued to source funding from various markets including bank loans and bonds, and from different geographic locations including Hong Kong and the United States. CLP Power Hong Kong further lengthened its debt maturity by issuing fixed rate bonds with tenors up to 20 years to lock in benign fixed interest rates over a longer period of time when interest rates were at a low historical level. These include

(a) US$500 million (HK$3.9 billion) 10-year bond issued on 12 March 2010 under the Medium Term Note (MTN) Programme with a 4.75% coupon. The bond was priced at U.S. Treasury yield plus 1.15%. This level was closer to the pricing of quasi-government bond issuers in Hong Kong vis-à-vis other blue chip companies. The bond issue received overwhelming support from investors with an order book of US$4.5 billion (9 times cover). The bond is a Regulation S issue with listing on the Hong Kong Stock Exchange. All the U.S. dollars proceeds were swapped back into fixed rate H.K. dollars at favourable rates and mitigated foreign currency and interest rate exposures.

(b) HK$760 million 15 and 20-year fixed rate bonds issued through private placement to long-term investors at coupon rates 3.41% and 3.60% respectively. The extremely low interest rate environment seen before the fourth quarter of 2010 has provided us with excellent opportunities to further extend the maturity profile at attractive terms.

Thanks to CLP Power Hong Kong's MTN Programme, it can issue long-dated bonds at short notice in an aggregate amount of up to an equivalent of US$2.5 billion to capture market opportunities in financing. As at 31 December 2010, bonds with a nominal value of about HK$16,940 million were issued under the Programme.

Beyond Hong Kong

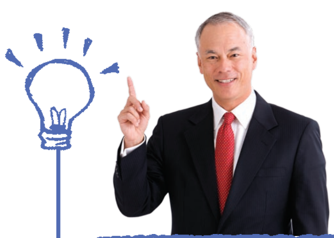
Our subsidiaries and affiliates overseas continued to capitalise on the strong credit of CLP Holdings, risk-balanced project structures and healthy project economics to grow their business. They maintain balanced funding sources from export credit and quasi-government agencies, banks and bond investors. 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. Though the financial markets have become less challenging, we have not ceased the cooperation between the Hong Kong and overseas teams to leverage on CLP Holdings' financial expertise and relationships with financial institutions to help arrange financing and refinancing in a timely manner and at acceptable costs. For instance, in December CLP India completed a US$288 million refinancing for part of the existing Indian rupee project loan of the Jhajjar project with a group of five international and Chinese banks to better match construction payment currency and optimise funding cost. TRUenergy reduced the financing costs and improved other terms of a A$350 million 3-year credit facility in August 2010. In addition, TRUenergy arranged a total of US$270 million 10 and 15-year bonds through private placement in December 2010, and has arranged an issue in March 2011 of 8, 12 and 15-year bonds totalling a further US$225 million.

Mr. Mark S McCombe, OBE

There is a good deal of publicity around incentive schemes for renewable energy project developments including cheaper sources of capital available for new renewable energy projects. How viable is it for CLP to attract these sources of funding and what are the benefits of these financing arrangements as opposed to traditional project finance?

Chief Executive Officer Hong Kong, The Hongkong and Shanghai Banking Corporation Limited

With increasing awareness of environmental protection, there are more incentive programmes to finance renewable energy project developments by governments or quasi-government agencies. They usually take the form of preferential funding cost, more favourable terms or less restrictive covenants in the financing package which can enhance investment returns. CLP will adopt a dynamic yet pragmatic approach in soliciting funding from diversified, cost-efficient, "green" sources in parallel with traditional corporate and project level finance. For instance, in 2010, the Asian Development Bank has supported our 55MW solar project in Thailand, a co-investment with EGCO (which is unaffected by CLP's recent sale of its stake in EGCO itself) and Mitsubishi Corporation, with preferential interest rate and favourable loan terms.



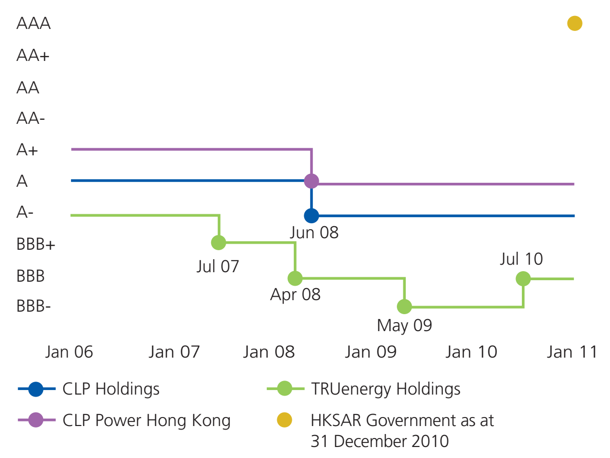
Mark Takahashi

Group Director & Chief Financial Officer

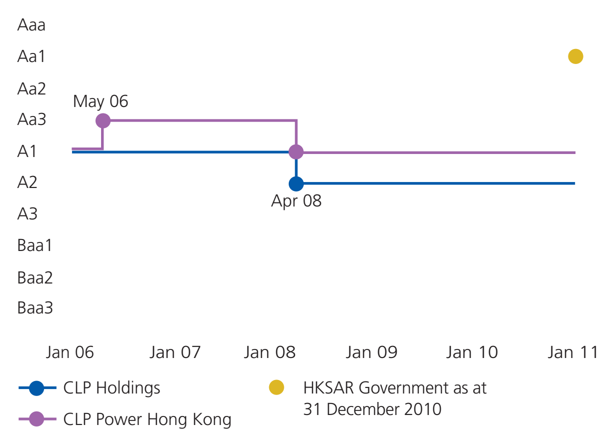
Credit Rating

CLP has applied prudent financial management throughout the business expansion of recent years. This has enabled the Group to maintain good investment grade credit ratings, meet all commitments to lenders and secure adequate financing to support current and future funding needs.

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



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



As noted earlier in this Report, in December 2010 TRUenergy announced its successful bids for the acquisition of certain energy assets in NSW, Australia. Following the announcement, Standard & Poor's (S&P) and Moody's placed the credit ratings of CLP Holdings and CLP Power Hong Kong on watch with possible downgrade while they performed a credit rating review. This is to be expected after a major acquisition. We have worked closely with S&P and Moody's to explain the implications of this acquisition and TRUenergy's financial position as these assets are integrated with TRUenergy's existing business. Subsequently, S&P completed their review and re-affirmed the A- and A credit ratings of CLP Holdings and CLP Power Hong Kong respectively with stable outlooks. Moody's is still performing its credit rating review. Notwithstanding the outcome with Moody's, we remain confident that CLP's financing capability, access to markets and corporate flexibility (through project sell downs) will provide adequate firepower to support planned investments and selected opportunistic investments in the future.

CLP Holdings

Moody's rating

In July 2010, Moody's re-affirmed the A2 credit rating of CLP Holdings with stable outlook. On 15 December 2010 Moody's placed the A2 rating on review for possible downgrade.

Positives	Negatives
In July 2010 • Strong and predictable cash flows generated from CLP Power Hong Kong • Sound liquidity profile supported by CLP Holdings' ability to access the domestic and international bank and capital markets • Appropriately managed debt maturity profile • Prudent and gradual approach to overseas expansion	• Weakened financial profile resulting from the lower permitted rate of return under the SoC • Ongoing expansion into riskier, non-regulated merchant energy and retail businesses in the region
Review in December 2010 (post announcement of NSW acquisition) • Provide immediate diversity benefit through economies of scale • The NSW acquisition would strategically enhance TRUenergy's overall scale and market position	• Potential integration issues of the NSW assets • The majority debt-funded nature of the NSW acquisition, following CLP's intention to invest in Yangjiang Nuclear Power Station, could weaken its consolidated financial profile

Financing Strength and Capacity

S&P Rating

In June 2010, S&P re-affirmed the A- credit rating of CLP Holdings with stable outlook. On 15 December 2010 S&P placed the A- rating on credit watch with negative implications. Subsequently, S&P removed the negative credit watch placed in December 2010 and re-affirmed the A- credit rating of CLP Holdings with stable outlook.

Positives	Negatives
• Strong business risk profile supported by CLP Holdings' dominant asset, CLP Power Hong Kong operating in a stable and favourable regulatory environment • Strong market position in its service area • Liquidity remains adequate • Expect CLP Group's financial flexibility will improve in 2012	• Expansion into Asia-Pacific power investments – typically into higher risk generation assets • Increased debt arising from the Australian acquisitions will weaken financial health in 2011

Fitch Rating

In July 2010, Fitch re-affirmed its self-initiated A+ long-term issuer default rating to CLP Holdings with outlook remaining negative.

Positives	Negatives
• Liquidity is sound • Stable and recurring SoC cash flow • Strong access to bank funding and capital markets	• Higher leverage • Large capital expenditure pipeline in Hong Kong and overseas

CLP Power Hong Kong

Moody's Rating

In June 2010, Moody's re-affirmed the A1 credit rating of CLP Power Hong Kong with stable outlook. The credit rating was placed on watch in December 2010 because Moody's considered the credit ratings of CLP Power Hong Kong and CLP Holdings are closely linked, and the ratings of CLP Power Hong Kong will be dependent on the outcome of the rating review of CLP Holdings on the NSW acquisition.

Positives	Negatives
• Largely unchanged regulatory framework would continue to provide CLP Power Hong Kong with a strong and highly predictable cash flow • Good track record in accessing domestic and international bank and capital markets • Well-managed debt maturity profile	• Lower permitted rate of return under the new SoC would weaken CLP Power Hong Kong's financial profile, albeit from a very strong level • Liquidity profile is pressured to a certain extent by its dividend payment to CLP Holdings • Long term capital expenditure plan

S&P Rating

In June 2010, S&P re-affirmed the A credit rating of CLP Power Hong Kong with stable outlook. S&P placed the credit rating of CLP Power Hong Kong on watch in December 2010, but have since removed the credit watch with affirmation of A credit rating and stable outlook of CLP Power Hong Kong.

Positives	Negatives
• Stable regulatory environment in which to operate • Strong market position in its service area • Strong operating track record • Strong financial flexibility	• Uncertainty stemming from its parent's plan to continue expanding overseas

Fitch Rating

In July 2010, Fitch re-affirmed its self-initiated A+ long-term issuer default rating to CLP Power Hong Kong with outlook remaining negative.

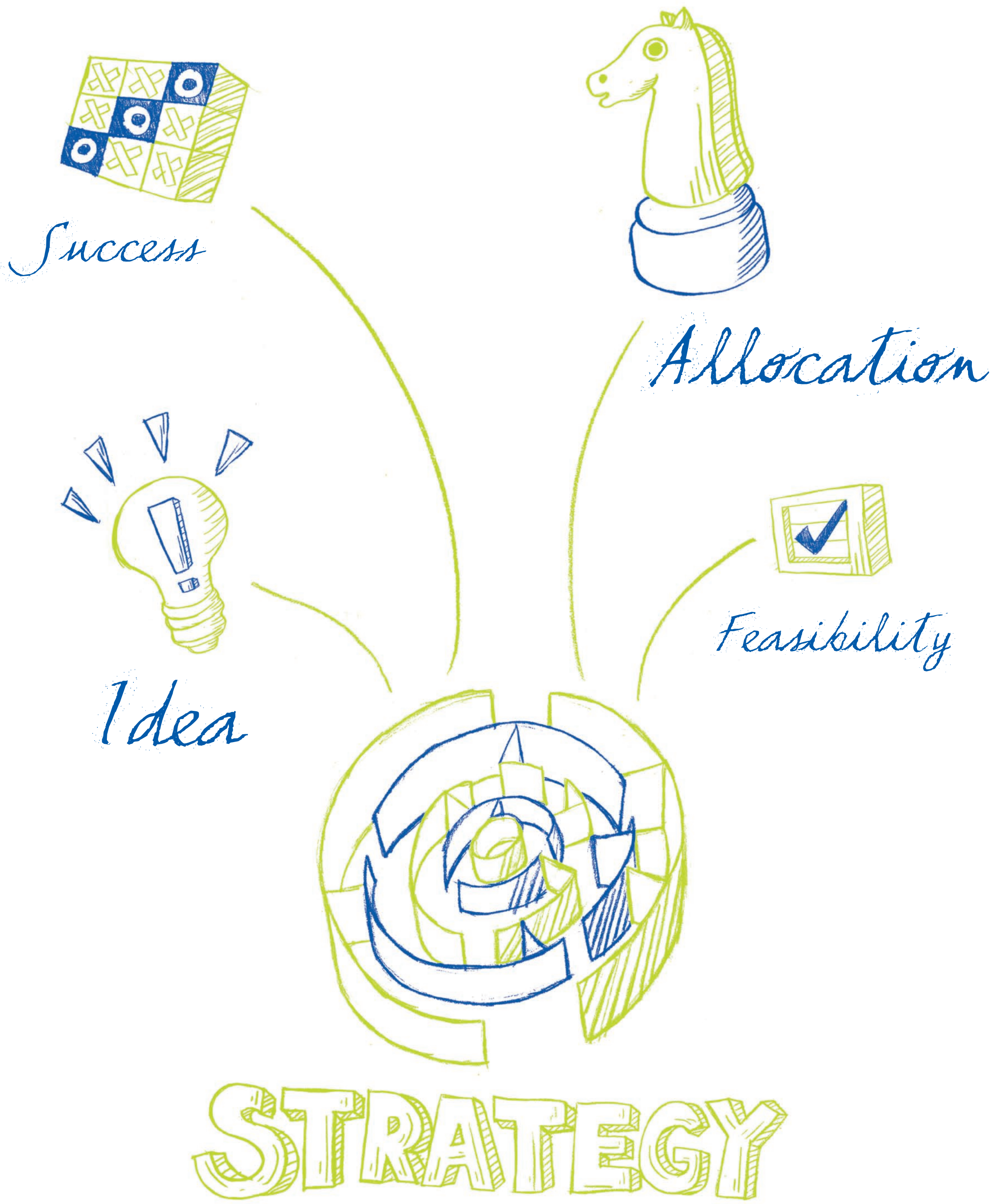
TRUenergy Holdings

S&P Rating

In July 2010, S&P raised the credit rating of TRUenergy Holdings from BBB- to BBB with stable outlook. S&P has not taken any rating action on TRUenergy following the announcement of the acquisition of NSW energy assets in December 2010.

Positives	Negatives
• Strong operations and improved financial profile • Abatement of TRUenergy's debt-financing risks • Australian Government's deferral of the proposed carbon pollution reduction scheme • Lenders' willingness to support TRUenergy's business strategy • CLP Holdings' continued support to TRUenergy	• Exposure to the volatile wholesale electricity market • Relatively aged condition of TRUenergy's main plant

Jhajjar – the first Indian power project financed by PRC lenders



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

Andrew Brandler, Chief Executive Officer

In this CEO's Review,

I explain how the values to which we are committed through our Value Framework and the key capabilities which drive the creation of value for our shareholders and stakeholders are incorporated into CLP's strategy. Last year, I reported on the outcome of the Board's review of CLP's strategy, both at Group level and business by business across the five major markets in which we are engaged. I explained that 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. I summarised how that strategy pointed toward 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.

This Annual Report, and the accompanying Sustainability Report, describe in detail the performance of CLP's business over the past year. In my Review, I want to place that performance in the context of the implementation of our strategy and our progress towards our 2020 Vision.

The first point I should make is that the Group has delivered a strong performance in the past year. Our focus on our core Hong Kong electricity business remains consistent and effective. Elsewhere, we have taken forward our strategy of adopting a flexible, market-by-market approach, with a focus on a balanced portfolio which reflects our trajectory towards a low carbon business as contemplated in CLP's Climate Vision 2050.

Hong Kong

In Hong Kong, we have maintained supply reliability and quality, fair tariffs, customer service and environmental excellence which are the hallmarks of this business. These enable us to retain a "franchise from society" to serve Hong Kong as an essential service provider. Smooth and timely implementation of the inter-government MOU on energy supplies to Hong Kong is critically important for CLP to maintain reliability of power supply and to meet tightening environmental regulations. Support from both the Central People's Government and the HKSAR Government remains critical in ensuring that the aims of the MOU are translated into reality. In addition to the challenges of implementing the MOU, the HKSAR Government's proposal to shift Hong Kong's generation mix towards more nuclear and gas by 2020 has major implications for additional investment in generation and transmission facilities in Hong Kong and the Mainland. The scale of such investment will be substantial. It will require the application by CLP of all of its expertise and experience as well as strong funding support from our capital providers. I am wholly confident about the former. I am equally confident about the latter, provided that the ongoing regulatory framework within which we operate supports and facilitates this.

Beyond Hong Kong

In Australia, TRUenergy's successful bids for the EnergyAustralia Retail electricity and gas business and the Delta Western GenTrader contract position us well in the ongoing power industry consolidation. Uncertainties remain with respect to the Federal Government's future carbon policy. We still face 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. I have previously remarked that, over time, TRUenergy will need external capital in some shape or form, if it is to fully participate in ongoing growth within the Australian market. This remains the case. I am aware that there has been market and media speculation that TRUenergy might be taken towards a listing (an initial public offering – "IPO") on the Australian stock exchange in the near term. Whilst this is one of the future funding options which we will consider, we do not yet have any specific plans in this regard. In the coming months, Management's priority must be excellence in the financial and operational performance of the TRUenergy business, including a smooth and rapid integration of the assets acquired in NSW, following completion of these transactions in March 2011. The quality of TRUenergy's business is an essential precondition to the successful procurement of external capital, whichever route is taken to do so.

In the Chinese mainland, our strategy is to further consolidate and rationalise our coal-fired projects and to continue the pursuit of clean and renewable sources. These will be predominantly wind energy and hydropower, with an emphasis on the development of majority-owned wind projects and expansion phases of selected minority-owned wind projects. The sale of CLP's majority shareholding in the Anshun II coal-fired power station and the forthcoming commissioning of our 330MW hydropower project in Jiangbian are examples of implementation of both sides of our strategy. I would also highlight the progress made in our wind energy portfolio, as evidenced by the significant contribution that this made to earnings from the Mainland in 2010.

CLP also has a particular opportunity to contribute to the growth of nuclear energy in the Chinese mainland. In doing so, we are aligned with the Central People's Government's goal of substantial growth in nuclear power in the Mainland and the Hong Kong Government's proposal to increase the proportion of the HKSAR's electricity needs to be met by nuclear energy. Our investments in nuclear power stations whose energy will supply Hong Kong would support our core electricity business through the delivery of clean, reliable and cost-effective power. Investment in other nuclear stations, which I expect will be mainly in Southern China, would allow shareholders to benefit from CLP's unique and longstanding relationships and reputation in the Mainland's nuclear industry. Although the long-term business regulatory framework and tariffs level which would apply to future nuclear plants in the Mainland are not yet settled, the strong policy support for substantial and rapid expansion of the Mainland's nuclear generation fleet, combined with the increasing cost-competitiveness of nuclear generation compared to conventional coal-fired generation, may offer good prospects for reasonable returns to shareholders over time from such investments.

I remain convinced that India presents significant long-term development opportunities for CLP. I do not use this as diplomatic language for implying that the short to medium-terms will not see promising results. On the contrary, our wind energy portfolio is growing strongly – we have more wind power under development, under construction, or in operation in India than in any of our other markets. The performance of our gas-fired power station in GPEC has been good and, as regards safety, excellent when measured against the highest standards in the world. Our 1,320MW greenfield coal-fired power station project at Jhajjar is making good progress toward scheduled commissioning by May 2012. Our management and organisational capabilities have steadily strengthened to the point where I believe that we have all the necessary skills and capabilities to be a significant and effective competitor in the Indian electricity sector. We will also remain a disciplined competitor – concentrating our attentions on reforming States, bidding for projects on a rational basis and holding back from projects and investments which we do not consider have the right risk / reward profile over time. At some stage, the growth of this business may well make demands on CLP Holdings' capital on a scale which causes us to look for other sources of funding. As with our TRUenergy business, a variety of options will be explored, including the possibility of a future listing on the Bombay Stock Exchange. However, for the time being, I believe that CLP India's business needs to reach a higher degree of maturity in terms of the scale, earnings and diversity of its operating assets before any IPO falls for active consideration.

We have said before in relation to Southeast Asia that we needed either to increase our influence within EGCO or to review our investment. We seriously considered the potential to become a majority shareholder in EGCO. However the challenges to achieving such an outcome were such that we have taken the strategic decision to divest our interest. That decision was also influenced by competing demands for capital in both Southeast Asia and the Group. Against this background we sold our interest in EGCO in February 2011. We retain a good working relationship with Mitsubishi Corporation with whom for example we are looking at development projects in Vietnam. Opportunities for growth in the region do exist. The 55MW solar energy project at Lopburi in Thailand, which CLP has developed, holds a one-third stake and manages the project, is one of the largest solar energy projects in the world. The experience at Lopburi will serve CLP in good stead in developing solar energy projects elsewhere – a valuable capability given the likelihood that improving solar technology and targetted government support may well mean that solar energy can play an increasing role within a balanced and diversified renewable energy portfolio.

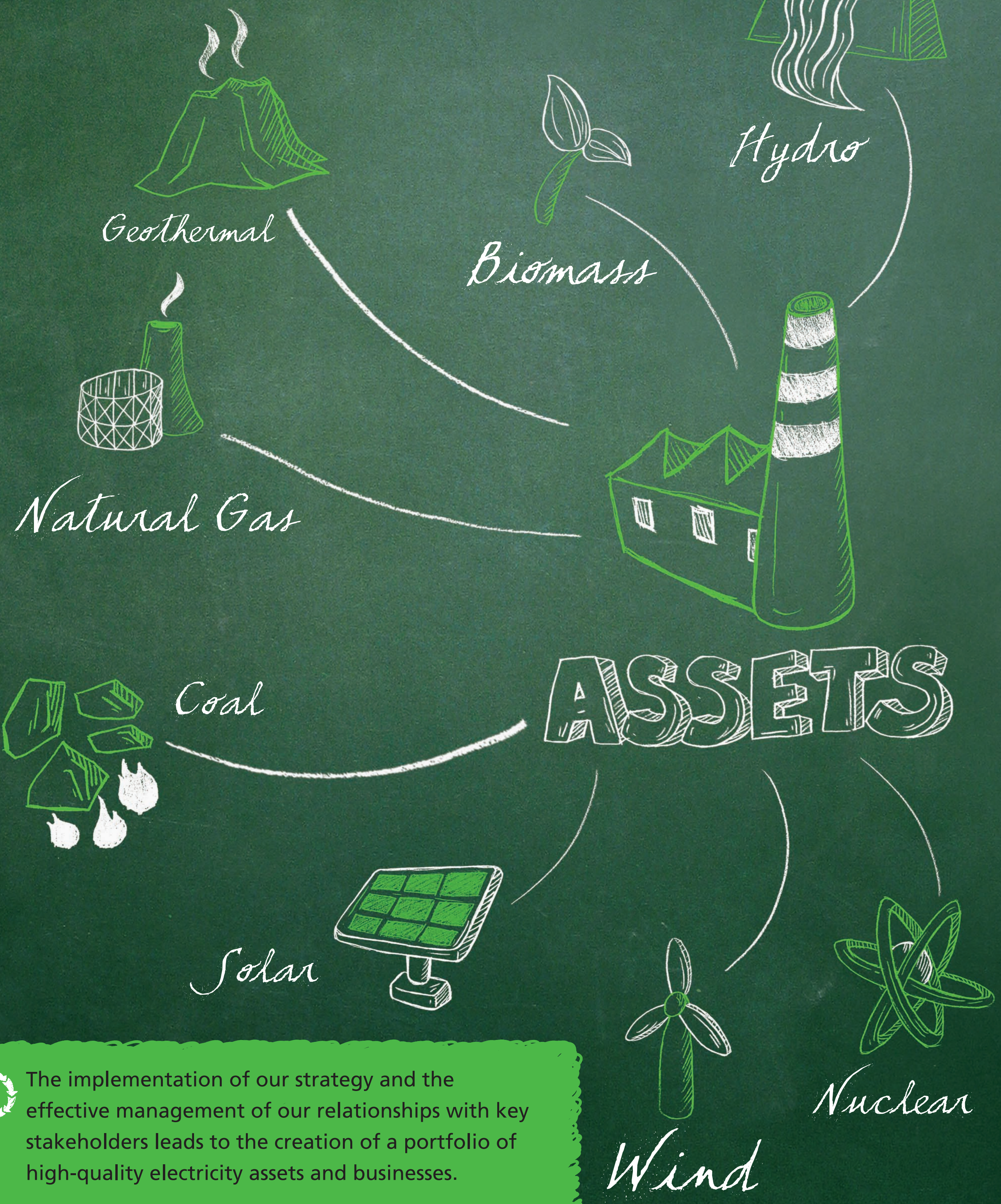
A Long-term Vision

The power industry is capital-intensive. It demands large-scale investments made for the long term in assets which may take several years to generate electricity and, therefore, earnings. CLP has become one of the leading investor-operators in the Asia-Pacific electric power sector. In the circumstances, to add significantly to our overall earnings, we need to make substantial new investments. This demands the continued optimisation of our financial and capital structure. We will pursue the growth strategy, which I have outlined above, without placing undue strains on our financial position or eroding our firepower to pursue investment opportunities which may present themselves – especially when such opportunities may not arise at times of our own initiative or preference. I am satisfied that we have the capital available to implement our strategy, strong support from our capital providers whether shareholders or lenders, and the capacity to secure additional capital, including by the further sell-down of selected assets outside Hong Kong, to pursue emerging investment opportunities, provided that these are aligned with our overall strategy and are of the quality we require.

In last year's Annual Report, I cautioned that the implementation of CLP strategy and our vision for 2020 would be impacted by incoming disruptive change in our industry, including the speed of economic and social development in different Asian countries, the effect of climate change and societies' responses to this threat, technological advances and regulatory changes. I also recognised that our ability to influence these changes will vary, although our experience in our industry and in this region equips us to detect trends and to proactively adapt to or exploit them. I joined CLP as CEO in May 2000. The experience of my past decade with the Company, the performance of our business in the past year and the potential for growth in all our markets all give me confidence that we remain on track to turn our 2020 Vision into reality.

Andrew Brandler
Hong Kong, 24 February 2011

Our veteran midfield general – ballwatching on this occasion



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 & Partnerships
(as at 31 December 2010)

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 Power Investment Company, Ltd. 75%

CSEC Guohua
- CLP 30%
- China Shenhua Energy 70%

Shenmu
- CLP 49%
- China Shenhua Energy 51%

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%

Shandong Guohua Wind
- CLP 49%
- Guohua Energy Investment Co., Ltd. 51%

Jilin Datang Wind
- CLP 49%
- China Datang Corp. Renewable Power Co., Ltd. 51%

Shandong Huaneng Wind
- CLP 45%
- Huaneng Renewable Corporation Ltd. 55%

Qian'an I Wind
- CLP 100%

Changling II Wind
- CLP 45%
- Sinohydro New Energy Co., Ltd. 55%

Laizhou Wind
- CLP 45%
- Huadian Power International Corporation Limited 55%

CLP-CWP Wind
- CLP 50%
- China WindPower Group 50%

Penglai I Wind
- CLP 100%

CGN Wind
- CLP 32%
- CGN Wind Energy Ltd. 68%

Nanao II & III Wind
- CLP 25%
- Huaneng Renewable Corporation Ltd. 50%
- Guangdong Electric Power Development Co., Ltd. 25%

Shanghai Chongming Wind
- CLP 29%
- Shanghai Green Environmental Protection Energy Co., Ltd. 51%
- CPI New Energy Holding Co., Ltd. 20%

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 100%

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%

Theni Project Phase II
- CLP 100%

Southeast Asia and Taiwan

OneEnergy*
- CLP 50%
- Mitsubishi Corporation 50%

NED
- CLP 33.33%
- Mitsubishi Corporation 33.33%
- EGCO 33.33%

* Owns 22.42% EGCO and 40% of Ho-Ping, a further 2.15% of EGCO is held indirectly by CLP. On 23 February 2011 OneEnergy became 100% subsidiary of CLP and CLP's total investment in EGCO was sold. CLP's interest in Ho-Ping was retained through OneEnergy Taiwan which is a joint venture company equally owned with Mitsubishi Corporation

Assets / Investments as at 31 December 2010

Chinese Mainland Investments Gross / Equity MW

Equity Interest

1 — 25%

Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) 1,968 / 492MW
GNPJVC constructed the 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 in Liaoning Province (遼寧省) (50% / 3,600MW). Both units of Suizhong II were commissioned in February and May 2010 respectively
- 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 — 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 I (1,200MW) and Heze II (600MW) in Shandong Province (山東省)

5 — 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)

6 — 49%

Shandong Guohua Wind Joint Ventures (Shandong Guohua Wind) 445 / 218MW
Shandong Guohua Wind comprises interests in nine wind farms in Shandong:

- Rongcheng I (48.8MW), commissioned in 2008
- Rongcheng II (49.5MW), commissioned in October 2010
- Rongcheng III (49.5MW), commissioned in January 2011
- Dongying Hekou (49.5MW), commissioned in September 2009
- Lijin I (49.5MW), commissioned in December 2009
- Lijin II (49.5MW), commissioned in October 2010
- Zhanhua I (49.5MW), commissioned in October 2009
- Zhanhua II (49.5MW), commissioned in December 2010
- Haifang (49.5MW), scheduled for commissioning in 2012

7 — 49%

Jilin Datang Wind Joint Ventures (Jilin Datang Wind) 148 / 73MW
Jilin Datang Wind owns interests in three wind farms in Jilin Province (吉林省):

- Datong (49.5MW), commissioned in August 2008
- Shuangliao I (49.3MW), commissioned in April 2007
- Shuangliao II (49.5MW), commissioned in May 2009

8 — 45%

Shandong Huaneng Wind Joint Ventures (Shandong Huaneng Wind) 96 / 43MW
Shandong Huaneng Wind owns interests in three wind farms in Shandong:

- Changdao (27.2MW), commissioned in May 2006
- Weihai I (19.5MW), commissioned in March 2007
- Weihai II (49.5MW), commissioned in December 2008

9 — 100%

Qian'an IW Power Co. Ltd. (Qian'an I Wind) 50 / 50MW
Qian'an I Wind (49.5MW) in Jilin Province was commissioned in November 2010

10 — 45%

Sinohydro CLP Wind Power Company Limited (Changling II Wind) 50 / 22MW
Changling II Wind in Jilin Province was commissioned in September 2009

11 — 45%

Huadian Laizhou Wind Power Company Limited (Laizhou Wind) 41 / 18MW
Laizhou Wind in Shandong Province was commissioned in September 2008

12 — 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 Liaoning Province was commissioned in December 2009
- 49% of 49.5MW Mazongshan wind farm in Liaoning Province was commissioned in January 2010

13 — 100%

CLP (Penglai) Wind Power Ltd. (Penglai I Wind) 48 / 48MW
Penglai I Wind (48MW) in Shandong Province is scheduled for commissioning in the last quarter of 2011

14 — 32%

CGN Wind Power Company Limited (CGN Wind) 2,143 / 561MW[3]
CGN Wind invests, develops, constructs and operates wind projects throughout China. As at the end of December 2010, it had 1,342MW under operation

15 — 25%

Huaneng Shantou Wind Power Company Limited (Nanao II Wind) 45 / 11MW (Nanao III Wind) 15 / 4MW
Nanao II & III Wind are in Guangdong Province, Nanao II was commissioned in November 2007 and Nanao III in September 2010

16 — 29%

Shanghai Chongming Beiyan Wind Power Generation Company Limited (Shanghai Chongming Wind) 48 / 14MW
Shanghai Chongming Wind was established in July 2010, with commissioning targeted at late 2011

17 — 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

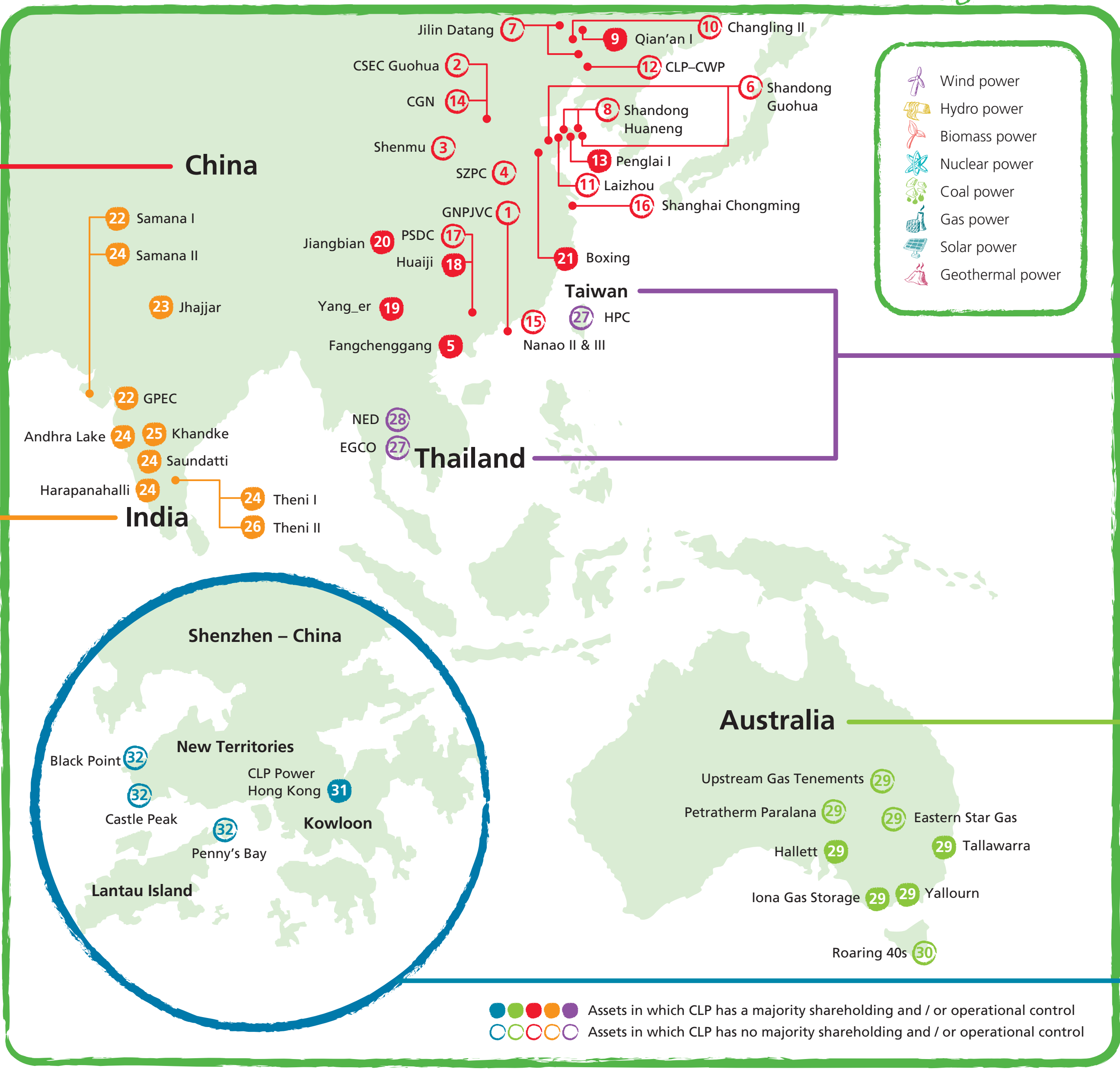
18 — 84.9%

Huaiji Hydropower Stations (Huaiji Hydro) 125 / 106MW
12 small hydropower stations in Huaiji County (懷集縣) and Guangning County (廣寧縣), Guangdong Province

19 — 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)

More than 20,000MW, 8 different energy sources...



20 | 100% | **CLP Sichuan (Jiangbian) Power Company Limited (Jiangbian Hydro) 330 / 330MW**
Constructs, owns and will operate a 3 x 110MW hydro project in Sichuan Province (四川省). Completion is targeted for 2011

21 | 79% | **CLP Huanyu (Shandong) Biomass Heat and Power Company Limited (Boxing Biomass) Equivalent of 15 / 12MW**
A biomass combined heat and power project, with 1 x 75 tonnes / hour cotton straw-fired boiler + 15MW(4) generator commissioned in March 2010. Boxing Biomass is in Boxing County (博興縣) near Binzhou City (濱州市) in Shandong Province

Notes:
(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.
(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.
(3) The 561 equity MW attributed to CLP, through its 32% equity interest in CGN Wind, takes into account that CGN Wind holds varying equity interests in the generating assets included in the 2,143 gross MW.
(4) Boxing Biomass Phase I modification work of adding a 15MW condensing turbine was completed in March 2010 and therefore the rating is increased from 6MW to 15MW.

India Investments Gross / Equity MW

Equity Interest

22 | 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

23 | 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 January 2012 and the second in May 2012

24 | 100%

CLP Wind Farms 336 / 336MW
Samana Phase II (50.4MW) in Gujarat, **Saundatti** project (82.4MW) and **Harapanahalli** project (39.6MW) in Karnataka, **Andhra Lake** project (113.6MW) in Maharashtra and **Theni project Phase I** (49.5MW) in Tamil Nadu

25 | 100%

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

26 | 100%

CLP Wind Farms (Theni - Project II) Private Limited (Theni Project Phase II) 50 / 50MW
100% of the **Theni Project Phase II** (49.5MW) in Tamil Nadu

Southeast Asia and Taiwan Investments Gross / Equity MW

Equity Interest

27 | 50%

OneEnergy Limited (OneEnergy) 8,641 / 868MW(5)
A 50:50 joint venture with Mitsubishi Corporation of Japan, which as at 31 December owned:

(a) 22.42% interest in **Electricity Generating Public Company Limited (EGCO)** in Thailand (CLP also had an additional 2.15% interest in EGCO through CLP's 8.77% direct interest in OneEnergy Thailand Ltd, which is a 91.23% subsidiary of OneEnergy). 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
- 35% interest in the 1,087MW Nam Theun 2 hydro project in Laos
- 26% interest in the 503MW Quezon Power coal-fired power station in The Philippines
- 33.33% interest in the 55MW NED solar project in Thailand
- 322MW out of a total of 676MW in a portfolio of small power projects in Thailand and The Philippines

(On 23 February 2011 CLP sold its interest in EGCO)

(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 (Pursuant to a share purchase agreement entered into on 23 February 2011 CLP's interest in 40% of HPC is now owned through a 50:50 project vehicle with Mitsubishi Corporation)

28 | 37.8%(6)

Natural Energy Development Co., Ltd. (NED) 55 / 21MW
A joint venture company equally owned by CLP, Mitsubishi Corporation and EGCO, which owns a solar farm in Central Thailand, construction of which has commenced in early August 2010. The solar farm is rated at 73MW of direct current electricity which will be converted into net 55MW of alternating current electricity for sale to the state-owned power company Electricity Generating Authority of Thailand. (As a result of the sale of CLP's interest in EGCO our stake in NED was reduced from 37.8% to 33.33%, all of which is directly held)

Notes :
(5) The 868 equity MW attributed to CLP at 31 December 2010, through its 50% equity interest in OneEnergy and its direct 8.77% ownership in OneEnergy Thailand Ltd, takes into account that OneEnergy and CLP indirectly hold varying equity interests in the generating assets included in the 8,641 gross MW.
(6) 37.8% takes into account CLP's direct ownership in NED and indirect ownership through OneEnergy and EGCO.

Australia Investments Gross / Equity MW

Equity Interest

29 | 100%

TRUenergy 3,069 / 3,069MW
TRUenergy is an integrated generation and retail electricity and gas business in Victoria, South Australia (SA), New South Wales (NSW), Queensland and the Australian Capital Territory, comprising:
- 1,480MW coal-fired **Yallourn Power Station** and brown coal mine in Victoria
- 203MW 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
- 1.25 million business and residential electricity and gas customer accounts
- 10% stake in **Petratherm Paralana geothermal project**
- 3.76% equity stake in **Eastern Star Gas**
- Direct investment in **Upstream Gas Tenements** in Queensland

30 | 50%

Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) 317 / 142MW(7)
Roaring 40s is a 50:50 joint venture partnership with Hydro Tasmania and owns:
- 100% of the 140MW Woolnorth wind farms in Tasmania and 111MW Waterloo wind farm, which commenced operations in August 2010 in SA
- 50% interest in the 66MW Cathedral Rocks wind farm in SA

Note (7) : 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

31 | 100%

CLP Power Hong Kong Limited (CLP Power Hong Kong)(8)
CLP Power Hong Kong owns and operates the transmission and distribution system which includes:
- 554 km of 400kV lines, 1,528 km of 132kV lines, 27 km of 33kV lines and 11,658 km of 11kV lines
- 58,929 MVA transformers and 213 primary and 13,208 secondary substations in operation

32 | 40%

Castle Peak Power Company Limited (CAPCO)(8), 6,908MW of installed generating capacity
CAPCO owns and CLP Power Hong Kong operates:

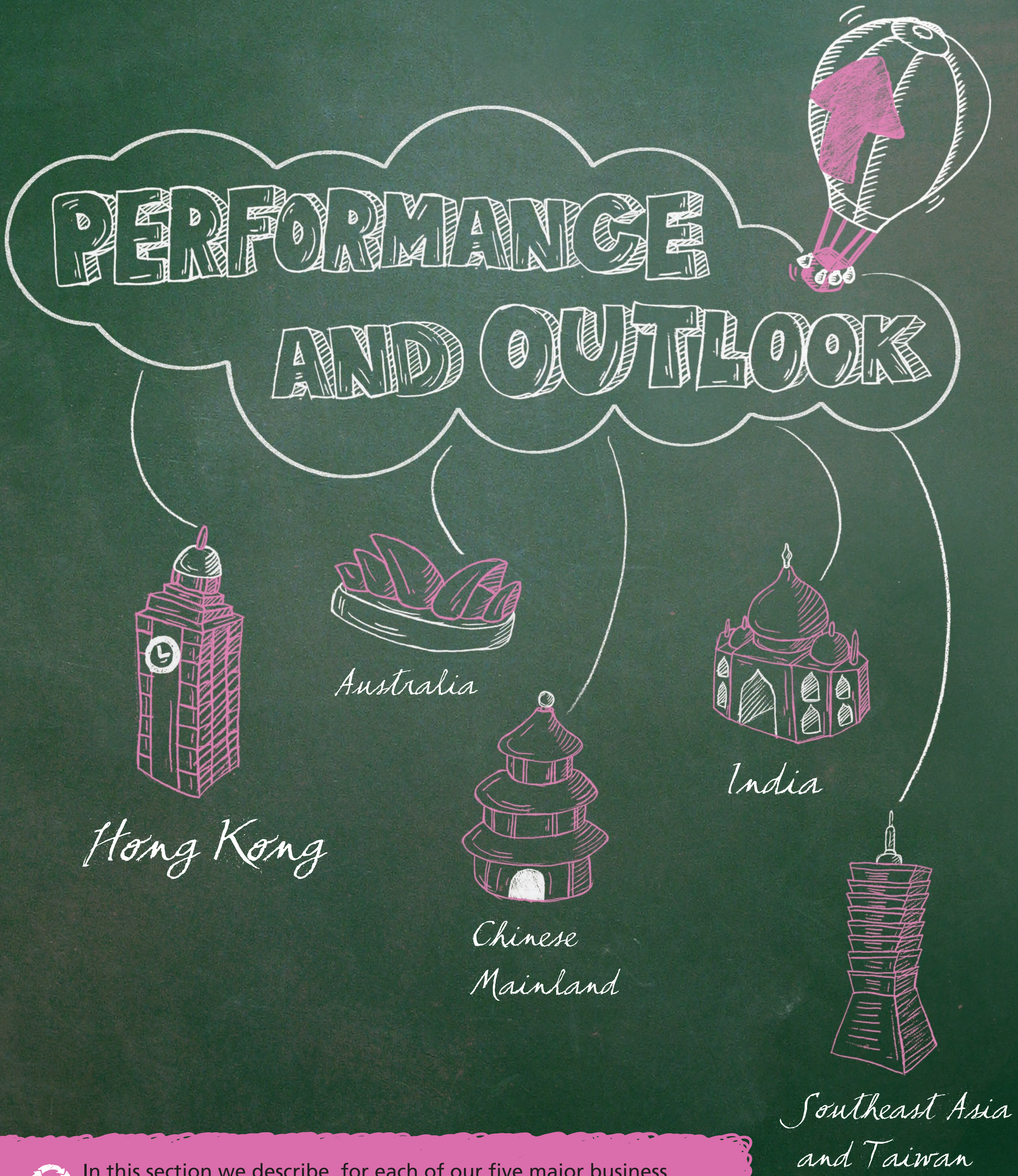
Black Point Power Station (2,500MW)
- One of the world's largest gas-fired power stations comprising eight combined-cycle turbines of 312.5MW each

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

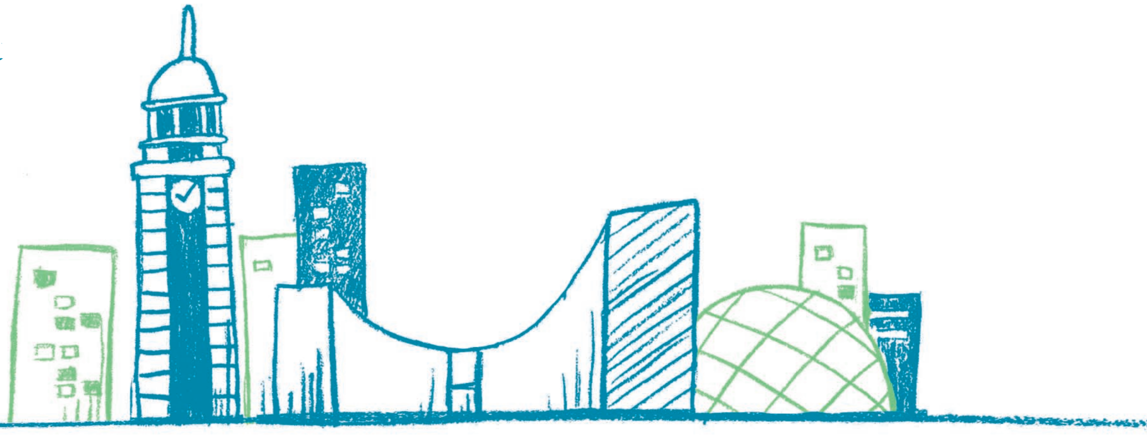
Note (8): CLP Power Hong Kong purchases its power from CAPCO, PSDC and Guangdong Daya Bay Nuclear Power Station. These sources of power amount to a total capacity of 8,888MW available to serve the Hong Kong electricity business.

PERFORMANCE AND OUTLOOK



In this section we describe, for each of our five major business streams, how, through the values which guide our actions, the capabilities that create value, the implementation of our strategy and the management of our assets and investments, CLP has performed in 2010 and our outlook for future years.

Hong Kong



Business Environment

The environment for our Hong Kong electricity business is strongly influenced by current and developing policies of the HKSAR Government on integration with the Mainland's energy sector, fuel mix, environmental performance and the capital investment and regulatory structure necessary to bring about the required policy outcomes.

In August 2008, the Central People's Government and the HKSAR Government signed an MOU on energy cooperation. This provided for the delivery of gas for electricity generation in Hong Kong from three sources made available by Mainland suppliers, each of which would be essential to the continued adequacy and reliability of Hong Kong's electricity supply. These were:

- 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 would supply Hong Kong.

The MOU also contemplated the ongoing supply of nuclear electricity to Hong Kong through an extension of the supply contract with the Guangdong Daya Bay Nuclear Power Station. Under the MOU, CLP is expected to cooperate with Mainland counterparts on the necessary commercial arrangements to implement these policy directives on the supply of gas and nuclear energy.

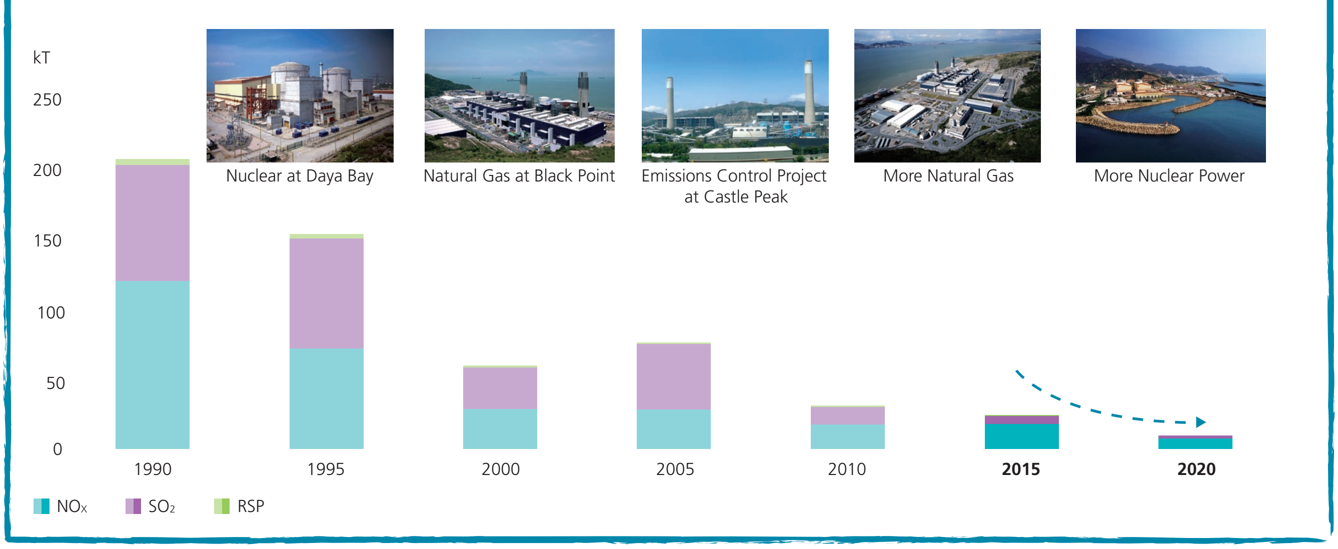
As part of the measures intended to improve local air quality in Hong Kong, the HKSAR Government has been steadily tightening the emissions levels allowed from power stations in Hong Kong. From 2005 to 2010 permitted emissions of SO_2, NO_X and Respirable Suspended Particulates (RSP) for our power stations in Hong Kong have been steadily reduced to comply with progressively lower emissions caps. With the enforcement of the Second Technical Memorandum for Allocation of Emission Allowances under the Air Pollution Control Ordinance, these permitted emission allowances are required to be reduced further by 64%, 34% and 33% respectively by 2015 as compared to the levels of 2010. With Government proposals to shift towards increased nuclear power and natural gas in the fuel mix by 2020, these emissions will be reduced even further.

In addition to these specific emissions requirements, the Government has also launched a public consultation on Hong Kong's Climate Change Strategy and Action Agenda. The consultation document, issued in September 2010, deals with a wide range of climate change proposals and mitigation measures. For the power sector it proposes a fuel mix targeted at 50% nuclear, 40% gas, 3 to 4% renewable energy and not more than 10% coal by 2020. By comparison, CLP's fuel mix today is around 30% nuclear, 30% gas and 40% coal.

The continued tightening of environmental regulations, including the HKSAR Government's proposed climate change strategy, will have a significant impact on the operation of the existing generation facilities, as well as CLP's investment strategy on generation and transmission facilities. The power business is long-term and capital-intensive in nature. To achieve the proposed fuel mix for electricity supply, more clean fuel sources and new infrastructure investments will be needed. A stable and transparent regulatory framework enabling us to plan and make long-term energy infrastructure investments is essential for delivering on government's policy objectives. The present SoC provides such a framework until at least 2018. However, arrangements for nuclear energy supplies and for natural gas with a duration of 20 years or more and involving commitments of many billions of dollars need to be backed by a regulatory framework which gives investors and suppliers the confidence to enter into those contracts and the ability to meet those obligations for the decades ahead.

The following chart shows the tremendous efforts made by CLP to reduce emissions since 1990 – well before air quality had become a matter of political, media and public focus. Total emissions of NO_x, SO_2 and RSP have fallen by 85%, 85% and 82% respectively over that period, despite total electricity demand rising almost 80%.

Emissions Over the Years



Performance

Meeting the demand for electricity

Satisfying our customers' expectation that adequate and reliable power supply is available at all times, demands high standards in the operation of our generating plant. These standards were achieved in 2010.

Station	Rating (MW)	Generation* (GWh)		Availability (%)		Operating Hours	
		2010	2009	**2010**	2009	**2010**	2009
Black Point Power Station	2,500	**10,851**	9,142	**90.8**	90.5	**35,775**	30,572
Castle Peak Power Station	4,108	**15,167**	17,268	**72.0**	78.4	**38,602**	45,943
Penny's Bay Power Station (peaking capacity / black start capability)	300	**0.7**	0.2	**98.6**	99.6	**14.3**	10.5

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

Briefing to our Vice Chairman, Mr. William Mocatta and fellow Director, Mr. R. J. McAulay at Castle Peak Power Station

Hong Kong

The most important aspect of our performance is our ability to meet the demand for electricity in Hong Kong, every day of every year. We achieved this in 2010. On 8 September 2010 local maximum demand reached a new historical peak of 6,766MW. This represented an increase of 17MW (0.3%) over the previous historical peak recorded in 2008. Overall, local sales in 2010 grew by 1.2%, compared to growth of 1.7% the previous year. This growth, particularly in the residential sector and commercial sector was primarily due to the economic recovery, positive consumer sentiment and high humidity. There was slight sales growth for both the infrastructure and public services sector and the manufacturing sector. There was a reduction in electricity sales to Guangdong. The result was that total unit sales for 2010, which includes sales to Guangdong, decreased by 2.2% from 2009.

Sector	2010 Number of customers ('000)	2010 Electricity sales (GWh)	Sales increase/ (decrease) over 2009 (%)	Average annual sales change over 2006-2010 (%)	Notes on 2010 performance
Residential	2,039	8,457	1.5	2.4	Economic rebound, positive consumer sentiment and high humidity
Commercial	187	12,642	1.2	2.0	Economic rebound and positive consumer sentiment
Infrastructure and public services	96	7,878	0.8	0.5	Commissioning of public facilities
Manufacturing	25	1,952	0.7	(6.5)	Stable growth in local demand, despite continued sales reduction in textile industry
Total local sales	2,347	30,929	1.2	1.0	
Export sales	–	2,609	(30.1)	(10.3)	Lower contracted volume constrained by more stringent emission caps
Total sales	2,347	33,538	(2.2)	(0.2)	

Capital Investment

The largest single capital investment made recently in the Hong Kong electricity business has been the emissions control project at Castle Peak "B" Power Station. This HK$9 billion project will enable over 90% of SO_2 emissions and over 50% of NO_X emissions from Castle Peak "B" to be removed and will further reduce emissions of RSP from the existing low levels. The project, which involved installation of flue gas desulphurisation equipment, nitrogen oxide reduction plant and other facilities on all four units at the station, was completed in December 2010.

During 2010 CLP invested approximately HK$7.7 billion in generation facilities, the transmission and distribution network, customer services and other supporting facilities. This investment enhanced supply quality, reliability and customer service levels, as well as meeting the demand created by ongoing infrastructure projects and residential developments in Kowloon and the New Territories.

Gas supply

Work on securing gas from the three sources contemplated under the MOU continued throughout 2010. These are major and complex infrastructure projects requiring coordinated efforts from gas suppliers and regulatory authorities in the Mainland and Hong Kong. As our existing gas supply from the Yacheng gas field in the South China Sea is entering the late stages of its life when gas production is likely to be less stable, the work on securing replacement gas becomes critically important and careful management of the remaining gas supply is necessary.

Since the announcement of the MOU we have been working diligently with the Mainland suppliers to develop the necessary infrastructure and agree commercial terms that will ensure adequate and reliable supply to our gas-fired power generation facilities. CLP is only one of the participants in this development of cross-boundary gas supply infrastructure. Successful and timely delivery of the energy supply arrangements contemplated in the MOU requires a positive contribution from Mainland business counterparties and the active support of the involved governments and authorities in many areas for each of these gas sources – from site selection and regulatory approval through to construction of the required infrastructure which extends over long distances and across provincial and national boundaries. Given the scale and complexity of these projects, these represent significant challenges to the delivery of gas within a tight timetable.

As at the end of 2010 progress has been made on all fronts towards implementation of the MOU.

- New gas fields in the South China Sea – preliminary agreement was reached with CNOOC to provide short-term gas supply from a small gas field to supplement the current gas supply source, the Yacheng field. Discussions are ongoing with CNOOC on long-term replacement gas supply from its gas portfolio including the development of new gas pipeline infrastructure that will be needed.
- Second West-to-East Pipeline – discussions with PetroChina on commercial terms for long-term gas supply progressed. Initially, supplies will be from the Second West-to-East Pipeline which is partially completed and will transport gas from Turkmenistan across China to Shenzhen. We have also worked closely with PetroChina in developing a new pipeline to transport gas from the end point of the Second West-to-East Pipeline in Shenzhen to Black Point Power Station, with construction expected to start in 2011.
- Shenzhen LNG terminal – a project team, led by PetroChina with partners CLP and Shenzhen Gas, is working with an expert panel assigned by the China National Energy Administration to conduct an in-depth review and study of potential terminal sites in Shenzhen.

We have developed cooperative relationships with all involved parties and look to accelerate the pace of work in 2011.

Innovation

We have been operating our Hong Kong electricity business for over a century. During that time the needs and expectations of our Hong Kong customers and the technologies available to serve them have never ceased to evolve. Today, and as our Chairman remarked earlier in this Report, the pace of change in our business is faster than it has ever been. Three different examples illustrate the ways in which CLP is promoting innovation in our business, in ways that we could not have imagined only a few years ago.

Following the issue of an environmental permit, we have started the feasibility study for an offshore wind farm of up to 200MW near Sai Kung. It is envisaged that we will commence fabrication of an offshore wind data collection mast in 2011 for site

Emissions reduction at Castle Peak Power Station – new Absorber Tower which removes sulphur dioxide from flue gases environmental data collection. Although offshore wind farms are increasingly being developed elsewhere, the particular seabed conditions at the site, categorised by thick layers of sediment, require an innovative and environmental solution for the wind turbine foundations. We have already tested a suction caisson foundation which will permit wind turbine installation with minimum disturbance to the seabed. On future decommissioning the whole foundation can be completely removed by simply reversing the installation process.

The coming years will see a global trend of power grid modernisation by integrating the electricity transmission, distribution and metering infrastructures with advanced digital and communication technologies. The smart grid, incorporating the concept of enhanced intelligence and automation, will support renewable generation, strengthen power grid resilience and engage customers more actively in energy saving and demand management. CLP has established a Smart Grid Development Roadmap. Initially, we will focus on strategic areas such as integration with intermittent renewable energy sources, transmission and distribution network management, customer interaction, last-mile communication networks and information technologies. We already have 15 demonstration projects in progress, varying from self-healing systems for critical equipment through to advanced metering infrastructure and communication technologies. Our smart grid experience centre for experimenting and demonstrating the evolving smart grid technologies will open in the first quarter of 2011.

We are playing a major role in facilitating the introduction of electric vehicles (EVs) to Hong Kong. We have worked closely with Government and the automobile industry to develop the standards and specification required for the long-term sustainable deployment of EV charging infrastructure in the SAR. EV charging stations have now been installed and made available to the public in 26 carparks. We waived the fees for the charging stations in 2010 and will extend this waiver through 2011. CLP is setting an example itself in the use of EVs. In 2010 we had 21 EVs within CLP's fleet, ranging from a 10-ton truck and an electric shuttle bus through to plug-in hybrid saloon cars. We organised the Hong Kong Parade and Exhibition for the 25th International Electric Vehicles Symposium. The EV parade, involving more than 30 different EVs from across the world, was the largest of its kind yet seen in Hong Kong. Over 60,000 members of the public visited the EV exhibition. More than 6,000 guests participated in the EV Ride and Drive, giving them their first experience with electric cars.

Mr. Michael Tong

What is your view on the development of the electric vehicle industry in Hong Kong? Do you think that it will be able to take off at a massive scale in the near future?

Head of China / HK Research, CIB Research – Equity, Deutsche Bank

Whether EVs will take off at a massive scale depends on:

(1) Policy – The HKSAR Government has introduced "first EV registration tax exemptions" for EV purchasers as well as allowing power utility companies to include within their asset portfolio any investments in EV infrastructure. Such ongoing and increasing support from the HKSAR Government is testament to its efforts to promote the mass adoption of EVs in Hong Kong.

(2) Availability of Charging Infrastructure – With both power companies leading the way in building EV charging infrastructure as well as consistent and effective education and media campaigns to educate the public on EVs, this encourages the adoption of EVs in the near future.

(3) Availability of price competitive Right-hand-drive EVs – the price of these EVs is still high compared to gasoline vehicles. However, more manufacturers are producing EVs leading to lower production costs and better vehicles.

With the support from Government policies, increased commitment by vehicle manufacturers and positive support from CLP, I believe the future is extremely promising for EVs in Hong Kong.

Chow Lap Man

Director – Marketing and Customer Services, CLP Power Hong Kong

Outlook

Our job is to provide adequate, reliable, cost effective and environmentally responsible electricity supply to Hong Kong. In the coming year, this mission will be discharged with a particular emphasis on supporting Government's policy objectives regarding fuel mix and emissions levels. This emphasis is reflected in a number of the specific plans and activities we envisage for 2011. These include:

- commissioning the final unit of the emissions control project at Castle Peak "B" Power Station;
- closely monitoring possible fluctuations in gas availability from the existing Yacheng gas field and prudently managing gas usage before arrival of replacement gas;
- taking forward the implementation of the inter-Government MOU on energy supply. This will require continuing close cooperation and information sharing with the HKSAR and Central People's Governments, as well as collaboration with multiple stakeholders in order to ensure a smooth transition from the existing Yacheng gas resources and on-time delivery from the replacement gas resources. This will include progressing contracts for gas supply as well as the commercial arrangements and technical development of related pipeline infrastructure;
- active engagement with the HKSAR Government on practical investment plans to meet its climate change goals and air quality objectives. This will also involve starting to plan the major infrastructure developments in our business which will be needed if these policies are to be successfully implemented;
- evaluating the options for the additional import of nuclear energy to Hong Kong, both to meet increasing electricity demand and to ensure that this is done in line with any decision by HKSAR Government substantially to increase the role of nuclear energy within Hong Kong's overall electricity generation needs;
- enhancing stakeholder engagement activities and communication plans in relation to nuclear safety issues to reinforce public confidence in nuclear power and its ability to meet Hong Kong's energy needs safely. These activities will need to be coordinated with other major stakeholders, notably the HKSAR Government and CGNPC, the majority shareholder in Daya Bay; and
- taking forward innovative initiatives such as EV market development, pilot smart grid projects and the development of local renewable energy projects.

In the remainder of this decade we foresee that our Hong Kong electricity business will be categorised by:

- strengthened infrastructure integration with Guangdong, notably through the import of gas and nuclear power;
- a cleaner fuel mix. This will involve using more gas, importing more nuclear energy and reducing our reliance on coal, as well as promoting the use of local renewable energy sources to the extent that this is practical;
- the continued implementation of the inter-government MOU so that new, long-term gas supplies are brought to Hong Kong;
- the timely development of pipeline infrastructure and necessary arrangements to bring new long-term gas supplies to Hong Kong;
- the promotion of energy efficiency – we will continue to help our customers to boost energy conservation through energy efficiency related services and public education, as well as offering advice on energy efficient products, better building design and optimal equipment selection for businesses;
- management of the ongoing capital expenditure which our business will require, both to timetable and within budget; and
- excellence in operations at all times, including the effective management of critical business issues such as tariff levels, environmental and safety performance.

Australia

Business Environment

In December 2010, the NSW Government announced the results of the privatisation of the state-owned retail gas and electricity businesses and the awarding of long-term contracts (known as "GenTraders") for the output from state-owned power stations. These transactions are to be completed on 1 March 2011. The effect of this is that, in Queensland, NSW, Victoria and SA, all of the electricity retailers (with the exception of one in rural Queensland) will be owned by the private sector. In generation, most of the capacity in Victoria and SA and nearly half the capacity in Queensland is privately-owned, while nearly half the generation output in NSW will be managed by the private sector. Where privatisation has already run its full course, as in Victoria and SA, we have seen highly competitive generating and retail energy sectors, accompanied by a trend towards industry consolidation as well as vertical integration, whereby energy retailers move to secure upstream resources of power generation and fuel. Although the Federal and State Governments have steadily withdrawn from direct participation in the power industry in recent years, Government policy still has a major impact on the business environment in three major respects.

The first is with regard to potential Federal legislation to reduce greenhouse gas emissions in Australia as part of the nation's response to the threat of climate change. Given that the electricity generation sector accounts for approximately 35% of total Australian emissions, any Federal legislation will inevitably have a significant impact on the industry. The Labor Government has established a Multi-party Climate Change Committee and two roundtables to seek input from business and non-government organisations on climate change policy. TRUenergy has not been invited to participate in these roundtables. Nonetheless, we have a regular dialogue with key departments in the Federal Government and will be an active, constructive and fair-minded participant in the ongoing debate on Australia's future carbon management, as the Government moves to finalise its carbon policy mechanism by the end of 2011.

The second respect in which the Federal and State authorities play an active role in energy policy relates to renewable energy. In September 2009, the Australian Government announced the expansion of Australia's Mandatory Renewable Energy Target Scheme (MRET). This committed the Federal Government to achieving a 20% share of renewable energy in Australia's electricity mix by 2020. Further changes to the MRET legislation were announced in February 2010. As from January 2011, the renamed Renewable Energy Target (RET) Scheme has been separated into two parts, the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET). The SRES provides support to small-scale technologies, such as solar panels and solar hot water systems, whereas the LRET now provides an annual target for renewable energy generation. This increases incrementally to 41,000GWh in 2020, to achieve the 20% renewable target. After that, the LRET is intended to remain constant until 2030. The implication for TRUenergy is that we need to commit to contracts with renewable energy projects, so that we can procure the renewable certificates which, as an electricity retailer, we are obliged to acquire under the RET Scheme. In addition to the Federal RET Scheme, the Victorian, NSW and SA Governments have all introduced energy efficiency schemes. Whilst each scheme has its own legislation and rules, in essence, each requires retailers, such as TRUenergy, to obtain and surrender energy efficiency certificates equal to their share of the State's targeted emissions reductions. These state-level targets are set based on each retailer's energy sales per year in that particular State. Each certificate represents one tonne of carbon emissions avoided through energy efficiency and / or fuel switching. Retailers can either buy these certificates on a trading market or create them by providing energy efficiency measures to consumers.

The third area where governments continue to impact energy businesses is retail pricing. Electricity prices remain politically sensitive. Apart from Victoria which has fully deregulated retail prices, all jurisdictions continue to set benchmark prices.

All of these measures sound, and often are, quite complicated and involve some overlap. The overall picture is one where governments have moved away from ownership of electricity infrastructure, have gradually eased back from control and regulation of retail energy prices, but remained highly engaged in the related fields of greenhouse gas emissions, promotion of renewable energy and energy efficiency.

Performance

On 14 December 2010, TRUenergy agreed with the NSW Government to acquire EnergyAustralia Retail (which sells gas and electricity and is the State's largest electricity retailer), the Delta Western GenTrader contract for the Mount Piper (1,400MW) and Wallerawang (1,000MW) coal-fired power stations and three power station development sites for a total of A$2.035 billion, subject to completion adjustments. The EnergyAustralia Retail, Delta Western GenTrader and the development sites are all high quality assets which will give TRUenergy competitive scale in NSW, Australia's largest energy market. The acquisitions solidify TRUenergy's position as one of the top three national retailers and generators, doubling its energy retail business to approximately 2.75 million customer accounts in NSW, the Australian Capital Territory, Victoria, Queensland and SA. The Delta Western GenTrader, including NSW's most efficient coal-fired power station at Mount Piper, increases TRUenergy's balanced portfolio of self-owned generation capacity and capacity purchases, which includes gas, coal and wind, to a total of 5,469MW.

The three power station development sites involved in the agreement are at Marulan (two sites) and at Mount Piper adjacent to the existing power station. The Marulan sites have concept approvals for the development of gas-fired power stations of up to 450MW and 350MW capacity respectively. These add to TRUenergy's existing potential for additional generating capacity at Tallawarra, where the NSW Government has granted final permitting for the development of a second gas-fired power station with a capacity of approximately 450MW. There is also scope for new gas-fired generating capacity at our existing Yallourn site. This is subject to permitting and a sensible and balanced carbon emissions reduction policy which supports the transition over time from brown coal-fired generation at Yallourn towards gas-fired generation.

Asset Management

TRUenergy's strong financial results in 2010 reflect the effective management of its assets during the year.

At Yallourn, a major outage on Unit 3 was successfully completed. This was a greater achievement than might first appear – the 54-day outage involved the installation of a new turbine as well as major boiler works, requiring 196,000 man hours of work and investment of over A$75 million. The upgrade also led to a 3% improvement in unit efficiency – in effect generating more electricity for the same amount of fuel. Despite the major outage, Yallourn also reported record generation output during 2010. Gross generation of 11,644GWh was 3GWh more than 2009, while the net and sent out generation was significantly higher

Mr. Michael Tong

What is the latest update on the CPRS scheme in Australia? Will TRUenergy consider voluntarily shutting down its Yallourn plant? And what would be a reasonable compensation level?

Head of China / HK Research, CIB Research – Equity, Deutsche Bank

Following national elections in Australia in August 2010, the new minority Federal Labor Government established a Climate Change Committee comprising different parties supporting the minority Government to consider options for the introduction of a carbon price. In December 2010, that Committee considered a range of designs and carbon pricing mechanisms and released 11 principles which it considered should guide the shape of future policy and regulation. These principles include a recommendation that carbon pricing should be budget neutral, take account of impacts on the competitiveness of all Australian industries, maintain energy security and provide investment certainty. The Government has recently indicated a policy approach, but essential details remain outstanding.

In November last year a new Coalition State Government was elected in Victoria. This has maintained the previous Government's emission reduction target for the state as an "aspirational" goal, but has dropped the former Labor Government's plan for direct action on the staged closure of the Hazelwood Power Station, Victoria's oldest and most emissions intensive generator.

TRUenergy will continue to operate the Yallourn Power Station in line with energy demand and existing policy settings. We will also continue with permitting for a gas-fired power station alongside the existing power station. This will allow us to make appropriate investment and transitional arrangements based on policy signals.

Richard McIndoe

Group Director –
Managing Director Australia

(23GWh and 39GWh respectively). Major contracts were awarded for the new Maryvale coal conveyor infrastructure. This will enable the existing Yallourn mine operations to transition across to the new Maryvale field. Preparations for these new coal operations included the disassembly of an overburden stacker which was then moved 9 km under its own power.

Tallawarra's generation performance was above budget. The station also met its heat rate target, as well as the air emissions targets for NO_x and CO_2 intensity. However, Tallawarra's availability stood at 90.08%, against a targeted 93%, due to a number of forced and planned maintenance outages to carry out additional plant inspections and warranty work.

The expansion project at the Hallett Power Station, which provides electricity at peak demand periods, has been fully constructed and commissioning is nearing completion. The work has included the installation of an additional gas turbine with a capacity of 23MW. Once fully commissioned it will take Hallett's total peaking capacity to 203MW.

The Iona Gas plant expansion project was completed in June 2010. This increased the daily gas processing capacity of Iona from 320 terajoules to 500 terajoules. The operational performance of Iona during the commissioning of the expansion project has been excellent. During 2010, the plant availability was 92.9% with commercial availability at 98.8%, against a target of 98.0%. The Iona project, as with the Unit 3 upgrade at Yallourn, achieved excellent health, safety and environmental performance.

Asset / Station	Rating (MW)		Generation (GWh)		Utilisation* (%)		Availability* (%)		Operating Hours	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Yallourn Power Station	**1,480**	1,480	**11,644**	11,641	**89.8**	89.8	**89.5**	90.0	**8,002**	8,070
Hallett Power Station	**203** **	180	**28**	33	**1.8**	2.1	**96.0**	97.8	**2,463**	2,938
Tallawarra Power Station (since 23 January 2009)	**420**	420	**2,550**	1,853	**69.3**	53.6	**90.1**	88.4	**7,892**	6,146

	Capacity (Terajoule / Day)		Throughput (Petajoule)		Utilisation (%)		Availability (%)		Compressor Hours	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Iona Gas Storage Facility	**500**	320	**46.4**	44.3	**25.4*** **	38	**92.9**	93.5	**23,362**	24,680

* 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.

** A new 23MW unit was yet to be commissioned as at 31 December 2010. Percentages in the table relate to the plant operating with 180MW.

*** Plant capacity of 500 terajoules is used throughout the year.

Retail

Despite an increase in competitive activity in many of TRUenergy's key mass retail markets, the retail business performed well. Victoria continued to have amongst the highest levels of churn (customer turnover rates) in the world. This underlines the highly competitive nature of the fully deregulated market and the continued challenge to maintain customer numbers and profitability. While TRUenergy attracted 290,000 new gas and electricity accounts during the year, an increase of almost 11% (or 28,000) in accounts won compared to 2009, there was a net decrease of 32,000 in gas and electricity customer accounts during 2010. In response to these churn rates, TRUenergy increased its sales and marketing activities in the second half of 2010, including:

- The introduction of a telemarketing trial and the use of additional external sales providers, which led to a 27% increase in new sales in the final quarter of 2010.
- A campaign to attract new customers amongst people moving home. This was supported by a media campaign which involved radio, television and press coverage and has achieved good early results.
- A campaign to increase organic growth in the Queensland market. This achieved good results in the small business segment. However, the residential segment proved to be much tougher, with aggressive defence of their markets by the two incumbent retailers.

Overall, the annualised churn rate for TRUenergy's retail electricity business was 21.3%, compared to a market rate of 26.7%.

More than 13% of Victorian customer sites have now been fitted with new smart meters under the State Government and network industries' Advanced Metering Infrastructure (AMI) programme. On completion, the AMI programme is expected to provide energy users with better information on their energy use, make it easier for renewable energy such as solar power to feedback into the grid and receive feed-in tariffs, improve billing services and provide a platform for new products and services, including energy management programmes and remote service provision. TRUenergy is well advanced in its preparations to manage the massive additional data which the AMI programme will generate.

The implementation of TRUenergy's new retail customer service and billing platform (called "Project Odyssey") has been and still is a challenging exercise. It remains one of our priority issues. To ensure the required implementation quality from a customer and operational perspective, TRUenergy and its key suppliers, IBM and Oracle, have assigned significant additional resources to the project. This reflects the continuing strong commitment by senior executives from IBM and Oracle to deliver a sound, competitive solution for TRUenergy. A major review with IBM and Oracle in mid-2009 reset the delivery timing for the system by the end of 2011. This extended timeline allows for the quality implementation required, as well as meeting the changes needed to support the AMI programme deployment in Victoria. Project Odyssey has now completed its build phase and the system has been going through extensive end-to-end testing in the second half of 2010. Rigorous testing will continue until at least mid-2011 prior to planned system implementation in the latter part of the year.

Renewable Energy

Federal and State policies promoting renewable energy are aligned with the CLP Group's Climate Vision 2050, our own target of making massive reductions in the carbon emissions intensity of our generating portfolio.

CLP's wind energy portfolio in Australia is held through a 50:50 joint venture with Hydro Tasmania, known as Roaring 40s. The 111MW Waterloo wind farm in SA commenced operations in August 2010. This is Roaring 40s' fourth project in Australia to enter service. The wind farm was completed on time and within budget. As the following chart explains, Roaring 40s' three other wind farms achieved high levels of availability in 2010, although electricity generation has been lower than originally forecast as the wind resources at sites have fallen short of initial projections.

Wind Farm	Installed Capacity (MW)	Number x Wind Turbine Size	Generation at Farm Gate (GWh)		Availability (%)		Wind Speed (m/s)	
			2010	2009	**2010**	2009	**2010**	2009
Bluff Point	65	37 x 1.75MW	**221.0**	231.6	**96.8**	93.8	**8.9**	9.2
Studland Bay	75	25 x 3MW	**232.4**	244.9	**97.6**	95.0	**8.5**	8.7
Cathedral Rocks	66	33 x 2MW	**174.4**	184.9	**95.8**	93.0	**7.8**	8.3

In addition to its operating projects, Roaring 40s owns three development sites in SA. These sites are subject to various uncertainties, such as land ownership complications, grid constraints, community challenges and the grant of development approvals. Moreover, projects at these sites would require off-take prices which are above current market prices in order to provide economic returns – even though the underlying wind resources may be good. It was against this background that goodwill of A$32.6 million (HK$258 million) has been written off against CLP's investment in Roaring 40s.

The Paralana geothermal project completed test drilling to a depth of 3,725 metres in 2009. During the past year, the joint venture has carried out testing and simulation of temperatures and potential water flows in the zones below 3,400 metres. This testing will continue into 2011, including the injection of a larger volume of water at higher rates. Any decision about the future of this project will be driven by the results of this testing and an assessment of the overall commercial and technical viability of the project.

TRUenergy aims to increase its renewable energy portfolio with the development of solar energy. In September 2010, the Victorian State Government announced the commitment of A$100 million to support our proposal to build a solar plant of up to 180MW in Victoria using commercially-proven thin-film photovoltaic modules developed by First Solar in the U.S. This Victorian support is subject to the project, which is known as the Mallee Solar Park, receiving funding under the Australian Government's Solar Flagships Program. The project was shortlisted under that Federal programme in May and final submissions were made to the Federal Government in December. The announcement of final selected projects by the Government is expected in the first half of 2011.

Outlook

The outlook for TRUenergy in 2011 will be dominated by the challenge of successfully integrating TRUenergy's acquisitions in NSW into our existing business platform. TRUenergy is designing its strategic objectives for 2011 around three key themes.

Running our business well:

- profitably managing our customer base;
- effectively and efficiently managing our operations;
- successfully implementing projects to enhance our operations, assets and organisational capabilities (the delivery of Project Odyssey is a major example of this); and
- attracting, engaging, developing and retaining our people within a growing and evolving business.

Integrating the EnergyAustralia electricity and gas retail business and the Delta Western GenTrader into TRUenergy:

- achieving a smooth ownership transition (with a focus on the first 100 days after completion of the acquisitions);
- confirming and realising the value and opportunities of a larger combined TRUenergy business;
- integrating physical assets, customers, people, processes and systems into TRUenergy's existing business;
- vigorous and effective management of the competitive retail landscape in NSW and the effective implementation of the transitional services agreement whereby EnergyAustralia's retail systems are available to serve TRUenergy for up to three years after completion of the acquisition; and
- establishing and deploying a programme to align values and operating disciplines within the new NSW retail business with those required of TRUenergy's existing retail activities.

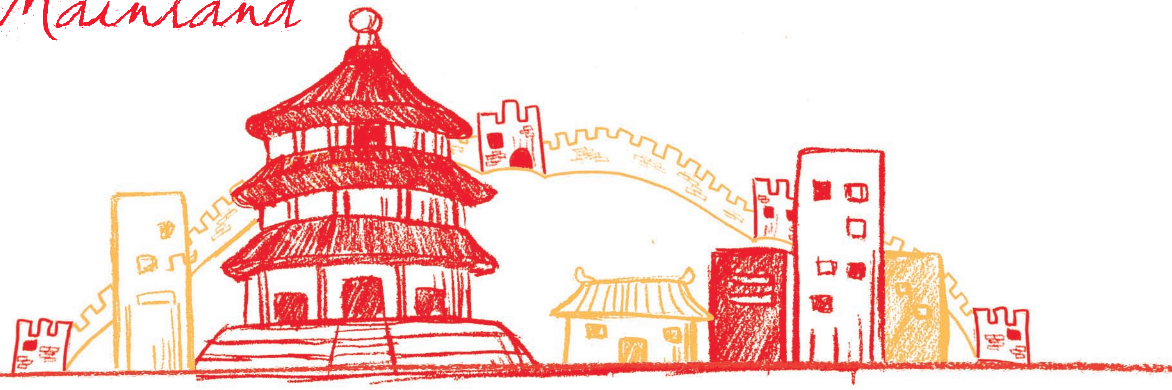
Preparing for the future through and beyond 2011. This includes:

- ongoing safe, effective and cost efficient operations and maintenance of all TRUenergy's power plants;
- maintaining current credit ratings, while refinancing existing debt facilities when due and obtaining loans for new projects. This will include investigation of options to source new capital to fund the long-term growth of our Australian business; and
- implementing our climate change strategy and addressing the impact of climate change policy on our operations.

Recent years have seen substantial and measurable improvement in the financial and operating performance of TRUenergy. The acquisition of the EnergyAustralia electricity and gas retail business and the Delta Western GenTrader provide a tremendous opportunity to build on that strengthened performance from TRUenergy's existing business and to ensure that TRUenergy becomes a long-term, substantial and valuable participant in Australia's energy sector.

Tallawarra Power Station

Chinese Mainland



Business Environment

The power industry in the Chinese mainland continued to grow in 2010, with total installed capacity reaching 962GW at the end of the year, an increase of 88GW over 2009. Electricity demand grew at 14.6% during the year (6% in 2009). The average utilisation rate of power plant in the Mainland also increased in 2010, reflecting the overall economic recovery.

Compared to 2009, the average market price of coal remained at a high level from the start of 2010. This was mainly due to low hydro-electric generation and a reduced coal supply caused by strengthened regulatory control over small coal mines. However, with the end of the rainy season and the increase in coal-fired power generation from the start of winter, the coal price started to rise again and reached its peak for the year in December. Although there have been improvements in the supply of coal within the Mainland and measures have been taken by the Mainland authorities to maintain coal prices at 2010 levels for 2011, we expect the market price of coal to become more unstable and uncertain from 2011 onwards. Coal prices heavily affect the profitability of CLP's investments in coal-fired generation in the Mainland for two reasons. The first is the high proportion which coal costs represent of overall operating costs. The second is that, in the interest of holding down electricity prices to end-users, the Chinese authorities tend to restrict the extent to which increases in coal prices can be included in higher electricity tariffs. In September, the National Development and Reform Commission (NDRC) proposed an average 6.2% tariff increase for coal-fired plant in seven provinces. This proposal is still being reviewed by the State Council. Final approval is awaited. If implemented, this proposal would have a positive impact on CLP's investments in power stations in Shandong, Hebei and Shaanxi Provinces (which represent a combined 1,222 equity MW out of our overall coal-fired generation portfolio in the Mainland of 3,223 equity MW).

The most recent 11th Five-Year Plan (covering the period to 2010) included a commitment by the PRC Government to reduce the amount of energy produced for each unit of GDP. This target established energy efficiency as a top priority and directed the economy towards a more sustainable energy path. Compared to earlier years when the central thrust of China's energy policy was on meeting the rapidly rising demand for power as quickly and cheaply as possible in order to support economic development, we are now seeing the active promotion of energy efficiency, renewable energy and the accelerated development and deployment of new energy technology. As part of this there is a move away from smaller, less efficient diesel and coal-fired generation, including the smaller subcritical coal-fired units which had been at the forefront of the expansion of generating capacity from the 1980s onwards.

Performance

In April 2010 CLP sold to China Guodian Corporation our entire interest in CLP Power China (Anshun) Limited, which effectively owned a 70% interest in the 600MW Anshun II Power Station in Guizhou Province. Anshun II was CLP's first power project in the Chinese mainland with a majority shareholding. However, the station had a complicated, suboptimal ownership and operating structure which we were unable to remedy. This involved shared common facilities and despatch arrangements with the adjoining Anshun I Power Station (which was majority-owned by China Guodian Corporation). The divestment streamlines the operational efficiency of the two power stations and rationalises CLP's asset ownership in coal-fired projects portfolio in the Mainland. It also aligned with the Group's strategy, expressed in our Climate Vision 2050, of reducing the carbon emissions intensity of our generating portfolio.

Coal-fired generation

CLP's investment in coal-fired generation in the Mainland comprises our interests in Shandong Zhonghua Power Company, Limited (SZPC) and CSEC Guohua International Power Company Limited (CSEC Guohua), where we hold minority shareholdings and do not exercise operating control, and our 1,260MW power station at Fangchenggang where, in addition to our majority shareholding, the operating and maintenance of the plant is carried out by CLP.

SZPC's generation portfolio performed well during the year, with output marginally above that achieved in 2009. Coal costs continued to be the major factor in the profitability of coal-fired power projects in China. The issue will become more pressing for inland provinces where the use of imported coal from overseas countries is not feasible. In Shandong, coal prices increased by about 20% in 2010. This caused the majority of coal-fired power stations in Shandong, including those owned by the five largest state-owned generating companies, to make losses over the year. CLP has worked closely with our joint venture partners to streamline coal supply and reduce coal costs so as to maintain the profit margins of our coal-fired assets in Shandong. In addition, if the coal price-linked tariff adjustment proposed by the NDRC in September 2010 is implemented, this will offset partially the increase in coal costs.

Cooperation with the Shenhua Group, through CSEC Guohua, progressed satisfactorily. Construction of the two 1,000MW units of Suizhong II in Liaoning Province was completed, with both units being successfully commissioned by May 2010. In addition, the retrofitting of the Zhungeer Power Station in Inner Mongolia was completed in October 2010, enhancing its capability to supply heat in addition to electricity. Coal supply from Shenhua Group remained stable throughout the year with prices lower than the domestic spot market.

Fangchenggang remained one of the major profit contributors to CLP's Mainland business, mainly due to the strong economic rebound and the extended dry season in Guangxi in the first half of 2010 which depressed the supply of hydro electric power. Unlike competing plants in the region, Fangchenggang's coastal site facilitated the use of imported coal, an advantage which was enhanced in 2010 by the signing of a long-term coal supply agreement. The excellent operating performance in Fangchenggang, coupled with its ability to source competitively priced international coal, has encouraged CLP to move forward with the development of Fangchenggang II, an additional 1,320MW of generating capacity. The Guangxi Government has submitted the project proposal for Fangchenggang II to the NDRC and further approvals are awaited.

Mr. Edwin Pang

How do you intend to rationalise your legacy coal-fired power plants in China? What sort of generation mix do you see from China in the next five years?

Vice President, Equity Research, Credit Suisse (Hong Kong) Limited

As you may see from the Chairman's Statement and CEO's Review, further consolidation and rationalisation of our coal-fired projects and continuous expansion in our renewable energy portfolio is the main strategy for our China business. We will largely exit conventional coal-fired generation projects by 2020, in particular, those subcritical plants with lower efficiency and which are less environmentally friendly. On the other hand, given abundant coal resources, coal-fired generation will remain the main source of generation in the Mainland to meet increasing electricity demand for the foreseeable future.

Although we will focus on nuclear and renewable projects, in particular wind, whenever good opportunities arise in our existing projects we will also consider investing in coal-fired plants that adopt the latest clean coal technologies like supercritical or ultra-supercritical technologies. These technologies offer higher efficiency and much improved environmental performance. CLP is one of the largest investor-owned power businesses in Asia. Our move towards cleaner energy sources in the coming 5 to 10 years in China will help the Group to reduce the carbon intensity of our generation portfolio and to contribute to the sustainable development in the region.

Tse Pak Wing Peter

Group Executive Director and Chairman – China Business

The following tables summarises the good operating performance, measured by utilisation and availability, of all the nuclear, coal-fired and hydro generating plants within CLP's portfolio in the Mainland.

Station	Rating (MW)	Generation (GWh) 2010	Generation (GWh) 2009	Utilisation (%) 2010	Utilisation (%) 2009	Availability (%) 2010	Availability (%) 2009	Operating Hours 2010	Operating Hours 2009
Daya Bay	1,968	**15,015**	15,662	**91**	95	**91**	96	**8,036**	8,428
Guangzhou Pumped Storage (Phase I)	1,200	**1,399**	1,331	**13***	13*	**94**	92	**3,061***	2,931*
Shiheng I and II	1,260	**6,632**	6,641	**63**	63	**91**	88	**5,526**	5,534
Heze II	600	**3,357**	3,326	**64**	63	**93**	90	**5,595**	5,544
Liaocheng I	1,200	**6,665**	6,667	**63**	63	**91**	91	**5,554**	5,556
Yire	400	**2,417**	2,326	**69**	67	**96**	96	**6,043**	5,816
Sanhe I and II	1,300	**7,489**	6,920	**66**	61	**93**	93	**5,761**	5,323
Panshan	1,030	**6,214**	6,054	**69**	69	**94**	84	**6,033**	6,054
Suizhong I and II#	3,600	**15,092**	9,408	**55**	67	**79**	83	**4,858**	5,880
Zhungeer II and III	1,320	**7,175**	5,919	**62**	51	**91**	93	**5,436**	4,484
Shenmu	220	**1,371**	1,425	**71**	76	**95**	92	**6,233**	6,627
Huaiji	125	**443**	284	**40**	26	**92**	87	**3,541**	2,267
Fangchenggang	1,260	**7,055**	5,227	**64**	47	**91**	91	**5,599**	4,149
Dali Yang_er	50	**176**	71	**40**	46	**75**	98	**3,542**	1,421

* Generating and pumping modes

\# Units 3 and 4 of Suizhong II Power Station (2 x 1,000MW) entered commercial operation in February and May 2010 respectively

Our wind farm at Qian'an in winter

Nuclear Energy

CLP, through its wholly-owned subsidiary Hong Kong Nuclear Investment Co. Ltd. (HKNIC) holds a 25% shareholding in the 1,968MW nuclear power station at Daya Bay. 70% of the output of Daya Bay is supplied to meet the needs of our Hong Kong electricity business under a nuclear electricity contract which runs until 2034. Daya Bay and three other neighbouring nuclear generating facilities are operated by the Daya Bay Nuclear Power Operations and Management Co., Ltd. (DNMC) in which CLP owns a 12.5% shareholding.

Daya Bay continued to perform well with utilisation exceeding 90% in 2010. On 23 May 2010 there was a small increase in the radioactivity of the reactor cooling water at Unit 2 of Daya Bay, well within the prescribed technical limits for the plant. The extent of the increase implied the imperfect sealing of one fuel rod (out of over 40,000) in the reactor core. This was a minor operational incident with no safety, health and environmental consequences which did not require reporting under the zero-to-seven level scale promulgated by the International Atomic Energy Agency of the United Nations for evaluating and reporting on nuclear incidents. Unfortunately, the matter was inaccurately reported by a number of media sources and, as discussed in the Chairman's Statement in this Report, caused concern in Hong Kong. A Level 1 Event on the scale, which also has no safety, health and environmental consequences, was identified on 23 October 2010 during a planned plant outage inspection of Unit 1. This revealed a flaw in a section of pipework in the auxiliary cooling system which is used to take away residual heat from the reactor during its shutdown – in other words, pipework which is only used when the reactor is not working. Such Level 1 Events are by no means unusual – and the identification of such incidents is in line with the strict international disciplines applied to the treatment of incidents at nuclear power stations. There have, for example, been 12 Level 1 Events at Daya Bay since 2001. As with the occurrence of 23 May, some of the media portrayed this in inaccurate terms. On both occasions, CLP, its partner CGNPC at Daya Bay, the operator of the power station and the Ministry of Environmental Protection of China all confirmed that these cases had no impact on public safety, public health or the environment.

The manner in which these matters were reported created public concern about nuclear safety and the operation of Daya Bay. To address this concern, even though it was not well-founded and the existing working mechanism was well-designed and in line with international practice, CLP, through HKNIC, worked closely with the HKSAR Government and CGNPC to develop an enhanced notification mechanism. This cooperation led to an announcement in January 2011 whereby information on "non-emergency licensing operational events" will be published on HKNIC's website (https://www.hknuclear.com) within two working

Mr. Michael Tong

In September 2010, the HKSAR Government issued the Hong Kong's Climate Change Strategy and Action Agenda Consultation Document, in which it proposes a major change in generation mix towards nuclear and gas. If the Government proceeds with these proposals, will CLP be able to source more gas supply to increase gas-fired generation and to participate in more nuclear power projects in Chinese mainland?

Head of China / HK Research, CIB Research – Equity, Deutsche Bank

Since the inter-Government MOU was signed in 2008, we have been working hard with relevant PRC authorities and enterprises to bring new sources of piped and LNG for power generation in Hong Kong. These sources will bring gas from a combination of new gas fields to be developed in the South China Sea, from Central Asia through Phase II of the West-to-East gas pipeline, and from a new LNG terminal to be jointly developed in Shenzhen. These are major and complex infrastructure projects that require cooperative efforts from the commercial sector and Government bodies in Hong Kong and the Mainland. While the gas supply will be tight over the next few years as this infrastructure is being put in place, we believe that by the second half of this decade Hong Kong will be well placed to import more gas from the Mainland to meet a target generation mix of 40% gas.

Considering the successful track record of the Daya Bay Nuclear Power Station in supplying Hong Kong with reliable, clean and affordable electricity, the HKSAR Government's proposal to increase nuclear import to 50% of total energy supply is a feasible approach to reducing carbon emissions. However, a long lead time of 8 to 10 years will be needed to develop the necessary infrastructure. In view of the tight timetable, we have commenced preliminary talks with our Mainland partner to explore opportunities to participate in more nuclear power projects in Guangdong based on the successful joint venture experience we have had in Daya Bay.

Betty Yuen

Vice Chairman –
CLP Power Hong Kong

days after DNMC has identified such an event at the power station. These events carry no nuclear safety consequences and have no impact on the external environment or public safety. The reporting of such events goes beyond international practice in this regard. For those events classified as Level 2 or above and requiring emergency response, actions will be taken by the Guangdong and HKSAR Governments and their related departments according to the established response mechanism based on a cooperative agreement on emergency response for Daya Bay.

In July, CLP entered into an agreement of cooperation intent with CGNPC to take up to a 17% shareholding in a 6,000MW nuclear power project in Yangjiang. Located on the Guangdong coast, approximately 220 km west of Hong Kong, this station will supply electricity to meet local demand in Guangdong. Construction commenced in 2008 and the project is expected to be commissioned in phases between 2013 and 2017. The project is progressing on schedule. Project evaluation and due diligence work for the prospective investment is underway and expected to be completed in the first half of 2011.

Renewable Energy

CLP's renewable energy portfolio in the Chinese mainland comprises 1,584 equity MW of hydro, wind and biomass generation.

Our largest investment in hydro electricity in the Chinese mainland is our 330MW project at Jiangbian in Sichuan Province. During 2010 we completed evacuation of the main tunnel from the upstream down to the power house. The tunnel alone is a major undertaking. It is 8 km long and took 33 months to complete, significantly longer than planned, due to the rock quality being much more difficult than expected. We have, however, been able to reprogramme other construction work to avoid delay to the completion date for the project. The upstream dam is completed and we are now in the final stage of installing equipment in the power house. Safety has been a challenge throughout this project, with difficult working conditions and a prevailing local safety culture which falls below CLP's requirements. Due to the extreme drought in Yunnan in the first half of 2010, the generation at our Dali Yang_er hydro project was lower than expected this year. Annual overhaul and retrofit works were performed in late 2010. We expect the performance of this hydropower station will be improved in 2011.

Our wind energy business is pursued through three channels: minority interests in individual wind farm projects, a 32% shareholding in CGN Wind Power Co. Ltd. (CGN Wind) and wholly-owned wind farms. Progress was made through all three channels in 2010.

Our minority-owned projects grew mainly through expansion from existing wind farms in Shandong, namely, Zhanhua II, Lijin II, Rongcheng II and Rongcheng III (each 50MW). The Mazongshan 50MW project in Liaoning, in which CLP holds a 24.5% stake, was commissioned in January 2010 and the 15MW Nanao III project in Guangdong was commissioned later in the year, with

Underground power house construction at our Jiangbian hydro project

CLP holding a 25% stake. Our participation in CGN Wind continued. The total installed capacity of the joint venture exceeded 1,342MW at the end of 2010. CLP will maintain its existing equity investment of HK$1.19 billion. Our shareholding will be diluted down from the existing 32% level as and when CGN Group injects more equity into the joint venture during 2011 in order to finish the construction of the existing pipeline of projects. Thereafter, the joint venture will focus on managing the existing operating portfolio and the total installed capacity of the joint venture will likely be maintained at the existing level.

The successful development and commissioning of CLP's first wholly-owned wind project in the Chinese mainland, the 50MW Qian'an I project, has demonstrated our capability to develop our own wind projects. Our second wholly-owned project, the 48MW Penglai I project in Shandong Province is now under construction. Phase II at Qian'an is under development. Major construction and erection works are to commence in early 2011 with expected completion in August this year. We will continue to secure majority-owned wind projects in targeted provinces. We expect that this will become our primary channel for future investment in wind energy in the Mainland.

In March 2010, we completed modifications to the Shandong Boxing Biomass plant, including the installation of an additional 15MW condensing turbine. This allows us to generate electricity independently of steam sales and thereby improve the operating flexibility and efficiency of the plant. On top of that, we have refined our fuel procurement strategy so that an improved supply of different biomass fuels can be maintained at reasonable prices. Nonetheless, the procurement of fuel in adequate quantities, of the required quality and at reasonable prices remains a daily challenge.

In 2010, we continued growing our energy services business in Southern China including more energy audits and implementation projects for industrial and commercial customers there. We have entered a joint venture agreement with CGNPC in November 2010 with the aim of jointly developing an energy services business in Southern China. The venture, which has been in operation since January 2011, will provide a one-stop shop for energy services (consultancy, system implementation, performance contracting and investment) targeting both commercial and industrial customers.

Mr. Zhang Xianchong

While developing the electricity generation market in China, does CLP have any strategy or suggestion in place to tackle the major problem of peak regulation caused by the excessive expansion of wind power installed capacity in some of the provinces?

General Manager, Jilin Electric Power Company Limited

In the pursuit of development of wind power projects in the Chinese mainland, CLP undertakes a rigorous process in selecting prospective investments. Whilst many of our competitors expand their project portfolio aggressively throughout the country, CLP only focuses on high quality projects that we believe could deliver a reasonable return on our investment. We currently have over 20 PRC wind projects, some of which are in provinces that encounter generation restriction caused by peak regulation. For our development of wind projects in these provinces, which are often provinces with good wind resources, we will work closely with the local power companies and industrial experts to improve on our forecast of electricity generation and operating characteristics of our wind farms and to ensure that these can meet the peak regulation and power despatch requirements of the local power companies. Through this close collaboration with the power companies, we can reduce the generation restriction to a minimum.

Furthermore, we believe that generation restriction is a short to medium-term issue and that it will be resolved in the future through a combination of increase in demand and better coordinated transmission and generation development to cater for the Central People's Government's enhanced target for wind generation capacity in the next 10 years. In the meantime, CLP will keep growing our wind portfolio while limiting the number of projects with grid restriction to a small portion amongst the whole portfolio.

Ko Yu Ming

Managing Director – China

Outlook

The PRC Government will continue to support the development of clean electricity generation during future planning cycles, whether this is in the form of renewable energy, nuclear power or more efficient coal-fired plant. CLP has already adjusted its China strategy to position itself in line with this move towards cleaner electricity generation, as part of the Group-wide policy of reducing the carbon intensity of our generation portfolio. Over the coming three to five years CLP aims to re-balance its portfolio from one centred on coal-fired generation to one which prioritises low carbon emissions. To do this, CLP intends to consolidate and rationalise its asset ownership and structures for coal-fired projects, and to pursue clean and renewable energy sources in the Mainland, including wind energy, hydro power and nuclear. The divestment of Anshun II and the growth of our wind portfolio in 2010 are examples of our actions in this regard and illustrate the strategic direction we are taking.

In reviewing the growth opportunities of our wind energy business we are alert to the implications of the projected increase in wind energy in the Mainland. There are two aspects of this massive build-up in wind resources to which we must pay particular regard. First, the uneven spread of wind resources means that in certain areas with substantial wind energy capacity, such as Inner Mongolia, the grid does not have the capability to manage and transmit wind generated power to the load centres. Secondly, the sites with better wind resources will have been taken first, meaning that those sites still available for development may have wind quality which is inferior and less economically viable.

In line with the Hong Kong Government's proposed policy of enlarging the proportion of Hong Kong's electricity generated from nuclear sources, we have commenced a dialogue with our existing Mainland partners and the relevant authorities on how CLP may participate in the delivery of additional nuclear energy to Hong Kong. In doing so we intend to build on the experience, relationships and reputation we have established through our existing participation in the Daya Bay Nuclear Power Station.

Against this background, our plans for the year ahead and beyond include:

- pursuing efficiency improvements at those power stations in which we hold an interest through joint ventures;
- reducing coal costs by pursuing long-term coal supply contracts and sourcing alternative coal supplies;
- maintaining high despatch at Fangchenggang and continuing to control cost (which itself promotes higher despatch levels), as well as taking forward the proposed development of Fangchenggang II;
- implementing the enhanced notification mechanism for non-emergency events at Daya Bay and contributing to increased public understanding on nuclear energy;
- completing due diligence evaluation of the Yangjiang Nuclear Power Station in Guangdong and finalising the investment arrangement with our partner CGNPC;
- developing our plans for further investment in nuclear power stations in Guangdong to support the increasing supply of nuclear energy into Hong Kong;
- completing the construction of the Jiangbian hydro project with high safety standards;
- further improving the operating and financial performance of Boxing Biomass;
- identifying and continuing the development of hydro projects, so that the expertise that we have gained at Huaiji, Yang_er and Jiangbian can be more widely applied;
- continuing the three-channel strategy for wind projects, under which CLP will
  - i) build out existing minority-owned projects which have expansion potential;
  - ii) maintain our investment in CGN Wind, with the likelihood of dilution from a 32% to an approximately 15.7% shareholding during the course of 2011; and
  - iii) complete construction of the 48MW Penglai I wind project, commence construction of 50MW Phase II of Qian'an wind project, and pursue other wholly-owned wind projects which are currently under identification and evaluation; and
- growing our energy services business in Southern China through the joint venture with CGNPC.

India

Business Environment

India has an installed generation capacity of approximately 160GW compared to China's installed capacity of 962GW. Electricity consumption per capita in India is about a quarter of that of the Chinese mainland. In addition, the gap between supply and demand at peak levels remains above 10% nationwide.

In order to meet the demand for power and to sustain the economic growth and social improvement which India has achieved in recent years, the Union Government aims to add an additional 230GW of generating capacity over the next 12 years, with per capita consumption intended to double. Almost 165GW of this additional capacity is planned to be added from fossil fuel sources. A further 65GW is projected to come from nuclear energy and hydro electric sources, which may prove ambitious.

Although domestic coal is available in large quantities, there are severe constraints on bringing this to the power stations, in the form of mining difficulties, environmental and land use regulations and transportation problems. It seems that domestic coal can only support a maximum of 80 to 100GW of additional generating capacity. This means that imported coal is likely to play a vital role in the foreseeable future and will prove an attractive option for power stations located at the coast. However, the economics of generation on imported coal, whilst competitive at current coal prices, may be threatened if international coal prices continue to rise.

Greenfield coal-fired power station projects with long-term PPAs and which benefit from the formal allocation of domestic coal resources can offer opportunities for stable returns over time. However, coal-fired generation in many cases is being developed through "merchant plants" which do not benefit from domestic coal allocation and where the developers sometimes take fuel price risk. In recent years, these merchant plants have generated attractive returns. However, their vulnerability to increases in coal prices mean that developers are seeking to manage this risk through locking in coal resources outside India, such as in Indonesia, Australia and, recently, in African countries.

The Union Government is continuing with its ultra mega power project (UMPP) programme whereby large-scale projects, of up to 4,000MW over several phases, are awarded on a tender basis. Two of the four such UMPPs which have already been bid for have received domestic fuel allocations in the form of captive mines for the project life, together with long-term PPAs with power off-take and payment security; the other two UMPPs that have been bid for are imported coal-based. Two more domestic coal-based UMPPs are currently being developed. The pre-bidding qualification process for these is likely to happen during the first half of 2011, while the bidding itself is likely to happen six to nine months later.

Hydro electricity remains the largest source of renewable energy in India. However, wind energy has been growing rapidly. In 2001, India's total installed wind energy capacity was only 1,347MW. It now stands at approximately 13,000MW with further growth being promoted by continuing Union and State Government support. Wind resources are not evenly spread throughout the country, meaning that wind farms are mostly concentrated in Tamil Nadu, Maharashtra, Gujarat, Karnataka and Rajasthan.

In January 2010, the Union Government launched the Jawaharlal Nehru National Solar Mission which aims to install 20GW of solar power by 2022. The Solar Mission targets both large and small-scale generation, including for rural electrification (about 400 million people in India still lack access to electricity). A three-phase roadmap has been laid out with interim targets for the development of solar power.

Renewable energy, whether in the form of wind or solar, is supported by renewable energy quotas and preferential tariffs which are now implemented in 18 of 29 Indian States.

Performance

Our activities in India remain focused on three areas, the successful management of our existing power station at GPEC, progress on our greenfield coal-fired power station project at Jhajjar and growth of our renewable energy investments. We are also continuing to pursue opportunities in transmission projects in order to participate in the large-scale expansion of India's electricity grid infrastructure which will be necessary to support the growth in generating capacity and to bring electricity to end-users.

GPEC

GPEC has performed well and still represents the primary source of earnings for CLP India's activities. All key performance targets were met, although availability was slightly down compared to 2009, due to a scheduled major overhaul on one unit. This was the first of the three units to undergo a major overhaul after 100,000 hours of operation. The overhaul involved an upgrade of the gas turbine technology to enhance its operational performance to near-new levels. The other two units will be similarly overhauled in 2011 and 2012. Although the plant is in excellent condition, it is important that the maintenance costs of ageing plant are carefully controlled. To this end, we intend to enter into a long-term maintenance and support contract with the equipment suppliers, Siemens.

Station	Rating (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
		2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
GPEC	655	**4,079**	4,602	**71.1**	80.2	**90.1**	92.9	**7,968**	8,269

Jhajjar

The Jhajjar project has been underway since January 2008 and is now around 70% complete. Almost the entirety of the project costs are now committed through various contracts. The engineering and equipment procurement has progressed well with our PRC suppliers. CLP has maintained close contact with the factories in China to ensure that components arrive on site when they are needed. The major challenge has been to obtain adequate labour resources. There was particular difficulty in this regard during mid-2010 when available labour resources were drawn towards Delhi to work on the completion of the facilities for the Commonwealth Games and related transport and civil infrastructure. The combination of a largely unskilled and inexperienced labour force and a generally poor local safety culture has demanded great efforts from CLP to ensure that proper safety

Mr. Edwin Pang

Given the fuel security issues, difficulties with land acquisitions, and competitive landscape in India, what is CLP's investment strategy beyond its investments in GPEC, Jhajjar and wind? Would CLP consider local funding options in India?

Vice President, Equity Research, Credit Suisse (Hong Kong) Limited

The observations on issues relating to fuel security, land acquisition and the competitive landscape in India are pertinent – these concerns largely get addressed in Case 2 bids for coal-fired power station projects, such as CLP's Jhajjar project. In Case 2 bids the distribution utility does most of the preparatory work on pre-project issues such as land acquisition, obtaining environmental clearance and arranging fuel. In Case 1 bids the power procurer enters into a long-term PPA with the supplier without involving itself in setting up the power project. The developer is free to supply power from any generating station with no restriction on the location, type or fuel source of the plant. CLP proposes to pursue more Case 2 opportunities including the UMPPs. We are also looking to invest in projects which are under development and have substantially progressed work on land acquisition and fuel arrangements.

The local market has enough depth to fund power projects. The tenor of the loans ranges from 1 year to 15 years. Banks and financial institutions are quite keen to lend to companies like CLP which have strong balance sheets. The Jhajjar financing shows our ability to raise local debt in local markets in adverse times.

Rajiv Mishra

Managing Director – India

standards are put in place and respected. We do not adjust our safety standards downwards to reflect the inherent difficulties of particular projects at particular sites – safety is not something on which we are prepared to compromise. Whilst we believe that the safety performance during the construction works at Jhajjar has been measurably higher than on other similar projects in India, there remains room for improvement. We make strenuous efforts on this everyday.

Although Jhajjar benefits from allocated coal supplies from Coal India, sourced from nominated resources in Jharkhand, it is not yet certain that Coal India will be in a position to deliver the full amounts of contracted coal by the time that Jhajjar commissions. We have been working hard with Coal India to secure supplies of the requisite amounts of coal, as well as looking at alternate supplies of coal, including imported coal, to ensure that the plant capacity can be fully utilised from commissioning.

Renewable Energy

We started work on our first wind energy project in India, 50.4MW at Samana I in Gujarat, in 2006. Since then, our portfolio of wind projects in development, under construction or in operation has grown to 486MW. This has made CLP the largest wind farm developer in India, whether domestic or foreign. The past year has seen further growth in our wind energy portfolio with partial completion of Samana II and Saundatti and full completion of Theni, totalling 209MW capacity. Our projects at Andhra Lake, Harapanahalli and the balance of Samana II and Saundatti amounting to a further 172MW of capacity are all scheduled for commissioning in 2011. Although we have been largely successful in developing our projects within budget, the delays in commissioning have ranged between 4 and 12 months. Problems in land acquisition at the wind farm sites have been the largest contributor to these project delays. Alongside increasing efforts to shorten the land acquisition timetable, we have taken into account our past experience and now allow for a longer period for land acquisition to be built into our pre-investment financial analysis. We also ensure that our commitments to pay the wind turbine suppliers are delayed as far as possible, so that they are made in line with actual progress on land acquisition.

We are exploring the opportunity to participate in the deployment of solar energy in India. Our view is that over the next two to three years, the solar energy industry in India will have stabilised for us to contemplate project structures other than those which involve long-term off-take by state-owned utilities at high fixed tariff. This is especially important given the current high cost of electricity generated by solar, as compared to other conventional and non-conventional forms of generation. Gujarat and Rajasthan have the best solar resource in India, as well as supportive state-level policies. We will be able to draw on the experience and expertise gained by the CLP Group on the 55MW Lopburi solar project in Thailand in any further solar projects.

Mr. Karunakar Jha

The Indian power sector is growing at a fast pace, however the capacity addition is primarily taking place through coal-fired projects. The mining industry is still under Government control and related mining utilities are not growing at the same pace. What are CLP's future plans for fuel security in India?

Deputy Manager, Planning & Control, Jhajjar Power Limited

Coal-fired projects based on domestic coal continue to be built. A large part (approximately 70% – 80%) of the coal required for these continues to be supplied by Coal India Ltd. through its subsidiaries. The Government of India has ambitious plans for capacity addition on coal. This will mean a combination of Case 2 projects based on domestic coal including the UMPPs and Case 1 projects based on coal supplies arranged by the project developer itself, such as linkages to domestic coal production, captive mines near the power station or imported coal, are likely to come to the market.

The Union Government recognises the importance of opening up the coal sector – recent legislation has opened doors for competitive bidding of coal blocks for projects with specific end-use. The guidelines for bidding for these are likely to be finalised during the course of the year – this is likely to mitigate the shortfall in production by the state-owned coal companies. CLP India is positioning to bid for the forthcoming UMPPs as well as other Case 2 opportunities. CLP India will also evaluate opportunities to bid for domestic coal blocks as well as those elsewhere in the region.

Naveen Munjal

Director – Business Development (Conventional)

CLP Power India Private Limited

Transmission

In 2009, CLP India bid for two transmission line projects in joint venture with Gammon, a leading Indian civil engineering contractor. We were unsuccessful in those bids, being placed the sixth lowest out of ten bidders. We believe that our bids were sensibly priced. We had no regrets about not securing those projects at the price for which they were awarded. In the course of those bids, we developed a better understanding of the characteristics, economics, risks and rewards represented by transmission projects, as well as establishing a constructive working relationship with Gammon.

In December 2010 and January 2011, we bid for two transmission projects. This was again done through a joint venture involving a 76% majority shareholding by CLP, with Gammon undertaking the engineering, procurement and construction works. We maintained discipline in our bids – aiming to win, but only on a basis which will create value. We were unsuccessful in both these bids. Given that our bids have been unsuccessful and that our prices were substantially higher than the winning bids, we will critically review our valuations and assumptions for such projects. If, having done so, we cannot see a route to be competitive in such bids without accepting an unsatisfactory risk / reward profile, we may then slow down the pursuit of transmission projects until a more rational and sustainable competitive landscape emerges.

Outlook

For our existing activities, our main priorities will be to:

- complete the Jhajjar Project on time and within budget for full commissioning in the first half of 2012;
- secure long-term (5 to 10 years) gas supply contracts for GPEC; and
- complete our wind projects currently under development in the states of Gujarat, Maharashtra and Karnataka and manage effectively our operating projects.

The growth of electricity demand in India and the accompanying need for large-scale investment in generation and transmission infrastructure, combined with CLP's experience in all aspects of the power industry and our growing reputation in India, means that a wide range of investment opportunities are available to expand our business, notably:

- possible participation in the greenfield development or bidding for another large coal-fired power project, including an UMPP;
- expansion of generating capacity at GPEC, once additional gas supplies can be secured;
- continued investment in wind projects, so as to retain CLP's position as the largest wind energy company in India;
- bids for transmission and hydro-power projects to diversify our asset portfolio; and
- exploring early opportunities for participation in the development of solar energy in India.

GPEC Power Station

Southeast Asia and Taiwan

Business Environment

Southeast Asia and Taiwan are the markets where CLP first started its regional business outside Hong Kong and the Chinese mainland in the 1990s. Since then, our business has grown through a combination of greenfield power generation projects, as well as mergers and acquisitions.

On 23 February 2011 we sold our interest in EGCO. Currently, most of our investments and development projects in Southeast Asia and Taiwan are held in conjunction with Mitsubishi. Restructuring of our joint venture with Mitsubishi since 2009 has enabled our partnership to continue on a basis which allows each of us to contribute complementary expertise, resources and relationships, but without the costs and constraints of complicated and burdensome joint venture overheads and corporate infrastructure.

Earlier in this Annual Report we identified the building and operating of power assets as one of the key value drivers of the CLP Group. Our experience in Southeast Asia and Taiwan bears this out. Compared to mergers and acquisitions, we have been most able to enhance the value of our investments when we have applied our engineering and operating expertise to the development of greenfield projects where CLP has been a founding member with significant control. A past example of this has been the coal-fired power station project at Ho-Ping in Taiwan. Our interest in Ho-Ping is now held in partnership with Mitsubishi Corporation.

The Ho-Ping project, which was a greenfield project we developed with our Taiwan partner, has been in service for some years. It provides a steady flow of cash from its continuing operations and a basis for any new opportunities that may emerge in Taiwan. The two Vietnam projects that we are currently progressing would be similar in concept if we are able to bring them to financial close and into construction. Vietnam is an emerging market and we feel that now may be the right time to move forward there, given the clear need for new generating capacity to support its economic growth.

Presently, we are applying our development expertise to the 55MW Lopburi solar project in Thailand, where CLP holds a 33.33% equity stake and is responsible for project management.

Lopburi in Thailand – from tapioca field……

Performance

All of the operating plants in which CLP held an interest in 2010 had long-term PPAs with creditworthy off-takers. Each of these plants achieved good operational performance in 2010, allowing them to respect the terms of those agreements and, earn the prescribed revenues.

Ho-Ping performed well in 2010 with a record total generation of 10,008GWh. The possibility of a future expansion of generating capacity at the site remains. However this would depend on the future electricity supply / demand balance in Taiwan, as well as the formulation and application of official policies. In the meantime, we are looking at the possible development of solar and wind energy in Taiwan using the relationships, resources and local expertise that we have built up since we first started work on the Ho-Ping project in the mid 1990s.

The 55MW Lopburi solar project in Central Thailand, developed and managed by CLP, achieved financial close and commenced construction. This project is owned by Natural Energy Development Co., Ltd. ("NED") which in turn is equally owned by CLP, Mitsubishi and EGCO. It is currently the largest solar project of its kind in the world. Commissioning is scheduled to occur in phases between late 2011 and early 2012. A PPA is in place and financing arrangements are in hand for an 8MW expansion, for which construction is expected to start in 2011.

CLP and Mitsubishi have continued development efforts on the two coal-fired greenfield projects in Vietnam. The 1,320MW Vung Ang 2 project, in which CLP and Mitsubishi jointly own a 48.45% stake, is under negotiation with the Vietnamese government on the PPAs and other key project agreements. Tenders for equipment supply and construction are being evaluated and discussions are ongoing with potential financing providers. On the 1,980MW Vinh Tan 3 coal-fired project, 49% owned by CLP and Mitsubishi, we are finalising the documents for the invitation of tenders for equipment supply and construction, and are also in discussion with financial institutions on financing for the project. We aim at finalising negotiations with various Vietnamese Government entities on both projects in 2011 and to achieve financial close for one project in 2011 and the other one in 2012. These are ambitious goals in that they will depend on the time, potentially considerable, which the Vietnamese Government may require to consider and take decisions on key areas such as Government guarantees and fuel cost pass through mechanisms.

..........to solar farm

Outlook

Going forward, our priority will be on managing our existing asset and construction project in Southeast Asia and Taiwan, namely CLP's interests in Ho-Ping and the Lopburi solar project. We will also be working on the development of the two coal-fired projects in Vietnam as well as the small expansion of the existing Lopburi project.

There may be opportunities in developing Southeast Asian countries for further greenfield projects where CLP is able to apply its abilities to engineer, construct and operate. This is a market where we need to be selective in all aspects of risk and return and only move forward on projects that provide security of cash flow from the PPAs, pass through fuel costs and where the cost of electricity is affordable. These are the necessary preconditions for us to develop the two projects in Vietnam, just as much as they would be for any other projects which would come forward in future. We would also be open to opportunities to develop more renewable energy projects, wherever the value of low carbon generation is recognised and stable, supportive government policies are in place.

Our specific plans for 2011 include:

- maintaining the good operational performance of Ho-Ping and procuring coal on the international market at reasonable prices;
- assessing and negotiating terms with the bidders for the engineering, plant procurement and construction contracts for the Vung Ang 2 project in Vietnam, and the associated financing;
- determining the cost and economics of the Vinh Tan 3 project, using Chinese equipment suppliers and financing;
- continuing discussions with the Vietnamese Government, relevant authorities and state-owned entities to confirm whether the Vinh Tan 3 and Vung Ang 2 projects can proceed on a sound, sustainable and economically viable footing; and
- progressing the construction of the Lopburi solar project to schedule and within budget as well as pursuing the addition of a further 8MW to the project.

Mr. Michael Tong

CLP has set a target to achieve a 30% of generation portfolio from non-carbon emitting source by 2020, of which 20% will be from renewable sources. This is a very challenging target given that competition for renewable projects has intensified. Will the company sacrifice on the investment return hurdle rate to achieve the generation mix target?

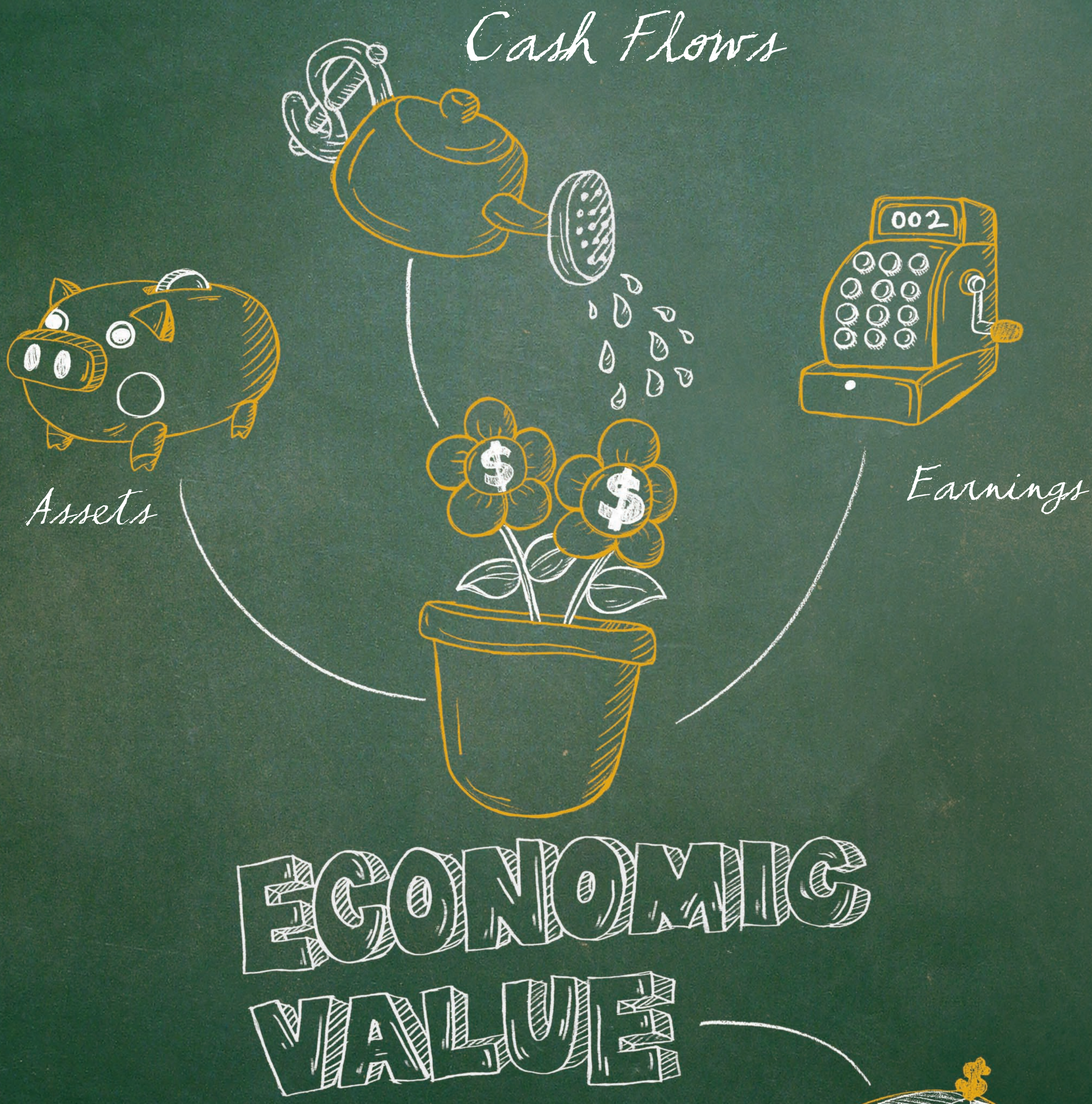
Head of China / HK Research, CIB Research – Equity, Deutsche Bank

In 2004, we set a target of having 5% of our generating capacity powered by renewable energy by 2010. This was met by the end of 2007. We now have over 16% in total renewable energy projects, mainly in wind with some hydro, biomass and solar. As we continue along our journey towards a low-carbon future, we have revised our renewable energy target to 20% of generating capacity by 2020. We do see challenges ahead of us: an increasing shortage of good hydro and wind sites, possible reductions in feed-in tariff support for renewable energy, needs for substantial investment in transmission grids to handle rising volumes of electricity generated from renewable energy sources. Even so, we believe our goal is achievable as regulations and business conditions evolve to support the development of a low-carbon future. For instance, domestic policies and regulations in the countries in which we operate, particularly China and India, are expected to support the deployment of renewable generation over the next decade.

Our investment decisions are based on the delivery of appropriate economic value to our capital providers, and social and environmental value to all stakeholders. No decision on investment in power generation can be made solely on the basis of environmental considerations. In its investment decisions, CLP will always seek to strike a balance between the economic, social and environmental aspects of our businesses, and the demands and expectations of our stakeholders.

Mark Takahashi

Group Director & Chief Financial Officer



Good performance in the management and operation of our assets delivers economic value to our capital providers (shareholders and lenders). This is explained in the following Financial Review.

How the effective management and operation of our assets also delivers social and environmental value to all stakeholders 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 readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the 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"

This statement comprises
(a) profit or loss 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 2010 which increased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity.

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"

This statement 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 2010. 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 current name reflects its function more accurately.

Statement of cash flows

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

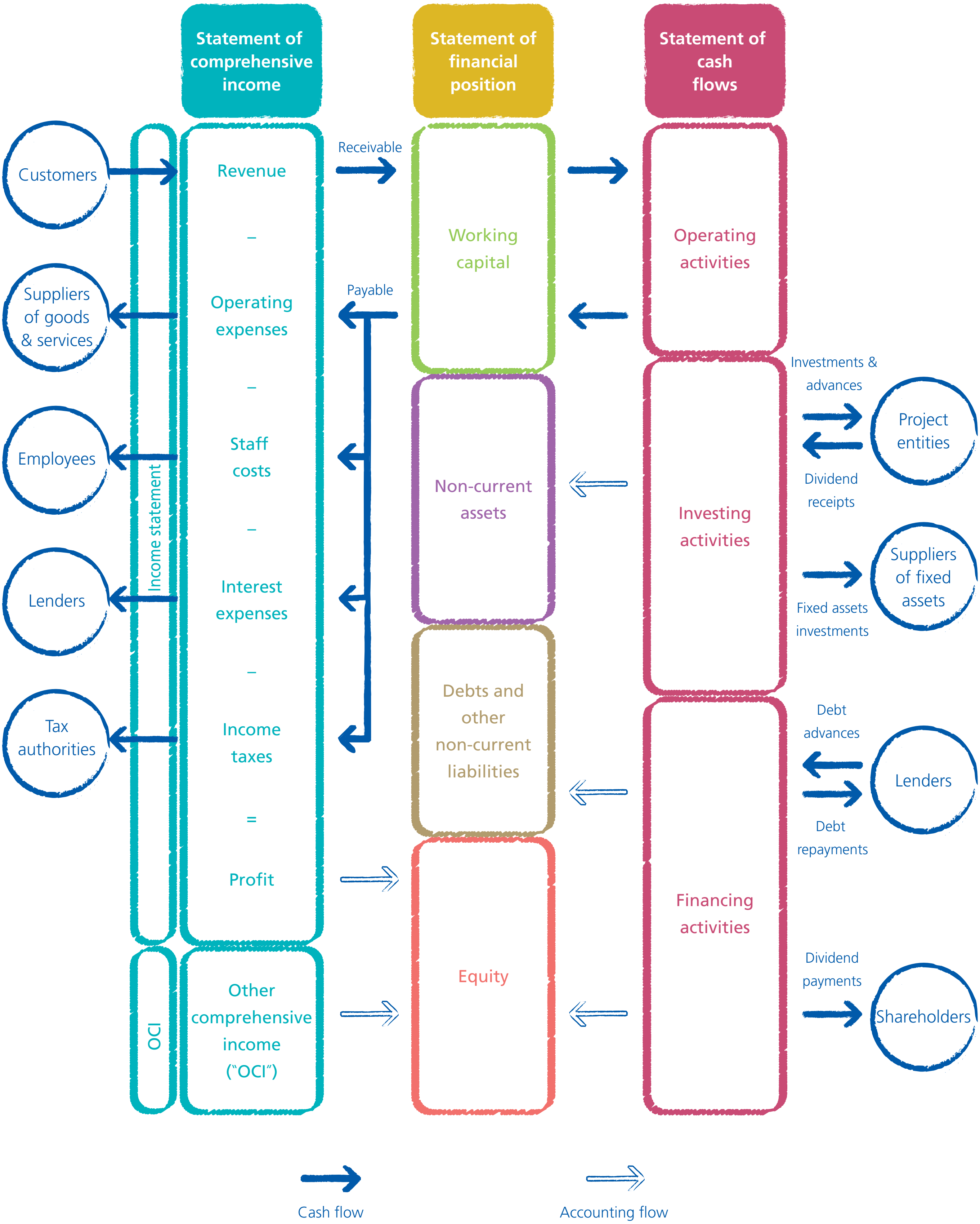
This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the 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.

Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of comprehensive income, the statement of financial position and 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

This simplified presentation of financial information is to help you understand the relationships between financial statements and portray a cohesive financial picture of CLP's activities.

Financial statements are the scorecard of a business and the window to 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 chart summarises how we delivered economic value in 2010.

Strategy to Diversify Electricity Business

CLP invests in energy businesses in Hong Kong, Australia, the Chinese mainland, 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.

The Results Achieved

- Revenue[(1)] mainly came from operations in Hong Kong and Australia. Australian revenue grew by 31.4% and has now reached a level comparable to our Hong Kong electricity business. Higher retail electricity price and volume and the 15.6% increase in the Australian dollar were the main reasons behind the increase. Hong Kong revenue increased by 5.8% which benefited from the HK¢2.6 per unit increase in basic tariff effective 1 January 2010 and higher fuel clause revenue;
- Operating earnings[(2)] rose by 7.2% mainly due to improved performance in Australia (+77%) and the Chinese mainland (+73%). Performance from Hong Kong and Southeast Asia was within our expectations while earnings from India were hit by several non-operational factors;
- Major one-off items included the Australian tax consolidation benefit of HK$989 million, a disposal gain of HK$356 million and an impairment provision of HK$258 million. Total earnings grew by 26.1% to HK$10,332 million[(3)];
- The translation gain resulting from the appreciation of Australian dollar (+13.4%) and Indian rupee (+4.3%) at year end, accounted for a significant portion of other comprehensive income[(4)]. This year end translation also explained part of the increases in assets, such as fixed assets, intangible assets, goodwill and trade receivables, and liabilities, such as borrowings and trade payables.

Last Year's Consolidated Statement of Financial Position

	HK$M
Assets	
Fixed assets, leasehold land and land use rights under operating leases	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	3,293
Trade and other receivables	9,018
Cash and cash equivalents	7,148
Restricted cash and bank deposits of more than three months maturities	846
Bank balances, cash and other liquid funds	7,994
Other assets	8,612
	156,531
Equity and Liabilities	
Share capital, premium and reserves	20,840
Retained profits	49,921
Shareholders' funds	70,761
Non-controlling interests	107
Derivative financial instruments	1,652
Trade and other payables	8,926
Borrowings	39,431
Obligations under finance leases	21,855
SoC reserve accounts	1,654
Other liabilities	12,145
	156,531

Beyond Last Year's Statement of Financial Position*

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

* Details can be found on page 80.

Consolidated Statement of Comprehensive Income for Two Years

		2009 HK$M	2010 HK$M
Revenue	(1)	50,668	58,410
Expenses		(39,974)	(46,413)
Other income		153	400
Operating profit		10,847	12,397
Share of results of jointly controlled entities and associated companies, net of tax		2,415	2,893
Net finance costs		(3,408)	(4,111)
Income tax expense		(1,665)	(844)
Loss / (earnings) attributable to non-controlling interests		7	(3)
Earnings attributable to shareholders		8,196	10,332
Analysed into:			
Electricity business in HK		5,964	6,129
Other investments / operations		3,007	3,476
Unallocated net finance costs		(21)	(18)
Unallocated Group expenses		(413)	(439)
Operating earnings	(2)	8,537	9,148
One-off items		(341)	1,184
Earnings attributable to shareholders	(3)	8,196	10,332
Other comprehensive income	(4)	5,515	4,535
Total comprehensive income		13,711	14,867

Consolidated Profits Retained for This Year

		HK$M
Retained profits at 31.12.2009		49,921
Earnings attributable to shareholders		10,332
Dividends paid for the year		
2009 final (HK$0.92 per share)	(9)	(2,214)
2010 first to third interim (HK$1.56 per share)	(9)	(3,753)
Other movements within equity		(20)
Retained profits at 31.12.2010		54,266
Fourth interim dividend declared for 2010, HK$ per share		0.92

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

		HK$M
Operating profit		12,397
Depreciation and amortisation		5,065
SoC items		(188)
Changes in working capital		(387)
Others		(802)
Cash inflow from operating activities	(5)	16,085

Consolidated Statement of Cash Flows for This Year

	HK$M
Operating activities	
Cash inflow from operating activities	16,085
Investing activities	
Dividends received	2,594
Capital expenditure	(10,137)
Investments in and advances to jointly controlled entities and associated companies	(2,062)
Other net outflow	(658)
Financing activities	
Net increase in borrowings	2,859
Repayment of finance lease obligations	(1,790)
Interest and other finance costs paid	(4,199)
Dividends paid	(5,967)
Others	(17)
Net decrease in cash and cash equivalents	(3,292)
Cash and cash equivalents at 31.12.2009	7,148
Effect of exchange rate changes	167
Cash and cash equivalents at 31.12.2010	4,023

Breakdown of Capital Expenditure and Investments

		HK$M
Capital expenditure		10,137
Investments in and advances to jointly controlled entities and associated companies		2,062
Acquisition of leased assets	(7)	7,033
Accrual adjustments		2,852
		22,084
By business activities:		
Investment in emissions control project	(7)	6,994
Other coal and gas		7,877
Renewables	(12)	2,595
Transmission and distribution	(6)	4,552
Others		66
		22,084
By regions:		
Hong Kong	(7)	13,257
Australia		1,683
Chinese mainland		1,319
India	(8)	5,756
Southeast Asia and Taiwan		69
		22,084

Today's Consolidated Statement of Financial Position

		HK$M
Assets		
Fixed assets, leasehold land and land use rights under operating leases		117,460
Goodwill and other intangible assets		9,150
Interests in jointly controlled entities		20,476
Interests in associated companies		2,378
Derivative financial instruments	(10)	4,345
Trade and other receivables		11,118
Cash and cash equivalents		4,023
Restricted cash		733
Bank balances, cash and other liquid funds		4,756
Other assets		9,672
		179,355
Equity and Liabilities		
Share capital, premium and reserves		25,395
Retained profits		54,266
Shareholders' funds		79,661
Non-controlling interests		97
Derivative financial instruments	(11)	2,011
Trade and other payables		11,344
Borrowings		44,623
Obligations under finance leases		27,100
SoC reserve accounts		1,509
Other liabilities		13,010
		179,355

Beyond Today's Statement of Financial Position*

	HK$M
Charges on assets	13,933
Contingent liabilities	1,699
Operating commitments	9,726
Capital commitments	25,193
Commitments related to NSW acquisition	36,478

* Details can be found on page 80.

Strategy to Optimise Financial and Capital Structure

CLP's prudent financial management ensures that adequate resources are available to meet our operating, investing and financing needs.

The Results Achieved

- Operating activities: Reflecting the solid performance in 2010, cash flows from operating activities(5) remained strong and stable. This is the primary funding source for fueling growth in our businesses;
- Investing activities: We continued the development and enhancement of the Hong Kong power system network(6) and commenced the commissioning of emissions control facilities(7) (leased assets from CAPCO of HK$6,994 million). We also saw higher investment in India for the year relating to the construction works at Jhajjar and wind projects(8);
- Financing activities: CLP paid HK$5,967 million(9) in dividends to shareholders. Net debt to total capital ratio remained at a healthy level of 33.3% at 2010 year end. Strong credit ratings of A- by Standard & Poor's and A2 by Moody's were maintained.

Strategy to Manage Risks

CLP's philosophy is to contract out financial risks to qualified market players. We use financial instruments to hedge our exposures to interest rate, foreign currency and energy price risks.

The Results Achieved

- Fair values of these financial instruments resulted in derivative assets(10) and liabilities(11). At 31 December 2010, the Group had net derivative assets of HK$2,334 million. This represents the net amount we would receive if these contracts were closed out at year end.

Strategy to Reduce Carbon Intensity

CLP continues to invest in renewable energy to reduce the carbon intensity of its generating portfolio and capture the rewards of low carbon emissions generation.

The Results Achieved

- Investment of HK$2,595 million(12) in renewable projects such as wind farms, hydro and solar;
- Renewable energy sources now represent over 16% of our total generating capacity;
- Our operating wind projects in the Chinese mainland did well but there was a setback in our earlier investment in Roaring 40s.

Financial Analysis

Group's Financial Results

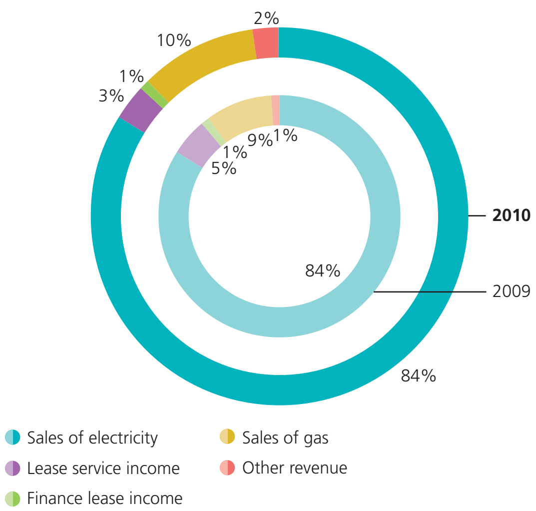
Financial results	Accounting Policy	Notes to the Financial Statements	2010 HK$M	2009 HK$M	Increase / (Decrease) HK$M	%
Revenue	*16*	*2*	58,410	50,668	7,742	15.3
Expenses			(46,413)	(39,974)	6,439	16.1
Finance costs	*13*	*6*	(4,212)	(3,477)	735	21.1
Income tax expense	*14*	*7*	(844)	(1,665)	(821)	(49.3)
Earnings attributable to shareholders			10,332	8,196	2,136	26.1

Revenue and Expenses

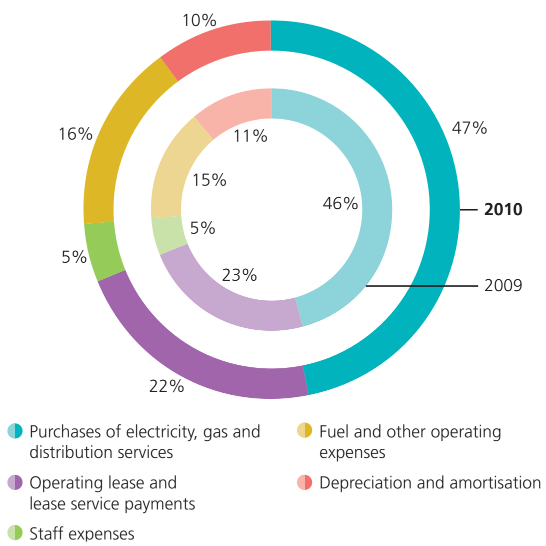
The Australian dollar increased in value by an average of 15.6% over the Hong Kong dollar causing a lift to both revenue and expenses. In Australia, revenue grew through the increase in retail electricity prices and the higher retail sales volumes. Expenses increased because of the rise in electricity network charges due to the higher rates and volumes achieved.

In Hong Kong, the HK¢2.6 rise in basic tariff and the increase in fuel clause revenue (to recoup higher coal costs) pushed up revenue from the electricity business. On the other hand, higher coal costs and the use of more gas in the fuel mix led to an increase in expenses.

Analysis of Revenue



Analysis of Expenses



Finance Costs

The overall increase in finance costs is the result of higher bank and other borrowings in Hong Kong, the rise in interest rates and refinancing charges in Australia and the higher finance lease balance with CAPCO (due to the commissioning of emissions control facilities at Castle Peak Power Station).

Income Tax Expense

Excluding the tax consolidation benefit of HK$989 million from Australia, income tax expense increased by HK$168 million which was in line with the general increase in operating earnings.

Earnings Attributable to Shareholders

	2010		2009		Increase	
	HK$M	HK$M	HK$M	HK$M	HK$M	%
Electricity business in Hong Kong (HK)		6,129		5,964	165	2.8
Electricity sales to Chinese mainland from HK	47		74			
Generating facilities in Chinese mainland serving HK	836		748			
Other power projects in Chinese mainland	642		371			
Energy business in Australia	1,303		736			
Electricity business in India	141		446			
Power projects in Southeast Asia and Taiwan	390		525			
Other earnings	117		107			
Earnings from other investments / operations		3,476		3,007	469	15.6
Unallocated net finance costs		(18)		(21)		
Unallocated Group expenses		(439)		(413)		
Operating earnings		9,148		8,537	611	7.2
Other income		356		153		
Tax consolidation benefit from Australia		989		–		
Yallourn coal mine subsidence insurance recovery / (costs)		97		(1)		
Provisions for Roaring 40s / Solar Systems and OneEnergy		(258)		(477)		
TIPS* related contracts – MTM amortisation		–		(16)		
Total earnings		10,332		8,196	2,136	26.1

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

The events that shaped our financial performance in 2010 and outlook in 2011 are discussed below.

Hong Kong

Earnings from Hong Kong under the SoC increased slightly with the ongoing investment in electricity infrastructure in Hong Kong, which included the development and upgrade of our power system network and the commissioning of emissions control facilities at Castle Peak Power Station. This was partially offset by higher interest on additional borrowings used to finance these capital investments.

As a result of the implementation of the approved capital projects in the Development Plan (which covers the period from October 2008 to December 2013 of HK$39.9 billion), we expect the earnings from the Hong Kong electricity business to grow steadily, albeit from a lower base.

Australia

With higher electricity retail and gas gross margins and the 15.6% increase in the average exchange rate of Australian dollar, operating earnings from Australia increased by 77%. This was partially offset by higher hedge contract settlement payments as a result of low pool prices, as well as the one-off expense of NSW acquisition costs.

The successful bids for NSW energy assets bring TRUenergy to a much larger scale, doubling its retail customer accounts and increasing its generation capacity substantially. The contribution to earnings by these assets will be felt in the second quarter of 2011 and thereafter.

Chinese Mainland

Earnings from the Chinese mainland generating facilities that serve Hong Kong increased by 11.8%. This was mainly due to better performance from GNPJVC.

Other power projects in the Chinese mainland had record earnings in 2010. With the benefit of an upturn in electricity demand and a fall in competing generation from hydro, earnings from Fangchenggang rebounded significantly. Higher generation and lower depreciation charges, following a review of assets lives at CSEC Guohua and higher contribution from wind projects due to expansion of the wind portfolio also contributed to the increase. The increase was partly offset by the effect of rising coal prices on our coal-fired projects, in particular Shandong Zhonghua.

The earnings outlook for conventional coal power stations in the Mainland remains overshadowed by difficulties in revising tariff levels to fully reflect the impact of increasing coal costs. CLP's growing renewable energy portfolio partially reduces our exposure to coal costs.

India

The operational performance of GPEC remained stable and reliable. Certain non-operating items from CLP India adversely affected earnings. Derivatives used to hedge the currency and interest rate risks of the Jhajjar Project and its financing recorded a net fair value loss of HK$68 million (2009: a gain of HK$171 million). GPEC also suffered a loss of HK$30 million (as opposed to a gain of HK$11 million in 2009) from the translation of Pound Sterling and Euro receivables under the foreign exchange protection clause of the power purchase agreement (PPA). The contribution from wind projects was lower than expected due to project delays and lower wind resources at certain sites.

The underlying performance is expected to improve on the back of GPEC's reliable operation and more wind farms commencing commercial operation.

Southeast Asia and Taiwan

Earnings from Southeast Asia and Taiwan declined, mainly due to a lower contribution from Ho-Ping as the energy tariff was set at a lower level, which reflected Taipower's lower prior year average coal costs. Earnings from EGCO were stable.

We expect to recognise an estimated gain of approximately HK$881 million from the divestment of EGCO upon completion of the reorganisation of OneEnergy, of which the divestment in EGCO forms part, in the first half of 2011. The one-year time lag in recouping coal costs from energy tariffs may affect Ho-Ping's 2011 earnings adversely in view of the recent rising trend in coal prices.

One-off Items

Other income represented the gain on sale of our interest in CLP Power China (Anshun) which held a 70% interest in Guizhou CLP Power which owns the Aushun II Power Station. In 2009, we sold our 60% interest in Power Generation Services Company Limited.

In Australia, a tax consolidation benefit (HK$989 million) was recognised in 2010, due to changes in the relevant tax legislation. This tax consolidation benefit, however, did not result in any immediate cash inflow to the Group. The final settlement of the Yallourn coal mine subsidence insurance of HK$97 million (after tax) was received in February 2010. An impairment in goodwill of HK$258 million has been made for the investment in Roaring 40s, due to uncertainty about the future prospects of its development projects.

Group's Financial Position

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

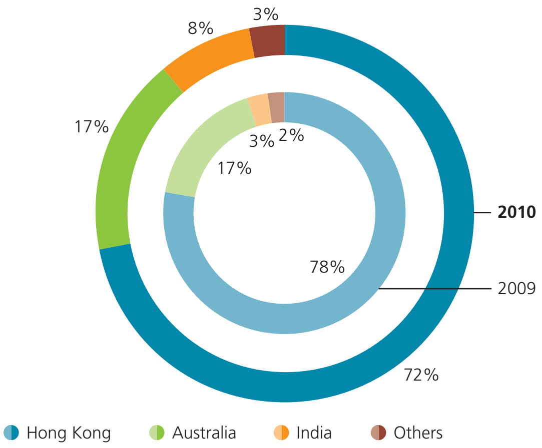
On the statement of financial position

Non-current assets	*Accounting Policy*	*Notes to the Financial Statements*	2010 HK$M	2009 HK$M	Increase / (Decrease) HK$M	%
Fixed assets	*4*	*11(A)*	**115,731**	97,098	18,633	19.2
Leasehold land and land use rights under operating leases	*4*	*11(B)*	**1,729**	1,760	(31)	(1.8)
Interests in jointly controlled entities	*3(C)*	*14*	**20,476**	18,838	1,638	8.7
Deferred tax assets	*14*	*24*	**4,210**	3,355	855	25.5
Total assets			**179,355**	156,531	22,824	14.6
Net assets (total assets less total liabilities)			**79,758**	70,868	8,890	12.5

Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases

The Group continues to invest substantially in capital assets, in order to meet increasing demand and to enhance the reliability and availability of electricity supply across all our operating regions. In 2010, fixed asset additions amounted to HK$20.0 billion. These mainly related to the development / enhancement of the transmission and distribution network and the acquisition of leased assets from CAPCO upon the commissioning of emissions control facilities in Hong Kong, the on-going construction of the Jhajjar power station and other wind projects in India. The acquisition of the remaining 35% shareholding of CLP Sichuan (Jiangbian) Power Company Limited ("Jiangbian") and its conversion from a jointly controlled entity to a wholly-owned subsidiary also brought HK$1.2 billion fixed assets onto the Group's statement of financial position.

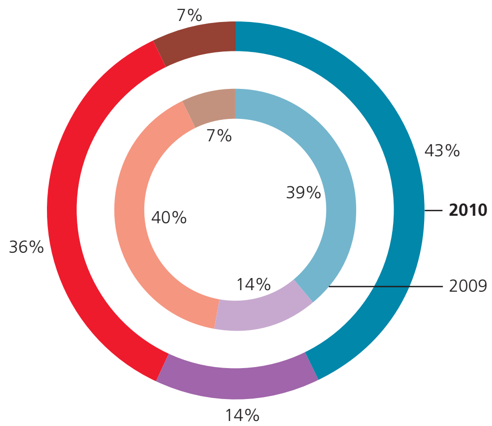
Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases by Geographical Location



Interests in Jointly Controlled Entities

In 2010, the Group made additional advances of HK$1,646 million to CAPCO and invested HK$363 million in wind projects in the Chinese mainland to finance their capital expenditures. The sale of CLP Power China (Anshun) and the reclassification of Jiangbian as a subsidiary offset part of the increase.

The Group's Major Jointly Controlled Entities



Deferred Tax Assets

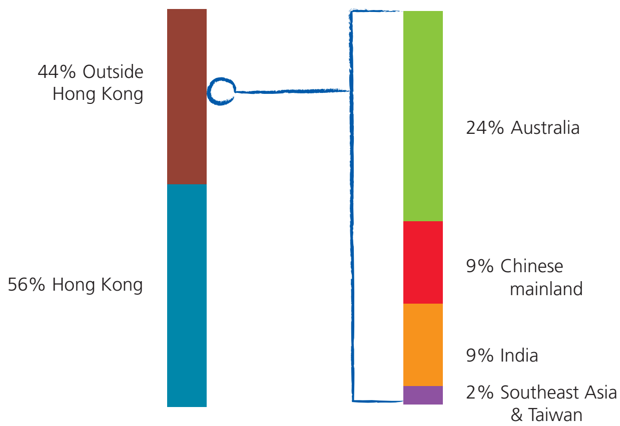
The deferred tax assets primarily related to TRUenergy's unused tax losses. The balance increased after the recognition of additional deferred tax assets of HK$989 million by TRUenergy following amendments to the tax consolidation rules in Australia. HK$600 million of the tax losses were utilised against its earnings during the year.

Total Assets and Net Assets

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

Net Assets	2010 HK$M	2009 HK$M	Increase / (Decrease) %
Hong Kong	**28,098**	27,376	2.6
Australia	**26,302**	21,032	25.1
Chinese mainland	**13,229**	10,750	23.1
India	**6,669**	5,634	18.4
Southeast Asia and Taiwan	**3,320**	2,946	12.7
Unallocated	**2,140**	3,130	(31.6)
	79,758	70,868	

Total Assets by Geographical Location in 2010



44% of total assets and 62% of net assets are now located outside Hong Kong, a reflection of our overseas diversification strategy. The increase in overseas net assets was largely the result of earnings retained and new capital expenditure / investments made during the year. The appreciation of Australian dollar also explained part of the increase in Australia.

Group's Financial Position

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

On the statement of financial position

Working capital, Debts and other non-current liabilities and Equity	*Accounting Policy*	*Notes to the Financial Statements*	2010 HK$M	2009 HK$M	Increase HK$M	%
Derivative financial instruments assets*	*7*	*17*	4,345	3,293	1,052	31.9
Derivative financial instruments liabilities*	*7*	*17*	(2,011)	(1,652)	359	21.7
Trade and other receivables	*10*	*19*	11,118	9,018	2,100	23.3
Trade and other payables	*12*	*21*	(11,344)	(8,926)	2,418	27.1
Bank loans and other borrowings*	*13*	*22*	(44,623)	(39,431)	5,192	13.2
Shareholders' funds			79,661	70,761	8,900	12.6

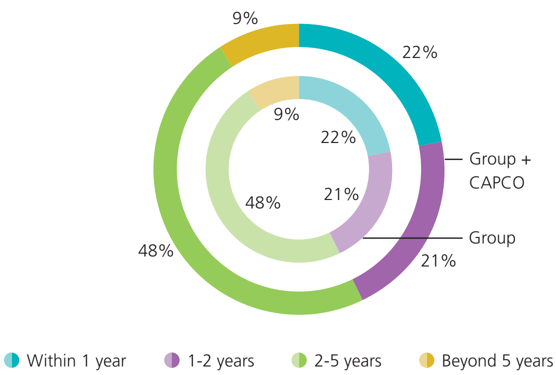
* Including current and non-current portions

Derivative Financial Instruments and Hedging

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

	Notional Amount 2010 HK$M	Notional Amount 2009 HK$M	Fair Value Gain/(Loss) 2010 HK$M	Fair Value Gain/(Loss) 2009 HK$M
CLP Group				
Forward foreign exchange contracts	86,603	67,261	1,075	629
Interest rate swaps/ cross currency & interest rate swaps	24,498	20,066	375	139
Energy contracts	14,805	12,440	884	873
	125,906	99,767	2,334	1,641
CAPCO				
Forward foreign exchange contracts	163	454	(11)	(29)
Interest rate swaps	953	1,586	(29)	(60)
Total	127,022	101,807	2,294	1,552

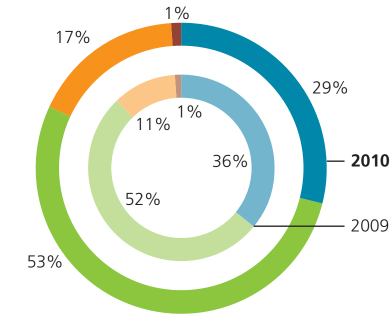
Maturity Profile in 2010



Trade and Other Receivables

Over 80% of the increase was attributable to TRUenergy in Australia. This was primarily caused by the 13.4% increase in the closing rate of Australian dollar; the rise in electricity sales debtors (reflecting higher retail prices); the deposits / prepayments made for gas purchases (HK$483 million) and the purchase of additional renewable energy certificates. Debtors in GPEC also increased mainly due to the unilateral deduction of Rs.3,731 million (HK$647 million) by GUVNL from GPEC's January to March 2010 invoices. More details of this dispute are disclosed in Note 32 to the Financial Statements.

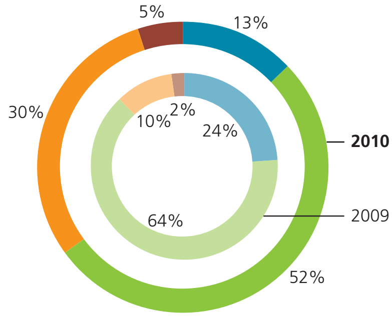
Trade Receivables by Segments



Trade and Other Payables

Despite the payment of the outstanding investment cost in CGN Wind of HK$1,190 million during the year, trade and other payables increased by HK$2,418 million. Construction cost payables for Jhajjar and wind projects in India increased substantially (HK$1,369 million). Payables in Australia also rose by HK$1,273 million due to higher network charges payable and the higher closing rate of the Australian dollar.

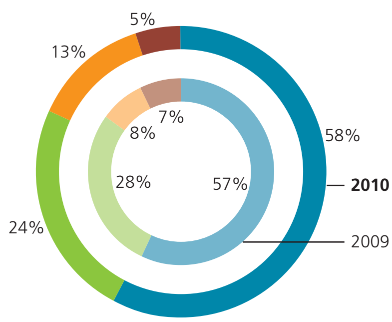
Trade Payables by Segments



Bank Loans and Other Borrowings

CLP Power Hong Kong issued a US dollar bond of US$500 million (HK$3.9 billion) and two Hong Kong dollar bonds totalling HK$760 million under the MTN programme, as well as arranging new bank loan facilities of HK$1.0 billion. Subsidiaries in India also drew down additional loans of HK$5,460 million during the year. In December, TRUenergy borrowed US$135 million (HK$1,049 million) under its private placement scheme in the United States. On the other hand, loans and borrowings of HK$13,949 million in total were repaid during the year.

Bank Loans and Other Borrowings by Segments



Shareholders' Funds

The translation gain from higher exchange rates, in particular our investments in Australia, and the undistributed earnings for the year, accounted for the increase in shareholders' funds.

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

At 31 December 2010, charges on assets of our subsidiaries in India and the Chinese mainland amounted to HK$13.9 billion, with respect to their corresponding borrowings of HK$8.0 billion. Assets under charges represented only 7.8% of the Group's total assets.

Operating Commitments

A substantial portion (67.3%) of the operating lease commitment (HK$9,726 million in total) is related to CLP Power Hong Kong's power purchase arrangement with CAPCO (accounted for as a lease). The commitment for the right to request electricity supply under the Master Hedge Agreement between TRUenergy and Ecogen made up the remainder of the balance.

Contingent Liabilities

Except for the dispute between GPEC and its off-taker over the payments of "deemed generation incentive" and interests on "deemed loans", no material contingent liabilities were identified. The claims against GPEC amounted to HK$1,699 million at 31 December 2010. Based on our assessment and independent legal advice that GPEC is on strong grounds, no provision has been made in the financial statements. The legal proceedings are currently in progress. Details of the contingent liabilities are disclosed in Note 32 to the Financial Statements.

The impact of this dispute and our assessment are also discussed on pages 85 to 86.

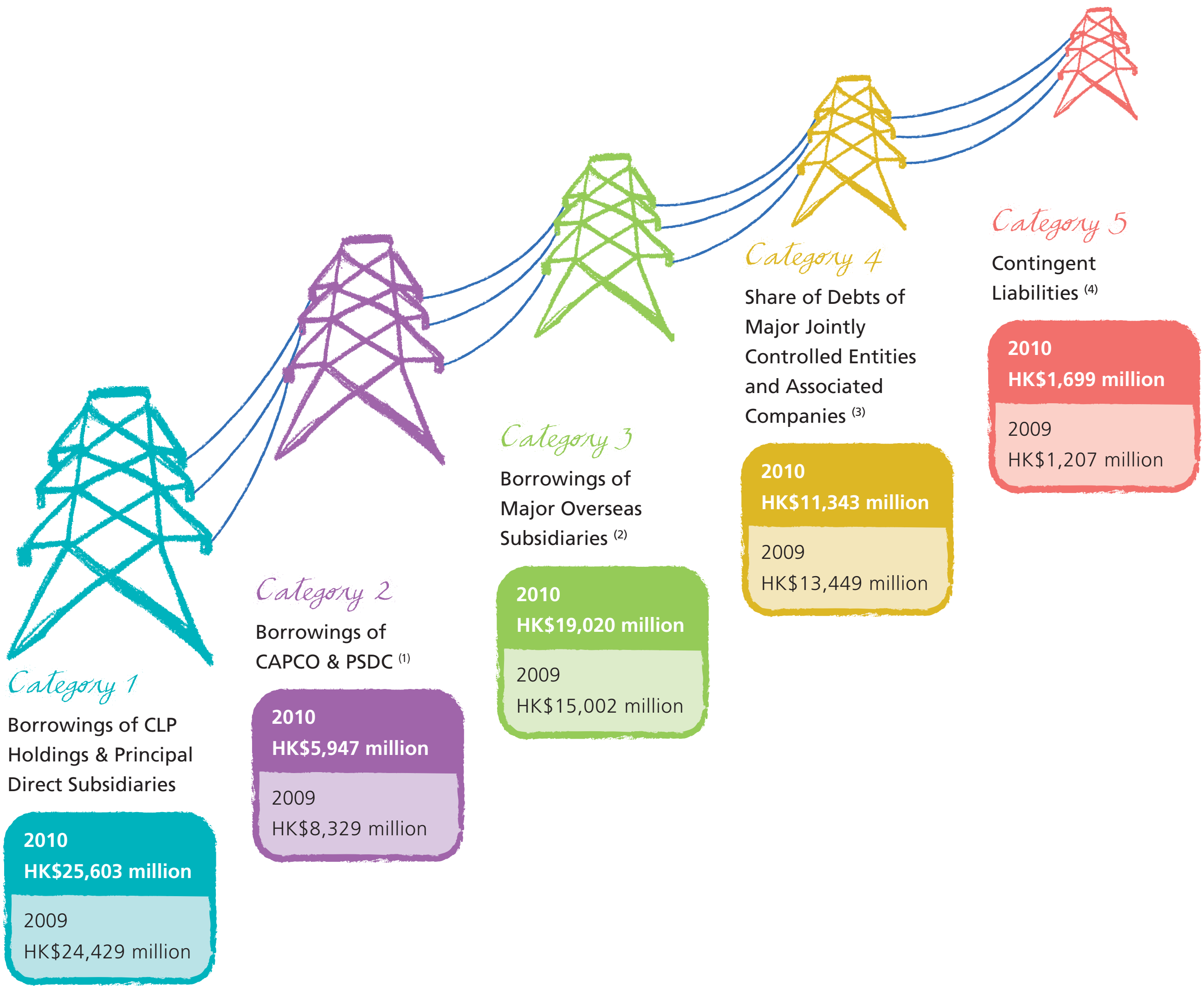
Capital Commitments

At 31 December 2010, the Group's capital commitments stood at HK$25.2 billion (2009: HK$26.3 billion). These mostly related to the construction of Jhajjar and wind projects in India and capital works on the transmission and distribution network in Hong Kong.

In addition, in December 2010 the Group also entered into agreements for the acquisition of certain NSW privatised energy assets with completion date of 1 March 2011. At 31 December 2010, the total consideration and associated commitments amounted to HK$36.5 billion. Further details are given in Note 30(D) to the Financial Statements.

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 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 207 to 209 and Note 31 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 32 to the Financial Statements.

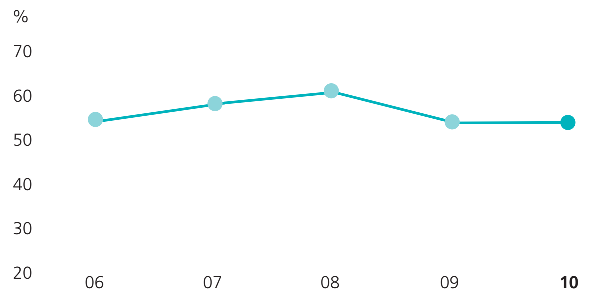
A Broader Perspective

Financial ratio analysis is a powerful tool to understand the 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. As 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. On the other hand, the return on equity demonstrates how effectively a company is investing its shareholders' funds.

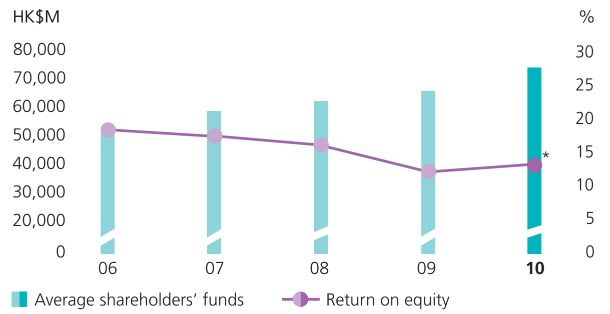
Fixed Assets Turnover Ratio



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

Whilst our average fixed assets turnover ratio remained high at 56%, the lower ratio in the past two years reflects our substantial capital expenditure on new projects which are yet to generate revenue. We see this trend as temporary, as our investments start to come to maturity.

Return on Equity



* Included the one-off tax consolidation benefit from Australia of HK$989 million

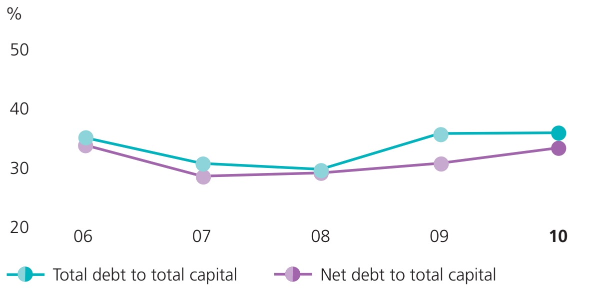
$$\text{Return on Equity} = \frac{\text{Earnings}}{\text{Average Shareholders' Funds}}$$

Our return on equity was affected by certain uncontrollable factors. For instance, the build-up of translation reserves due to the consistent appreciation of Australian dollar, reduced the return on equity in recent years. The lower SoC permitted return effective October 2008 placed additional pressure on our return. On the other hand, the one-off tax consolidation benefit of HK$989 million in the current year reversed the trend but distorted the overall picture.

Financial Health Indicators

These indicators, set out on the next page, 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 shows how comfortably a company's interest obligations are serviced by the profit it generates.

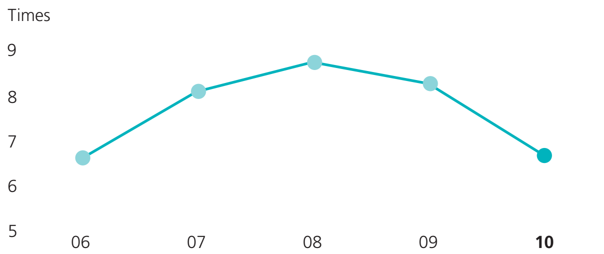
Gearing



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

Debt is used carefully. We adopt prudent financial management regardless of the circumstances we face. During the past five years, the total debt to total capital ratio remained stable between 30% and 36%; the net debt to total capital ratio was also at a similar level of 29% to 34%. However, borrowings of jointly controlled entities and associated companies are excluded in the ratios.

Interest Cover Ratio



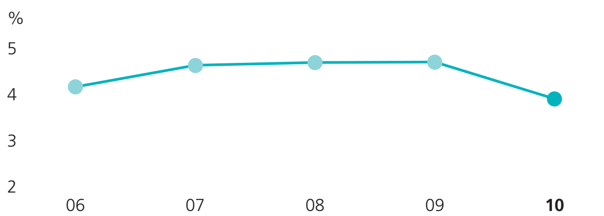
$$\text{Interest Cover Ratio} = \frac{\text{Profit before Income Tax and Interest}}{\text{Interest Charges + Capitalised Interest}}$$

Prudence requires that our operating profit should be more than enough to meet our interest obligation to lenders. The average interest cover for the past five years is at 8 times – a conservative level.

Investors' Return Indicators

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

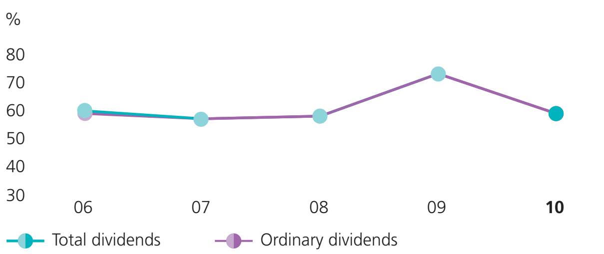
Dividend Yield



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

CLP's stable share price and our consistent dividend policy have translated into a steady dividend yield between 3.9% to 4.7% in the past five years. The high closing share price at 2010 year end reduced the dividend yield, albeit we have maintained the same level of dividend for the past four years.

Dividend Pay-out



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

Despite challenges such as market disruption, economic downturn or reduction in rate of permitted return, our dividend pay-out ratio was maintained at 56% or higher. The improved earnings in current year reduced our dividend pay-out to 58%, or 64% when excluding the one-off tax consolidation benefit, a more sustainable level compared to 73% in previous year.

Accounting Mini-series

In the accounting framework, "liability", "provision" and "contingent liability" are terms used to describe an obligation. These terms are widely used across our financial statements. This year, we would like to talk about the underlying accounting concepts behind these terms and their applications, as part of the "Accounting Mini-series" which we first started in our 2006 Annual Report.

What is a liability?

A liability is a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. A present obligation can stem from a legal agreement (a "legal obligation") or may be constructive in nature (a "constructive obligation"). A constructive obligation arises from an established or published practice of an entity which creates valid expectations on other parties that it will discharge the obligation. A company's policy to compensate dissatisfied customers due to disrupted services is an example of a constructive obligation.

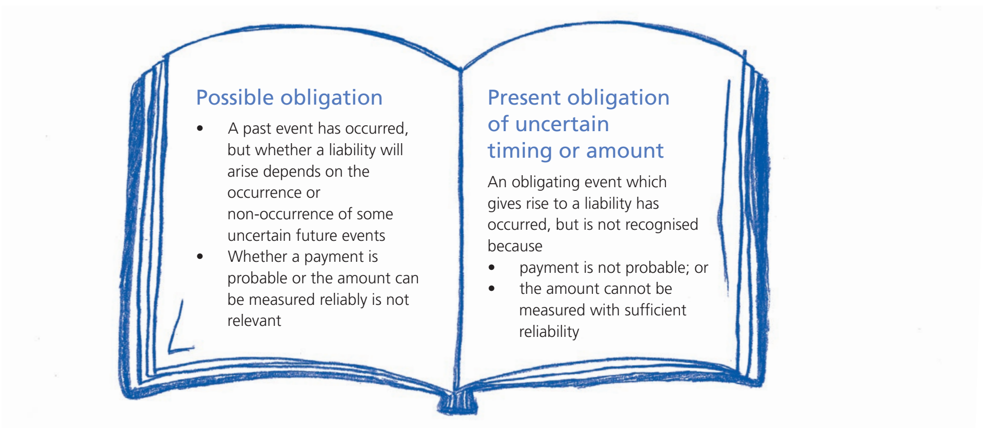
What is the difference between a provision and a liability?

A provision is a sub-class of liability. A provision represents a present obligation that is uncertain in its timing or amount. However, a present obligation that is uncertain in its timing and amount, will still not be recognised as a provision unless it is probable that a future outflow of resources will be required to settle the obligation and that the amount of the obligation can be measured with sufficient reliability.

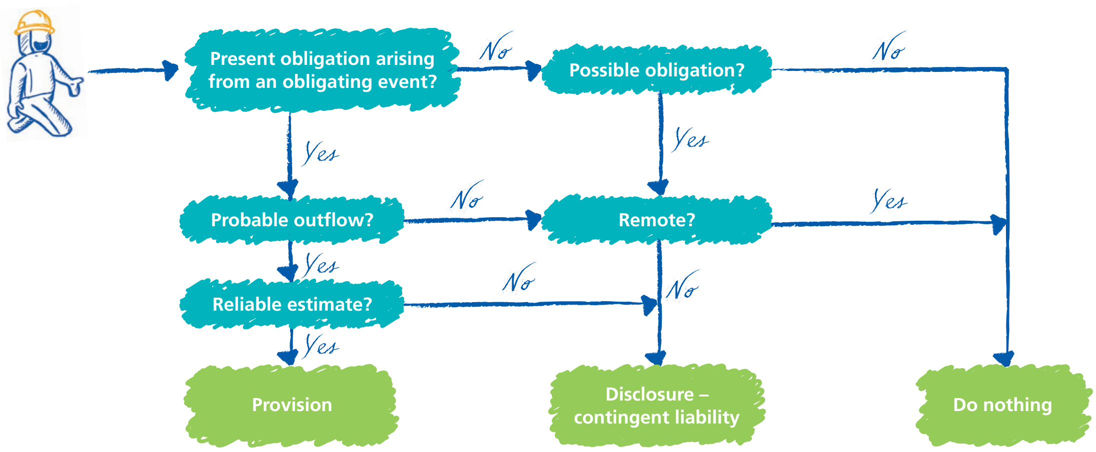
What is a contingent liability?

A contingent liability refers to certain obligations which are not recognised as a liability on the financial statements, but should be disclosed in the note to the accounts.

Such obligations have two types:



The decision tree for recognition of provisions and disclosure of contingent liabilities is illustrated below:



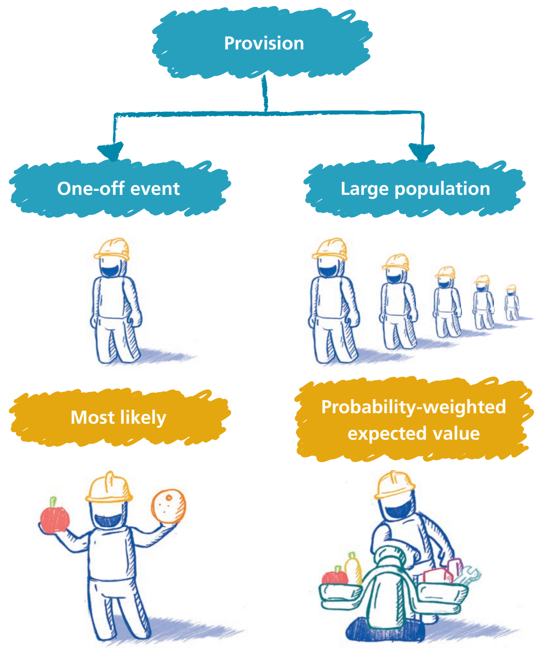
How to measure a provision?

Due to the nature of a provision – a liability whose timing and amount are uncertain, it is difficult to come up with a solid figure. How can we make a reliable provision?

To measure a provision, management should apply the best estimate approach under which the expenditure required to settle the present obligation is estimated based on a likely outcome. Sometimes, reports from experts are required to assist management to make its judgment.

In the case of a large population of items, an expected value method is applied. The estimated amount under this approach will take into account all possible outcomes, weighted by their corresponding probabilities. A typical example of this is a standard warranty provided to customers for the cost of repairs of any defects on goods sold within a certain period of time.

In the case of a single event, the estimate is based on the most likely outcome among all possible scenarios. This method applies to a lawsuit, the outcome of which will be either a win or a loss, but not in between.



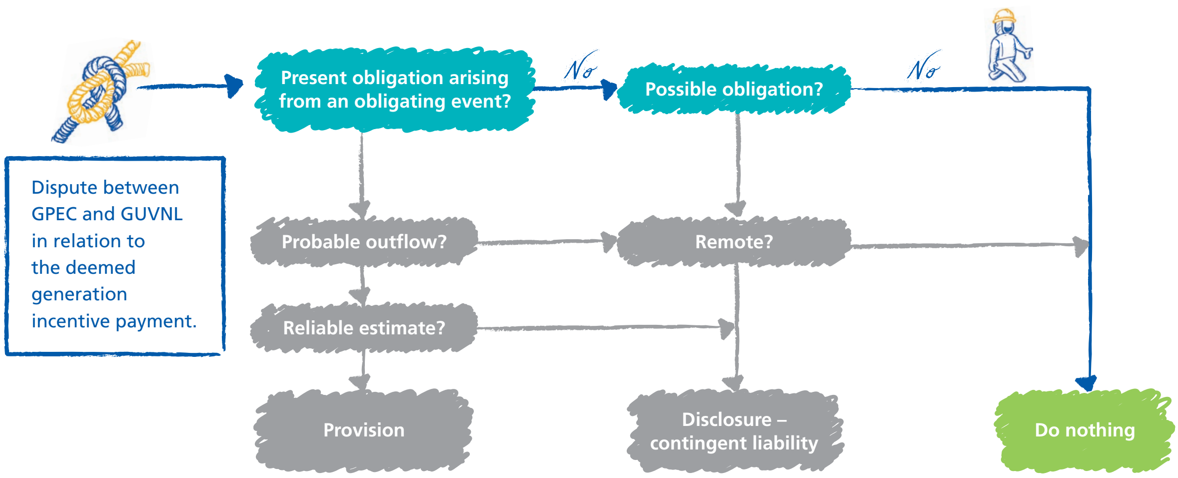
How are these Accounting Concepts applied to our Lawsuit in India?

The dispute

Under the original power purchase agreement between GPEC and its off-taker Gujarat Urja Vikas Nigam Ltd. (GUVNL), GUVNL was required to make "deemed generation incentive" payments to GPEC under certain circumstances. GUVNL had been making such payments since December 1997.

Subsequently, GUVNL raised a dispute about the eligibility of GPEC to receive such payments.

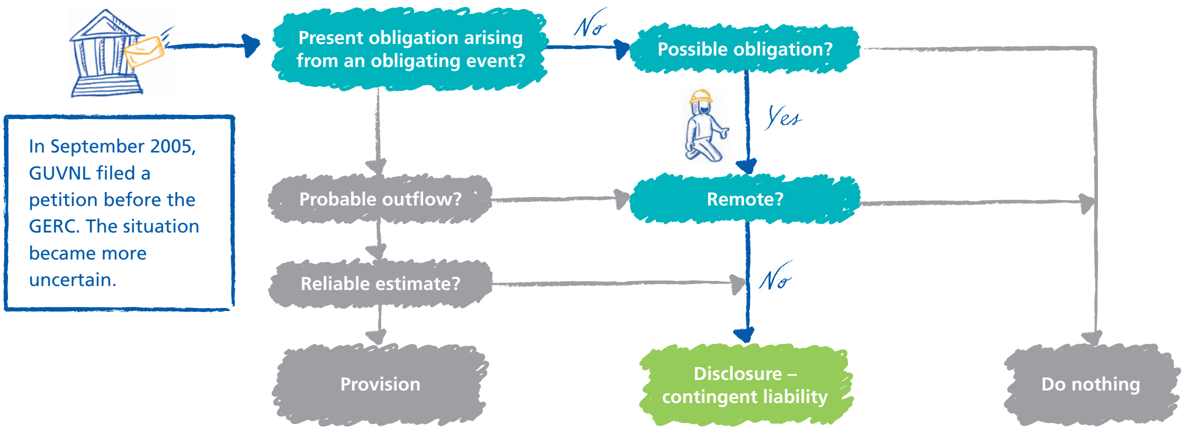
Our assessment was that the payments were required under the terms and conditions of the power purchase agreement and, indeed, GUVNL were continuing to make these payments to GPEC. As such, we were not required to disclose this dispute in our financial statements.



The petition

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) against GPEC seeking a refund of the deemed generation incentive payments.

Our assessment, supported by independent legal advice, remained that the payments were due to GPEC. However, with the legality of these payments becoming subject to a decision of the GERC, the situation became uncertain and the results were not fully predictable. A detailed disclosure of the dispute was therefore made in our 2005 Financial Statements.

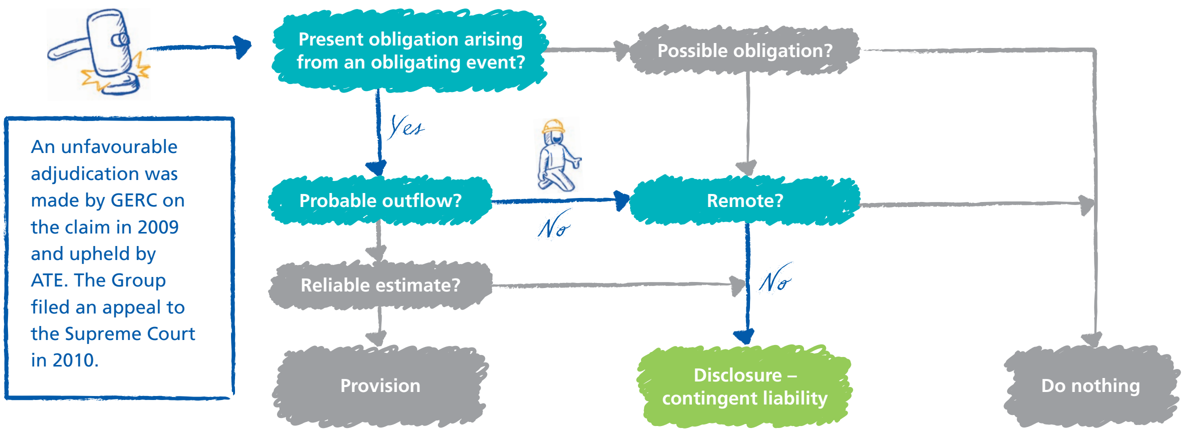


The latest developments

In February 2009, GERC made an adjudication on GUVNL's claims, and ordered that a partial refund of the payments be made by GPEC to GUVNL. GPEC then filed an appeal to the Appellate Tribunal for Electricity (ATE) against the decision of the GERC.

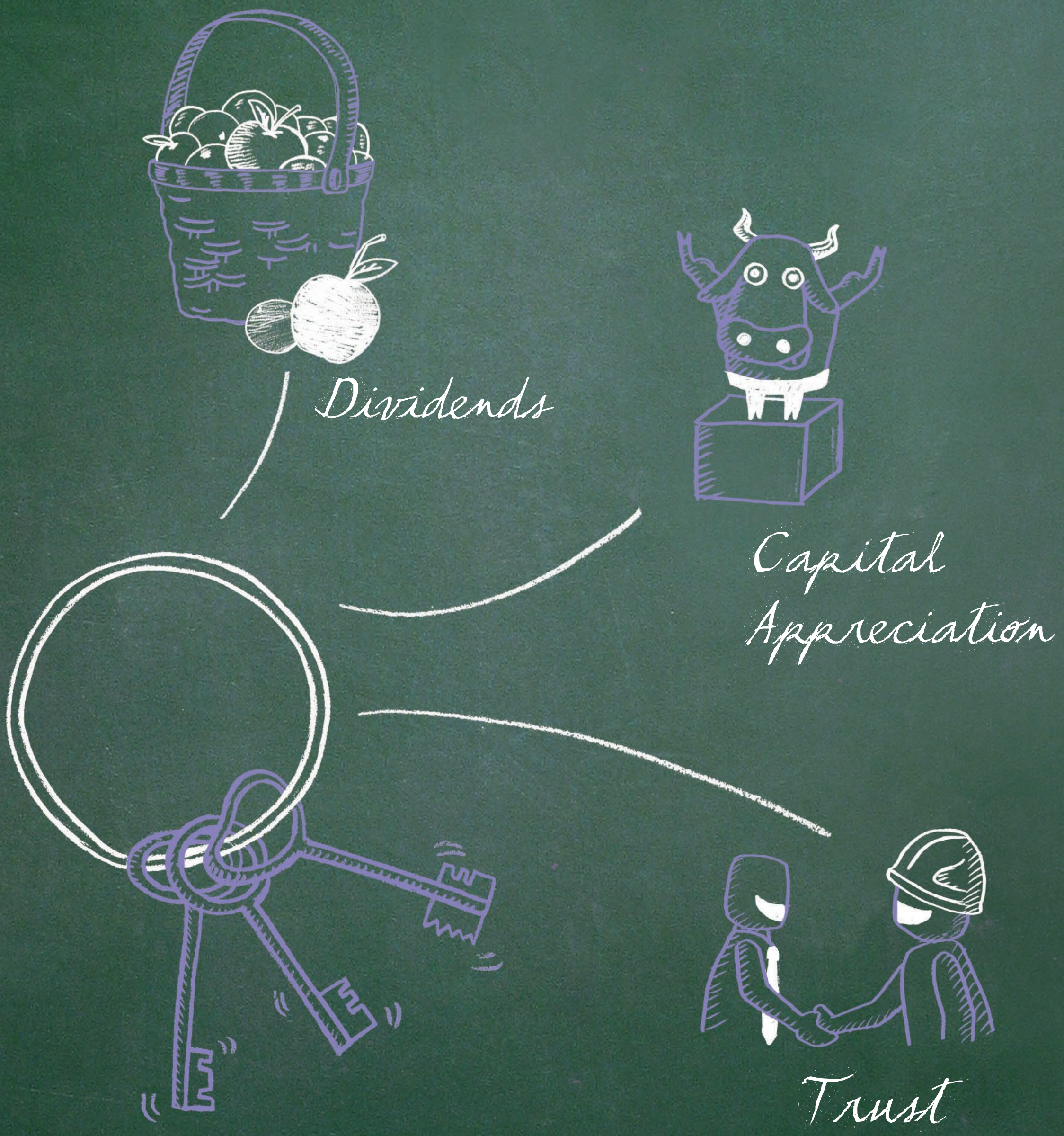
In January 2010, the ATE dismissed GPEC's appeal and upheld the decision of the GERC. GPEC subsequently filed an appeal petition to the Supreme Court of India against the decision of the ATE. The matter was admitted by the Supreme Court on 16 April 2010. The date of hearing has yet to be fixed by the court.

After the decision of the GERC and again after the decision of the ATE, we reconsidered our position. At each stage we remained of the view that the disputed payments are due to GPEC, no new issues had come to light to alter that view and that GPEC is likely to ultimately succeed on appeal to the Supreme Court. That view has been confirmed by independent legal advice. In these circumstances, we concluded that ultimately a requirement to refund GUVNL these deemed generation incentive payments is not probable. As a result, no provision was recognised but a detailed disclosure was set out in a note to our accounts.



Ongoing assessment!

This is not the end of the story. We have to continuously assess whether there are any changes in the circumstances which may affect our current judgment. If the settlement of an obligation becomes probable, we should recognise a liability in the financial statements in the period that the situation changes.



SHAREHOLDER VALUE

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.

Delivering Shareholder Value

In the previous sections of this Annual Report, we have explained the operating and financial performance of CLP, including each of the five major business streams within the Group. In this section, we want to explain what this means for our shareholders – how we have delivered value to them.

In the modern corporate world, it is fashionable to speak of "stakeholders" in a company, rather than just shareholders. This is entirely right – CLP, like any other large undertaking, can only survive and prosper through building and maintaining mutually beneficial relationships with everyone with whom we do business or who is impacted by the way that we do business. These stakeholders can range from governments, suppliers, non-governmental organisations, the media to the public at large. However, amongst all these stakeholders, shareholders hold a unique position – they have invested in CLP, they own the Company and the directors, management and all CLP colleagues have a particular responsibility to them for the effective stewardship of their assets. We need to earn and keep our shareholders' confidence by running their business well (which we have aimed to explain elsewhere in this Annual Report), delivering value to them and reporting and communicating openly and honestly about their Company.

The scale of our shareholders' investment in CLP is reflected in a market capitalisation of CLP Holdings of HK$152 billion as at 31 December 2010. This ranks us as the 29th largest company out of the 1,244 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 1.88% by weighting of that Index. CLP is also part of the Hang Seng Utilities Index (HSUI) along with Power Assets Holdings (formerly known as Hongkong Electric Holdings), Hong Kong and China Gas and China Resources Power Holdings, representing 39.63% by weighting of that Index.

Who are our Shareholders?

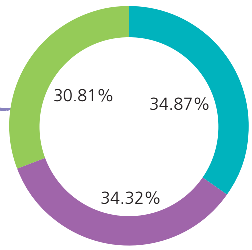
At the end of 2010, CLP had over 20,000 registered shareholders. The actual number of investors in CLP shares will be much greater, taking into account all those people and organisations that have an indirect interest in our shares through intermediaries such as nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong.

Our largest single shareholder is the Kadoorie Family (and interests associated with the Family) who 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, Europe and Asia, as well as a considerable number of retail investors, who are mostly resident in Hong Kong.

Shareholdings as at 31 December 2010

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
500 or below	2,102	10.16	615,010	0.02
501 – 1,000	3,652	17.65	2,824,051	0.12
1,001 – 10,000	9,817	47.44	42,273,163	1.76
10,001 – 100,000	4,569	22.08	132,519,003	5.51
100,001 – 500,000	443	2.14	89,276,858	3.71
Above 500,000	109[1]	0.53	2,138,635,315	88.88
Total	**20,692**	**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 48.21% of all our issued shares were held through CCASS.

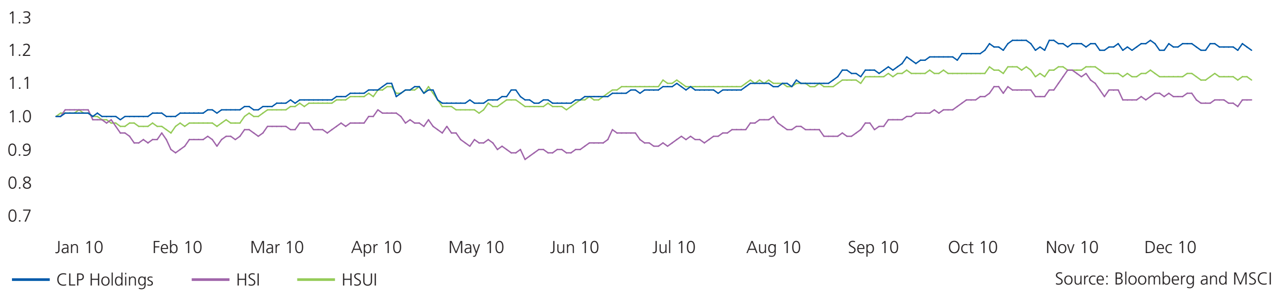
From publicly available information and as far as our directors are aware, CLP Holdings has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2010 and has continued to maintain such a float as at 24 February 2011.

Delivering Shareholder Value – Share Price Performance

We deliver value to our shareholders in two ways: capital appreciation (in the form of the performance of our share price over time) and the payment of dividends.

During 2010, CLP shares have steadily out-performed the HSI. CLP shares have traded in a price range of HK$51.80 to HK$65.00, with the highest closing price of HK$64.65 recorded on 21 October 2010 and the lowest closing price being HK$52.15 recorded on 21 January 2010.

Relative Performance – CLP vs Local Benchmark Indices (1 Jan 2010 – 31 Dec 2010) (Base: 31 December 2009 = 1.0)

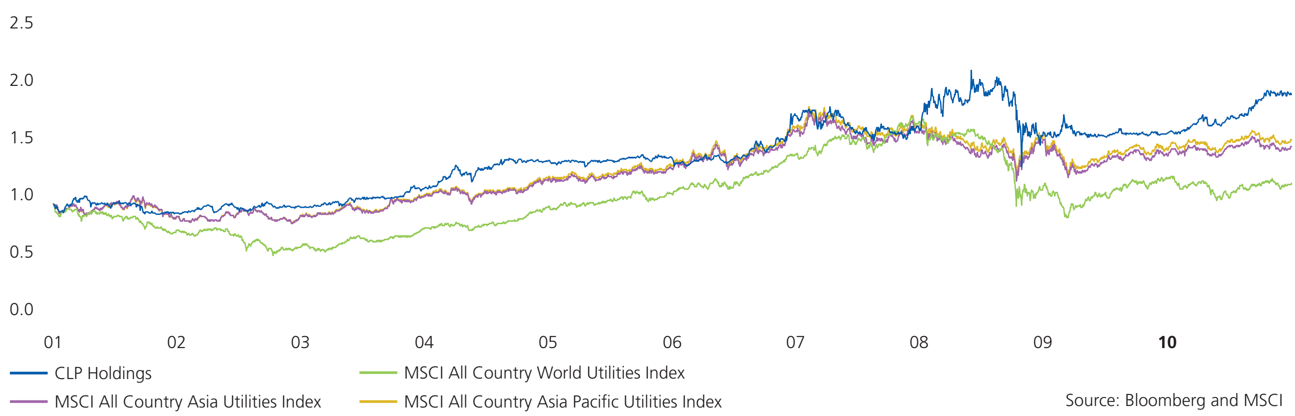


Source: Bloomberg and MSCI

CLP is a Hong Kong-listed stock, with the overwhelming majority of the shareholders having a Hong Kong registered address and with a major part of our earnings coming from our Hong Kong electricity business. Even so, whilst investors may predominately measure CLP's share price performance against other Hong Kong stocks, we know that many shareholders will compare CLP's performance against that of other utility companies, both in Asia and world-wide. This will be increasingly the case as our business grows in markets outside Hong Kong with investors having a choice of shares, those of CLP or other power companies, which they can hold to gain access to those markets.

CLP continues to deliver a strong share price performance, relative to benchmark utilities indices. Since 2002, when we saw a decline in investor confidence in utility stocks relative to other growth opportunities, CLP has consistently out-performed these indices. This, in substantial measure, may be due to our longstanding 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, demonstrating the defensive qualities of CLP stock.

Relative Performance – CLP vs Benchmark Indices (1 Jan 2001 – 31 Dec 2010) (Base: 31 December 2000 = 1.0)

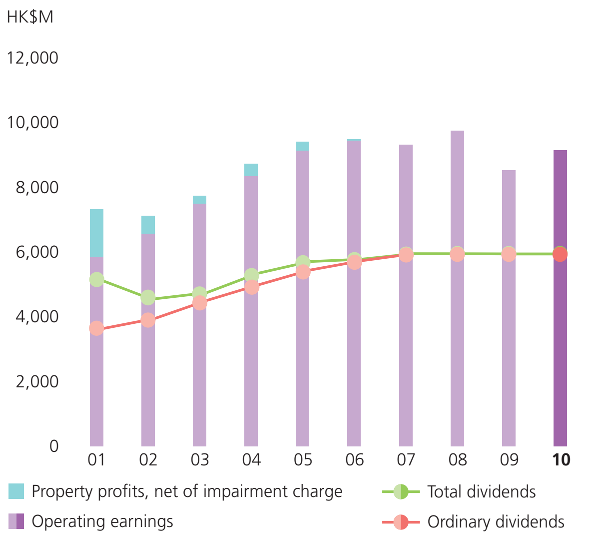


Source: Bloomberg and MSCI

Delivering Shareholder Value – Dividends

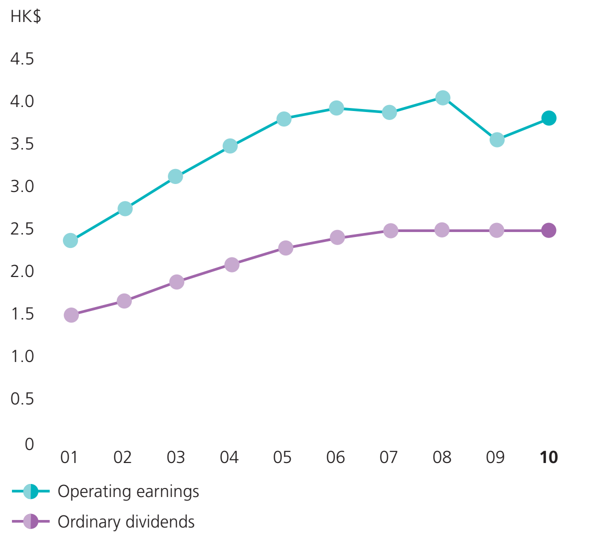
Our longstanding policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Our shareholders, whether institutional or retail investors, have repeatedly emphasised to us the importance they attach to a consistent and substantial dividend stream from their investment in CLP shares. The following charts demonstrate that we have maintained a stable dividend stream despite fluctuations in earnings in recent years. In fact, our annual dividends have not decreased since 1960 – a solid record kept for the past 50 years.

Earnings and Dividends (2001 – 2010)



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 (2001 – 2010)



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

From 1999 to 2008, CLP's ordinary dividend payments were between 60% and 64% of operating earnings. Earnings from the property development at Hok Un and the other property disposal were generally paid out as special dividends. In 2009 our payout ratio rose to 70% of operating earnings, due to a significant decline in earnings compared to 2008, mostly caused by the

Mr. Woo Choi Cheung

As a long-term CLP shareholder, I wish to know whether CLP may consider increasing dividends when it pays out dividends in the coming year?

Shareholder

First of all, I should thank you for your trust and confidence placed in CLP for being our long-term shareholder – in fact I understand you've been a shareholder since you were born. In the past decade, our ordinary dividend payout amount per share has steadily increased from HK$1.42 in 2000 to HK$2.48 in 2010. We have achieved this steady growth in line with a generally increasing operating earnings profile and a dividend payout ratio approximately equal to 60% of operating earnings supplemented by special dividends from extraordinary income as appropriate. With the reduction in the Hong Kong SoC permitted return in 2008, our earnings have reduced. Nevertheless, we have kept the dividend payments steady by increasing our dividend payout ratio.

Moving forward, a major financial objective would be to increase our dividend payments in line with the underlying earnings performance of the business. This very important objective will need to be balanced with our desire to maintain a strong financial position to provide appropriate financing flexibility for investment opportunities and unforeseen events.

Mark Takahashi

Group Director & Chief Financial Officer

substantial reduction in the permitted return under the SoC. This year, with a significant increase in operating earnings, the Board considers that it would be prudent and appropriate, while maintaining a stable dividend stream, to bring the payout ratio back towards the level maintained over the past decade. Accordingly, the Board has recommended a fourth interim dividend payable on 28 March 2011 of HK$0.92 per share. Together with three interim dividends per share of HK$0.52 each paid during 2010, the total ordinary dividend will be HK$2.48 per share, the same as for 2009. This represents a dividend payout ratio for the year of 65% of operating earnings. The tax consolidation benefit from Australia of HK$989 million recorded in the current year brings no immediate cash inflow to the Group, and therefore is not paid out as dividend.

The Board expects that four interim dividends will be payable for 2010. Previously we have paid three interim dividends (June, September and December) and a final dividend (in April, after the Annual General Meeting). The final dividend has always been the largest of our four dividend payments (for example, it represented approximately 37% of our total dividends paid for 2009). In January 2011, we advised shareholders of our intention to better organise our dividend payments to them. Instead of three interim dividends and the final dividend, we are going to move to pay four interim dividends (in June, September, December and March). The advantage will be that shareholders will receive the fourth interim dividend in March, as opposed to the final dividend in April. The timing of payments to shareholders will also be more evenly spread over the year – in March, June, September and December. The fourth interim dividend will, in effect, replace the final dividend (except it will be paid a month earlier). This improved payment arrangement will not affect the total amount of dividends paid to shareholders. The total amount of dividends paid to shareholders over any given year in four interim dividends will be the same as it would have been with three interim dividends and a final dividend.

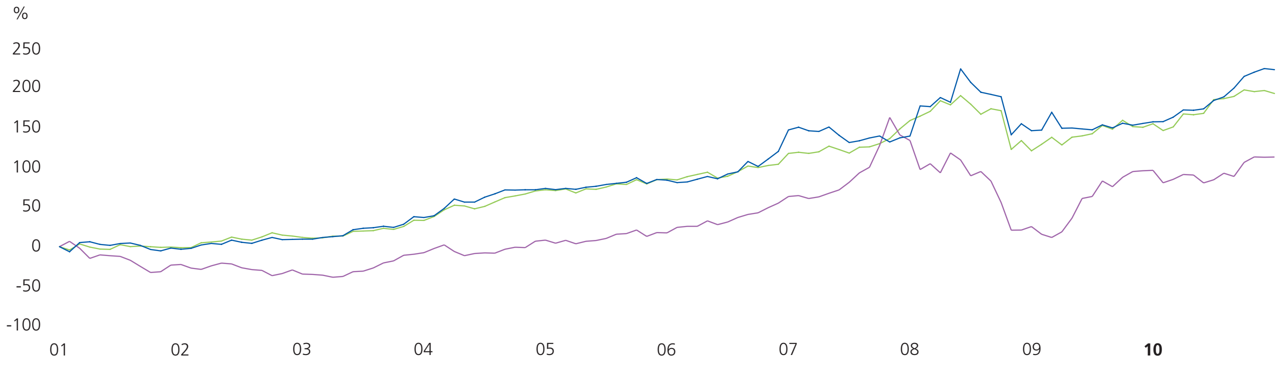
We believe that shareholders will welcome the more even timing of dividend payments over the year and the earlier payment of the fourth dividend. Other well-known companies such as HSBC and Hang Seng Bank already use this approach. We will be introducing this change as from the fourth interim dividend for 2010 (which will be paid on or about 28 March 2011). Our dividend policy and practice is an important matter for the shareholders. Even though this is a positive change for shareholders we believe we should give them an opportunity to express their views. We will, therefore, consult shareholders at our Annual General Meeting in May 2011 on whether we should continue with this new approach in future years.

Mr. Nicholas Allen, one of our independent directors, hosting a shareholders' visit

Delivering Shareholder Value ~ Total Returns

Total returns to shareholders come from the combination of share price appreciation and dividend payments over time. During the past ten years CLP has provided stable growth in total returns when compared with both the HSI and HSUI. During the period from 2001 to 2010, CLP provided an annualised rate of return of 12.42%, as compared to 7.84% and 11.33% for the HSI and the HSUI respectively.

Total Returns – CLP vs HSI and HSUI (2001 – 2010) (Base: 31 December 2000 = 0%)



Source: Bloomberg

As a publicly listed company, we recognise that our shareholders have many investment choices available to them, ranging from other listed shares to bank deposits. We cannot offer a comparison of the total returns from holding CLP shares compared to every other investment available to our shareholders or which they might choose to make. However, the overwhelming majority of our registered shareholders have a Hong Kong presence of some sort (97.78% have their registered address in Hong Kong) and will tend to be either conservative investors or have CLP shares as a conservative component within their investment portfolio. In this year's Annual Report, as in previous years, we have 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 2010, an investor has put HK$1,000 into each of these investments every year. We 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

Type of Investment	Total Investment Worth at 31 December 2010 1-Year Period HK$	5-Year Period HK$	10-Year Period HK$
CLP Shares	1,255	6,981	20,718
Power Assets Holdings (formerly known as Hongkong Electric Holdings) Shares	1,215	6,887	18,990
Hong Kong and China Gas Shares	1,053	6,959	20,713
Tracker Fund of Hong Kong Shares	1,082	6,756	18,945
HK$ 1-Year Fixed Deposits	1,005	5,353	11,382

Adapted from Bloomberg / Reuters

Shareholders – Communication

We are aware that to maintain the trust and confidence of our shareholders we must do our best to ensure that our shareholders are properly informed of the performance of CLP, that there is clarity about CLP's future direction and confidence about the stewardship of CLP's assets on behalf of its shareholders. This Annual Report itself is one of our major channels of communication to our shareholders. There are many others, some of which are listed below.

Our communication with shareholders is not a monologue; it is a dialogue. CLP belongs to its shareholders. They have the right to express their opinions and we have a duty to listen. In 2010 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 790 (982 in 2010). 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 16 investor conferences, and 10 non-deal roadshows to North America, Europe and Asia.
- 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.

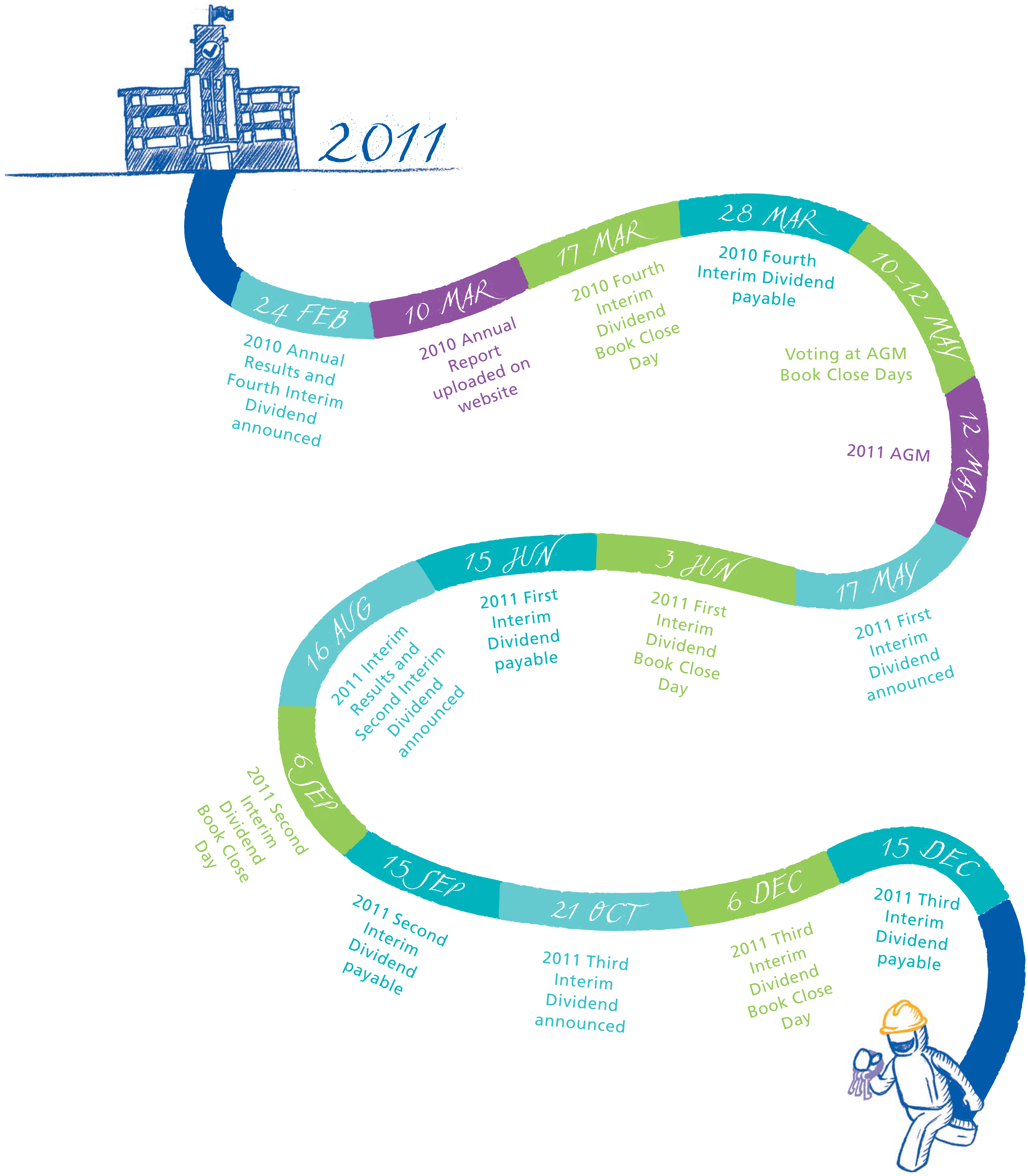
Encouraging feedback

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 November 2010 and May 2011 we expect to welcome about 3,200 shareholders and their guests, during 72 tours to our facilities at Castle Peak 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 lunch hosts of the programme.

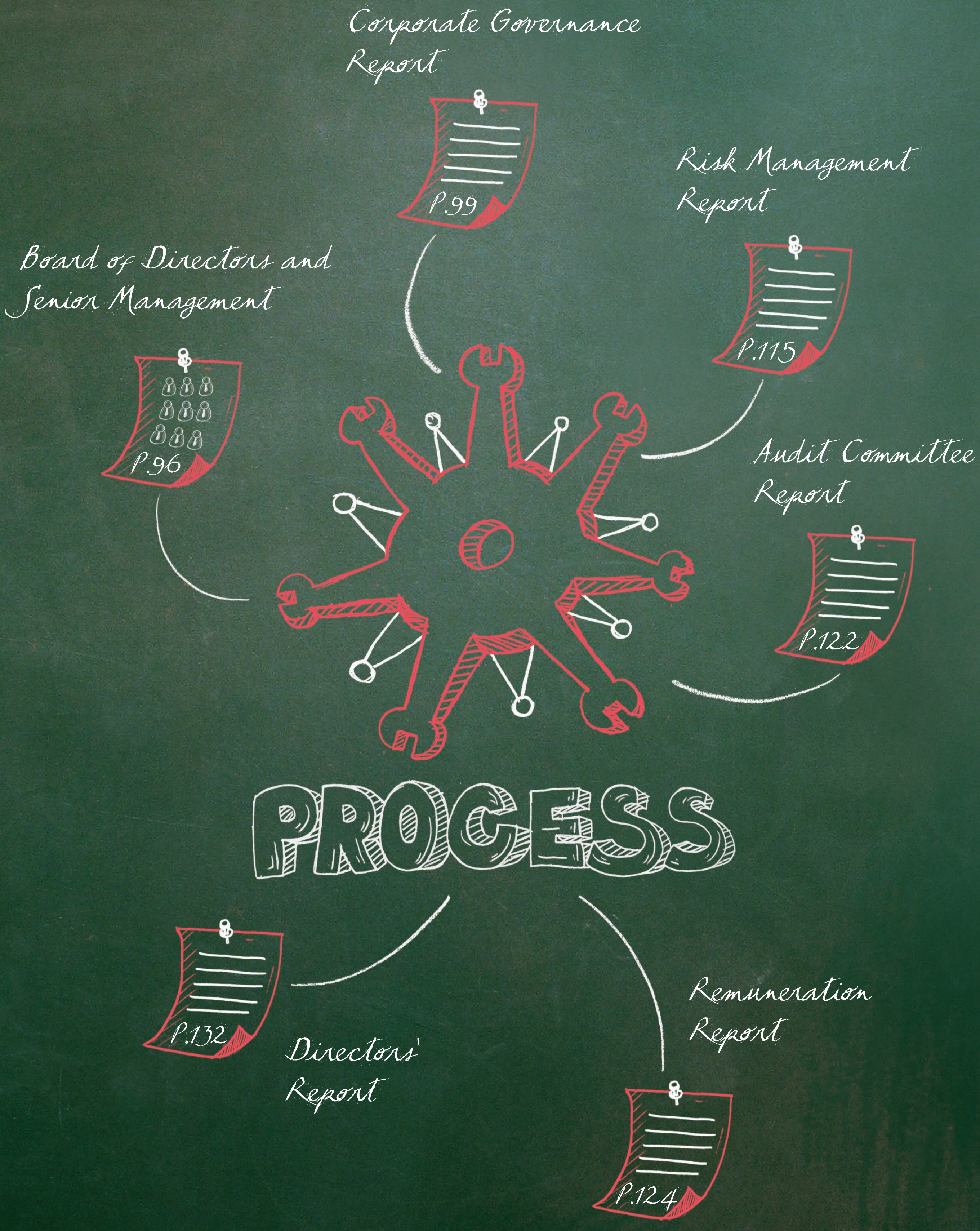
Shareholders – Calendar

Important dates for shareholders in 2011 are set out below. Any changes will be published on our website.



Let us have your views

Any shareholders who have questions or comments on what we are doing on his, her or their behalf, are most welcome to contact us at any time (page 214 explains how). As has been the case for many years past, we will provide an answer to all questions (and post it on our website if this would be of wider interest to shareholders or other stakeholders). Each year the choice of the "Questions and Answers" in our Annual 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. More importantly, we will act upon them whenever this will improve our performance to the benefit of CLP and all the shareholders.



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 69, 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 57, 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. and Kar Ho Development Co. Ltd.; the Deputy Chairman of Hong Kong Pumped Storage Development Co., Ltd.; an Alternate Director of Hutchison Whampoa Ltd., as well as a Director of The Hongkong and Shanghai Hotels, Ltd. and other companies in Hong Kong.

3 Ronald James McAulay

MA, CA, aged 75 (Appointed on 1 January 1968▲)

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

4 John Andrew Harry Leigh

aged 57 (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 Ian Duncan Boyce

FCA, aged 66, 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.

6 Lee Yui Bor

BSc, MSc, PhD, DIC, C.Eng., MIET, FHKIE, aged 64 (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.

7 Paul Arthur Theys

aged 53 (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

8 The Honourable Sir Sze Yuen Chung

GBM, GBE, PhD, FREng., JP, aged 93, 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).

9 Vernon Francis Moore

BBS, FCA, FCPA, aged 64, 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.

10 Loh Chung Hon Hansen

aged 73, 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.

11 Tsui Lam Sin Lai Judy

PhD, MSc, BCom, FCPA, FCPA(Aust.), CA, aged 56, A, S (Appointed on 10 May 2005)

Professor Judy Tsui is currently Vice President (International and Executive Education) of The Hong Kong Polytechnic University (PolyU), Director of the Graduate School of Business and Chair Professor of Accounting at PolyU. 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.


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12 Sir Roderick Ian Eddington

aged 61, 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.

13 Nicholas Charles Allen

aged 55, 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., and a Director of Vinaland 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

14 Andrew Clifford Winawer Brandler

MA, MBA, ACA, aged 54, 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. Immediately prior to joining CLP, Mr. Brandler was Head of Asia-Pacific Corporate Finance at Schroders, the U.K. investment bank, based in Hong Kong. Mr. Brandler was the Chairman of The Hong Kong General Chamber of Commerce from May 2008 to May 2010.

15 Tse Pak Wing Peter

BSc(Eng.), MSc, FCA, FCPA, aged 59, 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.

16 Peter William Greenwood

MA, FCS, FCIS, aged 54, F&G, S
(Appointed on 7 September 2001 and reappointed on 1 March 2007)

Mr. Greenwood holds an MA degree in law from Cambridge University. 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.

A Audit Committee
N Nomination Committee
F&G Finance & General Committee
P Provident & Retirement Fund Committee
H Human Resources & Remuneration 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

Back row from left to right: Mark Jobling, Richard Lancaster, Ko Yu Ming, Richard McIndoe, Rajiv Mishra, Stefan Robertsson
Front row from left to right: Peter Littlewood, Betty Yuen, Peter Tse, Andrew Brandler, Peter Greenwood, Mark Takahashi

Mark Christopher Jobling

Managing Director – Southeast Asia, aged 39

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 49

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.

Ko Yu Ming

Managing Director – China, PhD, aged 55

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.

Richard Iain James McIndoe

Group Director – Managing Director Australia, MA, MBA, aged 46, F&G

Mr. McIndoe became 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 Cambridge University and an MBA degree from INSEAD Business School in France.

Rajiv Ranjan Mishra

Managing Director – India, MBA, aged 45

Mr. Mishra is responsible for the management and development of CLP's business in India. He joined CLP in 2002 and has 15 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.

John Stefan Robertsson

Group Director – Corporate Finance and Development, aged 46

Mr. Robertsson is responsible for corporate finance and development activities throughout the CLP Group. He has 18 years' experience in business development, merger and acquisition, corporate finance, and project finance in the Asia-Pacific region. Mr. Robertsson earned his degree in Financial Economics at the Stockholm School of Economics.

Peter Albert Littlewood

Group Director – Operations, MA, aged 59

Mr. Littlewood is responsible for engineering, construction, operations and fuel procurement activities, and also CLP's carbon venture activities and Research Institute. He joined the CLP Group in 1977 and has over 38 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 Cambridge University.

Yuen So Siu Mai Betty

Vice Chairman – CLP Power Hong Kong Limited, B.Comm., HKICPA, aged 53, 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.

Tse Pak Wing Peter

Group Executive Director

Mr. Tse's biography is on page 97.

Andrew Clifford Winawer Brandler

Chief Executive Officer

Mr. Brandler's biography is on page 97.

Peter William Greenwood

Group Executive Director – Strategy

Mr. Greenwood's biography is on page 97.

Mark Takahashi

Group Director & Chief Financial Officer, BSc (Eng.), MBA, aged 52, F&G, P

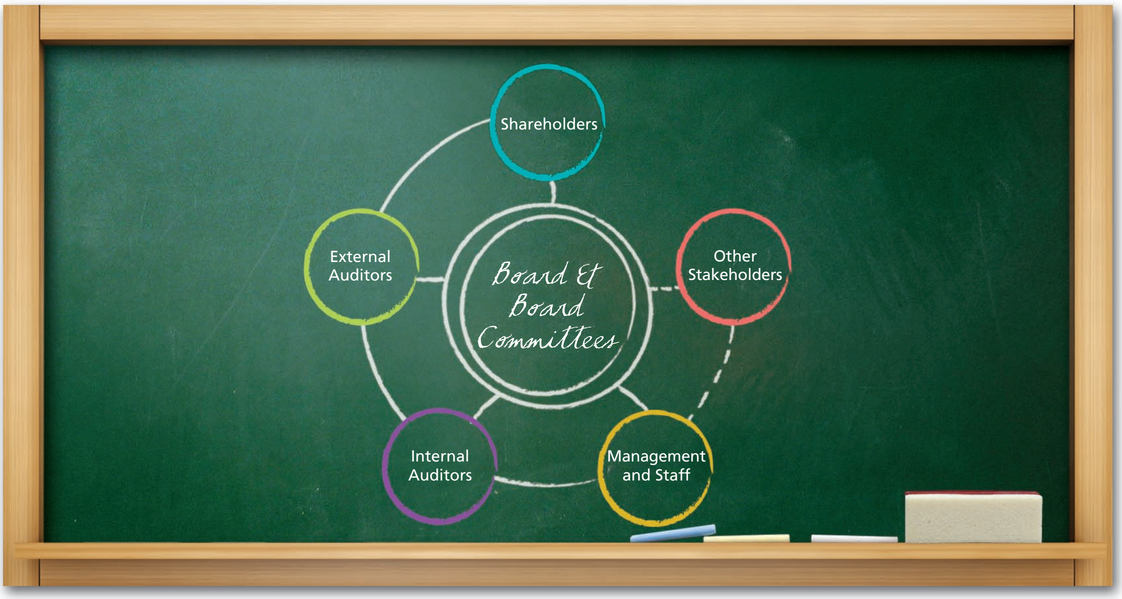
Since his appointment in June 2009 Mr. Takahashi is responsible for group finance, treasury and investor relations. He joined CLP in 2003 and has over 20 years' experience in the power industry in the U.S. and in Asia. He holds an MBA degree from Wharton School, University of Pennsylvania and a BSc degree in Civil Engineering from the University of Colorado.

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

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

Corporate Governance Report

CLP's Corporate Governance Framework is used by us 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.



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.

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 by completing and returning the form enclosed with this Annual Report.

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

The CLP Code incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange Code, save for the single exception specified and explained below. It exceeds the requirements of the Stock Exchange Code in many aspects. CLP has also applied all of the principles in the Stock Exchange Code. The manner in which this has been done is set out in the CLP Code and this Corporate Governance Report. The following are the major respects in which the CLP Code exceeds or meets the Code Provisions and Recommended Best Practices of the Stock Exchange Code.

Exceeds	Meets	
✔✔		CLP has established a Corporate Governance Framework which covers all of the relationships and responsibilities of the external and internal corporate governance stakeholders in a comprehensive and structured way.
✔✔		CLP published a formal Value Framework in 2003, updated in January 2009, which sets out the business principles and ethics underpinning CLP's activities.
✔✔		CLP acknowledges shareholders' rights as set out in the Organisation for Economic Cooperation and Development's "Principles of Corporate Governance".
✔✔		More than one-third of the CLP Board are Independent Non-executive Directors.
✔✔		CLP has adopted its own Code for Securities Transactions by Directors, which is on terms no less exacting than the required standard as set out in the Model Code under Appendix 10 of the Listing Rules. This Code also applies to other "Specified Individuals" such as members of the CLP Group's Senior Management. A copy of this Code is available on the CLP website.
✔✔		In addition to the disclosure of interests of Directors and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions, we disclose Senior Management's interests in CLP Holdings' securities and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions.
✔✔		We issue a formal letter of appointment for Non-executive Directors, modelled on the letter of appointment in the "Higgs Report" in the U.K. on the "Review of the Role and Effectiveness of Non-executive Directors". The model letter is on our website and deals with a range of matters regarding a Director's appointment and responsibilities.
✔✔		The Audit Committee comprises only Independent Non-executive Directors. Three of the four members 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.
✔✔		A representative of our external auditors attends our AGMs and will take questions from shareholders.
✔✔		CLP publishes its annual performance on environmental issues. Our online 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.
✔✔		Our Anti-Fraud Policy 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.

Evolution of CLP's Corporate Governance in 2010

In 2010, 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:

- Improved dividend payment arrangement by introducing the fourth interim dividend (in lieu of the final dividend) to be payable in March – one month earlier than the usual time for payment of final dividend after the AGM
- Developing a group-level risk management framework to enhance integration of current risk management practices across the Group
- Published on the CLP website our Policy on Making Political Contributions – it is the CLP Group's general policy to remain politically neutral
- Shared our expertise and views on corporate governance issues by participating in formal and informal working groups organised by the Hong Kong Stock Exchange, as well as by responding to formal Consultation Papers issued by the Hong Kong Stock Exchange, the Securities and Futures Commission and the Financial Services and the Treasury Bureau
- 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 visit to CLP's business in the Chinese mainland, attending expert presentations and participation in the Shareholders' Visit Programme in Hong Kong – records of time spent by Directors on the development programme are kept by the Company Secretary
- Shared our corporate governance practices across majority-owned as well as wholly-owned subsidiaries in PRC and India

Shareholders

The Board and Senior Management recognise their responsibilities to represent the interests of all shareholders and to maximise shareholder value. The "Delivering Shareholder Value" 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 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 27 April 2010 at the Hong Kong Polytechnic University, Kowloon, Hong Kong. The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Election of Mr. Nicholas C. Allen and re-election of Messrs. V. F. Moore, Hansen C. H. Loh, Peter P. W. Tse, Andrew Brandler and Paul A. Theys and The Hon. Sir Michael Kadoorie as Directors of the Company (96.6724% to 99.6518% in respect of each individual resolution);
- Revised levels of remuneration payable to the Non-executive Directors including Independent Non-executive Directors who serve on the Board and Board Committees (99.9766%);
- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (88.1324%); and
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (99.9691%).

All resolutions put to shareholders were passed at the 2010 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 2010.

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. A representative (usually the engagement partner) of the external auditors also attends the AGM and will take questions from shareholders relating to their audit of the Company's Financial Statements. 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.

We have collected and answered the most frequently asked questions by shareholders regarding their rights as CLP shareholders and the ways in which they can best exercise and enjoy those rights in a "Shareholders' Guide". This Guide and its updates are available on the CLP website.

The "Delivering Shareholder Value" 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 24 February 2011, being the latest practicable date prior to the issue of this Annual Report; and
- a calendar of important shareholders' dates for 2011.

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 2010, 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.

Interacting with our shareholders at the AGM

As at the date of this report, the Board comprises 16 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 six 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 96 and 97 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. Six Non-executive Directors (see page 96) 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 2010, 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 2010, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of at least three Independent Non-executive Directors (CLP had six), 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.

Directors' visit to our Gaotang Hydropower Station in Huaiji

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 2010 are set out in the following table. The overall attendance rate of Directors at Board Meetings was 85.7% (2009: 92.1%).

Directors	Meetings Attended / Held							
	Board[a]	Audit Committee[b]	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Sustainability Committee	AGM
Non-executive Directors								
The Hon. Sir Michael Kadoorie	**4**/6				(c)			**1**
Mr. William Mocatta	**6**/6		**7**/7	**2**/2		**2**/2		**1**
Mr. R. J. McAulay	**5**/6							**0**
Mr. J. A. H. Leigh	**5**/6							**1**
Mr. R. Bischof[d]	**0**/1					N/A		N/A
Mr. I. D. Boyce	**6**/6		**6**/7					**1**
Mr. Jason Whittle[e]	**0**/3							**0**
Dr. Y. B. Lee	**6**/6							**1**
Mr. Paul A. Theys	**3**/6							**0**
Independent Non-executive Directors								
The Hon. Sir S. Y. Chung	**6**/6				(c)			**1**
Mr. V. F. Moore	**6**/6	**4**/4	**5**/7	**2**/2				**1**
Mr. Hansen C. H. Loh	**6**/6	**4**/4			(c)			**1**
Mr. Paul M. L. Kan[f]	**1**/1							N/A
Professor Judy Tsui	**4**/6	**3**/4					**3**/3	**1**
Sir Rod Eddington	**5**/6		**3**/7	**0**/2				**0**
Mr. Nicholas C. Allen[g]	**6**/6	**4**/4	**7**/7	**2**/2			**3**/3	**1**
Executive Directors								
Mr. Andrew Brandler	**5**/5		**7**/7				**3**/3	**1**
Mr. Peter P. W. Tse	**5**/5		**6**/7					**1**
Mr. Peter W. Greenwood	**5**/5		**7**/7				**3**/3	**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) Representatives of the external auditors participated in every Audit Committee meeting held throughout the year.

(c) Review and approval of nomination of Directors' appointment is by circular to all the members of the Nomination Committee. In 2010, Directors reviewed by circular the independence of Independent Non-executive Directors who stood for election / re-election at the 2010 AGM.

(d) Mr. R. Bischof retired as a Non-executive Director and a member of the Provident & Retirement Fund Committee with effect from 1 April 2010.

(e) Mr. Jason Whittle resigned as a Non-executive Director with effect from 1 July 2010.

(f) Mr. Paul M. L. Kan retired as an Independent Non-executive Director with effect from 1 April 2010.

(g) Mr. Nicholas C. Allen was appointed a member of the Human Resources & Remuneration Committee with effect from 1 February 2010.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2010 and in 2011 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 the nomination of Mr. Nicholas C. Allen, Mr. V. F. Moore and Mr. Hansen C. H. Loh for election / re-election as Independent Non-executive Directors at the 2010 AGM.

At the 2011 AGM, The Hon. Sir S. Y. Chung, after having served on the Board for 44 years, will retire and not present himself for re-election. Five 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 and Dr. Jeanne Ng.

Responsibilities and Work Done

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

- 2020 Climate Change Targets;
- potential sustainability initiatives;
- community initiatives performance and stakeholder engagement;
- CLP's position on The Copenhagen Accord;
- the 2009 and 2010 CLP Group Sustainability Reports;
- CLP Group Climate Change Strategy post Cancun; and
- CLP's publication entitled "Our Journey to a Low-Carbon Energy Future".

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 2009 and 2010;
- the CLP Group business plan and budget 2011-2015 and capital allocation reviews;
- China wind energy business plan;
- CLP Group strategy on involvement in hydroelectric projects;
- the extension of the joint venture term of Guangdong Nuclear Power Joint Venture Co., Ltd. and the nuclear power supply arrangement to Hong Kong;
- bids for assets or projects in Australia and India;
- the Group's interest in development projects in China, Thailand and Vietnam;
- sale of CLP's stake in EGCO;
- four interim dividends proposal;
- CLP Group cost of capital study;
- CLP's foreign exchange translation risk exposure; and
- the Company's funding requirement, undertakings, guarantees and indemnities.

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 2009 and 2010 Remuneration Reports, and reviewed

- the Group performance for 2009 and 2010 and Group targets for 2010 and 2011;
- base pay review for 2010 and 2011 for Hong Kong payroll staff;
- annual pay review for TRUenergy and CLP India;
- the Senior Executive Remuneration, including annual incentive payments for 2009 and 2010 and annual pay review for 2010 and 2011;
- the Long-term Incentive Plan for Senior Executives;
- CEO's remuneration;
- CLP India remuneration strategy; and
- Non-executive Directors' fees.

Membership of Provident & Retirement Fund Committee

Mr. William Mocatta (Chairman), 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.

Audit Committee

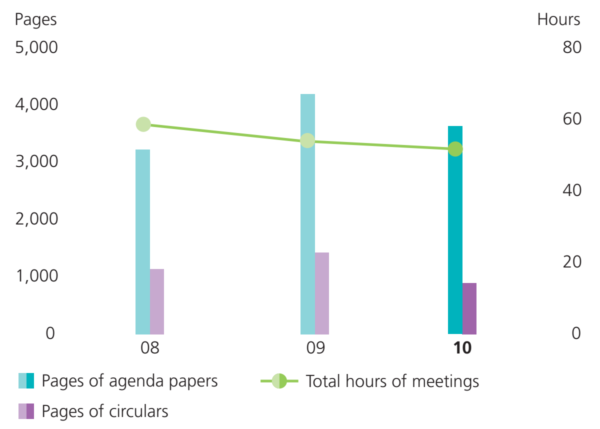
Details of the Audit Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Audit Committee Report at page 122 of this Annual Report.

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 2010, 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 2011 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 96 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 and a record of the participation by individual Directors is maintained by the Company. To indicate the attention given by our Board to the oversight of CLP's affairs, we provide a further chart summarising the duration of those meetings and the volume of papers reviewed by Directors during 2010.

Workload of Board and Board Committees



We have made a deliberate effort to reduce the sheer volume of papers submitted to Directors. This is not easy, given the growth of our business and increasing regulatory requirements, but we have made some progress. 2010 saw a 19% reduction in the paperwork sent to Directors compared to the previous year, without compromising the quality and adequacy of information.

Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2010 are disclosed in the Directors' Report of this Annual Report at page 132. 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 2010 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 2010 are set out in the Remuneration Report at page 124 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 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. It includes procedures for reporting actual or potential violations of the Code ("whistle blowing"). Management and staff receive training on the Code and its implications. Management and staff above a designated level are required to sign annual statements confirming compliance with the Code.

Non-compliance with the Code results in disciplinary action. Disciplinary measures are decided by the relevant line management. These measures are then subject to review and endorsement by a Code of Conduct Committee, which comprises the Group Executive Director, Director – Group Legal Affairs and Director – Group Human Resources, in order to ensure the consistency and fairness of treatment.

During 2010, there were four breaches of the Code. Sanctions applied in 2010 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 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 12 managers, whose biographies are set out on page 98 of this Annual Report) and other "Specified Individuals" such as senior managers in the CLP Group. All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2010 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 132 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 (who resigned on 1 January 2011), the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2010.

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 124 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 staff with professional qualifications (including for example, from the Hong Kong Institute of Certified Public Accountants). 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 2010, 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 the non-audit work meets the criteria as suggested in the Listing Rules and has been pre-approved by the Audit Committee. In addition, there must be clear efficiencies and value-added benefits to CLP from that work being undertaken by the external auditors, with no adverse effect on the independence of their audit work, or the perception of such independence.

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

	2010 HK$M	2009 HK$M
Audit	32	27
Permissible non-audit services		
Due diligence and accounting / tax advisory services relating to business developments	6	7
Other services	4	3
Total	42	37

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.

Young stakeholders at a CLP-supported primary school in Fangchenggang

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:

Control Environment

- Sets tone of organisation influencing control consciousness of its people
- Factors include integrity, ethical values, competence, authority and responsibility
- Foundation for all other components of control

Risk Assessment

- Risk assessment is the identification and analysis of relevant risks to achieving the entity's objectives – forming the basis for determining control activities

Control Activities

- Policies / procedures that ensure management directives are carried out
- Range of activities including approvals, authorisations, verifications, recommendations, performance reviews, asset security and segregation of duties

Information and Communication

- Pertinent information identified, captured and communicated in a timely manner
- Access to internally and externally generated information
- Flow of information that allows for successful control actions from instructions on responsibilities to summary of findings for management action

Monitoring

- Assessment of a control system's performance over time
- Combination of ongoing and separate evaluations
- Management and supervisory activities
- Internal audit activities

Processes (Payroll, Procurement, etc.) **& Business Units**

Under our framework, management (which includes qualified accountants) 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 the key controls to the extent that they will be relied on for the audit.

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 Group Risk Management framework is being developed to improve communication of identified risks within Management, measure the impact of the identified risks and facilitate implementation of coordinated mitigation measures. The way we manage risk is set out in the Risk Management Report at page 115. The Audit Committee is overseeing the development and implementation of the Group Risk Management framework.

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 2010, 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.

In this respect, the Company has 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. These Procedures are available on the CLP website.

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 2010 Sustainability Report, published at the same time as this Annual Report, gives a detailed description of our delivery of social and environmental value in 2010. Our annual Sustainability Reports, complemented by an online version, aim to disclose our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. We shall continue to engage our stakeholders openly and report honestly on our progress in those areas. We welcome constructive and critical feedback.

Reporting via Internet

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

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

Corporate Governance – Continuing Evolution

We make an active, constructive and informed contribution to the ongoing debate on the future shape of corporate governance in Hong Kong. 2010 was a busy year for proposed governance and regulatory reforms. During the year we responded to Consultation Papers issued by the Financial Services and the Treasury Bureau, Securities and Futures Commission and Hong Kong Exchanges and Clearing Limited on matters as varied, complex and, occasionally, controversial as trading hours, price-sensitive information disclosure, draft Companies Bill, scripless securities model, disclosure requirements for qualified property acquisitions 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.

Maintaining a good, solid and sensible framework of corporate governance has been and remains one of CLP's top priorities. We will continue to review and, where appropriate, improve on our corporate governance practices in light of evolving experience, regulatory requirements and international developments.

By Order of the Board

April Chan
Company Secretary
Hong Kong, 24 February 2011

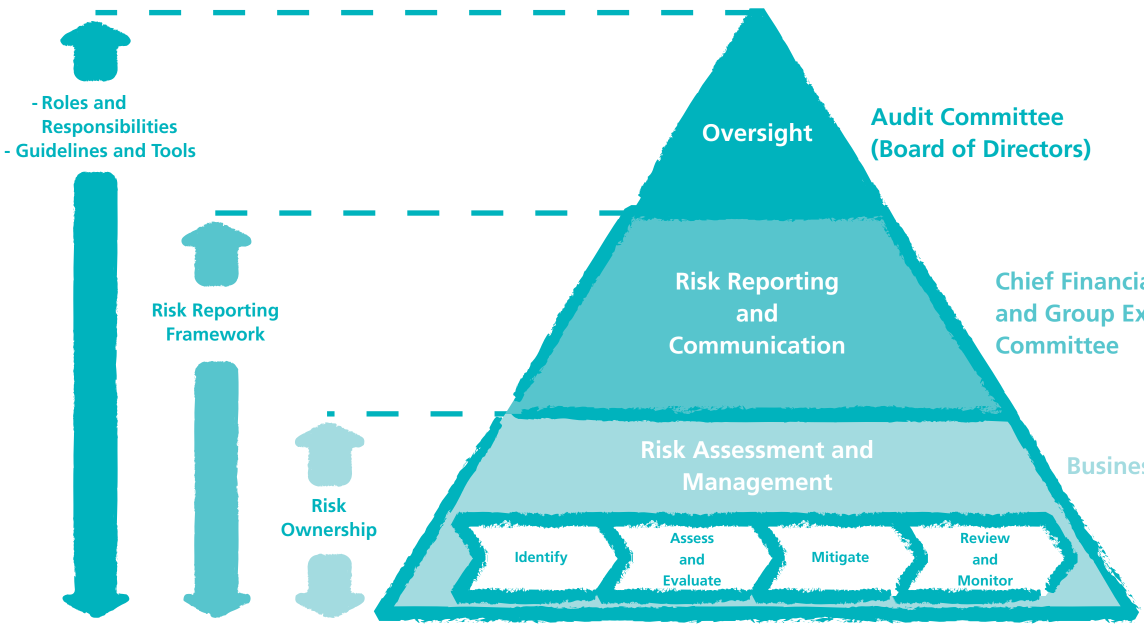
Risk Management Report

Risk management is an integral part of our business planning, implementation and review process. Apart from traditional management of operational risks such as safety and plant integrity, our risk management universe encompasses a broader scope of risks that include strategic, financial, business, reputational and regulatory risks.

Our Current Framework

Our risk management framework provides the Company with a structured approach that is anticipatory and effective at:

- Business Unit level – the majority of risk ownership takes place at this level. Our risk management framework facilitates the identification, evaluation, and management of much of the Company's exposure to risks, both existing and emerging;
- Chief Financial Officer and Group Executive Committee level – communicating and scrutinising top tier risks, that is to say those risks reported from Business Units and considered material at the Group level, and approving associated mitigation plans and progress; and
- Audit Committee, acting on behalf of the Board – overseeing those risks that warrant the Committee's attention and stewarding the risk management framework implementation process as an element of good corporate governance.



Risk Management in 2010

In last year's Report we mentioned that we had established a group-wide risk management function. Risk management had historically been conducted at a business unit level. The creation of a centralised function was designed to enhance risk management activities, both at the Group and business unit level, by bridging any gaps, improving practices through cross-sharing, and streamlining the roll-up of risk information to Senior Management. Our major initiatives in 2010 were as follows:

- Implemented group-wide survey on status of risk management implementation and arrangements by individual business units with identification of areas for improvement
- Opened up networking channels, both within the Company and with risk managers from peer organisations, sharing risk management tools and best practices in risk management
- Enhancement of risk management policy and framework in Australia and development of risk framework for India
- Development of Group level framework as an umbrella for business unit level frameworks
- Commencement of risk mapping exercise at CLP Holdings to review and identify those risks relevant to the Group level and corresponding mitigation plans
- Transfer of Insurance under the oversight of Group Risk Management to better align insurance activities, as a risk management tool, with ongoing risk identification and risk retention analysis
- Reinforced bottom-up risk reporting from business units. This has enabled systematic evaluation and identification of material Group level risks for top-down oversight by Senior Management and the Audit Committee

This Risk Management Report presents a selection of those top-tier risks which have come up regularly in our review process. All these risks are integral to our day-to-day operations and to the achievement of our business objectives. They are, therefore, also discussed elsewhere in this Annual Report. In this Report we seek to convey our awareness of the types of material risk that the Group faces and how we manage these risks.

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.

The way we manage

- We manage these risks through periodic reviews, treasury and risk management policies and enforcement through standardised approval and review procedures, rather than taking a view on future financial market movements.
- We prohibit speculation and / or trading (except for limited trading activities conducted by TRUenergy) using derivative instruments and do not permit using investment or hedging instruments with leveraged or structured features.
- We rely on effective, vanilla type of derivatives to minimise the impact of rate and price fluctuations on earnings, reserves and tariff charges to customers.
- We adopt 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) methodology and stress testing techniques.
- Our philosophy is to contract out financial risk exposure to qualified, creditworthy financial institutions with appropriate exposure limits, so that CLP's Management can focus on delivery of good business performance.

Each of these financial risks and the associated mitigation measures are discussed in detail under "Financial Risk Management" in the Financial Statements on pages 198 to 206.

Mr. Mark S McCombe, OBE

CLP is well positioned to take advantage of growth opportunities resulting from the rapidly increasing energy demand in the APEC region, stemming mainly from China, and the corresponding new infrastructure investment in energy which is required to meet this demand. What are CLP's key investment criteria for devoting capital to new projects, investments or developments?

Chief Executive Officer Hong Kong, The Hongkong and Shanghai Banking Corporation Limited

This is an important question which comes up regularly and which calls for a consistent reply.

When considering whether to allocate capital to a possible investment we start by asking ourselves whether the investment is aligned with the overall Group strategy and with the relevant individual country strategy. Compatibility with our carbon emissions reduction targets plays a role here.

We then consider whether the investment is one where CLP will have a reasonable degree of control and which presents an opportunity to use the CLP capabilities described earlier in this Annual Report.

Next we look at the project 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.

Finally, we evaluate the local regulatory risk and relevant policy. This will include an assessment of the fairness, consistency and stability of existing policy and the risks and uncertainties of potential policy change. The current uncertainty in Australia regarding carbon policy is an example of policy issues affecting investment in new generating capacity.

Andrew Brandler

Chief Executive Officer

Climate Change Risk

Climate change poses an unprecedented global challenge. Governments are taking a more active role in regulating this issue, with regulation occurring in many forms: carbon taxes, regulation of greenhouse gas emissions, direct aid, cap-and-trade and tax incentives. The world's governments have not yet developed a consistent view or methodology on how to tackle this problem. At the same time, most renewable energy projects continue to need government support or incentives to be economically viable as a major source of electricity. Developments in national policies may also impact our business. For example,

- In November 2009, the Chinese Central People's Government announced voluntary national targets to reduce carbon intensity by 40 to 45% (relative to GDP) by 2020 as compared to 2005 levels.
- Following the Central People's Government initiatives, the HKSAR Government has proposed carbon intensity reduction targets from their 2005 levels by 50 to 60% by the year 2020. The Government expects this to involve a change in fuel mix from 55% coal-fired generation to 50%:40%:10% (nuclear, gas and coal respectively).
- In Australia, the Federal Government is exploring options for a carbon policy. At the state level, Victoria introduced a Climate Change Bill in 2010. This sets a 20% reduction target in Victoria's greenhouse gas emissions by 2020, although the means of implementation are presently unclear.

The way we manage

- The CLP Group has taken a proactive stance. In our Climate Vision 2050 issued in 2007, we committed ourselves to voluntary targets for reduction in carbon intensity. We evaluate these periodically. In December 2010 we set more ambitious new targets for 2020.
  - Our new targets will see at least 30% of our generation portfolio coming from non-carbon emitting sources by 2020, of which 20% will be renewable. The details are set out in "Our Journey to a Low-Carbon Energy Future".
  - Why the increase? We have surpassed our 2010 targets for adding renewable generation to our portfolio and have met our 2010 carbon reduction targets, so we decided to quicken the pace of our reduction programme.
  - Despite uncertainty over climate policies and regulations, we believe that this issue is increasingly urgent and important.
- We are actively addressing the impact of national policies on climate change. For example,
  - In China we are reweighting our generation portfolio towards renewable energy and nuclear energy
  - In Hong Kong CLP is well-prepared to support the HKSAR Government's fuel mix targets and is exploring opportunities to make this a reality. We are engaged with the HKSAR Government to ensure that such a transition is done in a commercially and operationally viable manner with as little disruption as possible to the Hong Kong public.
  - In Australia despite the Federal Government's difficulty in coming to a landing on definitive policy and legislation, we are developing new low carbon generation with an eye to the future, whilst remaining closely engaged with the Government to ensure that whatever policies develop can be sensibly and effectively implemented.
- Each time we consider a new investment, its contribution to the carbon intensity of our portfolio is a factor in the pre-investment assessment. A significant negative impact on our carbon targets can be and has been a reason not to proceed with an otherwise financially attractive investment.
- We look to improve the efficiency of our existing assets where possible with a view towards continuous improvement in reducing our carbon intensity.

Fuel Supply Risk

A significant proportion of the Group's portfolio is baseload thermal generation, leaving us potentially exposed to disruptions in fuel supply as well as price fluctuations in commodity markets. For example, in markets such as our TRUenergy business in Australia, long-term tariff and off-take arrangements are often not available and we operate in a competitive merchant electricity and gas industry. Here, fuel price volatility can leave us extremely exposed.

Our ability to manage fuel supplies, primarily coal and natural gas, significantly affects our profitability as well as our ability to supply reliable power to our customers. For instance, in India, domestic coal supplies can be insufficient to address the increasing demands for power generation.

The way we manage

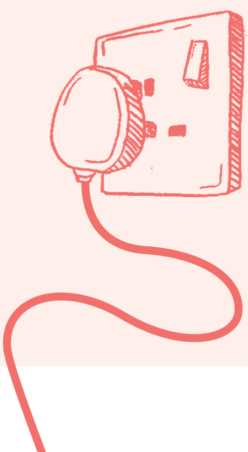
- In many of our markets, we focus on securing long-term fuel supply contracts when available and long-term tariff and off-take agreements which allow us to recover fluctuations in prices for fuel consumed.
- We explore back-up sources and alternative arrangements on an ongoing basis for assets with possible shortfall or disruptions of local supply.
- We aim to design our plant to burn a wider range of coal and gas types, giving us more flexibility when tight supply arises.
- In Australia we have sought to vertically integrate our business by owning some of our own coal and gas supply facilities. Hedging products may also be used by us to help mitigate some of our underlying exposure.
- In India we are taking prudent steps to arrange standby supply from imported sources well in advance of commissioning our Jhajjar project, even though we have an official allocation of coal from the Government.
- In Hong Kong we are in the process of securing multiple sources of natural gas to replace the depleting Yacheng gas fields currently supplying us. Both piped natural gas from the West-East pipeline as well as LNG from nearby Shenzhen are planned sources of supply. We are exploring back-up supply from other LNG facilities. We are retrofitting our gas turbines to accept a wider range of natural gas specifications, giving us further flexibility. Our Hong Kong operations also have sufficient redundancy and diversity in the generating portfolio to ensure the reliable generation of electricity to our customers in the event of anomalous disruptions to any one type of fuel.

Information Technology Risk

Information technology (IT) has developed alongside the growth of our industry. Its effectiveness and security are essential for us to maintain reliable delivery of electricity and billing services to our customers. It is also critical for energy trading and hedging activities where integrity and availability of data are essential. CLP also considers the leak of any confidential customer information to be of the utmost seriousness.

The expansion of our Australia business, in particular, requires evolving IT solutions for this increasingly competitive business.

- Our recent acquisition of the EnergyAustralia retailer in NSW results in almost a doubling of customer accounts that we must transition to our own IT systems.
- We are developing an improved IT platform in Australia to process our back office requirements. Whilst the dual tasks of on-time delivery of the project as well as integration of the new customer load is a daunting challenge, we are putting significant resources to this end in line with the critical importance of success.
- Smart grid and smart meters have been in the spotlight around the world and implemented at varying levels to support renewable generation, enhance dispatch control, transmission and distribution resilience, and engage customers in energy saving and demand management. In Australia, we are tracking both new technologies and the accompanying regulatory regime to help us develop and improve our IT systems, thereby enhancing our value to customers. Roll-out and implementation of large scale IT developments requires resources and project management skills – all of which we allocate to such critical operations.



The way we manage

- There is a dedicated IT function within each major subsidiary. Controls are in place to ensure adequate redundancy, data back-up, business continuity plans, vulnerability testing, as well as password and encryption policies.
- We implement rigorous control procedures related to data loss, data corruption, and data privacy.
- We benchmark IT best practices in the power industry.
- We include IT requirements and resource allocation at project or investment planning stage.
- Our research into new IT solutions offers us opportunities to enhance business performance.
- In the implementation of IT projects, we emphasise effective project management of outside vendors.

Reputational Risk

A company's reputation is an embodiment of all its values and corresponding actions: a reliable provider of a safe and quality product, a good employer, a leader in the community, an open and honest participant in society.

- Given the wide geographical distribution of our businesses, the Company has a variety of external stakeholders including customers, investors, employees, governmental institutions, legislators, regulatory bodies and non-government organisations – often with diverse views.
- These stakeholders have high expectations of us. These expectations may be unrealistic, may differ amongst stakeholders and may change from time to time.
- We are long-term investors in many locations throughout the Asia-Pacific region, often in remote and underdeveloped areas. If we do not respect the cultures and values of local communities where we have a presence, we may lose their trust and, with it, our ability to operate effectively within that community.

The way we manage

- We implement our values, corporate governance, transparency and sense of responsibility in all our activities.
- We build strong and continuing relationships with key stakeholders, based on genuine understanding and trust. We are dedicated to active stakeholder engagement and welcome debate and questions about our activities.
- In our experience, transparency and education are vital tools in cultivating our reputation. We strive to educate stakeholders as to our position and to be transparent in our processes. For example, we are working with our local partners, such as CGNPC and Chinese Government authorities, to improve incident reporting and education of the public on issues sensitive to stakeholders, such as nuclear safety.
- We take the views of stakeholders, internal and external, into account in our strategic planning and decision making processes.
- We engage with stakeholders on a wide range of issues, tapping a broad array of sources and social media – especially given the rapidly changing pace of technology and communication in today's society.
- We make investments and encourage employee participation in community programmes that reflect local needs. This includes initiatives such as volunteering, community partnerships, school building and health programmes – demonstrating our commitment to community welfare.

Human Resources

We could not succeed without a stable, loyal and experienced workforce. Their combined talents, skills, knowledge, and commitment shape the company's long-term success. However, this long-term view of our employees' value has also resulted in a relatively high average age and an increased exposure to loss due to retirement, especially for key executives and specially qualified personnel.

In some of the countries where we operate, we may be a newer or smaller employer in the market and face competition in attracting qualified and talented personnel. Countries like India are growing at such a rapid rate that the average turnover for new employees is significantly higher than we are used to in our Hong Kong business.

The way we manage

- We develop long-term plans ahead of retirement trends, particularly for those skills specific to the power industry that cannot be readily sourced in the labour market.
- We are enhancing our knowledge of the local labour markets where we operate as we grow our businesses overseas and continue to benchmark ourselves to become an attractive employer of choice everywhere we have a presence. We staff each business with dedicated local human resource specialists.
- We have ongoing university and graduate level recruitment schemes, trainee / apprentice programmes, and other supply-side initiatives.
- We provide career development opportunities and stimulating training programs to develop employees' fullest potential. We hold regular succession planning exercises to identify young high potential managers.
- We create an environment where our team knows that they are valued as people and that they are encouraged to have a work-life balance. Having staff that enjoy working at CLP enhances our status as an "employer of choice".

Safety

Nobody should get hurt as they perform their work. Our obligations in this regard extend beyond our own employees to our partners, contractors, and anyone who legitimately enters any of our facilities. There are many safety and health hazards inherent in electricity transmission and distribution systems and in the construction and operation of power plants. We are constantly challenged by prevailing local cultures that have difficulty adapting to our safety standards, but we must continue to strive to make our facilities injury-free.

The way we manage

- We bring commitment and attention to safety at the highest levels of the Company to ensure a safe working environment for all our employees, contractors and customers who come into contact with our facilities.
- Safety is our foremost priority. We reinforce this throughout all of our business units and plant under operation and construction with a Group-wide zero tolerance standard and established safety practices. These practices undergo regular review as we strive to improve towards zero injuries.
- Through implementation of the Group Safety Roadmap we enhance safety management across the Group through application of zero tolerance standards and rigorous education and training.
- Group-wide guidelines for safety practices are taught in training sessions throughout CLP, including to contractors and joint venture partners and on any new site.
- We have stepped up our inspection and audit regime to improve safety standards performed at site and promote safety leadership of supervisors and managers.
- We reinforce reporting, investigation and incident sharing activities to spread knowledge and awareness throughout the Group to prevent incident recurrence.
- We include safety performance as a target which affects Management's remuneration.

The Way Ahead

As our business grows in size and complexity, our risk management framework must be strengthened to help assure the continued communication of risks and mitigation plans to the appropriate levels of management. This process must include user-friendly tools to facilitate bottom-up identification of risks. The initiatives for 2011 are set out below. They will reinforce the three pillars of our risk management framework – People, Process, and Technology.

Risk Management Framework and Activities

People

- Establish network of business units' risk managers and risk coordinators
- Reinforce risk ownerships

Process

- Define risk appetite
- Document risk management policy and guidelines as minimum requirements across the Group
- Integrate risk management into business planning process
- Standardise risk reporting format
- Complete the CLP Holdings Risk Mapping kicked-off in 2010 with risks inventory and related mitigation plans being reviewed

Technology

Develop IT solution for:

- Risk records repository and review;
- Risk control measures assurance and monitoring;
- Management reports on risk mitigation plan implementation; and
- Risk profiling.

In next year's Risk Management Report we will present the status of Risk Management Framework and Activities as well as the evolution of the Group's risk profile.

Mark Takahashi
Group Director & Chief Financial Officer
Hong Kong, 24 February 2011

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, including membership of the Hong Kong Institute of Certified Public Accountants (HKICPA), and experience in financial matters. Mr. Hansen C. H. Loh has wide business experience. The Board has given the Committee written terms of reference prepared by reference to "A Guide for Effective Audit Committees" published by the HKICPA, and updated by reference to the Hong Kong Stock Exchange's "Code on Corporate Governance Practices" (the Stock Exchange Code). 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 regularly meets four times per annum so that full attention can be given to the matters submitted. Special meetings may be called by its 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, to whom minutes of all meetings are sent. The 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 2010 and 24 February 2011 (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 2010, 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 2010. Individual attendance of members at the four meetings held in 2010 is set out in the Corporate Governance Report on page 105. The work performed by the Committee in 2010 included reviews of

- the 2009 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 2010 Interim Report including the CLP Group Interim Financial Statements for the six months ended 30 June 2010 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 2009 and throughout the six months ended 30 June 2010. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 101 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 2009. 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, save as disclosed under Note 32 Contingent Liabilities in the Financial Statements*;
- 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 2009*;
- 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 2009, 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 2009 for approval by the Board, with a recommendation to the Board for their reappointment for the financial year 2010, subject to final approval by shareholders* (which was given on 27 April 2010);

- the audit strategy submitted by external auditors, PricewaterhouseCoopers (PwC) for the year ended 31 December 2010;
- the proposed engagement of external auditors in respect of audit-related and permissible non-audit services*;
- 23 reports on the CLP Group's affairs submitted by Group Internal Audit during 2009. Of these, two 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, as well as peer review of its operation and effectiveness;
- the Group internal audit review of 2009 and audit plan for 2010 with areas of emphasis identified;
- internal control review approach for 2010. 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 2010. None of the four breaches of the Code involved senior managers or was material to the Group's financial statements or overall operations;
- management development and succession planning for key finance, accounting and internal audit positions within the CLP Group and the training programmes for those functions;
- status of Project Odyssey (TRUenergy's retail customer service and billing platform); and
- strengthened organisation, methodology and reporting of risk management at a Group level.

At its meeting on 15 February 2011, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2010 and the annual results announcement with a recommendation to the Board for approval. The Committee was advised that 2 out of 24 reports on the Group's affairs submitted by Group Internal Audit during 2010 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 2010 and audit plan for 2011, 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 2010.

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 2010 continue to be effective and adequate. Significant issues which have been raised by external or internal auditors during 2010 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 111 to 113. 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 2010 AGM. PwC audit all companies in the CLP Group which require statutory audit opinions. Having reviewed PwC's performance during 2010 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 AGM. A resolution to that effect has been included in the Notice of AGM.

Vernon Moore

Vernon Moore
Chairman
Audit Committee
Hong Kong, 24 February 2011

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, in the highlighted boxes below, comprise the "auditable" part of the Remuneration Report and have been audited by the Company's Auditors.

2. Policies

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

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

3. Non-executive Directors – Principles of Remuneration

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

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

In light of these considerations, CLP's Non-executive Directors are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. Those fees were most recently reviewed at the beginning of 2010 (the 2010 Review). The methodology adopted in the 2010 Review is the same as that explained to shareholders in the CLP Code. The methodology is aligned with the recommendations of the Higgs Report and includes

- the application of an hourly rate of HK$4,500 as an average of the partner rates charged by legal and financial advisors and accounting and consulting firms in providing professional services to CLP;
- the calculation of the time spent by Non-executive Directors on CLP's affairs (including attendance at Board and Board Committee meetings, reading papers, etc.); and
- an additional fee of about 40% and 10% per annum for the Chairmen of the Board / Board Committees and the Vice Chairman of the Board respectively (reflecting the additional workload and responsibility which these offices involve).

The resulting fees were then benchmarked against those paid by leading listed companies in Hong Kong and major utility companies listed on the London Stock Exchange. The methodology and resulting fees were independently reviewed by Stephenson Harwood (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 approved by our shareholders at the AGM 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. These levels of fees have taken effect from 28 April 2010 and were paid to Directors on a pro rata basis for the financial year ended 31 December 2010.

	Fees per annum (w.e.f. 28 April 2010) HK$	Fees per annum in 2009 and up to 27 April 2010 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 is payable to 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.

4. Total Directors' Remuneration in 2010

The total remuneration of Non-executive and Executive Directors in 2010 was:

	2010 HK$M	2009 HK$M
Fees	8	7
Base compensation, allowances and benefits in kind	17	16
Performance bonus*		
– Annual incentive	16	13
– Long-term incentive	3	4
Provident fund contributions	2	2
	46	42

* Refer to Note A on performance bonus on page 127.

Of the total remuneration paid to Directors, HK$5 million (2009: HK$2 million) has been charged to the SoC operation.

5. Non-executive Directors – Remuneration in 2010

The fees paid to each of our Non-executive Directors in 2010 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below. The increase in total Directors' fees, compared to 2009, was due to the increase in the levels of Non-executive Directors' fees with effect from 28 April 2010.

Higher levels of fees were paid to Chairmen and Vice Chairmen 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	Total 2010	Total 2009
Non-executive Directors									
The Hon. Sir Michael Kadoorie	518,329 (C)	–	14,000 (C)	–	–	–	–	532,329	465,878
Mr. William Mocatta(1)	407,945 (VC)	–	–	333,904 (C)	43,397 (C)	14,000 (C)	–	799,246	625,409
Mr. R. J. McAulay	371,151	–	–	–	–	–	–	371,151	310,000
Mr. J. A. H. Leigh	371,151	–	–	–	–	–	–	371,151	310,000
Mr. R. Bischof(2)	76,438	–	–	–	–	2,466	–	78,904	320,000
Mr. I. D. Boyce	371,151	–	–	239,932	–	–	–	611,083	337,799
Mr. Jason Whittle(3)	169,507	–	–	–	–	–	–	169,507	310,000
Dr. Y. B. Lee	371,151	–	–	–	–	–	–	371,151	326,409
Mr. Paul A. Theys	371,151	–	–	–	–	–	–	371,151	326,409
Independent Non-executive Directors									
The Hon. Sir S. Y. Chung	371,151	–	10,000	–	–	–	–	381,151	320,000
Mr. V. F. Moore	371,151	284,548(C)	–	239,932	33,397	–	–	929,028	715,000
Mr. Hansen C. H. Loh	371,151	204,164	10,000	–	–	–	–	585,315	480,000
Mr. Paul M. L. Kan(4)	76,438	–	–	–	–	–	–	76,438	310,000
Professor Judy Tsui	371,151	204,164	–	–	–	–	48,589	623,904	521,409
Sir Rod Eddington	371,151	–	–	239,932	33,397	–	–	644,480	495,000
Mr. Nicholas C. Allen(5)	371,151	204,164	–	239,932	30,849	–	48,589	894,685	334,360
Mr. Peter T. C. Lee(6)	–	–	–	–	–	–	–	–	297,554
Ms. Marjorie M. T. Yang(6)	–	–	–	–	–	–	–	–	18,633
							Total	7,810,674	6,823,860

Notes:

(1) Mr. William Mocatta also received HK$322,000 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 2009, he received HK$281,696 as fees for his service on the boards of these companies.

(2) Mr. R. Bischof retired as a Director and a member of the Provident & Retirement Fund Committee with effect from 1 April 2010.

(3) Mr. Jason Whittle resigned as a Director with effect from 1 July 2010.

(4) Mr. Paul M. L. Kan retired as a Director with effect from 1 April 2010.

(5) Mr. Nicholas C. Allen was appointed a member of the Human Resources & Remuneration Committee with effect from 1 February 2010.

(6) The fees paid to the late Mr. Peter T. C. Lee and to Ms. Marjorie M. T. Yang (a former Director) are included in the table, solely for the purpose of comparing the total fees paid to Non-executive Directors in 2009 with those in 2010.

6. Executive Directors – Remuneration in 2010

The remuneration paid to the Executive Directors of the Company in 2010 was as follows:

	Base Compensation, Allowances & Benefits HK$M	Performance Bonus (Note A) Annual Incentive HK$M	Long-term Incentive HK$M	Provident Fund Contribution HK$M	Total HK$M
2010					
CEO (Mr. Andrew Brandler)	6.9	6.8	2.1	0.9	16.7
Group Executive Director (Mr. Peter P. W. Tse)	4.7	4.0	1.3	0.6	10.6
Group Executive Director – Strategy (Mr. Peter W. Greenwood)	5.1	5.1	–	0.6	10.8
	16.7	15.9	3.4	2.1	38.1
2009					
CEO	6.8	5.8	2.2	0.8	15.6
Group Executive Director	4.6	3.3	1.4	0.6	9.9
Group Executive Director – Strategy	5.1	3.8	–	0.6	9.5
	16.5	12.9	3.6	2.0	35.0

Note A:

Performance bonus consists of (a): annual incentive and (b): long-term incentive.

(a) The annual incentive for the Executive Directors and the members of Senior Management for 2010 was reviewed and approved by the Human Resources & Remuneration Committee after 31 December 2010. 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 2010 for the last year in excess of the previous accruals made.

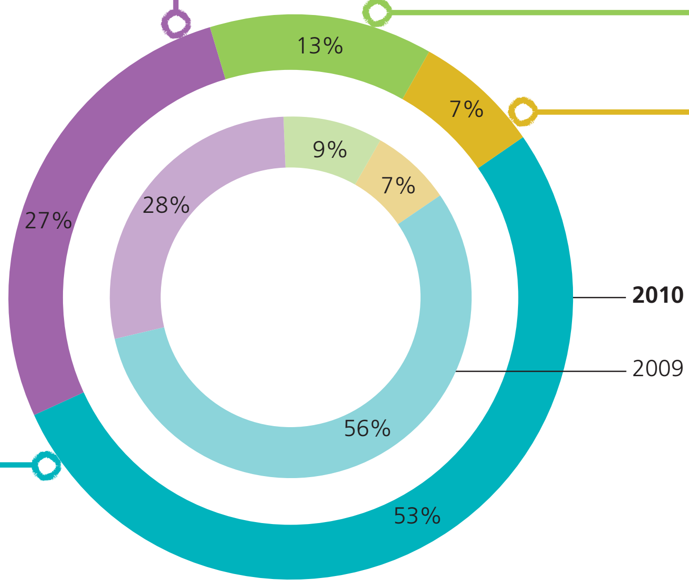
(b) The long-term incentive is the incentive for 2007, paid in 2010 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2006 paid in 2009). About 8% of the amount of 2007 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2007 and 2009, with dividends reinvested.

(c) Payment of the annual incentive and granting of the long-term incentive awards relating to 2010 performance will be made in March 2011. 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 2010 Annual Report is published.

The Group does not have, and has never had, a share option scheme. No Executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of six months or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind.

7. Senior Management – Principles of Remuneration

For the purposes of this Section, Senior Management means the managers whose details are set out on page 98. 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 target total remuneration which each component represented in both 2009 and 2010.



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.

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 in 2010.

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, operational and other 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 27% of his / her total remuneration in 2010. 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 2010, based on an assessment of the 2009 performance of the Group and the individuals concerned. The average payout to this group in 2010 was 91% above the target level based on the above target achievement of financial goals, operational and other performance targets and individual objectives for 2009.

Long-term Incentive

Awards under the Long-term Incentive (LTI) plan are based on organisational and individual performance and support the retention of Senior Management.

The Human Resources & Remuneration Committee has approved an increase in the target LTI award from 16.67% of base salary to 25% in 2010 and from 25% to 33.3% in 2011. Consequently, LTI as a percentage of total remuneration increased from 9% in 2009 to 13% in 2010. The rationale for this change is to align this LTI element of senior executive remuneration more closely with international market practice, and ensure that our total remuneration package remains competitive.

The whole of the increase in LTI is allocated to the phantom share element of the scheme. Consequently, the cash deposit option will reduce from a maximum of 50% of the award in 2009 to 33% in 2010 and 25% in 2011.

The following diagram illustrates the composition of the LTI award:

Target LTI award set at the beginning of 2010

×

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 67% 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 33% is allocated to a notional cash deposit

Payment of LTI award will be made in 2013

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.

In determining the annual and long-term incentive awards to Executive Directors / Senior Management, the Human Resources & Remuneration Committee takes into account a broad range of measures of Group performance. These include not only measures of financial and operational performance, but also safety and environmental performance and corporate governance in order to arrive at a balanced overall assessment of performance.

8. Senior Management – Remuneration in 2010

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	Final Payment** HK$M	Other Payments HK$M	Total HK$M
2010							
Group Director & Chief Financial Officer (Mr. Mark Takahashi) [(a)]	4.0	4.2	1.1	0.5	–	–	9.8
Vice Chairman – CLP Power Hong Kong (Mrs. Betty Yuen) [(b)]	3.2	3.9	1.6	0.4	–	–	9.1#
Group Director – Managing Director Hong Kong (Mr. Richard Lancaster) [(b)]	4.1	3.1	0.7	0.5	–	–	8.4##
Group Director – Managing Director Australia (Mr. Richard McIndoe)	4.8	4.8	1.8	0.6	–	8.0 [(c)]	20.0
Group Director – Operations (Mr. Peter Littlewood)	3.6	3.5	1.0	0.5	–	–	8.6
Managing Director – India (Mr. Rajiv Mishra)	3.1	3.0	0.7	0.4	–	–	7.2
Managing Director – China (Dr. Ko Yu Ming)	2.6	2.2	0.6	0.3	–	–	5.7
Managing Director – Southeast Asia (Mr. Mark Jobling)	2.8	2.6	0.7	0.4	–	–	6.5
Group Director – Corporate Finance and Development (Mr. Stefan Robertsson)	2.7	2.1	0.9	0.3	–	–	6.0
Group Director – Carbon Ventures (Mr. Giuseppe Jacobelli) [(d)]	2.8	2.7	2.3	0.3	3.2	–	11.3
	33.7	32.1	11.4	4.2	3.2	8.0	92.6
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) [(e)]	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

Notes:

(a) Mr. Mark Takahashi was the CEO 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 Limited 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$6.7 million (83%) (2009: HK$7.7 million (86%)) was the tax payment to the tax authority of the country where the executive was based during secondment.

(d) Mr. Giuseppe Jacobelli left the Company as Group Director – Carbon Ventures with effect from 1 January 2011. The annual incentive of HK$2.7 million included the amount of incentive payment for year 2010 for the period he served as director. The long-term incentive of HK$2.3 million was for the years 2008, 2009 and 2010 paid to him upon leaving the Company. Final payment of HK$3.2 million included payment in lieu of notice, ex-gratia payment and compensation for loss of office paid to him.

(e) 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.

* Refer to Note A on performance bonus on page 127.

** The final payment is 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.

HK$1 million has been charged to the Non-SoC operation.

HK$1 million has been charged to the Non-SoC operation.

The five highest paid individuals in the Group included three Directors (2009: three Directors) and two members of Senior Management (2009: two members). The total remuneration of the five highest paid individuals in the Group is shown below:

	2010 HK$M	2009 HK$M
Base compensation, allowances and benefits in kind	24	26
Performance bonus *		
– Annual incentive	23	22
– Long-term incentive	8	7
Provident fund contributions	3	3
Final payment ψ	3	–
Other payments @	8	9
	69	67

* Refer to Note A on performance bonus on page 127.

ψ Refer to Note (d) and ** above on final payments.

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

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

	Number of Individuals 2010	Number of Individuals 2009		Number of Individuals 2010	Number of Individuals 2009
HK$ 9,000,001 – HK$ 9,500,000	–	1	HK$ 9,500,001 – HK$10,000,000	–	1
HK$10,500,001 – HK$11,000,000	2	–	HK$11,000,001 – HK$11,500,000	1	1
HK$15,500,001 – HK$16,000,000	–	1	HK$16,500,001 – HK$17,000,000	1	–
HK$19,500,001 – HK$20,000,000	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, 24 February 2011

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2010.

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 13 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 14 and 15 to the Financial Statements.

Earnings and Dividends

	2010 HK$M	2009 HK$M
Total earnings for the year	10,332	8,196
Less: first to third interim dividends of HK$1.56 (2009 : HK$1.56) per share paid	(3,753)	(3,753)
Balance after first to third interim dividends	6,579	4,443
The Directors recommend that this balance be dealt with as follows:		
Fourth interim dividend of HK$0.92 (2009: final dividend of HK$0.92) per share	2,214	2,214
Retained profits for the year	4,365	2,229
	6,579	4,443

This fourth interim dividend will be paid on 28 March 2011.

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 42 to 86 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$28,075 million as at 31 December 2010 (2009: HK$28,158 million). Movements in the reserves of the Group and the Company during the year are set out under Note 28 to the Financial Statements.

Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK$20,022 million, comprising HK$12,989 million in owned assets (transmission and distribution equipment, land and buildings) and HK$7,033 million in leased assets. In 2009, a total addition of HK$9,616 million was recorded, made up of HK$8,012 million for owned assets and HK$1,604 million for leased assets. Details of movements in the fixed assets of the Group are shown under Note 11 to the Financial Statements.

Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2010 amounted to HK$44,623 million (2009: HK$39,431 million). Particulars of borrowings are set out in Note 22 to the Financial Statements.

Financial Assistance and Guarantees to Affiliated Companies

The financial assistance given to affiliated companies and the guarantees given for facilities granted to affiliated companies aggregated to 5.2% of the Group's total assets as at 31 December 2010.

Finance Costs Capitalised

Finance costs amounting to HK$493 million (2009: HK$318 million) were capitalised by the Group during the year as set out in Note 6 to the Financial Statements.

Donations

Donations by the Group for charitable and other purposes amounted to HK$3,563,000 (2009: HK$3,843,000).

Five-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2010 and for the previous four financial years are on pages 210 and 211 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 98 of this Annual Report. Details of their remuneration are set out in the Remuneration Report at page 124 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 58.61% of the Group's total purchases during the year. The five largest suppliers are set out below in descending order:

1. 32.77% 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. 10.51% from Australian Energy Market Operator (AEMO) in which the Group has no interest. AEMO 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. 7.33% from Guangdong Nuclear Investment Company, Limited (GNIC) in which the Group has no interest.
4. 4.07% 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. 3.93% 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 2010, 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

The Directors of the Company, whose names appear on pages 96 and 97 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 124 of this Annual Report.

Mr. Kan Man Lok Paul and Mr. Rudolf Bischof respectively retired as Independent Non-executive Director and Non-executive Director of the Company both with effect from 1 April 2010.

Mr. Jason Holroyd Whittle resigned as a Non-executive Director of the Company with effect from 1 July 2010.

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 S. Y. Chung, Professor Judy Tsui, Sir Rod Eddington and Messrs. J. A. H. Leigh, R. J. McAulay and I. D. Boyce retire by rotation. After having served on the Board of the Company for 44 years, The Hon. Sir S. Y. Chung has decided not to present himself for re-election at the AGM. All the other retiring Directors, 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 2010 were as follows:

Mr. I. D. Boyce, alternate to Mr. R. J. McAulay and Mr. William Mocatta } (for the year)
Mr. Neo Kim Teck, alternate to Mr. Paul A. Theys }

Upon the retirement of Mr. R. Bischof, Mr. J. A. H. Leigh ceased to be his alternate on the Board of the Company with effect from 1 April 2010.

Mr. Jason Whittle resigned as an Alternate Director to Mr. R. J. McAulay on the Board of the Company with effect from 1 July 2010.

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 2010, 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 2010 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	Note (b)	400,000	0.01662
Mr. R. J. McAulay	Note (c)	273,611,649	11.37138
The Hon. Sir S. Y. Chung	Beneficial owner	393,789	0.01637
Mr. J. A. H. Leigh	Note (d)	209,071,077	8.68905
Mr. Andrew Brandler (Chief Executive Officer)	Note (e)	10,600	0.00044
Mr. Peter P. W. Tse	Note (f)	20,600	0.00086
Dr. Y. B. Lee	Note (g)	15,806	0.00066
Mr. 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. William Mocatta was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 400,000 shares in the Company. These shares were held in the following capacity:

i) 250,000 shares were held in the capacity as the founder of a discretionary trust.

ii) 150,000 shares were held by a trust of which Mr. William Mocatta is one of the beneficiaries.

(c) 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.

(d) 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.

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

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

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

Messrs. I. D. Boyce, V. F. Moore, Hansen C. H. Loh, 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 2010. 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 2010.

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 2010.

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 2010, 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 following table and explanatory notes. There were no movements in the shareholdings held by substantial shareholders in 2010.

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 2010:

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

(g) See Note (d) 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 2010, 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 2010, 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 31 to the Financial Statements. None constitutes a discloseable connected transaction as defined under the Listing Rules.

Connected Transaction

As reported in last year's Directors' Report, 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. This acquisition has been reflected in the Financial Statements for the year ended 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 99 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.

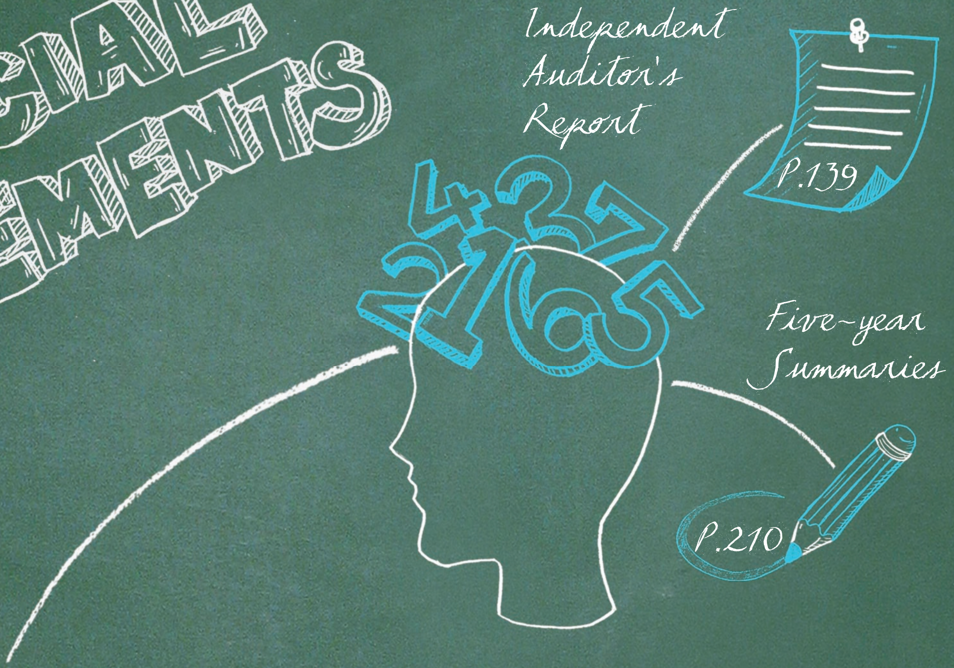
Auditors

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

I. D. Boyce
Chairman of the Meeting
Hong Kong, 24 February 2011

FINANCIAL STATEMENTS



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 140 to 206, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement 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 information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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, 24 February 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Note	2010 HK$M	2009 HK$M
Revenue	2	58,410	50,668
Expenses			
Purchases of electricity, gas and distribution services		(21,740)	(18,306)
Operating lease and lease service payments		(10,098)	(9,201)
Staff expenses		(2,189)	(1,819)
Fuel and other operating expenses		(7,321)	(6,316)
Depreciation and amortisation		(5,065)	(4,332)
		(46,413)	(39,974)
Other income	4	400	153
Operating profit	5	12,397	10,847
Finance costs	6	(4,212)	(3,477)
Finance income	6	101	69
Share of results, net of income tax			
Jointly controlled entities	14	2,080	2,675
Associated companies	15	813	(260)
Profit before income tax		11,179	9,854
Income tax expense	7	(844)	(1,665)
Profit for the year		10,335	8,189
Earnings attributable to:			
Shareholders	8	10,332	8,196
Non-controlling interests		3	(7)
		10,335	8,189
Dividends	9		
Interim dividends paid		3,753	3,753
Interim dividend declared / final dividend proposed		2,214	2,214
		5,967	5,967
Earnings per share, basic and diluted	10	HK$4.29	HK$3.41

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	2010 HK$M	2009 HK$M
Profit for the year	10,335	8,189
Other comprehensive income		
Exchange differences on translation	3,929	5,070
Cash flow hedges	588	220
Net fair value gains on available-for-sale investments	128	91
Revaluation surplus on step-acquisition of subsidiaries	–	15
Share of other comprehensive income of jointly controlled entities	2	120
Reclassification adjustments		
Sale of a subsidiary	(91)	–
Acquisition of additional interest in a jointly controlled entity to become a subsidiary	(17)	–
Other comprehensive income for the year, net of tax	4,539	5,516
Total comprehensive income for the year	14,874	13,705
Total comprehensive income attributable to:		
Shareholders	14,867	13,711
Non-controlling interests	7	(6)
	14,874	13,705

This statement of comprehensive income includes not only conventional profit for the year, but also "other comprehensive income". The concept of other comprehensive income is explained on page 68. Further details of other comprehensive income attributable to shareholders are presented in Note 28.

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	At 31 December 2010 HK$M	(Restated) At 31 December 2009 HK$M	(Restated) At 1 January 2009 HK$M
Non-current assets				
Fixed assets	*11(A)*	**115,731**	97,098	87,416
Leasehold land and land use rights under operating leases	*11(B)*	**1,729**	1,760	1,707
Goodwill and other intangible assets	*12*	**9,150**	8,105	6,324
Interests in jointly controlled entities	*14*	**20,476**	18,838	17,791
Interests in associated companies	*15*	**2,378**	1,813	242
Finance lease receivables	*16*	**2,286**	2,379	2,387
Deferred tax assets	*24*	**4,210**	3,355	2,992
Fuel clause account	*25*	**294**	14	800
Derivative financial instruments	*17*	**2,736**	1,821	1,505
Available-for-sale investments	*18*	**1,512**	1,692	224
Other non-current assets		**139**	327	258
		160,641	137,202	121,646
Current assets				
Inventories – stores and fuel		**751**	715	662
Trade and other receivables	*19*	**11,118**	9,018	8,239
Finance lease receivables	*16*	**144**	130	128
Available-for-sale investments		**336**	–	–
Derivative financial instruments	*17*	**1,609**	1,472	1,374
Bank balances, cash and other liquid funds	*20*	**4,756**	7,994	782
		18,714	19,329	11,185
Current liabilities				
Customers' deposits	*19(a)*	**(3,979)**	(3,854)	(3,722)
Trade and other payables	*21*	**(11,344)**	(8,926)	(5,919)
Income tax payable		**(165)**	(208)	(366)
Bank loans and other borrowings	*22*	**(7,816)**	(6,892)	(3,313)
Obligations under finance leases	*23*	**(1,995)**	(1,523)	(1,403)
Derivative financial instruments	*17*	**(932)**	(1,035)	(1,198)
		(26,231)	(22,438)	(15,921)
Net current liabilities		**(7,517)**	(3,109)	(4,736)
Total assets less current liabilities		**153,124**	134,093	116,910

You may be curious why there are three columns in this statement of financial position. During the year, the Group has retrospectively applied an amendment to HKFRS on leases which resulted in reclassification of certain leasehold land in Hong Kong from operating lease to finance lease. Under the new disclosure requirement, whenever there is a restatement of items in the statement of financial position, a third column presenting the financial position at the beginning of the earliest comparative period (i.e. 1 January 2009) is required to provide more information to the readers. Detail of the change in accounting policy is discussed under Significant Accounting Policies No. 2.

	Note	At 31 December 2010 HK$M	(Restated) At 31 December 2009 HK$M	(Restated) At 1 January 2009 HK$M
Financed by:				
Equity				
Share capital	*27*	**12,031**	12,031	12,031
Share premium		**1,164**	1,164	1,164
Reserves	*28*			
Declared / proposed dividends		**2,214**	2,214	2,214
Others		**64,252**	55,352	47,608
Shareholders' funds		**79,661**	70,761	63,017
Non-controlling interests		**97**	107	105
		79,758	70,868	63,122
Non-current liabilities				
Bank loans and other borrowings	*22*	**36,807**	32,539	23,383
Obligations under finance leases	*23*	**25,105**	20,332	20,362
Deferred tax liabilities	*24*	**7,590**	7,009	6,435
Derivative financial instruments	*17*	**1,079**	617	837
Scheme of Control (SoC) reserve accounts	*26*	**1,509**	1,654	1,826
Other non-current liabilities		**1,276**	1,074	945
		73,366	63,225	53,788
Equity and non-current liabilities		**153,124**	134,093	116,910

William Mocatta
Andrew Brandler
Mark Takahashi

William Mocatta
Vice Chairman
Hong Kong, 24 February 2011

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

Company Statement of Financial Position
as at 31 December 2010

	Note	2010 HK$M	2009 HK$M
Non-current assets			
Fixed assets	*11(A)*	85	62
Investments in subsidiaries	*13*	43,949	46,005
Advance to a subsidiary	*13*	39	39
Other non-current assets		22	2
		44,095	46,108
Current assets			
Trade and other receivables	*19*	44	44
Bank balances and cash		2	3
		46	47
Current liabilities			
Trade and other payables	*21*	(247)	(200)
Advances from subsidiaries	*31(D)*	(132)	(110)
Bank loans and other borrowings	*22*	–	(2,000)
		(379)	(2,310)
Net current liabilities		(333)	(2,263)
Total assets less current liabilities		43,762	43,845
Financed by:			
Equity			
Share capital	*27*	12,031	12,031
Share premium		1,164	1,164
Reserves	*28*		
Declared / proposed dividends		2,214	2,214
Others		28,353	28,436
		43,762	43,845

William Mocatta
Vice Chairman
Hong Kong, 24 February 2011

Andrew Brandler
Chief Executive Officer

Mark Takahashi
Chief Financial Officer

The notes and disclosures on pages 147 to 206 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Attributable to Shareholders				Non-controlling Interests	Total
	Share Capital HK$M	Share Premium HK$M	Reserves HK$M	Total HK$M	HK$M	HK$M
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 non-controlling interests	–	–	–	–	8	8
Balance at 31 December 2009	12,031	1,164	57,566	70,761	107	70,868
Balance at 1 January 2010	12,031	1,164	57,566	70,761	107	70,868
Total comprehensive income for the year	–	–	14,867	14,867	7	14,874
Dividends paid						
2009 final	–	–	(2,214)	(2,214)	–	(2,214)
2010 interim	–	–	(3,753)	(3,753)	–	(3,753)
Dividends paid to non-controlling interests of a subsidiary	–	–	–	–	(17)	(17)
Balance at 31 December 2010	**12,031**	**1,164**	**66,466**	**79,661**	**97**	**79,758**

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	Note	2010 HK$M	2010 HK$M	2009 HK$M	2009 HK$M
Operating activities					
Net cash inflow from operations	*29*	16,810		15,398	
Interest received		99		55	
Income tax paid		(824)		(924)	
Net cash inflow from operating activities			16,085		14,529
Investing activities					
Capital expenditure		(10,137)		(7,449)	
Capitalised interest paid		(515)		(320)	
Proceeds from disposal of fixed assets		267		121	
Additions of intangible assets		(42)		(124)	
Additions of available-for-sale investments		(1,190)		(144)	
Acquisition of subsidiaries		(38)		(153)	
Proceeds from sale of a subsidiary		852		–	
Proceeds from sale of a jointly controlled entity		–		156	
Investments in and advances to jointly controlled entities and associated companies		(2,062)		(1,992)	
Dividends received from jointly controlled entities and associated companies		2,594		2,557	
Decrease / (increase) in bank deposits with maturities of more than three months		8		(8)	
Net cash outflow from investing activities			(10,263)		(7,356)
Net cash inflow before financing activities			5,822		7,173
Financing activities					
Proceeds from long-term borrowings		14,422		18,105	
Repayment of long-term borrowings		(11,105)		(7,694)	
Repayment of obligations under finance leases		(1,790)		(1,516)	
Decrease in short-term borrowings		(458)		(535)	
Interest and other finance costs paid		(4,199)		(3,354)	
Dividends paid to shareholders		(5,967)		(5,967)	
Dividends paid to non-controlling interests of a subsidiary		(17)		–	
Net cash outflow from financing activities			(9,114)		(961)
Net (decrease) / increase in cash and cash equivalents			(3,292)		6,212
Cash and cash equivalents at beginning of year			7,148		780
Effect of exchange rate changes			167		156
Cash and cash equivalents at end of year			4,023		7,148
Analysis of balances of cash and cash equivalents					
Deposits with banks			3,821		7,214
Cash at banks and on hand			935		780
Bank balances, cash and other liquid funds	*20*		4,756		7,994
Excluding:					
Cash restricted for specific purposes			(733)		(838)
Bank deposits with maturities of more than three months			–		(8)
			4,023		7,148

The notes and disclosures on pages 147 to 206 are an integral part of these consolidated financial statements.

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 have been measured at fair value.

The preparation of 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 159 to 160.

2. Effect of New / Revised HKFRS

(A) Adoption of new / revised HKFRS for the first time for the financial year beginning 1 January 2010

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

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HKFRS 3 (Revised) "Business Combinations"
- HK(IFRIC)-Int 17 "Distribution of Non-cash Assets to Owners"
- HK-Int 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"
- Amendment to HKAS 39 "Eligible Hedged Items"
- Improvements to HKFRS published by HKICPA in May 2009 (including HKAS 17 (amendment))

Apart from the effects of adopting HKAS 17 (amendment) as stated below, the adoption of these new / revised standards and interpretations has no significant impact on the Group's financial statements.

HKAS 17 (amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards of ownership of an asset to the lessee. Prior to the amendment, land has been classified as under an operating lease when the title to that land is not expected to pass to the Group at the end of the lease term.

The Group has reassessed the classification of leases of land as at 1 January 2010. As a result of the reassessment, the Group has reclassified certain leasehold land in Hong Kong from under operating lease to finance lease. As the leasehold land is held for own use, it is classified as fixed assets on the statement of financial position and is depreciated over the unexpired term of the lease.

HKAS 17 (amendment) has been applied retrospectively with comparatives restated. The effect of the resulting changes on the consolidated statement of financial position is summarised below. There are no effects on the consolidated income statement and the consolidated statement of comprehensive income.

	At 31 December 2010 HK$M	At 31 December 2009 HK$M	At 1 January 2009 HK$M
Increase in fixed assets	**412**	494	543
Decrease in leasehold land and land use rights under operating leases	**(412)**	(494)	(543)
Change in net assets	**–**	–	–

(B) New / revised HKFRS that have been issued but are not yet effective

The following new / revised HKFRS, potentially relevant to the Group's operations, have been issued and are mandatory for the Group for accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted:

- HKAS 24 (Revised) "Related Party Disclosures"
- HKFRS 9 "Financial Instruments"
- Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"
- Improvements to HKFRS published by HKICPA in May 2010

Apart from the adoption of HKFRS 9 which may have an effect on the classification and the treatment of fair value changes of existing available-for-sale investments, the adoption of these new / revised HKFRS will have no significant impact on the results and the financial position of the Group.

3. Consolidation

(A) 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 (C) below.

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.

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. Where necessary to ensure consistency with the policies adopted by the Group, adjustments are made to the financial statements of subsidiaries, jointly controlled entities and associated companies.

(B) Subsidiaries

A subsidiary is an entity which is controlled by the Company through, directly or indirectly, controlling the composition of the board of directors or controlling more than half of the voting power. 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 acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree plus the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If the purchase consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(B) Subsidiaries (continued)

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 impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. 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.

(C) 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 movements in 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.

Any excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired jointly controlled entities / associated companies at the date of acquisition is recognised as goodwill. Goodwill is included within interests in jointly controlled entities / associated companies and is tested for impairment as a whole.

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.

Dilution gains or losses arising in investments in jointly controlled entities / associated companies are recognised in profit or loss.

(D) Change in ownership interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of ownership interests from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of a subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

For changes in ownership interests that result in loss of control of subsidiaries, loss of joint control in jointly controlled entities or loss of significant influence in associated companies, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as a jointly controlled entity, associated company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are reclassified to profit or loss.

(D) Change in ownership interests (continued)

If the ownership interest in a jointly controlled entity or associated company is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

4. 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 relate to the electricity businesses located outside Hong Kong. Amortisation of leasehold land and depreciation of fixed assets are calculated, using the straight-line method, to allocate their cost to their estimated residual values over the unexpired term of the lease or their estimated useful lives, as appropriate. Their estimated useful lives are similar to those of the SoC fixed assets and are set out as follows:

Leasehold land	unexpired term of the lease
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
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. Leasehold land commences amortisation from the time when the land interest becomes available for its 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.

5. 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 at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill is tested for impairment at least 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 at least annually or whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses.

6. 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.

Readers who would like to revisit our expanded discussion on impairment assessment can find this on our website as part of our accounting "mini-series".

7. 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 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 is 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 (for example, inventory or fixed assets), the gains and losses that were recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

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 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 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.

8. Available-for-sale Investments

Available-for-sale investments are non-derivative financial assets that are either designated in that 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 investments 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 investments 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 investments 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.

Although termed "available-for-sale" by the accounting standard, investments in this category are generally held for the long-term, including our investment in CGN Wind Power Company Limited (CGN Wind).

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

Under the effective interest method, the effective interest rate is the rate that exactly discounts future cash payments / receipts through the term of the financial liability / asset to its net carrying amount.

14. Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised 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 and its subsidiaries 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 consolidated financial statements. However, 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.

15. 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.

An elaboration of the accounting concepts on provision and contingent liabilities can be found in our accounting "mini-series" on pages 84 to 86.

16. 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.

17. 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.

18. 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 the Group's and the Company's presentation currency.

Foreign currency transactions are translated into the relevant 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, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, jointly controlled entities and associated companies that have a functional currency different from the Group's presentation currency, 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 the 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.

A company entity can have both functional currency and presentation currency; however, a consolidation group can only have presentation currency but not functional currency. This is because presentation currency is a matter of choice but functional currency is based on the different primary economic environment in which each group entity is operating.

19. 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 geographical region 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.

20. 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 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 asset 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 in our accounting "mini-series" can find this on our website.

21. 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.

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 judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

1. Australian Climate Change Policy

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 2009 was disclosed on pages 153 and 154 of the 2009 Annual Report.

Background

The Carbon Pollution Reduction Scheme (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 bill was passed by the House of Representatives. However, the legislation did not progress to a vote in the Senate.

On 27 April 2010, the Australian Government announced that it did not intend to reintroduce the CPRS bill again before 2012. Slow progress towards a comprehensive global agreement as well as continued opposition domestically was cited as reasons for the delay. On 27 September 2010 the Australian Government announced the membership and terms of reference for the new Multi-Party Climate Change Committee (the "Committee") to explore options for the introduction of a carbon price (as the starting position of the Committee). The Committee is scheduled to report to the Cabinet at the end of 2011 with a range of possible policy positions.

Potential Implications for TRUenergy

The possible introduction of climate change legislation 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.

Uncertainty remains regarding the timing and structure of any climate change legislation. As such, the introduction of climate change legislation presents an unquantifiable, but potentially material risk to the Group. At 31 December 2010, no impact of climate change legislation 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 climate change legislation. The carrying amount of the Yallourn power station assets, which comprised a single cash generating unit, was A$1,656 million or HK$13,103 million at 31 December 2010 (2009: A$1,662 million or HK$11,592 million). Other parts of the Group in Australia may also be impacted adversely or favourably.

2. Deferred Tax

At 31 December 2010, a deferred tax asset of HK$5,636 million (2009: HK$4,794 million) in relation to unused tax losses was recognised in the consolidated statement of financial position, which included a tax consolidation benefit in Australia of HK$989 million (2009: nil) arising during the year. Estimating the deferred tax asset 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 mainly 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 2010. However, any unexpected changes in assumptions and estimates and in tax regulations can affect the recoverability of this deferred tax asset in future.

3. 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 at least 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, an impairment loss may arise. During 2010, 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$82,744 million (2009: HK$75,006 million), goodwill of HK$7,701 million (2009: HK$6,766 million) and other long-lived assets, except for the provision for Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) of HK$258 million. 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 2010 year end except for the possible introduction of climate change legislation in Australia disclosed in item 1 above.

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 accounts 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$1,509 million (2009: HK$1,654 million) meet the definition of a liability.

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) and OneEnergy Limited (OneEnergy)'s investee companies 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.

7. Fair Value Estimation of Derivative Financial Instruments

Please refer to "Financial Risk Management" No. 2 Fair Value Estimation on page 204.

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, (collectively referred as SoC Companies) 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 main features of the SoC agreement are summarised on pages 207 and 208.

These financial statements have been approved for issue by the Board of Directors on 24 February 2011.

2. Revenue

Accounting Policy No. 16

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

	2010 HK$M	2009 HK$M
Sales of electricity	49,462	42,754
Lease service income	1,889	2,327
Finance lease income	363	368
Sales of gas	5,792	4,775
Other revenue	980	587
	58,486	50,811
Transfer for SoC (Note 26)	(76)	(143)
	58,410	50,668

In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by GPEC from the lessee, or servicing charges and fuel costs paid to the lessor by CLP Power Hong Kong, with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income or payments respectively.

3. Segment Information

Accounting Policy No. 19

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.

3. Segment Information (continued)

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

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 2010							
Revenue	30,281	25,182	305	2,578	59	5	58,410
Operating profit / (loss)	9,252	2,793	412	374	5	(439)	12,397
Finance costs	(3,115)	(831)	(49)	(198)	–	(19)	(4,212)
Finance income	1	52	1	46	–	1	101
Share of results, net of income tax							
Jointly controlled entities	1,159	(287)	816 [(a)]	–	392	–	2,080
Associated companies	–	9	804 [(a)]	–	–	–	813
Profit / (loss) before income tax	7,297	1,736	1,984	222	397	(457)	11,179
Income tax (expense) / credit	(1,004)	395	(147)	(81)	(7)	–	(844)
Profit / (loss) for the year	6,293	2,131	1,837	141	390	(457)	10,335
Earnings attributable to non-controlling interests	–	–	(3)	–	–	–	(3)
Earnings / (loss) attributable to shareholders	6,293	2,131	1,834	141	390	(457)	10,332
Capital additions	11,577	1,880	965	5,763	–	37	20,222
Depreciation and amortisation	3,365	1,493	81	112	1	13	5,065
Impairment charge	–	170	17	17	–	–	204
At 31 December 2010							
Fixed assets	82,829	20,093	3,907	8,814	3	85	115,731
Interests in							
Jointly controlled entities	9,144	1,018	7,371	–	2,943	–	20,476
Associated companies	–	36	2,342	–	–	–	2,378
Deferred tax assets	–	4,146	64	–	–	–	4,210
Other assets	6,288	18,257	2,308	7,044	378	2,285	36,560
Total assets	98,261	43,550	15,992	15,858	3,324	2,370	179,355
Bank loans and other borrowings	25,603	10,815	2,288	5,917	–	–	44,623
Current and deferred tax liabilities	6,881	21	231	622	–	–	7,755
Obligations under finance leases	27,064	36	–	–	–	–	27,100
Other liabilities	10,615	6,376	244	2,650	4	230	20,119
Total liabilities	70,163	17,248	2,763	9,189	4	230	99,597

The difference between total assets and total liabilities represents shareholders' financing.

Unallocated items represent mainly corporate overheads.

3. Segment Information (continued)

	Hong Kong HK$M	Australia HK$M	Chinese Mainland HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Unallocated Items HK$M	Total HK$M
For year ended 31 December 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
Finance costs	(2,673)	(666)	(35)	(82)	–	(21)	(3,477)
Finance income	11	30	5	23	–	–	69
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 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 non-controlling 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	75,061	17,283	1,730	2,960	3	61	97,098
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	5,401	15,277	1,919	7,331	244	5,255	35,427
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

Note (a): In September 2009, the investment in Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) has been reclassified from a jointly controlled entity to an associated company. Out of the total amount of HK$1,620 million (2009: HK$1,312 million), HK$877 million (2009: HK$784 million) was attributed to investments in GNPJVC and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.

4. Other Income

	2010 HK$M	2009 HK$M
Gain on sale of a subsidiary (note)	400	–
Gain on sale of a jointly controlled entity	–	153
	400	153

Note: In April 2010, the Group sold its entire interest in CLP Power China (Anshun) Limited which held a 70% interest in Guizhou CLP Power Company Limited (Guizhou CLP Power), a jointly controlled entity in the Chinese mainland, for a consideration of RMB750 million (HK$852 million) resulting in a gain of HK$400 million (including the release of translation reserve of HK$91 million on the investment).

5. Operating Profit

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

	2010 HK$M	2009 HK$M
Charging		
Staff costs		
Salaries and other costs	2,024	1,652
Retirement benefits costs [(a)]	165	167
Auditors' remuneration		
Audit	32	27
Permissible non-audit services [(b)]	10	10
Operating lease expenditure on the agreement with Ecogen	282	238
Net loss on disposal of fixed assets	183	172
Impairment of fixed assets	17	50
Net fair value (gain) / loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(60)	(39)
Fuel and other operating expenses	(63)	(112)
Transactions not qualifying as hedges	452	136
Ineffectiveness of cash flow hedges	82	–
Crediting		
Coal mine subsidence (insurance recovery) / cost of TRUenergy	(138)	1
Net rental income from properties	(19)	(18)
Net exchange gain	(79)	(256)

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$202 million (2009: HK$195 million), of which HK$96 million (2009: HK$95 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$65 million (2009: HK$70 million).

(b) Permissible non-audit services comprise primarily accounting / tax advisory services for business development.

6. Finance Costs and Income

Accounting Policy No. 13

	2010 HK$M	2009 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	1,103	713
Other borrowings		
Wholly repayable within five years	214	165
Not wholly repayable within five years	583	450
Tariff Stabilisation Fund (a)	3	3
Customers' deposits, fuel clause over-recovery and others	2	–
Finance charges under finance leases (b)	2,471	2,190
Other finance charges	203	207
Fair value (gain)/loss on derivative financial instruments		
Cash flow hedges, reclassified from equity	(53)	6
Fair value hedges	54	67
Gain on hedged items in fair value hedges	(43)	(56)
Other net exchange loss on financing activities	168	50
	4,705	3,795
Less: amount capitalised (c)	(493)	(318)
	4,212	3,477
Finance income		
Interest income on short-term investments, bank deposits and fuel clause under-recovery	101	69

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 SoC (Note 26).

(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 3.18% – 13.50% (2009: 3.39% – 12.31%) per annum.

7. Income Tax Expense

Accounting Policy No. 14

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

	2010 HK$M	2009 HK$M
Current income tax		
Hong Kong	621	613
Outside Hong Kong	136	151
	757	764
Deferred tax		
Hong Kong	382	376
Outside Hong Kong (note)	(295)	525
	87	901
	844	1,665

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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:

	2010 HK$M	2009 HK$M
Profit before income tax	11,179	9,854
Less: Share of results of jointly controlled entities and associated companies, net of income tax	(2,893)	(2,415)
	8,286	7,439
Calculated at an income tax rate of 16.5% (2009: 16.5%)	1,367	1,227
Effect of different income tax rates in other countries	381	340
Income not subject to tax	(64)	(64)
Expenses not deductible for tax purposes	165	142
Revenue adjustment for SoC not subject to tax (Note 26)	12	24
Tariff rebates deductible for tax purposes	–	(12)
Over-provision in prior years	(46)	(2)
Tax losses not recognised	18	10
Tax consolidation benefit (note)	(989)	–
Income tax expense	844	1,665

Note: The amount included TRUenergy Holdings Pty Ltd (TRUenergy)'s tax consolidation benefit of HK$989 million (A$144 million) (2009: nil). Under the Australian tax consolidation regime, TRUenergy formed a tax consolidated group in 2005 whereby TRUenergy and its Australian-resident wholly-owned subsidiaries are treated as a single entity for income tax purpose. A tax consolidation benefit of HK$2,004 million was recognised in 2005 pursuant to the then relevant rules. During 2010, certain amendments to the tax consolidation rules were enacted and can be applied retrospectively from 1 July 2002. These amendments allow deductions of tax cost bases for some assets (which were not allowed under the original legislation), and benefit the acquisition of Yallourn and Merchant Energy Business (MEB) by TRUenergy tax consolidation group in 2005. As a result, an additional deferred tax asset of HK$989 million (A$144 million) was recognised.

8. Earnings Attributable to Shareholders

Earnings attributable to shareholders have been dealt with in the financial statements of the Company to the extent of HK$5,884 million (2009: HK$12,704 million).

CLP Holdings is the investment holding company. Its earnings were mainly derived from dividends of subsidiaries.

9. Dividends

	2010		2009	
	HK$ per share	HK$M	HK$ per share	HK$M
Interim dividends paid	1.56	3,753	1.56	3,753
Interim dividend declared / final dividend proposed	0.92	2,214	0.92	2,214
	2.48	5,967	2.48	5,967

At the Board meeting held on 24 February 2011, the Directors declared the fourth interim dividend of HK$0.92 per share instead of final dividend as in previous years (2009: final dividend of HK$0.92 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2010.

10. Earnings per Share

The earnings per share are computed as follows:

	2010	2009
Earnings attributable to shareholders (HK$M)	10,332	8,196
Weighted average number of shares in issue (thousand shares)	2,406,143	2,406,143
Earnings per share (HK$)	4.29	3.41

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 2010 (2009: nil).

11. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases

Accounting Policy No. 4

Fixed assets and leasehold land and land use rights under operating leases totalled HK$117,460 million (2009: HK$98,858 million). Included in fixed assets is plant under construction with book value of HK$12,689 million (2009: HK$7,825 million). Movements in the accounts are as follows:

(A) Fixed Assets

Group

	Land		Buildings		Plant, Machinery and Equipment		
	Freehold HK$M	Leased HK$M	Owned HK$M	Leased [a] HK$M	Owned HK$M	Leased [a] HK$M	Total HK$M
Net book value at 1 January 2009, as previously reported	182	–	8,110	4,615	56,800	17,166	86,873
Adjustment for adoption of HKAS 17 (amendment)	–	543	–	–	–	–	543
Net book value at 1 January 2009, as restated	182	543	8,110	4,615	56,800	17,166	87,416
Acquisition of subsidiaries	14	–	–	–	403	–	417
Additions	526	–	922	110	6,564	1,494	9,616
Transfers and disposals	–	(38)	(15)	(5)	(148)	(122)	(328)
Depreciation	–	(11)	(179)	(268)	(2,490)	(1,116)	(4,064)
Impairment charge	–	–	(4)	–	(46)	–	(50)
Exchange differences	67	–	48	–	3,966	10	4,091
Net book value at 31 December 2009	789	494	8,882	4,452	65,049	17,432	97,098
Cost	789	562	11,682	9,790	99,388	37,898	160,109
Accumulated depreciation and impairment	–	(68)	(2,800)	(5,338)	(34,339)	(20,466)	(63,011)
Net book value at 31 December 2009	789	494	8,882	4,452	65,049	17,432	97,098
Net book value at 1 January 2010	789	494	8,882	4,452	65,049	17,432	97,098
Acquisition of subsidiaries	–	–	903	–	289	–	1,192
Additions	6	–	1,135	1,774	11,848	5,259	20,022
Transfers and disposals	–	(71)	(25)	(28)	(220)	(141)	(485)
Depreciation	–	(11)	(203)	(291)	(2,935)	(1,329)	(4,769)
Impairment charge	–	–	–	–	(17)	–	(17)
Exchange differences	54	–	125	–	2,503	8	2,690
Net book value at 31 December 2010	849	412	10,817	5,907	76,517	21,229	115,731
Cost	849	475	13,845	11,539	114,677	42,738	184,123
Accumulated depreciation and impairment	–	(63)	(3,028)	(5,632)	(38,160)	(21,509)	(68,392)
Net book value at 31 December 2010	849	412	10,817	5,907	76,517	21,229	115,731

Note (a): These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK$27,065 million (2009: HK$21,838 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.

11. Fixed Assets and Leasehold Land and Land Use Rights under Operating Leases (continued)

(A) Fixed Assets (continued)

Company

The net book value of fixed assets of the Company was HK$85 million (2009: HK$62 million), comprising mainly office furniture, fittings and equipment. The additions and depreciation for the year were HK$36 million (2009: HK$30 million) and HK$13 million (2009: HK$9 million) respectively.

(B) Leasehold Land and Land Use Rights under Operating Leases

Group

	2010 HK$M	2009 HK$M
Net book value at 1 January, as previously reported	2,254	2,250
Adjustment for adoption of HKAS 17 (amendment)	(494)	(543)
Net book value at 1 January, as restated	1,760	1,707
Acquisition of subsidiaries	–	1
Additions	10	97
Transfers and disposals	(2)	(2)
Amortisation	(43)	(43)
Exchange differences	4	–
Net book value at 31 December	1,729	1,760
Cost	2,022	2,009
Accumulated amortisation	(293)	(249)
Net book value at 31 December	1,729	1,760

Following the amendment to HKAS 17, leasehold land under finance lease is now classified under "fixed assets"; whereas that under operating lease remains under "leasehold land and land use rights under operating leases". Please also refer to Significant Accounting Policies No. 2.

(C) Tenure of Leasehold Land and Land Use Rights

The tenure of leasehold land and land use rights (under finance or operating leases) of the Group is as follows:

	2010 HK$M	2009 HK$M
Held in Hong Kong		
On long-term leases (over 50 years)	127	132
On medium-term leases (10 - 50 years)	1,888	2,012
On short-term leases (less than 10 years)	8	–
	2,023	2,144
Held outside Hong Kong		
On medium-term leases (10 - 50 years)	118	110
	2,141	2,254

12. Goodwill and Other Intangible Assets

Accounting Policy No. 5

	Goodwill HK$M	Other Intangible Assets HK$M	Total HK$M
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
Net carrying value at 1 January 2010	6,766	1,339	8,105
Acquisition of subsidiaries	32	–	32
Additions	–	190	190
Amortisation	–	(253)	(253)
Exchange differences	903	173	1,076
Net carrying value at 31 December 2010	**7,701**	**1,449**	**9,150**
Cost	7,701	2,833	10,534
Accumulated amortisation	–	(1,384)	(1,384)
Net carrying value at 31 December 2010	**7,701**	**1,449**	**9,150**

Goodwill predominantly arose from the previous acquisition of the 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 12.85% (2009: 12.09%) based on MEB's weighted average cost of capital, which reflects specific risks relating to the MEB. 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 the MEB in May 2005.

13. Investments in and Advances to Subsidiaries

Accounting Policy No. 3(B)

	2010 HK$M	2009 HK$M
Unlisted shares, at cost	23,617	23,612
Provision for impairment losses	(100)	(100)
Advances to subsidiaries, less provisions (note)	20,432	22,493
	43,949	46,005

Note: The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms (Note 31(D)). 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 (2009: HK$39 million), which is interest-free and due on or after 30 June 2012 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 2010:

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2010	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	3,270 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 [a]	British Virgin Islands / Chinese mainland	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100 [a]	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

13. Investments in and Advances to Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Issued Capital Held at 31 December 2010	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 [a]	Australia	Energy Business Investment Holding
TRUenergy Yallourn Pty Ltd	15 ordinary shares of A$1 each	100 [a]	Australia	Generation and Supply of Electricity
TRUenergy Pty Ltd	1,331,686,988 ordinary shares of A$1 each	100 [a]	Australia	Retailing of Electricity and Gas
Gujarat Paguthan Energy Corporation Private Limited	726,254,742 equity shares of Rs.10 each	100 [a]	India	Generation of Electricity
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 1,081,700,158 compulsory convertible preference shares of Rs.10 each	100 [a]	India	Generation of Electricity
CLP Sichuan (Jiangbian) Power Company Limited [b]	RMB496,380,000	100 [a]	Chinese mainland	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited [c]	RMB69,098,976	84.9 [a]	Chinese mainland	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited [c]	RMB249,430,049	84.9 [a]	Chinese mainland	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited [c]	US$13,266,667	84.9 [a]	Chinese mainland	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited [c]	RMB141,475,383	84.9 [a]	Chinese mainland	Generation of Electricity

Notes:

(a) Indirectly held

(b) Registered as a wholly foreign owned enterprise under People's Republic of China (PRC) law

(c) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

14. Interests in Jointly Controlled Entities

Accounting Policy No. 3(C)

	2010 HK$M	2009 HK$M
Share of net assets	11,402	11,131
Goodwill	142	381
Advances	8,932	7,326
	20,476	18,838

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:

		2010				2009			
		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)	151	–	8,720	8,871	211	–	7,060	7,271
OneEnergy	(B)	2,887	–	–	2,887	2,695	–	–	2,695
CSEC Guohua International Power Company Limited	(C)	2,558	99	–	2,657	2,385	93	–	2,478
Shandong Zhonghua Power Company, Limited	(D)	966	–	–	966	1,111	–	–	1,111
CLP Guangxi Fangchenggang Power Company Limited	(E)	1,477	–	–	1,477	1,221	–	–	1,221
Guizhou CLP Power		–	–	–	–	534	–	–	534
Roaring 40s	(F)	1,018	–	–	1,018	917	227	–	1,144
PSDC	(G)	12	–	207	219	12	–	258	270
Others	(H)	2,333	43	5	2,381	2,045	61	8	2,114
		11,402	142	8,932	20,476	11,131	381	7,326	18,838

14. 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:

	2010 HK$M	2009 HK$M
Non-current assets	37,524	37,365
Current assets	5,380	5,563
Current liabilities	(7,564)	(8,688)
Non-current liabilities	(22,338)	(21,715)
Non-controlling interests	(1,600)	(1,394)
Share of net assets	11,402	11,131
Revenue	14,533	14,043
Expenses	(11,948)	(10,886)
Profit before income tax	2,585	3,157
Income tax expense	(377)	(449)
Non-controlling interests	(128)	(33)
Share of profit for the year (note)	2,080	2,675
Share of capital commitments	2,473	5,511
Share of contingent liabilities	57	57

Note: Included a provision for Roaring 40s of HK$258 million (2009: OneEnergy of HK$131 million).

The Group's capital commitments in relation to its interest in the jointly controlled entities are disclosed in Note 30.

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 11).

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.

14. 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:

	2010 HK$M	2009 HK$M
Results for the year		
Revenue	12,607	11,474
Profit after income tax	2,852	2,722
Net assets (note)		
Non-current assets	28,472	27,578
Current assets	5,002	4,096
Current liabilities	(4,959)	(7,042)
Deferred tax	(3,524)	(3,226)
Non-current liabilities	(2,811)	(3,225)
	22,180	18,181
Group's share of profit after income tax	1,141	1,089

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 (MC) of Japan and the Group. This company operates as an investment vehicle in the Southeast Asia and Taiwan markets and owns a 22.4% interest in Electricity Generating Public Company Limited (EGCO), Thailand and 40% interest in Ho-Ping Power Company (Ho-Ping), Taiwan.

An extract of the management financial statements of OneEnergy for the year ended 31 December is set out as follows:

	2010 HK$M	2009 HK$M
Results for the year		
Revenue	–	–
Profit after income tax	800	761
Net assets		
Non-current assets	5,594	5,015
Current assets	186	381
Current liabilities	(6)	(7)
	5,774	5,389
Group's share of profit after income tax (note)	400	380

Note: Included a provision for OneEnergy of HK$131 million in 2009.

(C) CSEC Guohua International Power Company Limited, the joint stock company with 70% owned by China Shenhua Energy Company Limited and 30% 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.

14. 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.

Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and hence, the Group's interest is accounted for as a jointly controlled entity.

(F) 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$1,267 million (2009: 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 494MW.

15. Interests in Associated Companies

Accounting Policy No. 3(C)

	2010 HK$M	2009 HK$M
Share of net assets	2,366	1,796
Goodwill	12	10
Advances	–	7
	2,378	1,813

Advances to associated companies are unsecured, interest-free and have no fixed repayment terms. These advances are considered equity in nature.

The Group's interests in associated companies are analysed as follows:

	2010 HK$M	2009 HK$M
GNPJVC (A)	2,342	1,776
Others	36	37
	2,378	1,813

15. Interests in Associated Companies (continued)

Summarised financial information in respect of the Group's associated companies is set out below:

	2010 HK$M	2009 HK$M
Total assets	15,312	14,824
Total liabilities	(5,884)	(7,673)
Net assets	9,428	7,151
Group's share of associated companies' net assets	2,366	1,796
Revenue	7,216	4,189
Profit after income tax	3,232	192
Group's share of profit / (loss) after income tax (note)	813	(260)

Note: Included a provision for Solar Systems Pty Ltd of HK$319 million in 2009.

At 31 December 2010, the Group's share of capital commitments of its associated companies was HK$154 million (2009: HK$148 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.

An extract of the management financial statements of GNPJVC for the year ended 31 December is set out as follows:

	2010 HK$M	2009 HK$M
Results for the year		
Revenue	6,667	7,290
Profit after income tax	3,218	2,868
Net assets		
Non-current assets	5,208	6,486
Current assets	10,022	8,119
Current liabilities	(3,184)	(1,340)
Non-current liabilities	(2,678)	(6,162)
	9,368	7,103
Group's share of profit after income tax (note)	804	715

Note: Out of HK$715 million in 2009, HK$94 million, which represented GNPJVC's last three-month results, was presented as share of results of associated company following its reclassification in September 2009, whilst the balance of HK$621 million was presented as share of results of jointly controlled entity.

16. Finance Lease Receivables

Accounting Policy No. 20

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M
Amounts receivable under finance leases				
Within one year	468	466	144	130
After one year but within five years	1,485	1,648	378	500
Over five years	2,663	2,860	1,908	1,879
	4,616	4,974	2,430	2,509
Less: unearned finance income	(2,186)	(2,465)		
Present value of minimum lease payments receivable	2,430	2,509		
Analysed as:				
Current (recoverable within 12 months)			144	130
Non-current (recoverable after 12 months)			2,286	2,379
			2,430	2,509

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 2010 and 2009. The carrying amounts of the finance lease receivables approximate to their fair values.

An overview of lease accounting is on our website as part of our accounting "mini-series".

17. Derivative Financial Instruments

Accounting Policy No. 7

	2010		2009	
	Assets HK$M	Liabilities HK$M	Assets HK$M	Liabilities HK$M
Cash flow hedges (note)				
Forward foreign exchange contracts	878	111	532	113
Cross currency & interest rate swaps	652	331	301	96
Interest rate swaps	136	172	5	251
Energy contracts	1,408	566	1,033	475
Fair value hedges				
Cross currency & interest rate swaps	208	95	180	–
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	460	152	375	165
Cross currency & interest rate swaps	–	23	–	–
Energy contracts	603	561	867	552
	4,345	2,011	3,293	1,652
Analysed as:				
Current	1,609	932	1,472	1,035
Non-current	2,736	1,079	1,821	617
	4,345	2,011	3,293	1,652

Recall our accounting "mini-series" on derivatives and hedging? Please visit our website.

Although termed "held for trading or not qualifying as accounting hedges" above, these derivatives are used as "economic hedges" or for the purpose of understanding price movements.

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.

Note: Derivative financial instruments qualifying as cash flow hedges at 31 December 2010 have a maturity of up to 14 years (2009: 15 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.

The notional principal amounts of the outstanding derivative financial instruments are as follows:

	2010 HK$M	2009 HK$M
Forward foreign exchange contracts	86,603	67,261
Interest rate swaps / cross currency & interest rate swaps	24,498	20,066
Energy contracts	14,805	12,440

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

18. Available-for-sale Investments

Accounting Policy No. 8

In accordance with the Accounting Policy No. 8, the Group's unquoted investment in CGN Wind of HK$1,190 million (2009: HK$1,189 million) is treated for accounting purpose as an available-for-sale investment. There is no intention to sell the investment.

19. Trade and Other Receivables

Accounting Policy No. 10

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Trade receivables [a]	**7,425**	6,150	**–**	–
Deposits and prepayments	**3,425**	2,593	**13**	5
Dividend receivables [b]				
Jointly controlled entities	**160**	53	**–**	–
Associated companies	**48**	141	**–**	–
Current accounts with [b]				
Subsidiaries	**–**	–	**31**	39
Jointly controlled entities	**60**	81	**–**	–
	11,118	9,018	**44**	44

Trade and other receivables attributed to overseas subsidiaries amounted to HK$8,677 million (2009: HK$6,379 million). In 2009, GPEC obtained payment for some of its receivables from GUVNL through bill discounting with recourse and the transactions were accounted for as collateralised borrowings (Note 22).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Notes:

(a) Trade receivables

26% (2009: 32%) and 53% (2009: 52%) of the gross trade receivables relate to 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 retail 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 2010, such cash deposits amounted to HK$3,979 million (2009: HK$3,852 million) and the bank guarantees stood at HK$935 million (2009: HK$934 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.

TRUenergy in Australia determines its doubtful debt provisioning by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. 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.

19. Trade and Other Receivables (continued)

The ageing analysis of trade receivables at 31 December based on due date is as follows:

	2010				2009			
	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	5,165	569	(36)	5,698	4,938	543	(42)	5,439
Overdue								
1 – 30 days	277	328	(33)	572	138	297	(35)	400
31 – 90 days	81	239	(63)	257	30	206	(57)	179
Over 90 days	746	502	(350)	898	16	410	(294)	132
	6,269	1,638	(482)	7,425	5,122	1,456	(428)	6,150

At 31 December 2010, trade receivables of HK$1,104 million (2009: HK$184 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default and an amount deducted by GUVNL from GPEC's January to March 2010 invoices of HK$647 million (2009: nil) (Note 32(A)).

The ageing analysis of trade receivables at 31 December based on invoice date is as follows:

	2010 HK$M	2009 HK$M
30 days or below	5,534	5,511
31 – 90 days	771	459
Over 90 days	1,120	180
	7,425	6,150

Out of the amount aged over 90 days (based on invoice date), HK$647 million is related to an amount deducted by GUVNL from GPEC's January to March 2010 invoices and classified as trade receivables. Further details of this dispute can be found in Note 32(A).

Movements in the provision for impairment are as follows:

	2010 HK$M	2009 HK$M
Balance at 1 January	428	257
Provision for impairment	267	252
Receivables written off during the year as uncollectible	(174)	(130)
Amounts reversed	(80)	(3)
Exchange differences	41	52
Balance at 31 December	482	428

(b) The amounts receivable from subsidiaries, jointly controlled entities and associated companies are unsecured, interest-free and have no fixed repayment terms.

"Ageing analysis based on invoice date" is presented to meet the reporting requirements under the Listing Rules of the Hong Kong Stock Exchange, whereas "ageing analysis based on due date" is disclosed in accordance with the requirements under the HKFRS.

Invoice date = Date of issue of an invoice

Due date = Invoice date + credit period granted to customers

20. Bank Balances, Cash and Other Liquid Funds

Accounting Policy No. 11

	2010 HK$M	2009 HK$M
Trust accounts under TRAA (note)		
Restricted for specific purposes	733	838
Unrestricted	–	65
	733	903
Short-term investments and bank deposits	3,203	6,612
Bank balances and cash	820	479
	4,756	7,994

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.

The average effective interest rate on the Group's bank balances, cash and other liquid funds is 1.9% (2009: 1.0%).

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$444 million (2009: HK$428 million) which was mostly denominated in U.S. dollar.

21. Trade and Other Payables

Accounting Policy No. 12

	Group		Company	
	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M
Trade payables [a]	5,026	3,243	–	–
Other payables and accruals	4,807	4,163	222	179
Current accounts with [b]				
Subsidiaries	–	–	24	20
Jointly controlled entities	1,425	1,299	1	1
Associated companies	86	221	–	–
	11,344	8,926	247	200

Notes:

(a) The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2010 HK$M	2009 HK$M
30 days or below	4,828	3,139
31 – 90 days	87	66
Over 90 days	111	38
	5,026	3,243

At 31 December 2010, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$1,517 million (2009: HK$404 million), which were mostly denominated in Euro and U.S. dollar.

(b) The amounts payable to subsidiaries, jointly controlled entities and associated companies are unsecured, interest-free and have no fixed repayment terms. Of these, HK$1,375 million (2009: HK$1,260 million) is due to CAPCO.

22. Bank Loans and Other Borrowings

Accounting Policy No. 13

	Group 2010 HK$M	Group 2009 HK$M	Company 2010 HK$M	Company 2009 HK$M
Current				
Short-term bank loans	1,161	1,838	–	–
Long-term bank loans	6,655	5,054	–	2,000
	7,816	6,892	–	2,000
Non-current				
Long-term bank loans	13,207	15,370	–	–
Other long-term borrowings				
MTN programme (USD) due 2012 and 2020 (note)	6,411	2,523	–	–
MTN programme (HKD) due 2012 to 2030 (note)	9,280	8,520	–	–
MTN programme (JPY) due 2024	1,433	1,260	–	–
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2012 and 2015	5,524	4,866	–	–
U.S. private placement notes (USD) due 2020	952	–	–	–
	36,807	32,539	–	–
Total borrowings	44,623	39,431	–	2,000

Note: CLP Power Hong Kong issued fixed rate bonds during the year. This comprises bonds with a notional value of HK$4,642 million in total and tenors of 10 to 20 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$7,997 million (2009: HK$3,336 million) and is analysed as follows:

	2010 HK$M	2009 HK$M
GPEC and other subsidiaries in India [(a)]	5,709	2,904
Subsidiaries in Chinese mainland [(b)]	2,288	432
	7,997	3,336

Notes:

(a) 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$10,219 million (2009: HK$4,225 million). In 2009, collateralised borrowings for GPEC were secured by trade receivables, the carrying amounts of which were HK$191 million.

(b) Bank loans for subsidiaries in Chinese mainland 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 of HK$3,714 million (2009: HK$898 million).

Bank loans and other borrowings totalling HK$19,020 million (2009: HK$15,002 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

22. Bank Loans and Other Borrowings (continued)

At 31 December 2010, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Within one year	**7,816**	6,892	**–**	–	**7,816**	6,892
Between one and two years	**1,329**	8,420	**8,602**	–	**9,931**	8,420
Between two to five years	**5,958**	5,097	**4,414**	10,720	**10,372**	15,817
Over five years	**5,920**	1,853	**10,584**	6,449	**16,504**	8,302
	21,023	22,262	**23,600**	17,169	**44,623**	39,431

At 31 December 2010, the Company had no bank loans and other borrowings (2009: HK$2,000 million repayable within one year).

Another presentation of the Group's liquidity risk is set out on page 203.

At 31 December 2010 and 2009, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

The bank loans and other 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:

	2010		2009	
	HK$	**A$**	HK$	A$
Fixed rate loans and loans swapped to fixed rates	**2.3% – 5.0%**	**6.3% – 6.5%**	2.3% – 5.0%	6.3% – 6.6%
Variable rate loans and loans swapped from fixed rates	**0.3% – 1.7%**	**5.6% – 5.7%**	0.3% – 1.4%	3.7% – 4.0%

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 2010, the Group had undrawn bank loan and overdraft facilities of HK$33,502 million (2009: HK$20,045 million).

23. Obligations under Finance Leases

Accounting Policy No. 20

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	
	2010	2009
	HK$M	HK$M
Amounts payable under finance leases		
Within one year	**1,995**	1,523
After one year but within two years	**1,992**	1,519
After two years but within five years	**5,958**	4,502
Over five years	**17,155**	14,311
	27,100	21,855
Analysed as:		
Amount due for settlement within 12 months	**1,995**	1,523
Amount due for settlement after 12 months	**25,105**	20,332
	27,100	21,855

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 2010, the interest rate was 9.99% (2009: 9.99%). 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.

24. Deferred Tax

Accounting Policy No. 14

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:

	2010	2009
	HK$M	HK$M
Deferred tax assets	**4,210**	3,355
Deferred tax liabilities	**(7,590)**	(7,009)
	(3,380)	(3,654)

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.

24. Deferred Tax (continued)

The gross movement on the deferred tax account is as follows:

	2010 HK$M	2009 HK$M
At 1 January	(3,654)	(3,443)
Charged to profit or loss (Note 7)	(87)	(901)
Charged to other comprehensive income	(115)	(124)
Withholding tax	26	26
Exchange differences	450	788
At 31 December	(3,380)	(3,654)

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 [a]		Accruals and Provisions		Others [b]		Total	
	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M
At 1 January	4,794	3,979	412	337	430	506	5,636	4,822
Credited / (charged) to profit or loss	192	(332)	(1)	31	170	(199)	361	(500)
Credited / (charged) to other comprehensive income	–	–	14	(26)	–	–	14	(26)
Exchange differences	650	1,147	46	70	75	123	771	1,340
At 31 December	5,636	4,794	471	412	675	430	6,782	5,636

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Unbilled Revenue		Intangibles		Others [b]		Total	
	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M
At 1 January	(6,974)	(6,382)	(356)	(250)	(495)	(348)	(306)	(264)	(1,159)	(1,021)	(9,290)	(8,265)
(Charged) / credited to profit or loss	(568)	(400)	(87)	(122)	(15)	(38)	179	33	43	126	(448)	(401)
Charged to other comprehensive income	–	–	–	–	–	–	–	–	(129)	(98)	(129)	(98)
Withholding tax	–	–	26	26	–	–	–	–	–	–	26	26
Exchange differences	(126)	(192)	(12)	(10)	(68)	(109)	(21)	(75)	(94)	(166)	(321)	(552)
At 31 December	(7,668)	(6,974)	(429)	(356)	(578)	(495)	(148)	(306)	(1,339)	(1,159)	(10,162)	(9,290)

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 derivative financial instruments and lease accounting adjustments.

25. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to the customers. The variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, whilst interest is credited to customers at prime rate on the amount over-recovered. The carrying amount of fuel clause account approximates to its fair value.

26. 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:

	2010 HK$M	2009 HK$M
Tariff Stabilisation Fund (A)	1,505	1,653
Rate Reduction Reserve (B)	4	1
	1,509	1,654

The movements in SoC reserve accounts during the year are shown as follows:

	2010 HK$M	2009 HK$M
(A) Tariff Stabilisation Fund		
At 1 January	1,653	1,756
Transfer under the SoC [(a)]		
– transfer for SoC from profit or loss (Note 2)	76	143
– charge for asset decommissioning [(b)]	(224)	(246)
At 31 December	1,505	1,653
(B) Rate Reduction Reserve		
At 1 January	1	70
Interest expense charged to profit or loss (Note 6)	3	3
Rebate to customers [(c)]	–	(72)
At 31 December	4	1

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 SoC. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 2).

(b) Under the 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$291 million (2009: HK$176 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) During the period from 1 January to 5 May 2009, a rebate of HK¢0.8 per unit was made to customers.

27. Share Capital

	2010 Number of Ordinary Shares of HK$5 Each	2010 Amount HK$M	2009 Number of Ordinary Shares of HK$5 Each	2009 Amount HK$M
Authorised, at 31 December	3,000,000,000	15,000	3,000,000,000	15,000
Issued and fully-paid, at 31 December	2,406,143,400	12,031	2,406,143,400	12,031

28. Reserves

Group

	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 2009	2,492	(1,203)	272	562	47,699	49,822
Earnings attributable to shareholders	–	–	–	–	8,196	8,196
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	4,636	–	–	–	4,636
Jointly controlled entities	–	371	–	–	–	371
Associated companies	–	62	–	–	–	62
Cash flow hedges						
Net fair value gains	–	–	402	–	–	402
Reclassification adjustment for amount included in profit or loss	–	–	(145)	–	–	(145)
Transfer to assets	–	–	(7)	–	–	(7)
Translation difference	–	–	50	–	–	50
Tax on the above items	–	–	(80)	–	–	(80)
Available-for-sale investments						
Fair value gains	–	–	–	109	–	109
Tax on the above item	–	–	–	(18)	–	(18)
Revaluation surplus on step-acquisition of subsidiaries	–	–	–	15	–	15
Share of other comprehensive income of jointly controlled entities	–	–	70	50	–	120
Total comprehensive income attributable to shareholders	–	5,069	290	156	8,196	13,711
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	–	10	(10)	–
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

28. Reserves (continued)

Group

	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 2010	2,492	3,866	562	725	49,921	57,566
Earnings attributable to shareholders	–	–	–	–	10,332	10,332
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	–	3,247	–	–	–	3,247
Jointly controlled entities	–	669	–	–	–	669
Associated companies	–	9	–	–	–	9
Cash flow hedges						
Net fair value gains	–	–	813	–	–	813
Reclassification adjustment for amount included in profit or loss	–	–	(176)	–	–	(176)
Transfer to assets	–	–	81	–	–	81
Tax on the above items	–	–	(130)	–	–	(130)
Available-for-sale investments						
Fair value gains	–	–	–	127	–	127
Tax on the above item	–	–	–	1	–	1
Share of other comprehensive income of jointly controlled entities	–	–	32	(30)	–	2
Reclassification adjustments						
Sale of a subsidiary	–	(91)	–	–	–	(91)
Acquisition of additional interest in a jointly controlled entity to become a subsidiary	–	(17)	–	–	–	(17)
Total comprehensive income attributable to shareholders	–	3,817	620	98	10,332	14,867
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(3)	3	–
Appropriation of reserves of jointly controlled entities	–	–	–	23	(23)	–
Dividends paid						
2009 final	–	–	–	–	(2,214)	(2,214)
2010 interim	–	–	–	–	(3,753)	(3,753)
Balance at 31 December 2010	**2,492**	**7,683**	**1,182**	**843**	**54,266** [(b)]	**66,466**

28. Reserves (continued)

Company

	Capital Redemption Reserve [(a)] HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2009	2,492	21,421	23,913
Profit and 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	2,492	28,158 [(b)]	30,650
Balance at 1 January 2010	2,492	28,158	30,650
Profit and total comprehensive income for the year	–	5,884	5,884
Dividends paid			
2009 final	–	(2,214)	(2,214)
2010 interim	–	(3,753)	(3,753)
Balance at 31 December 2010	**2,492**	**28,075** [(b)]	**30,567**

Notes:

(a) Capital redemption reserve represents the nominal value of the shares repurchased which was paid out of the distributable reserves of the Company.

(b) The fourth interim dividend declared for the year ended 31 December 2010 was HK$2,214 million (2009: final dividend of HK$2,214 million). The balance of retained profits after the fourth interim dividend of the Group was HK$52,052 million (2009: HK$47,707 million after the final dividend) and of the Company was HK$25,861 million (2009: HK$25,944 million after the final dividend).

At 31 December 2010, distributable reserves of the Company amounted to HK$28,075 million (2009: HK$28,158 million).

Distributable reserves of the Company do not equal to the Group's retained profits because distributable reserves refer to the amount that a company can distribute to its shareholders as a legal entity. Consolidated reserves of the Group are irrelevant in determining the amount of distributable reserves of the Company itself.

29. Note to the Consolidated Statement of Cash Flows

Reconciliation of profit before income tax to net cash inflow from operations:

	2010 HK$M	2009 HK$M
Profit before income tax	11,179	9,854
Adjustments for:		
Finance costs	4,212	3,477
Finance income	(101)	(69)
Share of results of jointly controlled entities and associated companies, net of income tax	(2,893)	(2,415)
Depreciation and amortisation	5,065	4,332
Impairment charge	204	299
Net loss on disposal of fixed assets	183	172
Gain on sale of a subsidiary	(400)	–
Gain on sale of a jointly controlled entity	–	(153)
Fair value gain on borrowings under fair value hedges and net exchange difference	(64)	(48)
SoC items		
Increase in customers' deposits	127	130
(Increase)/decrease in fuel clause account (under-recovery)	(282)	796
Rebate to customers under SoC	–	(72)
Decrease in Tariff Stabilisation Fund for asset decommissioning charge for a jointly controlled entity	(109)	(104)
Transfer for SoC	76	143
	(188)	893
Increase in trade and other receivables	(2,270)	(357)
Decrease in finance lease receivables	184	111
Decrease/(increase) in cash restricted for specific purposes	105	(836)
Decrease/(increase) in derivative financial instruments	211	(202)
Increase in trade and other payables	1,371	285
Increase in current accounts due to jointly controlled entities and associated companies	12	55
Net cash inflow from operations	16,810	15,398

30. Commitments

(A) Capital expenditure on fixed assets, leasehold land and land use rights under operating leases, as well as intangible assets authorised but not brought into the financial statements, is as follows:

	Group		Company	
	2010 HK$M	2009 HK$M	2010 HK$M	2009 HK$M
Contracted but not provided for	10,899	14,668	3	3
Authorised but not contracted for	14,294	11,643	93	49
	25,193	26,311	96	52

(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 2010	Remaining Balance to be Contributed	Expected Year for Last Contribution
Chongming wind power project	RMB54 million	RMB27 million (HK$32 million)	RMB27 million (HK$32 million)	2011
Haifang wind power project	RMB92 million	RMB18 million (HK$21 million)	RMB74 million (HK$88 million)	2011
Natural Energy Development's solar power project	THB773 million	THB198 million (HK$51 million)	THB575 million (HK$148 million)	2011
CGN CLP Energy Services (Shenzhen)	RMB29 million	–	RMB29 million (HK$35 million)	2012

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2010 HK$M	2009 HK$M
Within one year	699	633
Later than one year but not later than five years	2,573	2,368
Over five years	6,454	6,810
	9,726	9,811

Of the above amount, HK$6,542 million (2009: HK$6,810 million) was related to the operating lease element of the Electricity Supply Contract between CLP Power Hong Kong and CAPCO, and HK$2,655 million (2009: HK$2,502 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.

30. Commitments (continued)

(D) On 14 December 2010 the Group entered into agreements with the New South Wales (NSW) Government to acquire the EnergyAustralia Retail, the Delta Western GenTrader Bundle and Project Sites for a total consideration of A$2,035 million (HK$16,099 million). The acquisition has a target completion date of 1 March 2011.

EnergyAustralia Retail is an energy retailing business with a customer base of approximately 1.5 million billable connections across the east coast of Australia. The acquisition of EnergyAustralia Retail does not include EnergyAustralia's electricity distribution network, which will continue to be owned and operated by the vendor. The EnergyAustralia Retail business consists of the customer accounts and associated assets, but does not include the transfer of employees or physical assets. The Group has entered into a Transitional Service Agreement with the vendor to ensure the smooth integration of EnergyAustralia customers into the TRUenergy business.

The Delta Western GenTrader Bundle comprises long-term exclusive off-take contracts to control the dispatch and buy the output of the black coal-fired power stations of Delta Electricity at Mount Piper and Wallerawang. The Mount Piper power station has a power generating capacity of 1,400MW and the Wallerawang power station has a capacity of 1,000MW. In accordance with the terms of the GenTrader contract, Delta Electricity will continue to own, operate and maintain the power stations and employ a workforce for these purposes, while the Group has exclusive rights to trade the electricity for the anticipated life of each power station. The terms of the GenTrader contracts contain efficiency, availability and reliability targets, and liquidated damages would apply in the event that Delta Electricity does not meet contracted performance standards. The Group will make periodic payments to Delta Electricity ("Fixed and Variable Charges") which are intended to cover Delta Electricity's costs of operating and maintaining the stations, including capital expenditure.

The Project Sites are three development sites for potential new power station projects located at Marulan and Mount Piper. Development of power stations at these sites will be subject to obtaining all necessary licences and approvals, and future market conditions.

The acquisition offers an opportunity for the Group to strengthen its position in NSW, the largest energy market in Australia, and is in line with the Group's objective of building a diversified and integrated energy business in Australia.

The total consideration for the acquisitions is A$2,035 million (HK$16,099 million), which is subject to completion adjustments and, a contingent tax payment by TRUenergy of up to an additional A$60 million (HK$475 million) in the event of a favourable ruling by the Australian Tax Office on the treatment of the GenTrader payments.

In addition to the commitment stated above, the other commitments associated with NSW acquisition but not brought into the financial statements, will be payable as follows:

	HK$M
Within one year	1,618
Between one to five years	6,074
Over five years	12,687
	20,379

It is currently envisaged that the acquisitions will be funded at completion by a combination of approximately A$1,200 million (HK$9,493 million) of acquisition financing under new debt facilities taken out by TRUenergy and the remainder by a shareholder advance from the Company to TRUenergy.

31. Related Party Transactions Accounting Policy No. 21

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 and associated companies are shown below:

	2010 HK$M	2009 HK$M
Lease and lease service payment to CAPCO (a)	14,381	12,954
Purchases of nuclear electricity from GNPS (b)	5,003	5,237
Pumped storage service fee to PSDC (c)	495	390
	19,879	18,581

(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 Master Agreement expired on 31 December 2009. During the year ended 31 December 2010, there was an agreement between TRUenergy and Gascor for TRUenergy to purchase a certain volume of gas from Gascor with the same terms under the Master Agreement. The amount paid to Gascor in 2010 was HK$107 million (2009: HK$583 million).

Amounts due to the related parties at 31 December 2010 are disclosed in Note 21.

31. Related Party Transactions (continued)

(B) Rendering of services to jointly controlled entities

In accordance with the CAPCO Operating Service Agreement between CLP Power Hong Kong and CAPCO, CLP Power Hong Kong is responsible to CAPCO for the efficient and proper construction, commissioning, operation and maintenance of the electricity generating facilities of CAPCO. In return, CAPCO reimburses CLP Power Hong Kong for all costs incurred in performance of the agreement. The charges from CLP Power Hong Kong to CAPCO during the year amounted to HK$1,273 million (2009: HK$1,159 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 2010 are disclosed in Note 19.

No provision has been made for the amounts owed by the related parties.

(C) The loan and advances made to jointly controlled entities totalled HK$8,932 million (2009: HK$7,326 million) (Note 14). Of these, HK$8,720 million (2009: HK$7,060 million) was in the form of interest-free advances from CLP Power Hong Kong to CAPCO.

At 31 December 2010, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2009: nil).

(D) The Company provides necessary funding to support its subsidiaries' operations. Of the total advances of HK$20,432 million (2009: HK$22,493 million) made to its subsidiaries (Note 13), HK$11,343 million (2009: HK$13,216 million) and HK$6,417 million (2009: HK$3,596 million) 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$2,231 million (2009: HK$5,227 million) 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$132 million (2009: HK$110 million), of which HK$128 million (2009: HK$106 million) was from CLP Properties Group.

(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 ten (2009: nine) senior management personnel. The total remuneration of the key management personnel is shown below:

	2010 HK$M	2009 HK$M
Fees	8	7
Base compensation, allowances and benefits in kind	51	46
Tax equalisation, allowances and benefits in kind		
for secondment to overseas offices	8	9
Performance bonus		
Annual incentive	48	36
Long-term incentive	15	10
Provident fund contributions	6	6
Final payment (note)	3	–
	139	114

Note: The final payment included payment in lieu of notice, ex-gratia payment and compensation for loss of office paid to a former senior management personnel upon leaving.

31. Related Party Transactions (continued)

(E) Emoluments of key management personnel (continued)

At 31 December 2010, the CLP Holdings' Board was composed of 13 Non-executive Directors and three Executive Directors. Remuneration of all Directors for the year totalled HK$46 million (2009: HK$42 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 (2009: three Directors) and two senior management (2009: two senior management). The total remuneration of these five highest paid individuals amounted to HK$69 million (2009: HK$67 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) of the Remuneration Report on pages 125, 126, 127 and 130 to 131 respectively. These sections form the "auditable" part of the Remuneration Report and are part of the financial statements.

32. Contingent Liabilities

Accounting Policy No. 15

See pages 85 and 86 for the application of the accounting concept to the "deemed generation incentive" lawsuit.

(A) GPEC – Deemed Generation Incentive Payment and Interests on Deemed Loans

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 periods when the plant is declared with availability to generate 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 calculated up to June 2005 amounts to about Rs.7,260 million or HK$1,259 million. GPEC's position, amongst other arguments, is that the GPEC power station is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the "deemed generation incentive".

GUVNL also claimed that GPEC has wrongly received interest on "deemed loans" under the existing power purchase agreement. GUVNL's claim rests on two main grounds: (i) GPEC had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the "deemed loans" amounts to a further Rs.830 million or HK$144 million.

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to GPEC of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when GPEC's plant was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL's claim against GPEC in respect of deemed generation incentive 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$502 million (2009: Rs.2,896 million or HK$482 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

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 loans and the time barring of the deemed generation claim to 14 September 2002.

32. Contingent Liabilities (continued)

(A) GPEC – Deemed Generation Incentive Payment and Interests on Deemed Loans (continued)

On 19 January 2010, the ATE dismissed both GPEC and GUVNL's appeals and upheld the decision of the GERC. GPEC has filed an appeal against the ATE order in the Supreme Court of India. The appeal petition was admitted on 16 April 2010 but the next date of hearing has not yet been fixed by the court.

GUVNL has also filed a cross appeal challenging those parts of the ATE judgment which held that GUVNL's claims before September 2002 were time barred and which disallowed its claims for interest on "deemed loans".

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million or HK$647 million from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million or HK$87 million, which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010. The total amount of the claim plus interest and tax with respect to the "deemed generation incentive" is therefore revised to Rs.8,968 million or HK$1,555 million.

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. Enercon GmbH is also seeking an injunction restraining CLP India's use of certain rotor blades acquired from EIL. As at 31 December 2010, the Group considered that CLP India has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits to the Group.

33. Event after the End of the Reporting Period

On 23 February 2011, the Company, CLP SEA Energy Limited (an indirect wholly-owned subsidiary of the Company), MC, Diamond Generating Asia, Limited (a wholly-owned subsidiary of MC) and OneEnergy entered into the Reorganisation Agreement in relation to, inter alia, the reorganisation of the ownership structure of OneEnergy and the divestment of the Group's indirect shareholding in EGCO.

Prior to the reorganisation, the Group had an effective interest of approximately 13.36% in EGCO. Following full implementation of the reorganisation, the Group will no longer hold any direct or indirect interest in EGCO. The consideration for the divestment of the Group's interest in EGCO is approximately US$273 million (HK$2,129 million), which is expected to exceed its book value. The Group is expected to recognise an estimated gain of approximately HK$881 million.

Completion of the reorganisation is subject to, inter alia, (a) finalisation of the sale and purchase agreement and any other documentation as may be required for the implementation of the relevant step of the reorganisation; (b) all necessary approvals and consents, whether regulatory or governmental or otherwise, as may be required for the implementation of the relevant step of the reorganisation having been obtained; and (c) corresponding changes in board composition to reflect the changes in shareholding of the relevant company.

It is currently envisaged that the reorganisation will be fully implemented by 30 June 2011. If the reorganisation cannot be completed as contemplated by the parties for any reason, the parties have undertaken to remedy the situation in good faith, failing which the Company and MC will establish a 50:50 joint venture in respect of the total interests of approximately 24.57% in EGCO.

Following full implementation of the reorganisation, the Group will continue to hold the same level of effective interest in Ho-Ping and HPC Power Services Corporation, the latter being a company which principally provides operation and maintenance services to Ho-Ping Power Station.

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risks, and energy price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and wholesale market energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. Other than limited energy trading activities engaged by subsidiaries of TRUenergy, all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominately the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those respective companies. Overseas subsidiaries, jointly controlled entities and associated companies conduct their risk management activities in accordance with 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.

Foreign currency risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Australian dollars and Indian rupees. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its foreign currency denominated debts, U.S. dollar denominated nuclear power purchase off-take commitments and other fuel-related payments.

The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions and recognised liabilities which are denominated in a currency that is not the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

CLP Power Hong Kong

Under the SoC, CLP Power Hong Kong is allowed to pass-through foreign exchange gains and losses arising from future commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollars, thus retaining no significant foreign exchange risk over the long term. As a measure of additional prudence, CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in U.S. dollar and Japanese yen for the full tenor, and a significant portion of its U.S. dollar obligations on fuel and nuclear power purchases for up to five years, provided that for U.S. dollar the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK$7.8 : US$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs.

As described above, exchange rate fluctuations will have no ultimate impact on profit or loss of CLP Power Hong Kong on the basis that all foreign exchange gains and losses are recoverable under the SoC. At the end of the reporting period, the fair value movement of the derivative financial instrument in a cash flow hedge relationship is recorded in equity. The extent of the impact to the hedging reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

Foreign currency risk (continued)

	2010 HK$M	2009 HK$M
Hong Kong dollar against U.S. dollar		
If Hong Kong dollar weakened by 0.6% (2009: 0.6%)	376	272
If Hong Kong dollar strengthened by 0.6% (2009: 0.6%)	(376)	(272)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 12.0% (2009: 6.0%)	92	36
If Hong Kong dollar strengthened by 12.0% (2009: 6.0%)	(72)	(36)

This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in profit or loss, the amount is recoverable under the SoC.

The Group's Asia-Pacific Investments

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks.

The Group closely monitors translation risk using a Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. At 31 December 2010, the Group's net investment subject to translation exposure was HK$49,520 million (2009: HK$40,362 million), arising mainly from our investments in Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. This means that, for each 1% (2009: 1%) average foreign currency movement, our translation exposure will vary by about HK$495 million (2009: HK$404 million). All the translation exposures are recognised in other comprehensive income and therefore have no impact on our profit or loss.

We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Each overseas subsidiary and project company has developed 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.

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. The sensitivity rate in U.S. dollar used is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movement at the end of the reporting period and under the economic environments in which the Group operates.

	2010 HK$M	2009 HK$M
If U.S. dollar strengthened by 5% – 10% (2009: 5.5%)		
Post-tax profit for the year	67	55
Equity – hedging reserve	64	96
If U.S. dollar weakened by 5% – 10% (2009: 5.5%)		
Post-tax profit for the year	(64)	(52)
Equity – hedging reserve	(79)	(96)

Energy price risk

TRUenergy sells and purchases electricity to / from the Australian National Electricity Market. Although TRUenergy has a vertically integrated business structure, generation loads and retail customer demands do not exactly offset each other and therefore, hedging contracts (forward contracts and energy price swaps) are entered into to cover the differences between forecast generation loads and retail customer demands. These contracts fix the price of electricity within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price.

In addition to hedging the physical market position through accounting hedge contracts, TRUenergy enters into financial transactions and other contractual commitments that are classified as held for trading or economic hedges. Held for trading transactions represent energy derivatives entered into to support market liquidity or for the purpose of understanding price movements. The overall net exposure of these derivatives is small and closely monitored. Transactions classified as economic hedges are derivative contracts entered into for risk management purposes of future retail or generation activities but which do not meet the requirements for hedge accounting.

TRUenergy manages energy price risk exposures through an established risk management framework consisting of policies which place appropriate limits on overall energy market exposures, delegations of authority on trading, pre-defined product lists, regular reporting of exposures, and segregation of duties. The corporate governance process also includes the oversight by a Risk Management Committee which acts on behalf of TRUenergy's Board.

TRUenergy measures the risk of the fluctuation of the spot market price using VaR analysis and stress testing analysis. VaR is a risk measurement technique that uses probability analyses to calculate the market risk of a portfolio using historical volatility and correlation over a defined holding period. As the VaR calculation is based on historical data, there is no guarantee that it will accurately predict the future. TRUenergy's VaR is determined using a variance-covariance methodology including all long (generation and bought contract) and short (retail and sold contract) positions measured over a four years' time horizon. The distribution of value of these positions will vary according to the variability of market prices. This is measured by using historical price distribution and correlations over a holding period of four weeks at a 95% confidence level.

The VaR for TRUenergy's energy contracts portfolio at 31 December 2010 was HK$333 million (2009: HK$234 million). The change reflects an increase in holding of volatile positions. During 2010, the VaR ranged between a low of HK$143 million (2009: HK$161 million) and a high of HK$356 million (2009: HK$255 million).

Analyses below show the effect on profit after tax and equity if market prices were 15% (2009: 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% (2009: 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.

	2010 HK$M	2009 HK$M
If market prices were 15% (2009: 15%) higher		
Post-tax profit for the year	250	99
Equity – hedging reserve	(207)	(23)
If market prices were 15% (2009: 15%) lower		
Post-tax profit for the year	(164)	(99)
Equity – hedging reserve	207	23

The Group enters into trading and non-trading forward electricity contracts in accordance with the Group's risk management policies. These policies enable the Group to enter into contracts that are considered to be economic hedges against future retail and generation activities. It should be noted that while mark-to-market gains and losses on economic hedges are recognised in earnings in the period in which they occur, they will offset the impact of price movements on future profits relating to retail and generation activities occurring at the time of settlement.

Interest rate risk

The Group's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its cash flow interest rate risk by using fixed rate borrowings and interest rate swaps which have the economic effect of converting borrowings from floating rates to fixed rates.

The appropriate level of the fixed / floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed / floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications. At 31 December 2010, 61% (2009: 59%) of the Group's borrowings was at fixed rates.

The sensitivity analysis below presents the effects on the Group's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges of floating rate 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 rates 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.

	2010 HK$M	2009 HK$M
Hong Kong dollar		
If interest rates were 0.25% (2009: 0.5%) higher		
Post-tax profit for the year	(19)	(46)
Equity – hedging reserve	5	20
If interest rates were 0.1% (2009: 0.1%) lower		
Post-tax profit for the year	7	9
Equity – hedging reserve	(3)	(5)
Australian dollar		
If interest rates were 0.5% (2009: 1%) higher		
Post-tax profit for the year	(8)	(12)
Equity – hedging reserve	57	57
If interest rates were 0.5% (2009: 1%) lower		
Post-tax profit for the year	8	12
Equity – hedging reserve	(60)	(57)

The Company had no bank loans and other borrowings and interest rate derivative financial instruments at 31 December 2010. The Company's sensitivity to interest rates was not significant and therefore was not presented at 31 December 2009.

Credit risk

The Group has no significant concentrations of credit risk with respect to the sales of electricity and / or gas in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has policies in place to monitor the financial viability of counterparties. CLP Power Hong Kong has established a credit policy to allow electricity sale customers to settle their bills within two weeks after issue. To limit the credit risk exposure, CLP Power Hong Kong also has a policy to require cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days determined from time to time by reference to the usage of the customers. For TRUenergy, receivables are due for settlement no more than 30 days after issue and collectibility is reviewed on an ongoing basis.

GPEC, our subsidiary in India, sells all of its electricity output to GUVNL through a 20-year power purchase agreement (PPA). The credit quality of GUVNL is closely monitored by management.

On the treasury side, all finance-related hedging transactions and deposits of the Company and its principal subsidiaries are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies and scrutiny of the financial position of non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, jointly controlled entities and associated companies without recourse to the Company.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of each financial asset, including trade and other receivables and derivative financial instruments, as reported in the statement of financial position.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available to meet future funding requirements.

Management also monitors rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

Liquidity risk (continued)

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 2010					
Non-derivative financial liabilities					
Bank loans	8,710	2,101	7,886	9,069	27,766
Other borrowings	1,120	8,979	6,058	12,605	28,762
Obligations under finance leases	4,599	4,397	11,980	27,880	48,856
Customers' deposits	3,979	–	–	–	3,979
Trade and other payables	11,344	–	–	–	11,344
SoC reserve accounts	–	–	–	1,509	1,509
	29,752	15,477	25,924	51,063	122,216
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	4	–	–	–	4
Interest rate swaps	141	76	12	–	229
Gross settled					
Forward foreign exchange contracts	14,755	12,562	55,973	693	83,983
Cross currency & interest rate swaps	1,626	2,922	2,073	8,249	14,870
	16,526	15,560	58,058	8,942	99,086
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

The Company has no bank loans and other borrowings at 31 December 2010. For 2009, the maturity profile of the Company's bank loans, included in the Group amounts shown above, was HK$2,003 million repayable within one year.

2. 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.

3. 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).

The following table presents the Group's financial instruments that are measured at fair value at 31 December.

	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
At 31 December 2010				
Assets				
Available-for-sale investments	584	–	1,264	1,848
Forward foreign exchange contracts	–	1,338	–	1,338
Cross currency & interest rate swaps	–	860	–	860
Interest rate swaps	–	136	–	136
Energy contracts	–	1,154	857	2,011
	584	3,488	2,121	6,193
Liabilities				
Forward foreign exchange contracts	–	263	–	263
Cross currency & interest rate swaps	–	449	–	449
Interest rate swaps	–	172	–	172
Energy contracts	–	517	610	1,127
Bank loans and other borrowings	–	952	–	952
	–	2,353	610	2,963

	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
At 31 December 2009				
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 2010 and 2009, there are no significant transfers between Level 1 and Level 2.

The movements of Level 3 financial instruments for the years ended 31 December are as follows:

	2010			2009		
	Available-for-sale Investments HK$M	**Energy Contracts HK$M**	**Total HK$M**	Available-for-sale Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	1,263	365	1,628	3	277	280
Total gains / (losses) recognised in						
Profit or loss	–	(297)	(297)	–	(78)	(78)
Other comprehensive income	–	98	98	1	132	133
Purchases	1	67	68	1,259	107	1,366
Settlements	–	14	14	–	6	6
Transfers out of Level 3 (note)	–	–	–	–	(79)	(79)
Closing balance	1,264	247	1,511	1,263	365	1,628
Total losses for the year included in profit or loss and presented in fuel and other operating expenses	–	(297)	(297)	–	(78)	(78)
In respect of the assets and liabilities held at the end of the reporting period, the losses for the year and presented in fuel and other operating expenses	–	(199)	(199)	–	(29)	(29)

Note: During 2009, the transfer of certain energy contracts out of Level 3 was because certain observable significant inputs were used in the fair value measurement instead of those unobservable ones used previously.

4. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2010 and 2009.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2010 HK$M	2009 HK$M
Total debt [(a)]	44,623	39,431
Net debt [(b)]	39,867	31,437
Total equity	79,758	70,868
Total capital (based on total debt) [(c)]	124,381	110,299
Total capital (based on net debt) [(d)]	119,625	102,305
Total debt to total capital (based on total debt) ratio (%)	35.9	35.7
Net debt to total capital (based on net debt) ratio (%)	33.3	30.7

Total debt to total capital ratio remained at a similar level as 2009. The increase of net debt to total capital ratio was mainly due to a significant portion of cash being utilised during the year for capital expenditure and investment needs.

Certain entities of the Group are subject to certain loan covenants. For both 2010 and 2009, these entities have fully complied with those loan covenants.

Notes:

(a) Total debt equals to bank loans and other borrowings.

(b) Net debt equals to total debt less bank balances, cash and other liquid funds.

(c) Total capital (based on total debt) equals to total debt plus total equity.

(d) Total capital (based on net debt) equals to net debt plus total equity.

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. The 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. The Tariff Stabilisation 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 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 SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy 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 SoC, which is credited to the Rate Reduction Reserve;
  - (c) an excess capacity adjustment of 9.99% under the SoC 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 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 2010 was 9.15% (2009: 9.27%).

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 2010, 64% (2009: 65%) of the net return was allocated to CLP Power Hong Kong and 36% (2009: 35%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Tariff Stabilisation Fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

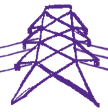
The calculations shown on page 209 are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2010 HK$M	2009 HK$M
SoC revenue	30,016	28,437
Expenses		
Operating costs	3,467	3,102
Fuel	7,848	7,029
Purchases of nuclear electricity	5,003	5,237
Provision for asset decommissioning	224	246
Depreciation	3,427	3,149
Operating interest	677	537
Taxation	1,597	1,554
	22,243	20,854
Profit after taxation	7,773	7,583
Interest on increase in customers' deposits	–	–
Interest on borrowed capital	763	625
Adjustment for performance incentives / penalties	(43)	(41)
Adjustments required under the SoC (being share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)	(73)	(115)
Profit for SoC	8,420	8,052
Transfer from Tariff Stabilisation Fund	148	103
Permitted return	8,568	8,155
Deduct interest on / Adjustment for		
Increase in customers' deposits as above	–	–
Borrowed capital as above	763	625
Performance incentives / penalties as above	(43)	(41)
Tariff Stabilisation Fund to Rate Reduction Reserve	3	3
	723	587
Net return	7,845	7,568
Divisible as follows:		
CLP Power Hong Kong	4,985	4,894
CAPCO	2,860	2,674
	7,845	7,568
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	4,985	4,894
Interest in CAPCO	1,144	1,070
	6,129	5,964

Five-year Summary: CLP Group Financial & Operating Statistics

	2010	2009	2008	2007	2006
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong (HK)	**29,944**	28,297	30,191	29,684	29,293
Energy business outside HK	**28,124**	22,175	23,822	20,879	16,143
Others	**342**	196	284	226	266
Total	**58,410**	50,668	54,297	50,789	45,702
Operating profit	**12,397**	10,847	13,307	13,304	12,167
Earnings					
Electricity business in HK	**6,129**	5,964	7,549	7,589	7,290
Other investments / operations	**3,476**	3,007	2,564	2,120	2,778
Other income, net	**356**	153	657	1,797	408
Provisions for jointly controlled entities / associated companies	**(258)**	(477)	–	–	–
Tax consolidation benefit from Australia	**989**	–	–	–	–
Other one-off items of TRUenergy	**97**	(17)	19	(503)	–
Unallocated net finance costs	**(18)**	(21)	(21)	(90)	(283)
Unallocated Group expenses	**(439)**	(413)	(345)	(305)	(293)
Total	**10,332**	8,196	10,423	10,608	9,900
Ordinary dividends	**5,967**	5,967	5,971	5,973	5,756
Special dividends	**–**	–	–	–	48
Total dividends	**5,967**	5,967	5,971	5,973	5,804
Capital expenditure, owned and leased assets	**20,032**	9,713	7,760	8,271	9,213
Depreciation & amortisation, owned and leased assets	**5,065**	4,332	4,055	4,650	4,968
Consolidated Statement of Cash Flows, HK$M					
Net cash inflow from operating activities	**16,085**	14,529	15,238	14,823	11,472
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**57,247**	54,712	52,132	49,684	47,516
Other fixed assets	**60,213**	44,146	36,991	38,925	38,137
Goodwill and other intangible assets	**9,150**	8,105	6,324	8,135	7,326
Interests in jointly controlled entities	**20,476**	18,838	17,791	17,684	19,163
Interests in associated companies	**2,378**	1,813	242	299	18
Other non-current assets	**11,177**	9,588	8,166	8,272	6,615
Current assets	**18,714**	19,329	11,185	13,278	12,316
Total assets	**179,355**	156,531	132,831	136,277	131,091
Shareholders' funds	**79,661**	70,761	63,017	63,901	55,838
Non-controlling interests	**97**	107	105	95	78
Equity	**79,758**	70,868	63,122	63,996	55,916
Bank loans and other borrowings	**44,623**	39,431	26,696	28,360	30,278
Obligations under finance leases	**27,100**	21,855	21,765	22,216	22,810
SoC reserve accounts	**1,509**	1,654	1,826	2,300	3,346
Other current liabilities	**16,420**	14,023	11,205	11,538	10,781
Other non-current liabilities	**9,945**	8,700	8,217	7,867	7,960
Total liabilities	**99,597**	85,663	69,709	72,281	75,175
Equity and total liabilities	**179,355**	156,531	132,831	136,277	131,091
Per Share Data, HK$					
Shareholders' funds per share	**33.11**	29.41	26.19	26.53	23.19
Earnings per share	**4.29**	3.41	4.33	4.40	4.11
Dividends per share					
Ordinary	**2.48**	2.48	2.48	2.48	2.39
Special	**–**	–	–	–	0.02
Total	**2.48**	2.48	2.48	2.48	2.41



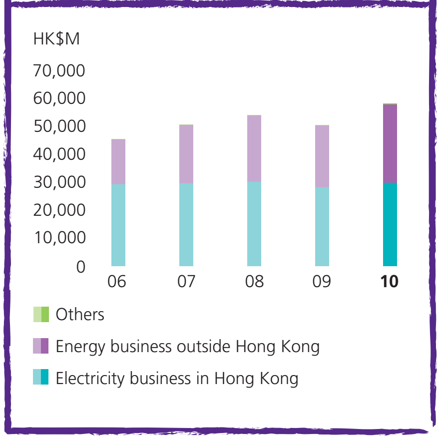
A Ten-year Summary is on our website.

	2010	2009	2008	2007	2006
Per Share Data, HK$ (continued)					
Closing share price					
Highest	**64.65**	57.55	70.50	59.95	57.90
Lowest	**52.15**	51.15	42.85	50.25	43.15
As at year-end	**63.10**	52.45	52.60	53.25	57.50
Ratios					
Return on equity, %	**13.7**	12.3	16.4	17.7	18.6
Total debt to total capital, %	**35.9**	35.7	29.7	30.7	35.1
Net debt to total capital, %	**33.3**	30.7	29.1	28.6	33.9
Interest cover, times	**7**	8	9	8	7
Price / Earnings, times	**15**	15	12	12	14
Dividend yield, %	**3.9**	4.7	4.7	4.7	4.2
Dividend payout, %	**57.8**	72.8	57.3	56.3	58.6
Other Information					
Shareholders	**20,692**	20,680	19,467	20,113	20,351
Shares in issue (million)	**2,406.14**	2,406.14	2,406.14	2,408.25	2,408.25
Employees					
SoC	**3,709**	3,708	3,758	3,861	3,866
Non-SoC	**2,366**	2,069	1,959	1,834	2,221
	6,075	5,777	5,717	5,695	6,087
Group generating capacity (owned / operated / under construction)*, MW					
– by region					
Hong Kong	**6,908**	6,908	6,908	6,908	6,908
Australia	**3,211**	3,188	3,132	3,112	4,213
Chinese mainland**	**5,899**	5,578	5,206	4,477	4,124
India**	**2,461**	2,420	2,183	680	655
Southeast Asia & Taiwan	**868**	832	796	728	992
	19,347	18,926	18,225	15,905	16,892
– by status					
Operational	**17,145**	16,473	15,636	14,693	15,381
Construction	**2,202**	2,453	2,589	1,212	1,511
	19,347	18,926	18,225	15,905	16,892

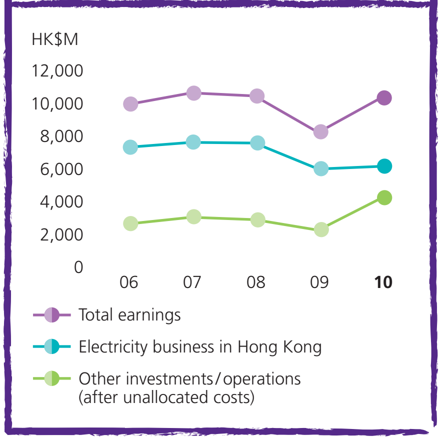
* Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC and Ecogen on 100% as having right to use; and (c) other stations on the proportion of the Group's equity interests.

** Including our interests in wind farms held through Roaring 40s for 2006 to 2008. CLP acquired these wind farms from Roaring 40s during 2009.

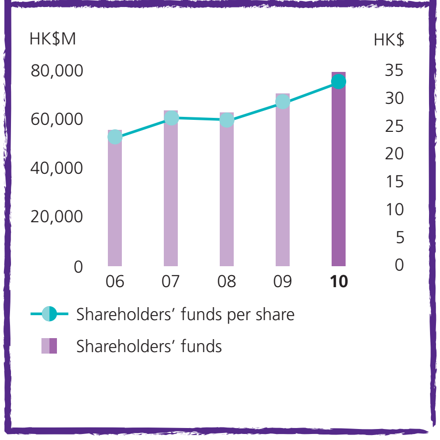
Revenue



Earnings



Shareholders' Funds



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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

	2010	2009	2008	2007	2006
SoC Financial Statistics, HK$M					
Combined Profit & Loss Statement					
Profit for SoC	8,420	8,052	10,418	10,367	10,250
Transfer (to)/from					
Tariff Stabilisation Fund/Development Fund [1]	148	103	(133)	353	202
Permitted return	8,568	8,155	10,285	10,720	10,452
Less: Interest on/Adjustment for					
Increase in customers' deposits	–	–	2	33	35
Borrowed capital	763	625	608	728	754
Performance incentives/penalties	(43)	(41)	–	–	–
Tariff Stabilisation Fund/Development Fund [1] and Special provision account	3	3	132	202	265
Net return	7,845	7,568	9,543	9,757	9,398
Combined Balance Sheet					
Net assets employed					
Fixed assets	87,713	83,811	79,445	75,239	73,156
Non-current assets	1,698	774	1,552	533	934
Current assets	4,367	3,929	3,612	3,504	3,402
	93,778	88,514	84,609	79,276	77,492
Less: current liabilities	15,194	17,658	14,394	14,429	10,257
Net assets	78,584	70,856	70,215	64,847	67,235
Exchange fluctuation account	(962)	(346)	(165)	51	5
	77,622	70,510	70,050	64,898	67,240
Represented by					
Shareholders' funds	39,960	37,197	42,366	40,404	38,842
Long-term loans and other borrowings	25,248	21,598	16,616	13,828	16,161
Deferred liabilities	10,909	10,062	9,312	8,549	9,305
Tariff Stabilisation Fund/Development Fund [1]	1,505	1,653	1,756	2,117	2,932
	77,622	70,510	70,050	64,898	67,240
Other SoC Information					
Total electricity sales	29,917	28,349	30,288	29,236	29,004
Capital expenditure	7,748	7,798	7,665	6,123	5,673
Depreciation	3,427	3,149	3,005	3,699	4,117
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	2,347	2,321	2,291	2,261	2,236
Sales analysis, millions of kWh					
Commercial	12,642	12,488	12,312	12,144	11,957
Manufacturing	1,952	1,938	2,202	2,418	2,653
Residential	8,457	8,331	7,890	7,724	7,469
Infrastructure and Public Services	7,878	7,813	7,661	7,676	7,482
Local	30,929	30,570	30,065	29,962	29,561
Export	2,609	3,731	3,552	4,035	4,528
Total Electricity Sales	33,538	34,301	33,617	33,997	34,089
Annual change, %	(2.2)	2.0	(1.1)	(0.3)	0.6
Local consumption, kWh per person	5,365	5,353	5,260	5,301	5,162
Local sales, HK¢ per kWh (average)					
Basic tariff	80.1	77.5	85.6	88.1	88.0
Fuel clause charge	11.5	11.8	7.3	2.0	2.0
SoC rebate	–	(0.2)	(0.8)	(1.1)	(1.1)
Special rebate	–	–	(1.6)	(1.8)	(1.8)
Total	91.6	89.1	90.5	87.2	87.1
Annual basic tariff change, %	3.4	(9.5)	(2.8)	0.1	(0.2)
Annual total tariff change, %	2.8	(1.5)	3.8	0.1	(0.2)

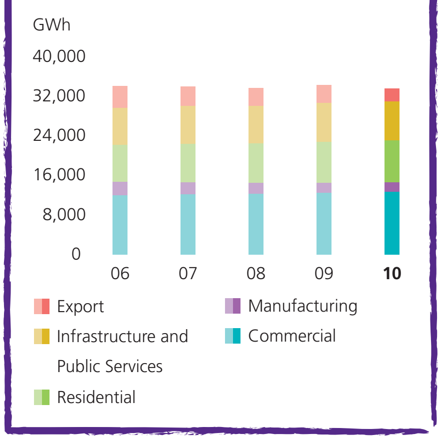
A Ten-year Summary is on our website.

	2010	2009	2008	2007	2006
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,888**	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	**6,766**	6,389	6,749	6,284	6,435
Annual change, %	**5.9**	(5.3)	7.4	(2.3)	(0.6)
Local and the Chinese mainland, MW	**7,349**	7,616	8,199	7,730	8,318
Annual change, %	**(3.5)**	(7.1)	6.1	(7.1)	6.4
System load factor, %	**57.2**	56.4	51.1	55.0	50.9
Generation by CAPCO stations, millions of kWh	**26,019**	26,410	25,722	26,698	26,408
Sent out, millions of kWh –					
From own generation	**24,552**	24,920	24,324	25,200	25,024
Net transfer from / (to)					
Landfill gas generation	**5**	5	5	6	5
GNPS / GPSPS	**10,350**	10,773	10,653	10,164	10,256
Total	**34,907**	35,698	34,982	35,370	35,285
Fuel consumed, terajoules –					
Oil	**844**	895	1,048	868	1,116
Coal	**148,229**	169,753	153,565	179,599	148,830
Gas	**83,007**	70,393	77,487	63,552	85,462
Total	**232,080**	241,041	232,100	244,019	235,408
Cost of fuel, HK$ per gigajoule – Overall	**34.13**	29.14	29.06	20.14	18.42
Thermal efficiency, % based on units sent out	**38.1**	37.2	37.7	37.2	38.3
Plant availability, %	**79.2**	83.0	85.8	90.0	89.9
Transmission and Distribution					
Network, circuit kilometres					
400kV	**554**	555	554	554	554
132kV	**1,528**	1,488	1,386	1,346	1,255
66kV & 33kV	**27**	60	62	88	171
11kV	**11,658**	11,444	11,240	11,076	10,978
Transformers, MVA	**58,929**	57,700	57,187	56,423	55,769
Substations –					
Primary	**213**	214	214	202	208
Secondary	**13,208**	13,074	12,914	12,784	12,623
Employees and Productivity					
No. of SoC employees	**3,709**	3,708	3,758	3,861	3,866
Productivity, thousands of kWh per employee	**8,340**	8,189	7,892	7,755	7,650

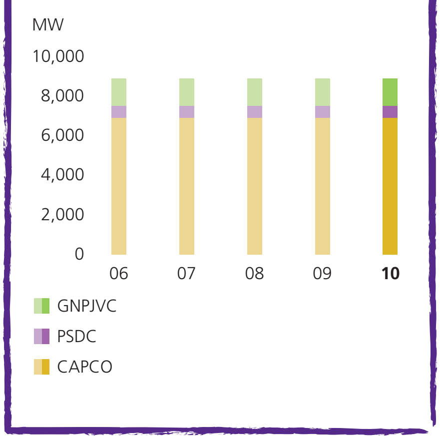
Note:

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

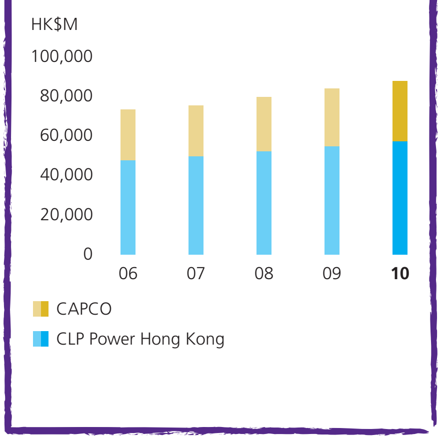
Electricity Sales by Sector



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 10 March 2011 and posted to Shareholders on 28 March 2011.

Those Shareholders who (a) received our 2010 Annual Report electronically and would like to receive a printed copy or vice versa; or (b) received our 2010 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.

Annual General Meeting (AGM)

To be held on 12 May 2011. Details of the AGM including shareholders' right to demand a poll are set out in the Notice of AGM sent to Shareholders together with a proxy form on 28 March 2011.

Register of Shareholders

To be closed on 17 March 2011 for the 2010 fourth interim dividend and closed from 10 May 2011 to 12 May 2011, both days inclusive, for the 2011 AGM.

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

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 (Head of Investor Relations)
E-mail:	cosec@clp.com.hk (Company Secretary)	ir@clp.com.hk (Head of Investor Relations)

Helping our Community

Every year since 2003 CLP, with the generous support of our shareholders and other stakeholders, has made use of its Annual Report and Sustainability Report as an opportunity to support deserving community initiatives. We do this by donating HK$60 to charity for each shareholder who elects to receive our corporate communications electronically and for each feedback that we receive on the Sustainability Report, up to a maximum donation of HK$300,000. 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, using the provided pre-paid mailing label or via email to cosec@clp.com.hk or clp.ecom@computershare.com.hk, on or before 30 June 2011.

The Society for the Welfare of Autistic Persons (SWAP)

Last year CLP donated HK$241,620 to SWAP. This amount comprised HK$239,220 for our 3,987 shareholders who have chosen electronic communication, plus HK$2,400 for those stakeholders who provided feedback on our Sustainability Report.

SWAP (www.swap.org.hk), as an organisation serving autistic persons, aims to improve and promote rehabilitation work for autistic persons in Hong Kong. SWAP applied CLP's donation to two projects.

The first was the "Social Skill Development Programme for Autistic Persons". This involved the purchase of equipment and educational materials, ranging from computers to in-chair play materials, to help the development of the social and emotional skills of children with autism.

The second project was the publications of an introductory booklet for parents with autistic children. This addresses issues such as the causes, diagnosis and symptoms of autism spectrum disorder and the challenges for parents. This booklet is published in mid-March 2011, with 5,000 copies available for distribution free of charge.

Families of SMA Charitable Trust (FSMA)

This year our donation will go to FSMA (www.fsma.org.hk). This was founded in Hong Kong in 1998 to relieve the hardship and suffering of patients with an extremely debilitating genetic disease called Spinal Muscular Atrophy (SMA). SMA is a rare disease but, when it strikes it is terribly debilitating and merciless to young children and even babies. There is currently no treatment and no cure for SMA.

FSMA provides life-saving and life-sustaining para-medical machinery, financial assistance, self-help programmes and outings for SMA patients and their families to promote common support and understanding. FSMA also supports international medical research into this disease.

With your support, FSMA would like to purchase stand-by life saving medical machinery and continue to offer home-based rehabilitation therapies. The special medical machinery, such as ventilation support equipment, will be held by FSMA to be loaned out temporarily to any family whose child may be in need of aggressive medical intervention. The home-based rehabilitation therapies programme provides professional therapists who visit patients' homes to assess, advise, reach and monitor patients' conditions. This programme, currently supporting 70 registered patient members and newly diagnosed babies, helps ensure severely and chronically ill SMA patient are being properly cared for at home.

This year, as every year, we thank you for your support.

CLP welcomes your views...

CLP 中電

Section A – Feedback on 2010 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
7	Chairman's Statement	1	2	3	4	1	2	3	4
Values and Capabilities									
13	Expertise in Building and Operating Power Infrastructure	1	2	3	4	1	2	3	4
16	Capable and Committed People	1	2	3	4	1	2	3	4
21	Excellence in Customer Service	1	2	3	4	1	2	3	4
26	Financing Strength and Capacity	1	2	3	4	1	2	3	4
Strategy									
33	CEO's Review	1	2	3	4	1	2	3	4
Performance and Outlook									
42	Hong Kong	1	2	3	4	1	2	3	4
48	Australia	1	2	3	4	1	2	3	4
53	Chinese Mainland	1	2	3	4	1	2	3	4
60	India	1	2	3	4	1	2	3	4
64	Southeast Asia and Taiwan	1	2	3	4	1	2	3	4
Economic Value									
68	Financial Review	1	2	3	4	1	2	3	4
Shareholder Value									
88	Delivering Shareholder Value	1	2	3	4	1	2	3	4
Process									
99	Corporate Governance Report	1	2	3	4	1	2	3	4
115	Risk Management Report	1	2	3	4	1	2	3	4
122	Audit Committee Report	1	2	3	4	1	2	3	4
124	Remuneration Report	1	2	3	4	1	2	3	4
Financial Statements									
139	Financial Section	1	2	3	4	1	2	3	4
Questions and Answers with CLP Management		1	2	3	4	1	2	3	4

2. Your overall rating of this Annual Report is:
(Please " ✔ " appropriate box)

Poor ☐ Fair ☐ Good ☐ Very Good ☐ Excellent ☐

.../cont'd

3. Was there any additional information you expected to receive in the Annual Report? Please specify.

____

____

4. Do you have any question to be addressed in next year's Annual Report or answered on the "Frequently Asked Questions" section of the Company's website? If so, please ask.

____

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5. Any other comments / suggestions?

____

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Section B – Request for Additional Information

Our Annual Report identifies those areas where additional information, beyond that set out in the Report itself, is available through our website (www.clpgroup.com) or in other printed publications.

You can get hard copies of that web information (if you do not have ready access to the Internet) and / or printed copies of other publications by indicating as appropriate below:

Name of Shareholder(s) ____

Address ____

____

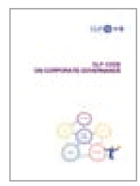
(Please " ✔ " appropriate box)

☐ Web Information Required ____
(Please specify which) ____

☐ 2010 Sustainability Report – In Essence

☐ CLP's Value Framework

☐ CLP Code on Corporate Governance (2009 update)



Please send your feedback to CLP Holdings Limited by:

i) cutting and sticking the mailing label below on an envelope to
CLP Holdings' Registrars, Computershare Hong Kong Investor Services Limited

ii) fax: (852) 2678 8390

iii) e-mail: cosec@clp.com.hk

PERSONAL INFORMATION COLLECTION STATEMENT

Your supply of Personal Data to CLP is on a voluntary basis. "Personal Data" in this statement has the same meaning as "personal data" in the Personal Data (Privacy) Ordinance, Cap 486 ("PDPO"), which may include your name, identity card number, mailing address, telephone number, e-mail address, login name and / or your opinion.

Your personal data may be used in connection with:

- our management of your request, inquiry, comments and suggestions; or
- conducting and publishing statistical and data analysis.

Your Personal Data will be retained for such period as may be necessary for our record and verification purposes.

You have the right to request access to and / or correction of your Personal Data in accordance with the provisions of the PDPO. We have the right to charge a reasonable fee for processing any Personal Data access request. Any such request for access to and / or correction of your Personal Data should be in writing by either of the following means:

By mail to: CLP Holdings Limited
147 Argyle Street, Kowloon, Hong Kong

By e-mail to: cosec@clp.com.hk or clp.ecom@computershare.com.hk

MAILING LABEL

Please cut the mailing label and stick it on an envelope to return your feedback to us.
No postage is necessary if posted in Hong Kong.

Computershare Hong Kong Investor Services Limited
Freepost No. 37
Hong Kong

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Stock Code: 00002

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